PREM 19/2306

PART SEVEN

MT

Confidential Filing

The future of the Rating System

Rating Revaluation

The Community Charge.

LOCAL GOVERNMENT

Pt 1: May 1979

Pt 7: July 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.7.87~~							
~~6.7.87~~							
~~10.7.87~~							
~~13.7.87~~							
~~14.7.87~~							
~~20.7.87~~							
~~23.7.87~~							
~~28.7.87~~							
~~29.7.87~~							
~~31.7.87~~							
~~3.8.87~~							
31.7.87							
PART ENDS							

PREM 19/2306

PART 7 ends:-

CST To SS/DoE 31.7.V7

PART 8 begins:-

MOS/S.O To SS/DoE 3.8.V7

015/4210

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

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

Dear Nick,

31 July 1987

NON-DOMESTIC RATING

Thank you for your letter of 24 July.

I am now broadly content with your proposals for the operation of the national non-domestic rates (NNDR) pool. I am grateful for your agreement to fixed schedules of payments into and out of the pool. And I quite accept that local authorities' payments will need to be adjusted after the end of the year when the final rate product is certified.

You raised the problem of individual authorities which suffer unanticipated losses in rateable value, because of events such as a factory closure. I think that there is a case for an in-year adjustment but only if the loss of rateable value is significant, say 5 per cent. I hope you would also agree however that there should be some incentive on authorities that have been able in practice to collect more than the amount forecast (because of unanticipated increases in rateable value) to surrender these amounts to the Exchequer. This might be achieved by charging interest on those sums which have not been surrendered before the end of the financial year.

I am also content for Vote provision to be called upon, in-year on a contingency basis to meet a shortfall on any particular day. But we would expect the very few authorities concerned to give reasonable notice if they are aware that payments will be late; and interest should be charged daily on the amount outstanding.

LOCAL GOVT: Rating PT7

CONFIDENTIAL

The final possibility you mention is that outturn yield could fall below that expected because of successful appeals against valuation across the country. I cannot accept that the Exchequer should pay out more in aggregate than is planned for the year as a whole (plus the safety margin). Local authorities will have forecast their non-domestic yield. Non-domestic rates pay for local government. Local authorities should bear the risk of a shortfall in payments through successful appeals. We must minimise the risk of a significant shortfall in the first year through the safety margin, not a guarantee from the Exchequer, and through careful scrutiny of LAs' assessment of their non-domestic rate income.

Duty to consult business

I agree that we should proceed to consultation on whether the duty to consult business should be adapted or dropped altogether.

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

Yours Ever,

JOHN MAJOR

file

DA
cc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 July, 1987.

Dear Robin,

RATE REFORM: CROWN PROPERTY

The Prime Minister has seen your Secretary of State's minute of 30 July which set out proposals for the treatment of Crown property and the residents of Crown property, under the new system of local government finance, and is content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to the members of E(LF), and to Sir Robert Armstrong.

Yours,

David.

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

DA

File

JD
CCBG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 July, 1987.

Dear Robin,

DUAL RUNNING: RATES AND THE COMMUNITY CHARGE

The Prime Minister has seen your Secretary of State's minute of 30 July about the arrangements for dual running of domestic rates and the community charge, and is content, subject to the views of colleagues.

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

Yours

David.

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

GA

CCBG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Secretary of State
Department of Health and Social Security
Alexander Flemming House
Elephant and Castle
LONDON
SE1

Prime Minister

This came up in Questions briefing a couple of weeks ago. DCS 31/7.

30 July 1987

Dear John

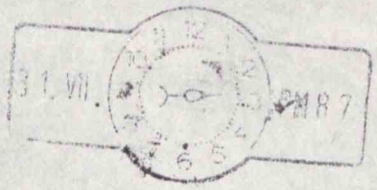
RATE AND COMMUNITY CHARGE REBATES: UPRATING OF INCOME SUPPORT

Before the Election Norman Fowler announced that, when the revised rebate scheme is introduced in April 1988, income support levels will be uprated by 20% of the average rate bill paid by people in receipt of income support. We now need to consider how to reflect that decision in relation to the community charge. I am being pressed on this in public debate and it has serious implications in terms of the 'gainers' and 'losers' from the introduction of the community charge.

E(LF) accepted the DHSS proposal that uprating in 1988 should apply to all groups on income support (rather than being targeted on, say, pensioners and lone parents) because this was the only way to ensure that help went to all the poorest people, and would avoid focusing debate entirely on those excluded. They recognised that the decision would create anomalies and would have consequences for the community charge.. Uprating income support levels, for householders and non-householders alike, by an amount equal to 20% of average rate bills (probably £1.30 a week), produces a windfall gain for those people with below average rate bills, and for all non-householders. Against this, the uprating will not fully compensate those with above average rate bills and the full gain to non-householders will last only until the community charge is introduced.

The question now is what we should do in 1990 and here we are faced with a presentational problem. We have been arguing that the introduction of the community charge will benefit many of those on low incomes, including the vast majority of single adults - 69% of single pensioners, 85% of single pensioner households and 83% of one-parent families. These figures contribute one of the strongest arguments we have at our disposal that the community charge will be fairer than rates. They were, however, calculated - before E(LF)'s decisions on uprating - on the assumption that the post-1988 rebate arrangements had been implemented in respect of both rates and the community charge (ie that everyone would have to contribute 20%) and that there would be no uprating of benefits.

100% RECYCLED PAPER



If we had decided, in isolation, to uprate income support levels in 1990 (assuming the community charge were introduced in full) the amount needed to compensate community charge payers on income support for 20% of the average bill would be about 85p per week. This would have been a perfectly reasonable way to proceed. But we are faced with the fact that DHSS will already have uprated income support levels by £1.30 in 1988 for the contribution to rates.

One option would be to clawback in 1990, some of the uprating we provided in 1988 - the difference between the £1.30 and the 85p. Such a move would, however, have major presentational problems, given that the £1.30 will have been included in the income support threshold and its reduction will result in some people losing entitlement to basic income support. Moreover, it would have the unfortunate - indeed disastrous - side effect of reducing the number of gainers, and increasing the number of losers, from the introduction of the community charge. This is simply because the loss of income support would, in some cases, outweigh the saving that we are predicting from moving from rates to the community charge. However justified we were in making the reduction, it would be practically impossible to mount a convincing argument against accusations of making many of the poorest families worse off.

If, at the other extreme, we merely ensured that the uprating that DHSS will have carried out in 1988 were carried forward into 1990 (ie avoiding any clawback of the uprating given in 1988), we would both guarantee that the balance of gainers and losers - on which we rely so heavily - would remain undisturbed, and we would avoid the unacceptable step of reducing benefits in 1990, though I also see the difficulties and disadvantages of this course.

It is clear that we cannot, at this stage, say precisely on what basis income support will operate post-1990, particularly as there is to be a transitional period during which domestic rates and community charge co-exist. Indeed, during the early stages of transition, the proper degree of compensation might be very close to the pre-1990 position, since the average combined rates and community charge bill may not be significantly lower than the average rates bill. I see no reason why we should decide now, let alone announce, what assistance the income support system will give with the 20% contribution to the community charge. It is better to decide these matters nearer the time and I see no difficulty in saying so. Even so I see no need to stop quoting the figures I have mentioned for gainers under the new system provided we recognise that the decisons we make in due course will need to take account of this.

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

NICHOLAS RIDLEY

This is 100% recycled paper

js/0258p/2

CCBG

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

30 July 1987

NBM.

Dear Mr. Ridley

COMMUNITY CHARGE EXEMPTIONS

FILE WITH DCM

I have seen your note of 20 July to the Prime Minister enclosing a paper setting out your proposals for handling exemptions from and reduced liability for the community charge. Whilst I can see the reasoning behind your proposal to reverse the earlier E(LF) decision and keep residential homes and hostels out of rating I am concerned about one or two aspects and feel there may be a need for some further work by officials before final decisions are taken.

Firstly I do not think that we can so readily remove the Rating (Disabled Persons) Act 1978 and its associated specific grant. The Act applies to non-residential property as well as to residential accommodation - principally day centres, sheltered workshops and non-residential premises used by voluntary bodies working with disabled people - which would remain in rating after 1990. There would seem to be a strong case for continuing the rebates for these premises from non domestic rates.

Secondly I am not sure that the implications of compensating for the exemptions from the community charge have properly been thought through nor whether it is necessary to have different arrangements for the exemptions and for students. On the former it seems to me that, given the very uneven distribution of residential care, there is a danger that some authorities would receive considerable compensation even though the people concerned were in private residential accommodation supported either by their own money or by Supplementary Benefit. If the resources used were to come from within Aggregate Exchequer Grant (AEG) or whatever replaces it, this would be to the detriment of other authorities who may be incurring substantial expenditure on maintaining people in their own homes - as we would prefer them to do. If the arrangement is outside AEG the problem is less acute. This is something we need to think

E.R.

LOCAL GOVT RATES PT 7

through - including the possibility of radical changes to the financing of residential care since these are currently being examined. I am not yet sure whether a specific grant arrangement or the alternative you propose of adjusting the population base is to be preferred. I would be grateful if your officials and mine could consider this further and advise us more fully. I appreciate that this will delay giving Counsel drafting instructions on this part of the legislation but I would have though that this part of the drafting could be left until a little later.

We accept the arrangements proposed for exempting severely mentally handicapped people but would point out that GP's will require payment for providing these certificates. This is clearly not a health function and would therefore be a private transaction between the GP and the individual. If the latter is not to bear the cost, the logical solution would be for the local authority to pay, in the same way that insurance companies pay for certificates they require. We will provide your officials with the data they need to take account of this in the overall running costs for the new system. One device for reducing the cost of this which might bear further examination is to make use of the existing certification process for the Severe Disablement Allowance. I understand our officials need to examine this further.

Our officials also need to look in detail at the rules for students which as formulated at present will leave some people who would class themselves as students outside both the exemption arrangements and the housing benefit scheme.

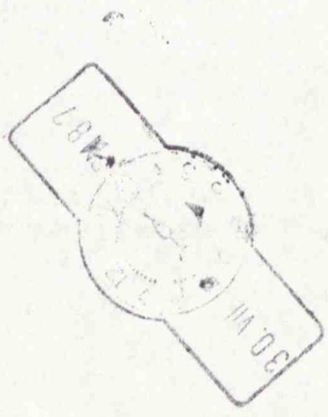
I am copying this letter to the Prime Minister, the Lord President, members of E(LF) and Sir Robert Armstrong.

Yours sincerely

B. Calderwood

pp JOHN MOORE

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



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

CCBC.

0538

0538

The Rt Hon Peter Walker MBE MP

30 July 1987

NBPM.

COMMUNITY CHARGE EXEMPTIONS

I am content with the proposals for handling the exemptions from the community charge as outlined in your minute of 20 July to the Prime Minister.

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

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

LOCAL GOVT

RATES

OTT

Prime Minister's content, subject to colleagues? Yes DRS 30/7.

Prime Minister

DUAL RUNNING: RATES AND THE COMMUNITY CHARGE

I have been considering how best to give effect to our decision to have a period of dual running of domestic rates and the community charge in a way which minimises the difficulties for the structure of the Bill and the costs of implementation. This minute sets out my conclusions.

In formulating these proposals, I have taken it that our objective is to continue to secure the distributional effect of rates for a period and that we have no interest in retaining the full panoply of the present arrangements for domestic rates as such.

For billing, collection and enforcement procedures, I intend to apply the slightly changed arrangements which we have agreed for the community charge. It would be extremely confusing for local authorities to have to pursue two separate procedures for the recovery of money from domestic taxpayers.

Nor do we need to provide for every individual authority in an area to split its costs between rates and the community charge. I propose that only the rating authority should collect the rate and that the income should be treated in the same way as non domestic rates and grant on the community charge demand. An example is shown in the Annex. An advantage of this approach is that we do not need to lose the important accountability of messages about the comparison of each authority's expenditure with its needs assessment. Any small distributional effects arising from the changeover to precepting on a per adult basis will be picked up by the safety net grant.

This approach to the treatment of domestic rate income offers another benefit. As the Annex shows, the community charge demand will contain a statement of the average rate payment per adult.

Building on this, I propose to avoid having to continue to assign values to new properties after 1 April 1990. Rather the occupier of a new property will be required to pay in lieu of domestic rates an amount based on the average domestic rate payment for the area (community charges from those living there will be due in the usual way).

The lack of valuations for new properties, of course, removes the need for appeals against those values. I propose to go further, however, and also withdraw the arrangement whereby the valuation officer has to propose increases in rateable value where improvements or extensions are made to existing properties. This proposal will anticipate one of the features of the new arrangements and give an early boost to the building trade. I also propose to cut off from 1 April 1990 the arrangements which permit any householder to challenge their rateable value at any time on the grounds mainly that they believe it to be too highly assessed relative to similar properties. Householders have had since 1973 to take these general points. Most cases concern very small proposals for a reduction. Yet the cost to the taxpayer of providing the appeal machinery is substantial. At a time when rate bills will be dropping each year, there is no case for maintaining this procedure for routine cases. I intend, however, to continue to allow those affected by a material change of circumstances a chance to seek a reduced valuation and I propose to provide a limited right of appeal for these circumstances only.

This is what you asked for.

I propose to retain the present system of mandatory and discretionary reliefs from domestic rates during the transitional period.

Finally, of course, I shall be taking powers to preserve the 1973 valuation lists in force for the duration of the transition and to specify by order the basis on which the rate poundage is to be set to fit in with the phasing arrangements we finally agree.

Overall these arrangements preserve all the distributional features about which colleagues have been concerned without preserving the rating system itself as a system capable of resuscitation at some future date. They will also help to contain the cost of running two systems for a period and limit the effect of our decision on dual running on the legislative provisions.

I am copying this to the other members of E(LF) and to Sir Robert Armstrong.

N R

30 July 1987

ANNEX

Example of Community Charge Bill for West Somerset with dual running of community charge and domestic rates.

		Actual (1989/90 in brackets) £ per head			For standard level of service £ per head
Somerset C.C.		530	(530)		524
West Somerset D.C.		66	(66)		69
Total income required		596	(596)		593
less contribution from business	-	233	(-409)	-	233
Government grants	-	171		-	171
income from domestic rates*	-	92	(-192)	-	92
Community charge		100	(0)		97

* this figure used to set domestic rate payment for new houses.

Income from domestic rates in later years will reduce in line with the agreed phasing out arrangements.

The community charge will increase correspondingly.

PW526

010

CC BG
CC BC.

SECRETARY OF STATE FOR THE ENVIRONMENT

1. ~~NW~~ to see.
2. Prime Minister!
This all seems sensible on the face of it. Content, subject to colleagues?
DRN 30/7.

Prime Minister

RATE REFORM: CROWN PROPERTY

My officials have been discussing with those from other Departments the treatment of Crown property, and the residents of Crown property, under the new system of local government finance.

I am now able to circulate the attached paper setting out my proposals for England and Wales. I should be grateful for your, and Colleagues' approval, and my officials will instruct the draftsman of the rate reform Bill accordingly.

Yes mt

Copies go to the Lord President, members of E(LF) and Sir Robert Armstrong.

NR

N R

30 July 1987

RATE REFORM: CROWN PROPERTY AND RESIDENTS OF CROWN PROPERTY

NON-DOMESTIC CROWN PROPERTY

1. The Rating of Government Property Department (RGPD) will continue to carry out valuations of non-domestic Crown property and pay contributions in lieu of non-domestic rates. It is proposed that RGPD should cease to make payments to individual local authorities and instead make payments directly into the national non-domestic rate pool. It would not be sensible for RGPD to make payments to authorities when, in any case, the authorities would be required to pass the money on to the pool. An acceptable system of checking that appropriate payments have been made will need to be devised; and it will be necessary to devise an alternative to the present arrangement whereby local authorities notify RGPD of the properties in respect of which payments are to be made.

2. The NHS and other non-Exchequer bodies which occupy Crown property currently pay their own contributions in lieu direct to local authorities. There seems no reason why NHS should not in future make payments direct into the national pool, although it is for consideration whether the other, smaller bodies should continue to make payments to individual local authorities.

RESIDENTIAL CROWN PROPERTY

The Community Charge

3. The community charge will be a near-universal personal liability, unconnected with the ownership of property, and it is important that, unless there are over-riding arguments to the contrary, residents of Crown property should be treated no differently from the residents of non-Crown property.

4. It is proposed that, with limited exceptions, residents of Crown property should be individually registered and personally liable for the personal community charge. The exceptions will be for the Sovereign and the Prince of Wales (as Duke of Cornwall), who will be exempt, and for diplomats, members of visiting armed forces and certain members of the UK armed forces. The special arrangements for diplomats and visiting servicemen are described in Annex A to this paper, and those for certain UK servicemen in Annex B.

5. Exemptions have been agreed for certain other residents of Crown property - convicted prisoners and patients resident in NHS hospitals or other caring institutions run by the Crown.

6. The normal community charge enforcement procedures - seizure of goods and deductions from earnings - will apply to those residents of Crown property who are liable for the personal community charge. This means that bailiffs will have access to Crown property to seize the personal property of residents who do not pay their community charge.

including No. 10!

The collective community charge

7. For certain non-Crown properties, which are in multiple occupation and have a very rapid turnover of tenants, it would be impractical to register the tenants individually for the personal community charge. These properties will therefore be designated, by community charge registration officers, for the collective community charge. There are some Crown properties - particularly those occupied by very mobile service personnel - where a provision similar to the collective community charge might be appropriate. It would not, however, be appropriate for the collective charge to be applied in precisely the same way as for non-Crown property, because of the risk of disputes between the Crown and

local authorities: the Crown would not, for example, wish to become involved in disputes with local authorities about the designation of premises or payments due, or to be proceeded against by local authorities seeking to enforce payment.

8. A special provision, effectively equivalent to a Crown collective community charge, is therefore proposed. This is described in Annex B to this paper - which deals with the treatment of UK servicemen - since the provision is likely to be used mainly for certain military establishments.

The Standard Community Charge

9. It is proposed that Crown property should be exempt from the standard community charge - the charge for residential property at which no-one is solely or mainly resident. Contributions in lieu of the standard community charge will be paid to local authorities by the occupying Departments. This procedure would be consistent with the present arrangements for paying contributions in lieu of rates on Crown property.

MIXED NON-DOMESTIC/RESIDENTIAL CROWN PROPERTY

10. Mixed hereditaments - those which are part non-domestic and part residential - will be valued by RGPD and an apportionment will be made of the value of the residential part. A contribution in lieu of rates will then be paid by RGPD in respect of the non-domestic part, while the resident(s) of the residential part will pay the personal community charge - or, if the residential part is not occupied as a sole or main residence, a contribution in lieu of the standard community charge will be paid.

RATE REFORM: CROWN PROPERTY AND RESIDENTS OF CROWN PROPERTY

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including No. 10!

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local authorities: the Crown would not, for example, wish to become involved in disputes with local authorities about the designation of premises or payments due, or to be proceeded against by local authorities seeking to enforce payment.

8. A special provision, effectively equivalent to a Crown collective community charge, is therefore proposed. This is described in Annex B to this paper - which deals with the treatment of UK servicemen - since the provision is likely to be used mainly for certain military establishments.

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10. Mixed hereditaments - those which are part non-domestic and part residential - will be valued by RGPD and an apportionment will be made of the value of the residential part. A contribution in lieu of rates will then be paid by RGPD in respect of the non-domestic part, while the resident(s) of the residential part will pay the personal community charge - or, if the residential part is not occupied as a sole or main residence, a contribution in lieu of the standard community charge will be paid.

ANNEX A

DIPLOMATS AND MEMBERS OF VISITING ARMED FORCES

A1. Foreign nationals who have their sole or main residence in this country will be liable to pay the community charge. However, diplomats are exempt from personal taxation under a range of statutes including the Diplomatic Privileges Act 1964, the Consular Regulations Act 1968, the International Organisations Act 1968 and the European Communities Act 1972. Members of visiting forces are exempt from any tax based on residence, under a Nato Status of Forces Agreement.

A2. In view of these statutes and agreements it is proposed that there should be a community charge exemption for diplomats, members of visiting forces and their dependants. It is not proposed, however, that they should be exempt from the standard community charge if they take second homes (eg if a US serviceman buys a holiday cottage).

A3. At present embassies, diplomats, foreign bases and servicemen do pay partial rates - the so-called "beneficial proportion" - in respect of both domestic and non-domestic property. It is important that the total amount paid is not reduced as a result of the proposed exemptions, and that foreign Governments are seen to be making at least the same contribution as at present towards the cost of local services.

A4. In the case of non-domestic property, it is proposed that the present arrangements should continue: RGPD will continue to pay rates/ contributions in lieu of rates on behalf of the Governments concerned and will continue to recover the "beneficial proportion". As with all other payments by RGPD, they will in future be made directly into the NNDR pool, rather than to individual local authorities.

A5. In the case of residential property, it is proposed that Treasury and the Foreign Office/Ministry of Defence should negotiate, with the Governments concerned, arrangements for the recovery of an amount equivalent to that currently recovered as the "beneficial proportion" of rates. This would most conveniently be paid to local authorities as an addition to central Government grant.

A6. In order to protect the position of local authorities with heavy concentrations of diplomats or visiting servicemen, there will need to be compensation for the income foregone as a result of exempting diplomats and visiting servicemen from the personal community charge. It is proposed that this should be done by excluding diplomats and visiting servicemen from the definition of "adult residents" used for grant purposes.

ANNEX B

MEMBERS OF UNITED KINGDOM ARMED FORCES

B1. Most service personnel will be liable for the community charge, in the same was as all other adults: they will be registered for and pay the personal community charge in the area where they have their sole or main residence. It may, however, be impractical to register individually the most mobile service personnel - eg those resident for short-periods during training in a succession of different barracks. It may also be undesirable, for security reasons, for the number and names of the personnel at a particular address to be included in the community charge register which will be, in part, a public document.

B2. The problem of mobility may also arise in respect of some civilian residents of Crown property. In similar circumstances involving non-Crown property, designation for the collective community charge might be appropriate. It would not, however, be appropriate for Crown property to be designated for the collective community charge (for the reasons set out in paragraph 6 of the main paper).

B3. It is therefore proposed that the Secretary of State should have the power to designate Crown premises, if they are mainly used as a residence by individuals, most or all of whom are there for only short periods; or if it would be undesirable for them to be registered for the personal community charge, on national security grounds.

B4. The effect of designation by the Secretary of State would be that any individual solely or mainly resident in the designated premises would be exempt from the personal community charge. The occupying Department would pay contributions in lieu of community charges to the local authority in whose area the premises were located, and would recover the money from the individuals who stay in the premises.

B5. It will be important that the occupying Department should consult closely with the local authority concerned, when deciding whether or not to designate premises, and when assessing the level of the contribution in lieu.

CONFIDENTIAL

SUBJECT

cc MASTER

NOTE FOR THE RECORD

MEETING WITH MR RIDLEY

Mr Ridley called to see the Prime Minister this evening. He mentioned his growing concern about opposition to the community charge. This would be increased by the decision to have a transition rather than to abolish rates immediately. He showed some inclination to want to re-think quite major aspects of the community charge.

The Prime Minister discouraged this firmly. But she agreed that it would be sensible for Mr Ridley to begin to think about minor changes which backbenchers might propose and which could then be accepted by the Government. One possibility for example would be to allow local authorities some discretion in the speed with which they moved to abolish the rates. This would only be in the direction of more quickly rather than more slowly. And to maintain financial equilibrium in the system they would probably not be able to abolish the rates in their area until these had been reduced below a certain threshhold.

Mr Ridley also mentioned difficulties with Roy Watts over water privatisation. He was threatening to resign. The Prime Minister suggested that Mr Ridley hould not pay too much attention to him and implicitly seemed entirely prepared to countenance his resignation.

DAVID NORGROVE

29 July 1987
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PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

[Minute of 29 July from Mr Ridley]

DECISIONS

Unless the preparation of the Bill is seriously to be delayed, the Sub-Committee must reach final decisions this week on the key arrangements for transition to the community charge in England. Outstanding issues are -

a. whether the initial community charge in 1990/91 should be £75 or £100;

b. whether there should be special transitional arrangements for inner London, lasting longer than those elsewhere.

Mr Ridley also seeks to reopen E(LF)'s decision on Monday that there should be no dual operation of rates and the community charge in Wales.

2. You will also want to decide on the form and timing of an announcement of your decisions.

BACKGROUND

3. You provisionally agreed on Monday (E(LF)(87)17th Meeting) that in England the best approach would be a transitional period of four years during which both rates and a safety net would be phased out, with an initial level of community charge of either £75 or £100. But you also saw a need for special transitional arrangements for inner London, because of the high spending levels of both the ILEA and some boroughs. You envisaged that such arrangements

might involve retaining part of the capital's very high non-domestic rateable resources for a period of five years after 1990/91. You asked Mr Ridley to bring forward a further paper, illustrating the two options for the initial community charge, and containing detailed proposals for such special London arrangements.

4. You also agreed on Monday to Mr Walker's proposal to move straight to the full community charge in Wales in 1990/91, with no period of dual operation with domestic rates. But you did ask Mr Walker to circulate revised proposals on the safety net for Wales, with a significantlyshorter transitional period than the 10 years he had proposed.

MR RIDLEY'S PROPOSALS

5. Annex A to the paper shows the effect of a 4 year transition on each of the 5 sample authorities you looked at on Monday, with both a £75 and a £100 initial charge. Mr Ridley suggests that the difference between the two options is too small to sway the decision one way or the other. He favours £100 as being a more memorable figure and therefore facilitating presentation in 1990/91.

6. Mr Ridley points out that the general safety net will already give inner London extra grant of £410m in 1990/91. This will ensure that the burden of domestic taxation neither rises nor falls compared to 1989/90 (on the assumption of no change in spending levels). He suggests that there is no justification for extra protection in 1990/91, because that would actually cut the level of domestic taxes in inner London compared to the previous year and raise it elsewhere. But he does consider whether this original safety net grant should be phased out more slowly in London than elsewhere: over five years rather than four. That would give London an additional benefit of £82m in 1994/95. The scheme's effect on all inner boroughs is illustrated in Annex C to the paper. However, Mr Ridley recommends against adopting such a scheme.

7. Mr Ridley also returns to his concern about the undesirability of different transitional arrangements for England and Wales. He presses E(LF) to reconsider its earlier decision, but as a concession to Mr Walker's concerns suggests that it might be appropriate to have an initial charge of £50 in Wales to reduce the problem of unacceptably low rate bills in many parts of Wales towards the end of a four year transitional period.

8. Finally, Mr Ridley proposes an immediate announcement of E(LF)'s decisions.

VIEWS OF OTHER MINISTERS

9. The Chancellor of the Exchequer may still favour a £75 initial charge on the grounds that it will reduce the burden of the new tax and reduce the severity of changes in individual tax bills in 1990/91. The proposed London arrangements are broadly consistent with what members of E(LF) had in mind at the last meeting, but the Education Secretary in particular may feel that they do not give as much extra benefit as he had envisaged (he proposed transitional help of at least £500 Million - rather than the £410 Million already built into the arrangements under the general safety net - on Monday). The Secretary of State for Wales is bound to resist Mr Ridley's proposals to reopen decisions on Wales.

MAIN ISSUES

Initial Community Charge

10. Mr Ridley's figures illustrate that the choice of £75 or £100 for the initial community charge makes very little difference for typical households. The effects on individuals will be more marked: an adult paying no rates in 1989/90 will face the full initial charge. But even in this case there is only £25 per annum or 50p per week at stake. Mr Ridley is probably right to say that a round £100 could be easier to present. On balance, you will probably want to confirm your earlier preference for an initial

charge of £100.

Special Arrangements for Inner London

11. There are a number of issues here -

a. whether you agree with Mr Ridley that in 1990/91 London should simply get its entitlement under the general safety net (£410m). Some members of E(LF) mentioned higher figures on Monday. But the £410 Million will largely continue the subsidy currently enjoyed by inner London from non-domestic rating and there seems no justification for reducing domestic tax bills in London in 1990/91, especially since most of the money will still come from rates, and the community charge will be at the national starting level (e.g. £100);

b. whether this benefit should be phased out over four years (as in most of England), five years (so that in practice the special transitional help for London begins in 1991/92 and continues until 1994(95) or a longer period. Extending the transition to five years costs £82m in the last year. The benefit to adults in Camden is to reduce the annual rate at which the community charge rises from about £170 to about £155: in 1994/95 the charge will be £717 compared to £782 under a four year transition. A yet longer transition would of course slow the transition further, but at yet higher cost;

c. how the cost of the special arrangement should be met. Mr Ridley envisages that it would fall on all chargepayers outside London, at a cost of about £2.40 per adult in 1994/95. That can be justified as simply deferring the full redistribution of London's high non-domestic rates by a year. Another approach would be for the Exchequer to meet the cost through extra grant, but the Chancellor can be expected to resist that.

12. The issue you need to decide is whether the additional reductions in community charges in inner London during the extended transitional period are sufficient to justify the extra cost and complexity of the special arrangement. If you decide that they do, then the scheme Mr Ridley illustrates is relatively simple and comprehensible, and fits in with the general transitional arrangements you have agreed.

13. By definition, however, a 5-year transition of the kind Mr Ridley was asked to exemplify cannot change the rules of the London game very much. At the end of the period, there is still the prospect of very high charges in places like Camden unless they rein in their expenditure quite massively. If you think this is too great a political risk, then some much larger amount and/or longer period of protection for London would need to be contemplated.

Wales

14. E(LF) on Monday rejected Mr Ridley's arguments for requiring Mr Walker to adopt the English arrangements for a phased transition from rates to the community charge. It is difficult to see any case for allowing him to reopen the argument at tomorrow's meeting, and you will probably want to stick to what you agreed earlier - although hopefully on the basis that Mr Walker will be willing to reduce the length of his transitional period well below 10 years.

PROPOSED ANNOUNCEMENT

15. Mr Ridley (paragraph 16 (iii)) promises to reveal all at the meeting. He wishes to announce the decisions tomorrow afternoon, and you will no doubt want to try hard to facilitate this both to put a stop to the appearance of dissension and indecisiveness and to allow the drafting of the Rates Reform Bill to go forward without further delay. It would, of course, be most desirable to include the proposals for inner London in the statement. But if you cannot agree on these, it might still be possible to go ahead

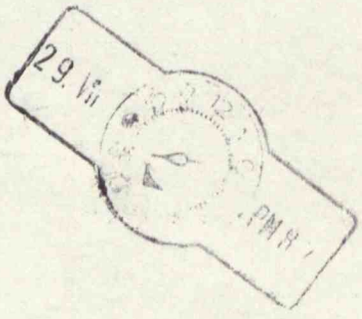
with the rest of the statement and leave this open for the present. You will in any case want Mr Ridley to clear any statement with you and colleagues mainly concerned before it is issued.

HANDLING

16. You will want to ask the Environment Secretary to introduce his paper. The Education Secretary, the Chancellor of the Exchequer and other Ministers will wish to comment generally. The Secretary of State for Wales will want to speak about Mr Ridley's proposals on transitional arrangements for Wales.

J B UNWIN

29 July 1987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PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

1. At E(LF) on 27 July we agreed

(i) that the starting level of the community charge should be £75 or £100;

(ii) that there should be a 4 year phasing out of rates and the safety net everywhere except inner London, where the possibility of additional help in the 5th year should be considered.

£75 or £100

2. I enclose, at Annex A, exemplifications for the 5 sample authorities (Camden, Barnet, Elmbridge, Barnsley, Craven) showing the effect, with a 4 year transition, of 1990 community charges of £75 or £100. (The Camden figures could be affected by the special London arrangements set out in more detail below.)

3. The differences between the two are, as colleagues will see, very small - a maximum of £15 a year even for 3 adult households in Camden. In view of this, and of the attraction of £100 as a number people are likely to remember - so making it easier for us to get our message across - I recommend that we adopt £100 as the starting level in England. It will be recalled that the presentational importance of the figure lies in the fact that the rate element in the package will be fixed so as to make £100 the community charge payable if councils maintain their spending at the level of the previous year. A memorable figure is therefore a distinct advantage.

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SECRETARY OF STATE FOR THE ENVIRONMENT

Special arrangements for London

4. E(LF) discussed the possibility of special transitional arrangements for inner London. The propositions were that

(i) these should be additional to dual running and the 'safety net';

(ii) they should continue for a 5th year - whereas the national transitional arrangements generally would end after 4 years;

(iii) they might be paid for by an increase in inner London's retained contribution from non-domestic rates.

5. It is important to recognise that the purpose of the safety net is to moderate losses or gains to areas because of the changes we are making in the distribution of grant and non-domestic rate. It follows that the safety net, on its own, provides a considerable amount of support to inner London in 1990/91 and subsequent years. The net payment to inner London from the safety net will be as follows:

1990/91	1991/92	1992/93	1993/94
£410m	£307m	£205m	£102m

6. These amounts are, to a large extent, a continuation of the subsidy that inner London presently enjoys from non-domestic rating. They can legitimately be seen, therefore, as a way of phasing in the losses that inner London will suffer as the benefit it receives from non-domestic rates declines from the present level to the 'per adult' amount that all areas will be given after 1990.

7. In view of our decision to have a full safety net in 1990, it would be wrong to provide additional special London arrangements in that year. To do so would

(i) mean that average domestic tax bills in inner London were lower in 1990 than they had been in 1989; and

(ii) increase bills everywhere else in the country compared with 1990 - including the north, and the Home Counties.

8. I can conceive of a system under which

(i) the special transitional help for London begins in 1991/92, and continues until 1994/95 (ie a year after the safety net is phased out);

(ii) in order to provide a smooth progression in community charge bills in inner London, the amount of the extra help London receives in each year is simply the difference between the cost of phasing out the safety net over 5 years in London, and phasing it out over 4 years elsewhere;

(iii) this special help can be portrayed as further slowing down of the loss of non-domestic rate income from inner London; it is felt as an increase in the community charge paid everywhere except inner London.

9. A more detailed note is at Annex B. At Annex C are exemplifications of the effects on all London Boroughs for 2 adult households living in properties with average Rateable Values; and for 4 Boroughs (Camden, Greenwich, Wandsworth and Westminster) for 1 and 3 adult households also.

10. Colleagues will note that there is still the likelihood of perverse results in Kensington and Chelsea and Westminster in the final years of the transition: some bills go up in 1994/95, then down again in 1995/96. This is because of the interaction of the

financing arrangements and the abolition of rates. These effects could only be avoided by keeping domestic rates for another year in London. I assume colleagues would not wish to do that.

11. I cannot recommend this scheme. It will bring additional complexity and obscurity, for a year when there is likely to be an election (the one after next) in the offing: and it requires subsidy for London from the rest of the country, which will be strongly resisted.

Wales

12. E(LF) asked Peter Walker to look again at the phasing out of the safety net in Wales. If the Welsh arrangements are closer to those we now envisage for England, we shall give ourselves fewer presentational problems.

13. I am still concerned, however, at the possibility that rates might be abolished in Wales in 1990. This will make drafting the Rate Reform Bill more complicated. More significantly it will make the job of justifying the two different systems very hard indeed. It is true that average rate bills, overall, are lower in Wales than they are in England. But there are parts of England - including some along the Welsh border - where average rate bills are as small as they are in Wales - for example, Forest of Dean £162/adult; Newport £166/adult. It is not easy to see why we need to have 4 years of dual running in Gloucestershire, if there is no dual running in Gwent.

14. Peter Walker's general arguments against dual running - the additional administrative costs and complexity; the disincentive to authorities to set the new system up efficiently; the confusion for existing ratepayers and new taxpayers - all apply equally well in England. We will not therefore be able to use them publicly as the justification for not having dual running in Wales.

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15. I would, however, be prepared to see a lower level of community charge in Wales in 1990 - say £50 - if this would reduce the problem of having unacceptably small rate bills in much of the Principality in subsequent years.

Recommendations

16. I recommend

(i) a starting level for the community charge in 1990 of £100 in England;

(ii) no special London arrangements for 1994/95;

(iii) that I should announce our decisions after E(LF) on Thursday. I will explain at the meeting the terms in which I envisage the announcement being made.

17. Copies of this minute go to the members of E(LF) and Sir Robert Armstrong.

NR

29 July 1987

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ANNEX A

LOCAL AUTHORITY - CAMDEN. 4 YEAR TRANSITION

Average rate bill per household £843 } assuming 1987/88
Community charge - no safety net £782 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	252	428	605	782	
Rate bill	590	493	369	248	125	0	
H/hold total	590	568	621	676	730	782	
2 adult household 100% average RV							
CC	0	150	503	857	1210	1564	
Rate bill	843	704	528	352	176	0	
H/hold total	843	854	1032	1209	1387	1564	
3 adult household 130% average RV							
CC	0	225	755	1285	1816	2346	
Rate bill	1096	915	686	457	229	0	
H/hold total	1096	1140	1441	1743	2044	2346	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	271	441	612	782	
Rate bill	590	461	345	230	115	0	
H/hold total	590	561	616	671	727	782	
2 adult household 100% average RV							
CC	0	200	541	882	1223	1564	
Rate bill	843	658	494	329	165	0	
H/hold total	843	858	1035	1211	1388	1564	
3 adult household 130% average RV							
CC	0	300	812	1323	1835	2346	
Rate bill	1096	855	642	428	214	0	
H/hold total	1096	1155	1453	1751	2048	2346	

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LOCAL AUTHORITY – BARNET 4 YEAR TRANSITION

verage rate bill per household £655 } assuming 1987/88
ommunity charge - no safety net £222 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	112	148	185	222	
Rate bill	459	350	263	175	88	0	
H/hold total	459	425	374	323	273	222	
2 adult household 100% average RV							
CC	0	150	223	297	370	444	
Rate bill	655	500	375	250	125	0	
H/hold total	655	650	599	547	495	444	
3 adult household 130% average RV							
CC	0	225	335	445	556	666	
Rate bill	851	651	488	325	162	0	
H/hold total	851	876	823	771	718	666	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	131	161	192	222	
Rate bill	459	314	236	157	79	0	
H/hold total	459	414	366	318	270	222	
2 adult household 100% average RV							
CC	0	200	261	322	383	444	
Rate bill	655	449	337	225	112	0	
H/hold total	655	649	598	547	495	444	
3 adult household 130% average RV							
CC	0	300	392	483	575	666	
Rate bill	851	584	438	292	146	0	
H/hold total	851	884	829	775	720	666	

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ANNEX A

LOCAL AUTHORITY – CAMDEN. 4 YEAR TRANSITION

Average rate bill per household £843 } assuming 1987/88
Community charge – no safety net £782 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	252	428	605	782	
Rate bill	590	493	369	248	125	0	
H/hold total	590	568	621	676	730	782	
2 adult household 100% average RV							
CC	0	150	503	857	1210	1564	
Rate bill	843	704	528	352	176	0	
H/hold total	843	854	1032	1209	1387	1564	
3 adult household 130% average RV							
CC	0	225	755	1285	1816	2346	
Rate bill	1096	915	686	457	229	0	
H/hold total	1096	1140	1441	1743	2044	2346	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	271	441	612	782	
Rate bill	590	461	345	230	115	0	
H/hold total	590	561	616	671	727	782	
2 adult household 100% average RV							
CC	0	200	541	882	1223	1564	
Rate bill	843	658	494	329	165	0	
H/hold total	843	858	1035	1211	1388	1564	
3 adult household 130% average RV							
CC	0	300	812	1323	1835	2346	
Rate bill	1096	855	642	428	214	0	
H/hold total	1096	1155	1453	1751	2048	2346	

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LOCAL AUTHORITY – BARNET 4 YEAR TRANSITION

Average rate bill per household £655 } assuming 1987/88
Community charge - no safety net £222 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	112	148	185	222	
Rate bill	459	350	263	175	88	0	
H/hold total	459	425	374	323	273	222	
2 adult household 100% average RV							
CC	0	150	223	297	370	444	
Rate bill	655	500	375	250	125	0	
H/hold total	655	650	599	547	495	444	
3 adult household 130% average RV							
CC	0	225	335	445	556	666	
Rate bill	851	651	488	325	162	0	
H/hold total	851	876	823	771	718	666	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	131	161	192	222	
Rate bill	459	314	236	157	79	0	
H/hold total	459	414	366	318	270	222	
2 adult household 100% average RV							
CC	0	200	261	322	383	444	
Rate bill	655	449	337	225	112	0	
H/hold total	655	649	598	547	495	444	
3 adult household 130% average RV							
CC	0	300	392	483	575	666	
Rate bill	851	584	438	292	146	0	
H/hold total	851	884	829	775	720	666	

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LOCAL AUTHORITY – ELMBRIDGE 4 YEAR TRANSITION

Average rate bill per household £711) assuming 1987/88
Community charge – no safety net £239) spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	116	157	198	239	
Rate bill	498	396	296	198	98	0	
H/hold total	498	471	413	354	297	239	
2 adult household 100% average RV							
CC	0	150	232	314	396	478	
Rate bill	711	565	424	283	141	0	
H/hold total	711	715	656	597	537	478	
3 adult household 130% average RV							
CC	0	225	348	471	594	717	
Rate bill	924	735	551	367	184	0	
H/hold total	924	960	899	839	778	717	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	135	170	204	239	
Rate bill	498	362	271	181	90	0	
H/hold total	498	462	406	350	295	239	
2 adult household 100% average RV							
CC	0	200	270	339	409	478	
Rate bill	711	517	388	259	129	0	
H/hold total	711	717	657	598	538	478	
3 adult household 130% average RV							
CC	0	300	404	509	613	717	
Rate bill	924	672	504	336	168	0	
H/hold total	924	972	908	845	781	717	

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LOCAL AUTHORITY - BARNSLEY 4 YEAR TRANSITION

Average rate bill per household £328 } assuming 1987/88
Community charge - no safety net £264 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	122	169	217	264	
Rate bill	230	126	95	63	31	0	
H/hold total	230	201	217	233	248	264	
2 adult household 100% average RV							
CC	0	150	244	339	433	528	
Rate bill	328	181	136	90	45	0	
H/hold total	328	331	380	429	479	528	
3 adult household 130% average RV							
CC	0	225	367	508	650	792	
Rate bill	426	235	176	118	59	0	
H/hold total	426	460	543	626	709	792	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	141	182	223	264	
Rate bill	230	92	69	46	23	0	
H/hold total	230	192	210	228	246	264	
2 adult household 100% average RV							
CC	0	200	282	364	446	528	
Rate bill	328	132	99	66	33	0	
H/hold total	328	332	381	430	479	528	
3 adult household 130% average RV							
CC	0	300	423	546	669	792	
Rate bill	426	172	129	86	43	0	
H/hold total	426	472	552	632	712	792	

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LOCAL AUTHORITY – CRAVEN 4 YEAR TRANSITION

Average rate bill per household £288 } assuming 1987/88
Community charge – no safety net £184 } spending

Initial community charge £75

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	75	102	129	157	184	
Rate bill	202	104	77	51	26	0	
H/hold total	202	179	180	181	183	184	
2 adult household 100% average RV							
CC	0	150	204	259	313	368	
Rate bill	288	148	111	74	37	0	
H/hold total	288	298	315	333	350	368	
3 adult household 130% average RV							
CC	0	225	307	388	470	552	
Rate bill	374	192	144	96	48	0	
H/hold total	374	417	451	485	518	552	

Initial community charge £100

	87/88	90/91	91/92	92/93	93/94	94/95	95/96
1 adult household 70% average RV							
CC	0	100	121	142	163	184	
Rate bill	202	71	53	35	18	0	
H/hold total	202	171	174	177	181	184	
2 adult household 100% average RV							
CC	0	200	242	284	326	368	
Rate bill	288	101	76	51	25	0	
H/hold total	288	301	318	335	351	368	
3 adult household 130% average RV							
CC	0	300	363	426	489	552	
Rate bill	374	131	98	66	33	0	
H/hold total	374	431	461	492	522	552	

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ANNEX B

SPECIAL ARRANGEMENTS FOR LONDON

1. The aim of the new arrangements is to provide

- a 4 year transition generally, but

- a 5 year transition in inner London.

2. In order to ensure as smooth a progression as possible from 1990/91 to the end of the transitional period, the changes in the overall burden of local taxation need to be phased in in equal steps, over 4 or 5 years as appropriate.

3. The benefit to inner London domestic taxpayers in 1990/91 is £409m. If this is phased out in equal steps over 5 years, the cost in each year will be as follows:

1990/91	£409m
1991/92	£327m
1992/93	£245m
1993/94	£164m
1994/95	£82m
1995/96	£0m

4. Overall, the cost of the safety net to domestic taxpayers outside inner London is also £409m in 1990/91 (inevitably, as the safety net is intended to balance). If this cost is phased out over 4 years, the cost in each year is

1990/91	£409m
1991/92	£307m
1992/93	£205m
1993/94	£102m
1994/95	£0m

5. The additional cost of the special London arrangements would therefore be the difference between the amounts in paragraph 4 above, and those in paragraph 3. That is

1990/91	£0m
1991/92	£20m
1992/93	£40m
1993/94	£62m
1994/95	£82m

6. This could be portrayed as additional help from non-domestic rates (or from grant) to further ease the transition in London. It would, however, be felt as an increase in all community charge bills everywhere except inner London of the following amounts (unless, of course, the sums were found from the Exchequer - ie from national taxpayers).

1990/91	0p
1991/92	60p
1992/93	£1.17p
1993/94	£1.82p
1994/95	£2.40p

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ANNEX C

SPECIAL LONDON ARRANGEMENTS

Effect of DOE proposals on
2 adult household 100% of average RV

		87-88	90-91	91-92	92-93	93-94	94-95	95-96
CAMDEN	Rates	843	658	493	329	164	0	0
	CC	0	200	508	818	1124	1434	1564
	Total tax bill	843	858	1001	1147	1288	1434	1564
w/o special London arrangement		843	858	1035	1211	1388	1564	1564
GREENWICH	Rates	495	304	228	152	76	0	0
	CC	0	200	420	638	858	1076	1216
	Total tax bill	495	504	648	790	934	1076	1216
HACKNEY	Rates	766	580	435	290	145	0	0
	CC	0	200	468	734	1004	1270	1382
	Total tax bill	766	780	903	1024	1149	1270	1382
HAMMERSMITH	Rates	405	225	169	113	56	0	0
AND FULHAM	CC	0	200	358	516	676	834	930
	Total tax bill	405	425	527	629	732	834	930
ISLINGTON	Rates	553	361	272	182	90	0	0
	CC	0	200	372	542	718	888	966
	Total tax bill	553	561	644	724	808	888	966
KENSINGTON	Rates	606	450	338	226	112	0	0
AND CHELSEA	CC	0	200	336	472	612	748	740
	Total tax bill	606	650	674	698	724	748	740

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		87-88	90-91	91-92	92-93	93-94	94-95	95-96
LAMBETH	Rates	536	359	270	179	91	0	0
	CC	0	200	398	598	796	996	1094
	Total tax bill	536	559	668	777	887	996	1094
LEWISHAM	Rates	683	498	374	250	124	0	0
	CC	0	200	456	712	1054	1232	1354
	Total tax bill	683	698	830	962	1178	1232	1354
SOUTHWARK	Rates	500	326	245	163	82	0	0
	CC	0	200	406	614	820	1028	1140
	Total tax bill	500	526	651	777	902	1028	1140
T HAMLETS	Rates	547	369	276	185	93	0	0
	CC	0	200	438	672	908	1144	1278
	Total tax bill	547	569	714	857	1001	1144	1278
WANDSWORTH	Rates	399	210	157	106	53	0	0
	CC	0	200	346	490	634	780	870
	Total tax bill	399	410	503	596	687	780	870
WESTMINSTER	Rates	810	657	493	328	164	0	0
	CC	0	200	360	522	684	846	762
	Total tax bill	810	857	853	850	848	846	792

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ANNEX C

SPECIAL LONDON ARRANGEMENTS

Effect of DOE proposals on
1, 2 and 3 adult households in
Camden, Greenwich, Wandsworth, Westminster

		87-88	90-91	91-92	92-93	93-94	94-95	95-96
CAMDEN								
1 adult)	Rates	590	461	345	230	115	0	0
70% of RV)	CC	0	100	254	409	562	717	782
	Total tax bill	590	561	599	639	677	717	782
w/o london arrangements		590	561	616	671	727	782	782
2 adults)	Rates	843	658	493	329	164	0	0
100% of RV)	CC	0	200	508	818	1124	1434	1564
	Total tax bill	843	858	1001	1147	1288	1434	1564
w/o london arrangements		843	858	1035	1211	1388	1564	1564
3 adults)	Rates	1096	855	641	428	213	0	0
130% of RV)	CC	0	300	762	1227	1686	2151	2346
	Total tax bill	1096	1155	1403	1655	1899	2151	2346
w/o london arrangements		1096	1155	1453	1751	2048	2346	2346
GREENWICH								
1 adult)	Rates	347	213	160	106	53	0	0
70% of RV)	CC	0	100	210	319	429	538	608
	Total tax bill	347	313	370	425	482	538	608
2 adults)	Rates	495	304	228	152	76	0	0
100% of RV)	CC	0	200	420	638	858	1076	1216
	Total tax bill	495	504	648	790	934	1076	1216
3 adults)	Rates	644	395	296	198	99	0	0
130% of RV)	CC	0	300	630	957	1287	1614	1824
	Total tax bill	644	695	926	1155	1386	1614	1824

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		87-88	90-91	91-92	92-93	93-94	94-95	95-96
WANDSWORTH								
1 adult)	Rates	279	147	110	74	37	0	0
70% of RV)	CC	0	100	173	245	317	390	435
	Total tax bill	279	247	283	319	354	390	435
2 adults)	Rates	399	210	157	106	53	0	0
100% of RV)	CC	0	200	346	490	634	780	870
	Total tax bill	399	410	503	596	687	780	870
3 adults)	Rates	519	273	204	138	69	0	0
130% of RV)	CC	0	300	519	735	951	1170	1305
	Total tax bill	519	573	723	873	1020	1170	1305
WESTMINSTER								
1 adult)	Rates	567	460	345	230	115	0	0
70% of RV)	CC	0	100	180	261	342	423	396
	Total tax bill	567	560	525	491	457	423	396
2 adults)	Rates	810	657	493	328	164	0	0
100% of RV)	CC	0	200	360	522	684	846	792
	Total tax bill	810	857	853	850	848	846	792
3 adults)	Rates	1053	854	641	426	213	0	0
130% of RV)	CC	0	30	540	783	1026	1269	1188
	Total tax bill	1053	884	1181	1209	1239	1269	1188

DOC2719LM

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ANNEX C

SPECIAL LONDON ARRANGEMENTS

Effect of DOE proposals on
1, 2 and 3 adult households in
Camden, Greenwich, Wandsworth, Westminster

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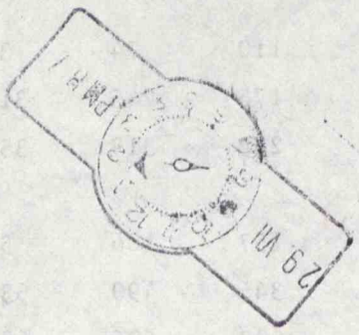

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P 02811

PRIME MINISTER

CAPPING THE COMMUNITY CHARGE

[Minute of 28 July from Mr Ridley]

DECISIONS

Mr Ridley seeks agreement to the arrangements for capping the community charges of high spending local authorities from 1990/91.

BACKGROUND

2. E(LF) agreed on 2 July (E(LF)(87)11th Meeting, Item 2) that it would be essential to legislate for community charge capping on a permanent basis under the new local government finance system which will apply from 1990/91. Mr Ridley was asked to bring forward further proposals.

MR RIDLEY'S PROPOSALS

3. Mr Ridley's minute proposes a form of capping which is based on the existing Scottish model rather than on the current arrangements for England and Wales. Local authorities would no longer be selected for capping before the start of the financial year. Instead, Mr Ridley would wait until they had set their own community charges. He would then decide on criteria to select those who had set the highest absolute charges, or had made the largest year on year increases, and propose a lower charge for them. They would have a chance to apply for a figure between their original charge and Mr Ridley's figure. Finally, the resulting reduced charge would be imposed by Order, and the authorities would have to cut their expenditure accordingly.

MAIN ISSUES

4. A scheme of this sort has a number of advantages over the existing rate capping arrangements for England -

a. it deals solely with the community charge fixed by the authority, which is what charge payers will be concerned about;

b. the Government is seen to have secured an actual reduction in the community charge which the authority would have set. Under the present system, ratepayers never know what charge the council would have fixed if left to take its own decisions;

c. it is less susceptible to abuse by local authorities through creative accounting. They can avoid selection only by actually cutting their community charges.

But there are also disadvantages

d. it would be more staff intensive, and it would probably not be possible to select as many authorities as under the existing system;

e. since control would be applied only at a late stage, it would probably not be feasible to seek such large reductions in spending;

f. it involves interfering in local authorities' financial arrangements after the start of the financial year. This is likely to be very controversial, not least during the passage of the Bill through Parliament. (Previous provisions with similar effect have been substantially weakened during their Parliamentary consideration).

5. On balance, Mr Ridley is probably right that the Scottish model of capping has advantages, particularly in presentational terms. But you will want to seek the views of the Business Managers about how it is likely to affect the Bill in both the Commons and the Lords.

Capping during the transitional period

6. Capping is bound to be more complex to operate during the transitional period, when authorities will be levying both rates and the community charge. Marginal spending will all be financed from the community charge, and capping will therefore apply to that tax rather than to rates (which will be fixed by the transitional provisions). However, community charges will be increasing sharply from year to year as rates are phased out. (There will also be problems associated with boroughs opting out of ILEA, which you will have discussed at E(EP)). Very complicated criteria will be needed to select authorities under these conditions. You will want to be assured that Mr Ridley is developing proposals which will deal with this.

TIMING

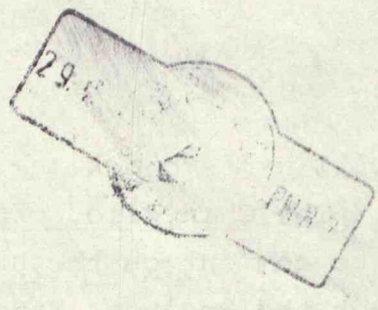
7. Mr Ridley seeks decisions now so that the relevant parts of the Rates Reform Bill can be drafted.

HANDLING

8. You will want to ask the Environment Secretary to introduce his paper. The Chancellor of the Exchequer and other Ministers will wish to comment on the substance of his proposals. You will want to seek the Business Managers' views about the Parliamentary implications.

J B UNWIN

29 July 1987



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CCBCT

CCB/LP

SECRETARY OF STATE FOR THE ENVIRONMENT

Prime Minister

CAPPING THE COMMUNITY CHARGE

ATTACHED

At its meeting on 2 ~~July~~, E(LF) concluded that there should be a scheme for capping the community charge and that this should not be confined to the transitional period when the community charge was being phased in. This letter seeks colleagues' agreement to the capping scheme to be adopted.

Annex A to the paper discussed on 2 July outlined a scheme based on the approach adopted in Scotland. I have given further thought to that approach and still favour the general basis of the Scottish system, with its considerable merit of the immediacy of in-year action to reduce charges. I have developed the outline further, with some modifications to take account of circumstances during a transitional period.

The scheme which I now have in mind is set out in the Annex to this letter. Its principal features are that it would allow me to intervene and reduce authorities' charges at the start of the financial year for which they had been set; and that I could select authorities for capping on the grounds both of excessive levels of charge and of excessive year-on-year increases. In broad outline, the scheme would operate as follows:

March	Authorities set their gross community charge.
April	Government selects authorities for capping on the basis of excessively high charges or excessive increases in charges over previous year; and fixes provisional lower charges.
April-May	Selected authorities have opportunity to apply for provisional limits to be increased.

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May-June Authorities' representations considered.

July Lower charges fixed by Order.

It is possible, given the need to act quickly at the start of the financial year, that we might want to bring forward from 1 April to the beginning of March the date by which authorities must fix their charges.

As I suggested in the earlier paper for E(LF), it may not be possible under a system of this sort to seek spending reductions as large as under the existing ratecapping system, or to embrace as large a number of authorities within the system. These possible drawbacks are, however, outweighed by major advantages - the speed with which the Government would be seen to have reduced existing bills; the move away from selection criteria which depend on accounting definitions susceptible to abuse by unscrupulous authorities; and downward pressure on charges, since the only way for an authority to avoid selection - by whatever means, including creative accounting - would be to hold down the demands made on chargepayers.

Subject to any further views which colleagues may have on the proposals, I would like them to be worked up urgently for inclusion in the Bill. In view of the season and of the tight timetable for drafting legislation, I would be grateful if they would let me have any comments by the end of this week, 31 July.

I am copying this minute to members of E(LF) and to Sir Robert Armstrong.

NR

N R

28 July 1987

CONFIDENTIAL

ANNEX

CAPPING THE COMMUNITY CHARGE

1. This note outlines proposals for a scheme of "community charge capping" in England and Wales. This would operate during a transitional period leading to full introduction of the community charge and could operate indefinitely thereafter.

General

2. The shape of the scheme would be similar to that adopted in Scotland, which in turn was based on the existing Scottish system of ratecapping. The essence of that system is the Government taking in-year action to reduce bills as soon as possible after they have been sent out, rather than reacting to a council's excessive spending plans for one year by limiting its expenditure through a cap on the rate or charge in the following financial year. The scheme outlined below does, however, include some variants to the Scottish model, some of which are needed to take account of the conclusion reached at E(LF) on 2 July 1987 that the charge should run alongside rates during a transitional period.

Selection of authorities for capping

3. The approach in selecting authorities for capping under the new system would operate as at present in England and Wales by the application of general principles which determined what was excessive. It should, however, avoid the present difficulty under the English system, of authorities manipulating the presentation of their budgets to reduce their apparent expenditure, by concentrating instead on the revenue actually raised from ratepayers and chargepayers through an authority's precept on the Collection Fund. (This is the fund on which local authorities from both tiers will precept for the income to finance their spending. Into it will be paid the needs grant from central Government, income from the national non-domestic rate, and receipts from the charges levied by both tiers on ratepayers and chargepayers.) This precept is in effect a proxy for the authority's spending.

4. The principles for selection would be based afresh each year on a combination of some or all of the following factors:

(a) a cut-off to exclude authorities where the absolute level of the precept, or the precept per head of adult population, was below a specified figure;

(b) an excess of the overall precept, or the precept per head, over a specified margin above the amount implied by the Government's assessment of an authority's need to spend;

(c) an excess of the overall precept, or the precept per head, over a margin specified in cash or percentage terms compared with the preceding year (with provision to make a notional comparison with the last year before transition).

As at present, the selection criteria could distinguish if necessary between classes of authority, and between those capped in the previous year and those not. At the end of the transitional period, the notion of "precept per head" would equate directly with the level of an authority's gross community charge per adult. By limiting this gross charge, the charge net of grant and non-domestic rate income would effectively be limited too.

5. The aim of the selection criteria powers would be to provide the Secretary of State with sufficient flexibility to cap authorities where the level of gross charge, or the year-on-year increase, or a combination of both, was excessive. The powers would be drafted both to exclude explicit duties on the Secretary of State to make judgements about what is "reasonable" on local authorities' part, and to minimise within the areas of discretion open to him the number of points where the implicit duty to act reasonably could give rise to legal dispute. The aim here would be to make decisions on selection for capping as proof as possible against challenge by judicial review.

Securing reductions from the capped authorities

6. At the same time as the announcement of selected authorities (probably in the second half of April) the Secretary of State would notify them of the provisional limit he was placing on their precept on the Collection Fund. This would probably be done by reference to general principles to reduce the risk of legal challenge to the use of his discretion affecting individual authorities. An authority would be able to apply for the limits on its precept to be fixed somewhere between the level it had set and the provisional limit notified by the

Secretary of State. To do so it would have to submit its application and various prescribed information before the end of a specified period (probably by late May); and it would also be able before the end of that period to submit any representations in support of the application.

7. The Secretary of State would aim to reach a decision on applications by the end of June. If he were to decide that an authority's original precept should stand, he would formally notify the authority of the fact. If he decided on a lower figure, this would be prescribed in regulations subject to affirmative resolution in the Commons (during the course of July). The legislation would need to provide some form of parallel to the existing powers under ratecapping to reduce the provisional limit or, if allowing a higher limit, to impose conditions relating to the authority's expenditure or financial management.

8. Once an authority was in receipt of a statutory notice limiting the amount it could precept on the Collection Fund, fund managers would be under a duty to ensure that no more than the new amount was levied for the authority or paid to it for the year as a whole. The authority itself would be required within a statutory period to reduce its level of charge by the appropriate amount: if it failed to act before the end of that period, the original charge demands would become invalid from that point. In the transitional period, all of the reduction would fall on the community charge rather than on the residual rate element (subject to a minimum reduced level of charge, to prevent cases where it might otherwise be reduced to an impractically small, or even negative amount).

Department of the Environment

July 1987

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CC B/a

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

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

NBRR.

28 July 1987

Dear Nicholas,

NON-DOMESTIC RATING

Thank you for sending me a copy of your minute of ~~25~~ June to the Prime Minister. WITH DN?

We have agreed that the reserve power for the Treasury to override the automatic indexation provisions should apply north of the Border: this is relevant to the index-linked ceiling within which local authorities will set their rate poundages. I agree that, if this reserve power is to be used, it must be exercised early in the RSG and budgetary cycle. In Scotland indexation will be by reference to the year-on-year increase in the RPI for September, and as soon as that figure is available I will need to be able to prescribe the relevant rate poundage ceilings. Subject to the assurance that those concerned will co-operate to ensure that this timetable can be met in an orderly way, I am happy to agree that we should resist any proposal for an explicit time limit for the use of the reserve power to be set out in statute.

It is our objective to harmonise the valuation systems north and south of the Border. The line we took throughout the passage of the Abolition of Domestic Rates Etc (Scotland) Act 1987 was that we would judge the need for legislation to secure harmonisation in the light of the forthcoming revaluation. It would be unwise to re-open this at present on the basis of those of your proposals which might arguably be relevant to Scotland, since they would seem peripheral to the main issue. I therefore do not propose to undertake parallel consultation in Scotland. Harmonisation is of course a two-way street and I hope that you will agree that, where you are making changes, and existing Scottish practice seems broadly satisfactory, it can be adopted.

Turning to the main items in the consultation paper to which attention has been drawn:-

i. Rating of empty commercial property - The discretion to rate such property is little used in Scotland. Our general approach is that local authorities will have discretion to set business rates below the index-linked ceiling if they wish, the burden falling on community charge payers. It would be consistent with this not to place them under a duty to charge rates on empty shops and offices.

ii. Future revaluations - I welcome the proposal to return to five-yearly revaluations in line with the Scottish timetable.

iii. Winding down the domestic appeals system - Because of the more limited number of appeals between revaluations in Scotland we have seen no need for comparable provisions.

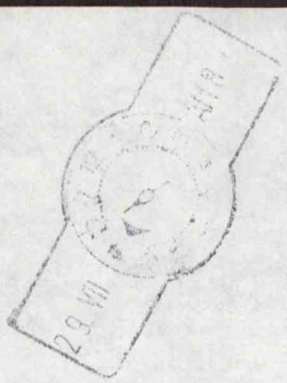
iv. Duty to consult businesses - Because our local authorities will continue to have discretion to set a lower rate than the ceiling we re-enacted the consultation provisions in the 1987 Act. Given the differences between our systems the abandonment of consultation south of the Border should not cause difficulty to either side.

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

Yours ever,

Malcolm

MALCOLM RIFKIND



RESTRICTED

acgc

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ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Enviroment
2 Marsham St
London SW1

N BPM

28 July 1987

COMMUNITY CHARGE EXEMPTIONS

I have seen your letter of 20 July to the Prime Minister.

ATTACHED

My interest is in the arrangements applying to students. We have agreed that students should be liable at their term-time address for 20% of the community charge. You mention that the Scottish Office are taking the lead in devising a definition of a student for this purpose. I agree that we need a definition which restricts the community charge discount to bona fide full-time students, but I foresee difficulties if the definition is too tightly drawn. There will have to be further discussion between officials.

I also agree with you that there must be some compensation to authorities for the discounts given to students. However I am not convinced of the need for a new specific grant. I do not see a direct parallel with the arrangements for reimbursing authorities for the costs of rebates to those on housing benefits. In that case the rebates are part of a wider scheme of income support and depend on the individual's income. It is sensible to take account of the variable rebate payments as part of the wider specific grant for housing benefit. But for students the position is much simpler: all will be liable for exactly 20% of the charge. Full compensation for authorities spending at need could be achieved by counting each student as one-fifth of an adult in the population base for calculating RSG. There is no need for the additional bureacracy which would be needed for dealing with the payment of grant to 330 different authorities.

RESTRICTED

I do not see that there is anything odd in counting students in this way. The population base for this purpose is, after all, no more than a measure of the authority's ability to raise income from the community charge; it will be quite different from the population figure used, for example, in needs assessments, which will include those under 18 and adults not liable for the charge. I see no difference in principle between counting students as 0.2 to reflect their reduced liability and leaving out of the count completely those who will be exempt from the charge. I am aware that this mechanism will not compensate authorities for spending significantly above need; but I see this as an advantage. With compensation through specific grant based on the actual level of the charge we might be thought to be endorsing overspending.

We should also be aware of the likely size of a specific grant. I estimate that it might amount to £110 million a year at 1987-88 prices once the community charge is fully in place. In order to maintain the existing balance between the national and local taxpayer, this sum would need to be found from the grant which would otherwise be available for the new revenue support grant to local authorities.

I hope that in the light of these comments you will be willing to reconsider this aspect of your proposals. I am copying this letter to the Prime Minister, the Lord President, members of E(LF) and Sir Robert Armstrong.

002/4208

CCB6

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

NBM.

Dear Nick,

27th July 1987

COMMUNITY CHARGE EXEMPTIONS

Your minute of 20 July to the Prime Minister set out detailed proposals for handling these exemptions.

I am content with your proposals for the severely mentally handicapped and those covering residents of "homes" and hostels. I welcome your proposal for a tight definition of students which, I understand, will comprise only those involved in reasonably long courses, and for duties to be placed upon colleges to supply local authorities with the necessary information.

I cannot accept, however, that there should be a specific grant through which local authorities are reimbursed for the costs of the 80 per cent rebate on the community charge proposed for students. This implies that the government should pay local authorities at the charge which authorities choose to set, not that for spending at need. It would be more in line with "Paying for Local Government" if students were dealt with in the same way as other groups who, by virtue of a particular provision rather than their individual incomes, will receive special treatment. This involves adjusting the population base which determines the charge for spending at need and the distribution of the national non-domestic rate and the standard element of revenue support grant. This method does without a specific grant and places the full burden of spending above need where it belongs, on local taxpayers. I hope that you will reconsider this point.

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

Yours Ever, John

JOHN MAJOR

P 02802

PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS
(INCLUDING PROBLEMS OF ILEA)

[E(LF)(87)30&35; Minute of 20 July from the Secretary of State for Wales]

DECISIONS

The Sub-Committee needs to take final decisions on the arrangements for transition to the community charge in England and Wales. The outstanding issues are -

a. the length of the transitional period. The options are three, four and five years from 1 April 1990;

b. the level of the initial community charge in 1990/91. The options which have been discussed are £50 and £100 per adult.

You also need to decide whether the same arrangements ought to apply in Wales, or whether to proceed with the different arrangements proposed by the Secretary of State for Wales. Decisions on transitional arrangements will be influenced by the likely level of the highest charges, which will depend in part on ILEA's spending in 1990/91, (the subject of Mr Baker's paper (E(LF)(87)30)). In any event Mr Ridley suggests in his paper that the Sub-Committee may need to take a later look at the residual problem of very high charges in Inner London: you may wish to ask him to bring forward another paper on this after the summer break.

BACKGROUND

2. E(LF) last discussed transition to the community charge on 14

July (E(LF)(87)14th Meeting). The Sub-Committee agreed that there should be full transitional measures, comprising a phased transition from rates to the community charge and a safety net to moderate shifts in average tax bills between areas. But you agreed that the transition should be faster than that proposed in the Green Paper "Paying for Local Government", probably lasting for four or five years. You felt that the initial community charge in 1990/91 should probably be £100 rather than the £50 proposed in the Green Paper - the lower figure would hardly justify the cost of collection. E(LF) invited the Environment Secretary to bring forward a further paper with full exemplifications of the effects of transitional arrangements on this basis.

3. The Sub-Committee reached these conclusions after a discussion which concentrated on the problems of introducing the community charge in England. You did not discuss whether it was essential to have the same arrangements in Wales, where the Secretary of State for Wales had argued for a different proposal, dispensing with a phased transition from rates to the community charge but retaining the fixed safety net proposed in the Green Paper.

The ILEA

4. At an earlier discussion of transition (E(LF)(87)11th Meeting on 2 July) E(LF) also asked Mr Baker to produce a paper on the ILEA's spending, how much it might be reduced through rate capping and other existing measures by 1990/91, and whether there was scope for further initiatives. These issues have an important bearing on the level of community charges in London under the new system, and therefore the burden to be carried by any transitional arrangements: ILEA's overspending is responsible for nearly £250 of the excess in inner London community charges in Mr Ridley's exemplifications.

MR RIDLEY'S PAPER

5. Mr Ridley's paper fulfils the remit from the previous meeting,

but adds exemplifications of a three year transition to those of four and five years which E(LF) requested. The tables attached to the paper show the effect of each of the three transitional periods with starting community charges of both £50 and £100, on each of five local authority areas representative of the extremes.

6. Mr Ridley recommends:-

a. that the initial community charge should be £100. He accepts that it would be hard to justify the cost of collecting a charge of only £50;

b. that the transitional period should be three years. He argues that this will deliver the commitment to abolish rates within a reasonable period; minimise the costs of running rates and the community charge together; minimise the period during which accountability is affected; get the full community charge into force before the London Elections in May 1994; and reduce the extent to which local authorities have to collect very small amounts of rates in the later years of the transition;

c. that the Rate Reform Bill should provide fairly wide powers on transition, not least to prevent authorities "playing the system";

d. that he should make an early announcement of the Government's broad intentions.

MR WALKER'S MINUTE

7. Mr Walker's minute of 20 July repeats his proposal to have different transitional arrangements for Wales. He proposes to move straight to the full community charge in 1990/91, with no period during which rates and the community charge would run in parallel. But he does propose to retain the Green Paper safety net, which would be set in 1990/91 to prevent any shift in the average level

of tax bills as between areas. It would be fixed in cash terms thereafter. A safety net of this type would be retained for at least 10 years, and would be eroded only slowly by inflation. However Mr Walker exemplifies the likely effects on 2 district councils, one spending in line with inflation each year and one increasing its spending by 2 per cent in real terms annually. These figures illustrate how increases in spending would be reflected in community charges even though the safety net was fixed in cash.

MR BAKER'S PAPER

8. Mr Baker's paper contains an analysis of ILEA's spending. The main conclusion is that ILEA overspends in nearly all areas of education, and on all types of expenditure (e.g. teaching staff, non-teaching staff, administration). No easy options for reducing overspending are identified: in particular, the Government's proposals on polytechnics and colleges are unlikely to help, because ILEA tops up spending on this service by only £15m over what it gets from the national advanced further education (AFE) pool. The maximum saving from this source is therefore £15m.

9. Mr Baker's paper shows that rate capping over the last three years has achieved no more than a real terms standstill in the ILEA's spending (despite precept limits which were intended to impose 6-7 per cent real cuts each year). Nevertheless, he now believes that ILEA has run out of flexibility, and that rate capping will bite over the next two years. He estimates that ILEA's spending could be reduced by about £150m to only 50% above GRE in 1990/91 - the EL which has now been agreed for 1988/89 requires a real cut of about 11%, and is consistent with his aim. That would cut the amount its overspending adds to community charges to £150 above the national charge for spending at assessed needs (from £224 on DES's best estimate of likely outturn spending last year). Mr Baker also canvasses the possibility of taking new powers to control ILEA's manpower, but recommends against this.

VIEWS OF OTHER MINISTERS

10. The Chancellor of the Exchequer argued strongly at the last meeting for a long transition. He is likely to favour a full five year transitional period, although he may accept that the starting level for the community charge should be £100 rather than £50. He may, however, suggest that detailed decisions of this sort are not required now, since the Bill will be drafted in general terms in any case, and that a final decision on the length of the transitional period should be taken later in the light of full figures, including the numbers of gainers and losers under each option and an indication of the effect on individuals with the lowest incomes. The other Minister with a direct interest is the Social Services Secretary, because the speed of transitional arrangements has a bearing on the housing benefit case-load and on the overall cost of benefit. But I understand that he will not contest Mr Ridley's proposal. Other Ministers will no doubt have their own personal views about the appropriate period for transition.

MAIN ISSUES

11. The key issue is obviously the precise length of the transition. But decisions on that will be influenced by the likely level of the highest community charges, particularly those in inner London. That depends on the ILEA's spending. You might therefore like to consider Mr Baker's paper first, to satisfy yourself that there are no options which radically affect the basis of Mr Ridley's figuring.

The ILEA

12. Mr Baker's belief that he can reduce the ILEA's spending by 15% in real terms by 1 April 1990 looks optimistic. So far, precept limitation has failed to do better than hold spending constant in real terms. You might want to ask why Mr Baker believes that the next two years will be different. He may suggest that ILEA now has no balances left. But it would be rash to assume

that they cannot find other accounting devices to evade spending reductions. In any case it does not seem realistic to expect to achieve larger cuts than he suggests. That would reduce community charges in inner London by around £100 below Mr Ridley's figures. This would help, but it would not radically alter the nature of the transitional problem.

13. There is also the possibility of controlling the ILEA's manpower explicitly. But as Mr Baker says, this might draw the Government into agreeing manning levels which clearly required a higher precept limit than it would otherwise have set. You will probably not want to go down this road.

Length of transition

14. The main issues in relation to the length of transition seem to be -

a. the size of the year on year increases in domestic tax bills which is acceptable. Mr Ridley's figures suggest that a 3 year transition might mean annual increases of £230 per adult in the community charge in Camden, against about £140 for a 5 year transition. Taking rates and the charge together, a 3 adult household might face an annual increase of over £130 per adult with a 3 year transition, but only about £80 per adult with a 5 year transition. There will of course be more extreme figures for some households with below average rates;

b. the period over which you judge that there might be substantial reductions in spending, e.g. by the ILEA;

c. the desirability of minimising the period of turbulence and confused accountability associated with the transition;

d. whether the cost of collecting rates at the end of the period can be justified. A 5 year transition would result in rates of only £20 on an average house in Craven in the final year;

e. electoral considerations. Mr Ridley stresses the importance of completing the transition before the London local elections in May 1994. You will also want to consider the possible timing of General Elections in relation to the transition.

15. These considerations point in different directions. If you felt that Mr Ridley's proposal of 3 years involved rather too sharp changes in tax bills, but that 5 years was too long, you might be attracted to 4 years as a compromise option. That would get transition over by 1 April 1994, which looks reasonable in electoral terms.

Initial community charge

16. You took the view at the previous meeting that a £50 initial charge was too low to justify the costs of collection. If you go for a 5 year transitional period, you might want to reconsider this: with a long transition a jump to £100 in the first year might seem out of proportion with the subsequent rate of increase in the community charge over most of England (though not in inner London). But on balance you will probably wish to go for £100 per adult in the first year.

Wales

17. When you have taken decisions on England, you will want to consider whether they should also apply to Wales, or whether Mr Walker can adopt his different approach. He will no doubt point out that other aspects of the Welsh arrangements will be different - e.g. the structure of the grant system; and that his proposals are very close to those which will apply in Scotland. But Mr

Ridley is likely to suggest that different transitional arrangements are likely to create great difficulties for him in steering the Rates Reform Bill through Parliament. You will need to decide whether Mr Walker should be obliged to adopt the arrangements you agree for England.

TIMING

18. Decisions on the fundamental question of whether or not there is to be a phased transition from rates to the community charge in both England and Wales are needed now so that the Bill can be drafted. Detailed decisions on the speed of the transition could, if necessary, be taken later - the Bill's provisions on this will be drafted in general terms. You will also want to consider the timing of any announcement of E(LF)'s decisions.

HANDLING

19. You might first ask the Education Secretary to introduce his paper on the ILEA. You will then want to ask the Environment Secretary to introduce his paper, and the Secretary of State for Wales to speak to his minute. The Chancellor of the Exchequer the Social Services Secretary and other Ministers will also wish to comment.

J B UNWIN

24 July 1987
Cabinet Office

CONFIDENTIAL

PRIME MINISTER 24 July 1987

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

You are meeting to discuss Mr Ridley's latest proposals on the transitional arrangements for moving towards the Community Charge. You will recall that at the last meeting, it was agreed that there should be dual running of rents and Community Charge for a transitional period and that there should be a safety net but that the safety net might be withdrawn over a shorter period than Rates.

Mr Ridley proposes that the safety net and the Rates should be withdrawn at the same rate and that the transitional period should be the same in each area. This has the advantage of simplicity and clarity though the transitional period will be shorter or longer than ideal in some areas.

Length of Transition

Mr Ridley's paper gives the example of the effects in a number of areas in three, four, and five year transitional periods with starting Community charges of £50 and £100. The "three adult household" example ought to be ignored since the Community Charge is a personal charge and joint and several liability will only apply to married and cohabiting couples.

We cannot avoid the transitional period spanning the next General Election. But it seems highly desirable that the Community Charge should be fully in place before the one after that. This suggests a 3 or 4 year transitional period so that in 1995-96 there is no sharp change.

Mr Ridley proposes a three year period in order that the charge should be in place in full before the 1994 local elections in Greater London. However, even with a four year transitional period, electors in Inner London will have experienced most of the effect of high spending policies and the transition will be somewhat smoother.

Level of Initial Charge

We prefer a £50 initial Community Charge because this would create a smoother transition in all but about 30 areas and enable the Government to say that the additional charge in most areas would be £50 a year or less.

Conclusion

We recommend a four year transitional period with a £50 Community Charge.

Peter Stredder

PETER STREDDER

Com Charge

Bulk of the rest

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91 94

Fine SRW

cc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 July 1987

Dear Robin,

NON-DOMESTIC RATING

Thank you for your letter of 22 July which commented on mine of 20 July. The Prime Minister has noted the position on the pool, on domestic appeals and on the duty to consult business and is content for your Secretary of State to proceed as he proposes.

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

Yours,

David

(DAVID NORGROVE)

Robin Young, Esq.,
Department of the Environment.

DTJ

DTS
file
cc BS

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 July 1987

Dear Robin,

COMMUNITY CHARGE EXEMPTIONS

The Prime Minister has seen your Secretary of State's minute of 20 July which made more detailed proposals on community charge exemptions. She has noted in particular that the decision to exempt residents in homes and hostels was taken on the basis that the homes and hostels would themselves be liable to rates. This is apparently not the case. The Prime Minister nevertheless accepts that the exemptions should be as proposed by Mr Ridley, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to the Lord President, members of E(LF) and Sir Robert Armstrong.

Yours,
David.

D R NORGROVE

Robin Young, Esq.
Department of the Environment

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

WBM.

24 July 1987

Dear John

NON-DOMESTIC RATING

FILE on S/CP

Thank you for your letter of 17 July in reply to my minute of 25 June to the Prime Minister.

OPERATION OF THE NNDR POOL

I accept that we should, so far as possible, avoid a short-fall arising on the pool which might have to be covered temporarily by the Exchequer, and to that end we need to have fixed schedules of payments into the pool as well as fixed schedules of payments out. In practice there should be no difficulty in achieving this because it has always been our intention that, in order to avoid large sums of money flowing around the country, the amount due to be paid in would be netted off against amounts due to be paid out and indeed from grant payments. In this way the control over the timing of payments will be effectively in the hands of my Department.

The schedule of payments into the pool would have to be based initially on authorities' own estimates of the likely yield of the uniform rate poundage, though that estimate would have to be made in accordance with rules prescribed by order. In practice, the income which the authority can achieve by raising the uniform poundage each year will be different at outturn from this initial estimate as a result of changes in rateable value, bad debts and so on. Some of these changes will be within the control of the Local Authority and the rules for calculating the product of the rate should provide every incentive to them to minimise any losses which are within their control. Other changes, up and down, will be outside their control and arise from the appeals procedure and the process of new development. We cannot therefore escape from the need to provide for an adjustment to payments, which also might be up or down, after the end of the year when the final rate product has been certified. I think there is nothing between us on this point. The only issue which arises, therefore, is whether we should allow for adjustments to payment schedules during the course of the year in exceptional circumstances. We have been forced to recognise this need under previous financial systems. In the past it has usually been

100% RECYCLED PAPER

associated with the closure of steel works, although now that empty industrial property is fully de-rated, the situation could in principle arise from the closure of any large industrial premise. I anticipate that we will come under strong pressure from the local authority associations to concede an arrangement whereby an authority with an appropriately large reduction in rate income as a result of a large industrial closure might exceptionally be given permission to adjust its payment schedules during the course of the year to avoid imposing undue borrowing costs on its community charge payers. I think we would have to consider such a concession if we are pressed on it during the passage of the legislation.

The remaining issue is whether we need to provide for any shortfall on the pool. The arrangements we are now firming up on make it extremely unlikely that any overall shortfall will arise, but we have to face up to the following sorts of possibility:

(i) we may be forced to concede an arrangement for mid year adjustments to payments into the pool in respect of individual authorities in the circumstances described above. This would reduce net income.

(ii) an overall net contributor to the pool, the City of London or Westminster, might fail to pay for some reason - industrial action or computer failure, say. We would be able to enforce payment eventually be making them borrow, but a temporary short-fall could arise.

(iii) there will be adjustments to payments for an earlier year in the light of the outturn yield of the national rate poundage. The evidence suggests that in aggregate the tendency will be for income to increase at outturn, but we have not been so long between revaluations before and it is difficult to say how successful the Revenue will be in defending the valuation list. Even if the overall trend is up, in the short term until payment schedules are adjusted, a cash flow shortfall could conceivably arise.

The first call for any of these eventualities would be on the small operating balance which we envisage the fund would establish by planning to pay out slightly less than the estimated income. For the reasons set out in PS/Prime Minister's letter of 20 July, however, we would not wish that balance to be larger than absolutely necessary because of the impact on the community charge. In the event, therefore, that any shortfall exceeded the balance on the fund on any particular day, we would need to provide for the fund to be kept in balance. The mechanism I propose is by drawing on the AEG vote within the financial year and by adjustments to payments out of the pool in subsequent financial years where any shortfall had to be carried over to another financial year. I hope this arrangement is acceptable to you.

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DUTY TO CONSULT BUSINESSES

I note what you say about the duty to consult businesses. This point has been picked up too in PS/Prime Minister's letter of 20 July. Whatever we do, we cannot continue to consult about the level of the rate - some change is inevitable. I have proposed that we should proceed to consultation and return to this point in the light of responses.

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

Yours ever

Nicholas

NICHOLAS RIDLEY

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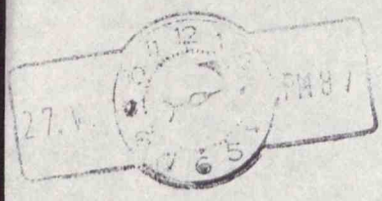


27.V. PM 87

LOCAL GOVT

RATES

PTT

MR WICKS

cc Mr Hamilton

THE COMMUNITY CHARGE

The definition used by the Treasury and by the CSO for deciding whether a charge scores as negative expenditure is as follows:

> "Public spending is measured net of receipts from certain charges such as those for school meals, further education courses, prescriptions and dental treatment etc. Essentially, current expenditure on goods and services is shown net of charges when:
>
> (i) there is a clear and direct link between the payment of the charge and the acquisition of specific goods and services (including the testing of an ability of level of performance or the establishment of standards); and
>
> (ii) the charge is related to the cost of providing the goods and services, and the Government is not using its power to make the charge an instrument for raising revenue."

The community charge fails this test at every point. It will be scored on the revenue side of the account.

I understand that there are a few charges which are taken on the revenue side of the account and are not treated as taxes. These are fees for particular services. The community charge is:

- compulsory
- levied by Government
- unrelated to the amount of the services consumed
- and it contributes to a general funding pool.

It seems to me to be an instrument for raising revenue - in other words a tax.

I assume you would not want to argue that the community charge should be excluded when the Government measures the tax burden as a proportion of GDP. The only real possibility would be to treat the community charge like national insurance contributions and to talk in terms of "tax, NIC and community charge" as a percentage of GDP.

You may say that this is all rather technical. But to my mind, it is simply not credible to claim that the community charge is other than a tax.

D.R.N.

David Norgrove
23 July 1987

MJ2BFJ

Prime Minister
Content with Mr Ridley's proposals, subject to colleagues?
DCN 23/7.

PRIME MINISTER 22 July 1987

COMMUNITY CHARGE EXEMPTIONS

Yes no

Mr Ridley has sent you a minute about implementing the decisions already taken on the groups to be exempt from the Community Charge.

His letter raises the following issues:

1. The definition of the severely mentally handicapped who are to be excluded from the liability to pay the charge.

2. The definition of the residential 'homes and hostels' whose residents will not pay the Community Charge.

3. A proposal to reverse the decision that such homes and hostels should continue to be rated.

4. Restricting the entitlement to pay only 20% of the Community Charge to those students on reasonably long courses.

5. Compensating local authorities for the exemption from Community Charge of the long stay residents of 'homes and hostels' by excluding such residents from the figures used in calculating the authority's population.

6. Funding exemptions for students by means of a specific grant on the lines of that to be paid towards local authorities costs in making rate rebates.

The only one of these issues that requires further consideration is the proposal to change the decision to keep residential homes and hostels within the rating system. It appears that when this was discussed at E(LF) some ministers doubted the wisdom of exempting the residents of such homes

from the Community Charge because it would create an incentive against care in the community. We also advise against creating this exemption. But it appears to have been accepted because these homes would continue to be liable to Rates. - Presumably.

Now it appears that because of the wide interpretation the courts give to the Rating (Disabled Persons) Act 1978, virtually all these homes are exempt from Rates. As the Government has given a commitment that the existing pattern of exemptions and relief from rates will continue, very few, if any, of these homes will in practice pay rates.

This calls into question the earlier decision to exempt the residents of homes and hostels from the Community Charge. This decision was based on the expected attitude of the House of Lords. On its merits, the case for it is not strong since some of these residents will be capable of meeting the charge from their own resources whilst those who will not will be eligible for housing benefit towards 80% of the Charge. A new factor is the decision to increase benefit rates to cover the remaining 20% of the average Charge. This will be paid to most of the residents of these homes even if they are exempt from the Charge.

However, it is probably politically unrealistic to re-open this decision in England and Wales when it has already been enshrined in legislation in Scotland. Even though the Scots propose keeping these homes in the rating system, most will be exempt under the 1978 Act.

Conclusion

In principle the Government should not now propose exempting the residents of homes and hostels in England and Wales from the Community Charge and could justify this by pointing to the availability of housing benefit to meet 80% of the

charge and up-rating of income support benefits to meet the other 20%. However this is politically unrealistic since the concession has already been made in Scotland. We therefore support Mr Ridley's proposals on Community Charge exemptions.

Peter Stredder

PETER STREDDER

LOCAL GOVT: Ratana
PT7

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

22 July 1987

Prime Minister
This seems acceptable.
Content?
Yes mt
DRN 23/7.

Dear David,

NON-DOMESTIC RATING

Thank you for your letter of 20 July.

On the operation of the pool, the detailed arrangements will need further discussion between officials in the light of the Chief Secretary's letter of 17 July. We would hope to keep any margin for contingencies very small and avoid any significant extra burden on the community charge.

On domestic appeals, my Secretary of State's proposal to close these down following Royal Assent to the Bill is clearly altered by E(LF)'s decision to have dual running of domestic rates and the community charge. This issue will no longer be included in the consultation paper, and my Secretary of State will put further proposals in due course, having regard to the Prime Minister's views.

On the duty to consult business, my Secretary of State accepts that there are presentational grounds for retaining a duty to consult, but that clearly cannot be linked to the setting of the rate, as it is now, once that is determined by statutory formula. The Chancellor of the Duchy of Lancaster has commented that the present duty has proved quite useless in practice. My Secretary of State's preferred course would be to include the proposal to drop statutory consultation in the consultation paper, which will be sent to national business organisations (CBI, IOD, NFSESB) and to reconsider the point in the light of their views, when it could if necessary be reinstated. I hope that the Prime Minister would be content with this approach.

I am sending copies to the Private Secretaries of members of E(LF) and to Trevor Woolley (Cabinet Office).

Yours,

Robin.

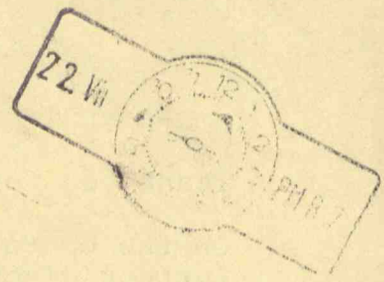
R U YOUNG
Private Secretary

100% RECYCLED PAPER

LOCAL GOVT

RATES

PTT



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10 DOWNING STREET

LONDON SW1A 2AA

20 July, 1987.

From the Private Secretary

NON-DOMESTIC RATING

The Prime Minister has seen your Secretary of State's minute of 25 June about some outstanding issues on non-domestic rates.

On the operation of the pool for the non-domestic rate, the Prime Minister believes that the alternative to a contingency margin should be explored in order to avoid a higher community charge than necessary. The Chief Secretary in his letter of 17 July suggested one possibility, but there may also be others.

The Prime Minister shares the Chief Secretary's concern that abolition of the duty to consult businesses may give the wrong signals, though she recognises that the duty is unenforceable. She would be grateful if Mr. Ridley could consider this point.

The Prime Minister is otherwise content, subject to the views of colleaues.

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

David Norgrove

Robin Young, Esq.,
Department of the Environment.

RESTRICTED

cc BG.

SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

COMMUNITY CHARGE EXEMPTIONS

ATTACHED

At E(LF) on 23 April it was decided that the severely mentally handicapped and residents of "homes" and hostels should be exempted from liability to pay the community charge. It was also decided that students should be liable to pay only 20% of the community charge.

Since then my officials and those from other Departments have been considering how these decisions should be implemented. I now attach a paper which sets out my detailed proposals for the handling of these exemptions.

I should point out that one of my proposals - that we should not attempt to keep homes and hostels in rating in England and Wales - would involve reversing a decision taken at E(LF) on 23 April; and that the proposal for compensating for the student discount had not been agreed conclusively at official level. I am confident, however, that the solutions I have put forward are the most appropriate in the context of the Rate Reform Bill.

In view of the time constraints I am under in preparing my Bill, my officials will be instructing Parliamentary Counsel in accordance with the proposals in the paper. It would therefore be helpful to know urgently whether colleagues see any major problems. Minor changes can be made later, if necessary when draft Clauses have been prepared.

I am copying this letter to the Lord President, members of E(LF) and Sir Robert Armstrong.

Yours ever, PP NR

20 July 1987

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

COMMUNITY CHARGE EXEMPTIONS

Severely mentally handicapped

1. I propose that, in England and Wales, a person should be exempt from the personal and collective community charges if:

(a) he has a certificate from his general practitioner that he is suffering from a state of arrested or incomplete development of mind which includes severe impairment of intelligence and social functioning; and

(b) he is in receipt of Severe Disablement Allowance (SDA).

2. The definition in (a) is the same as that included in the Abolition of Domestic Rates Etc (Scotland) Act, and the requirement for a certificate is also in line with what is proposed in Scotland. The SDA qualification has been agreed by my officials and those from DHSS. The intention is that only those who already qualify for SDA (which is paid to the physically as well as to the mentally disabled) should be able to apply for a certificate of mental impairment: the effect will be to discourage frivolous or unjustified applications for certificates.

3. I understand that it is usual practice for general practitioners to receive payment for issuing a certificate. In my view it is important that the cost should not be borne by the applicant, but I understand I do not need to make provision for this is my Bill.

Residents of "homes" and hostels

4. DHSS officials have put forward a series of lengthy definitions of the various caring institutions, the residents of which will qualify for exemption from the personal community charge in England and Wales. While I would have preferred a more concise series of definitions, I am content to be guided in this by DHSS. Broadly speaking, the institutions covered are private and voluntary residential care homes; local authority residential care homes; registered nursing and mental nursing homes; and hostels providing accommodation and care with a view to rehabilitation or resettlement in the community. I understand that a different set of definitions will apply in Scotland, because of the different legislation under which homes and hostels are provided north of the Border, but the effect will be broadly the same.

5. I put on record, in my minute of 28 April to the Prime minister, my view that we would need to reconsider at least some of the decisions taken about exemptions by E(LF) on 23 April. One such decision was that homes and hostels should continue to pay rates, on the basis that leaving them in rating would ensure that the residents contribute to the cost of local services. In fact, virtually all of these institutions qualify for rate relief, and we have given a firm commitment that the existing pattern of exemptions and reliefs from rates will continue. To a large extent, therefore, keeping these institutions in rating would be a meaningless gesture.

6. Moreover, in order to keep homes and hostels in rating we would have to allocate them artificially to the non-domestic sector (for which rating will continue), when under the system I envisage for the Rate Reform Bill they fall naturally into the category of residential property (for which we are abolishing rates and introducing the community charge). This would mean that we were keeping a cumbersome piece of legislation, the Rating (Disabled Persons) Act 1978 - and an associated specific grant, and complicating the Rate Reform Bill to no useful purpose.

7. I propose, therefore, to leave homes and hostels in England and Wales in the residential sector and not to attempt to make them theoretically liable to rates. I do, however, intend to ensure that the community charge exemption for residents of homes and hostels applies only to those receiving care; resident staff will pay the charge.

8. I appreciate that in Scotland it will be necessary to keep homes and hostels in rating, because that is the only mechanism in the ADRES Act for exempting the residents from the community charge. But in practice rates will not be paid in the vast majority of cases, because of the reliefs I have mentioned. For the reasons I have set out I see no reason to follow this approach in England and Wales.

Students

9. The Scottish Office are taking the lead in devising a definition of students who would be entitled to the 80% community charge discount. I understand that Malcolm Rifkind will be circulating a paper on this shortly. It is clearly vital that we agree a tight definition which eliminates, as far as possible, the scope for those who are not bona fide students to claim the discount. I understand the Scottish Office will propose a definition which includes only full time students involved in reasonably long courses (say two terms or more). I strongly support this approach.

10. As far as the mechanics of the student discount are concerned, I propose to make provision in my Bill for registration officers to be able to require colleges to supply information about students for the purposes of community charge registration; for colleges to be under a duty to supply such information; and for colleges to be required to issue full-time students with certificates, which would be of use in proving their status and claiming the discount.

Paying for the exemptions

11. The exemptions agreed by E(LF) will mean that local authorities have to forgo the income they would otherwise have collected from the individuals who have been granted exemptions or discounts. One possibility would be to let these losses lie where they fall. This would mean authorities levying higher charges on all their other adults. But, given that the proportion of people eligible for the concessions will vary substantially between authorities - particularly the numbers of students and people in old people's homes - and will be significant in some areas, such an outcome would be demonstrably unfair.

12. I propose, therefore, that authorities should be compensated for the exemptions and discounts that they will be required to give.

13. In the case of exemptions, I propose that compensation should be given simply by taking account of the numbers of exempt people in setting the population base for the purpose of equalisation. This will mean that authorities will be compensated only for spending at the level of their assessed need. Any authority spending less would be overcompensated, while authorities spending above their needs assessment would receive only partial compensation.

14. For students, who will not be exempt, but will pay 20% of their community charge, I propose a different compensation mechanism. There will be a specific grant to compensate authorities for the cost of community charge rebates. Since the student discount achieves the same effect as an 80% rebate, it would, in my view, be appropriate for compensation to be paid in the same way - by a (separate) specific grant. It would, in any case, be quite inappropriate to compensate for students by adjusting the population base, since this could only be done by counting each student as 20% of an adult - a clearly absurd procedure.

Local Gov't Rating PT7

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CONFIDENTIAL

PRIME MINISTER

INTRODUCING THE COMMUNITY CHARGE

When we discussed transitional arrangements for the community charge at E(LF) last Tuesday I said that I would circulate an illustration of how the different spending decisions of local authorities would be reflected in community charges under my proposal to abandon rates from the outset and for a long-term safety net which was fixed in cash terms.

... The attached table shows community charges for two district councils over a ten year period, assuming that both benefit from the safety net by the amount of £10 per adult each year in cash terms. Inflation, for ease of illustration, is set at a notional 5% per annum. District Council A simply increases its expenditure each year to keep pace with inflation. District Council B, on the other hand, increases expenditure each year by 2% in real terms (NB These figures only illustrate the district council portion of the total community charge to be paid by the taxpayer but a similar pattern would apply to the much higher county council portion).

The table makes clear that increases in expenditure are fully reflected in the community charges set by each authority; in fact by year 10, the charge of District Council B is more than twice that of District Council A. I remain convinced that a safety net of this nature is the best way forward for Wales. It will preserve accountability while at the same time allaying fears about dramatic changes in local tax bills between authorities.

/I have ...

I have also been reflecting on our discussion at the same meeting about the possibility of phasing out rates over a period of years. I can see the attractions of moderating the initial impact of the community charge by setting it at a standard amount while continuing to keep rates in the early years. But I am sure that in Wales these advantages would be outweighed by the savings in local authority costs and manpower, and by the advantage of giving local authorities a clear field to get on with making the new system work effectively. Concern has already been voiced about the practical difficulties of compiling the register and collecting the charge, and these will only be compounded if authorities have to run the old and the new systems simultaneously. Provided that we mitigate the distributional effects of the new arrangements between areas by means of the safety net which I am proposing I do not think that the impact upon individuals of the new system would be sufficient to justify phasing out rates gradually. If I adopted an initial threshold in Wales of £100 then the amounts remaining to be phased in would not be large enough to justify keeping rates for an extra period.

... I am copying this minute to members of E(LF) and to Sir Robert Armstrong.

HJ Clements

20 July 1987

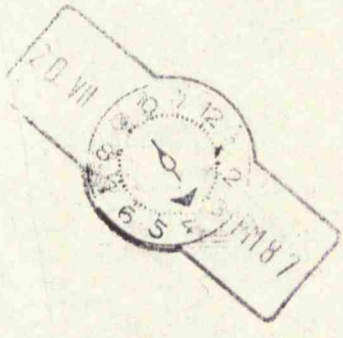
Approved by the Secretary of State
and signed in his absence

ILLUSTRATIVE COMMUNITY CHARGE CALCULATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DISTRICT COUNCIL A (spending in line with inflation each year)	£22	£24	£25	£27	£29	£31	£33	£35	£37	£40
DISTRICT COUNCIL B (spending 2% above inflation each year)	£22	£27	£32	£38	£44	£51	£59	£67	£77	£86

NOTE

This illustration assumes that both authorities benefit from the safety net at £10 per adult; and that the safety net is frozen in cash terms throughout the ten years. Inflation has been assumed to be a notional 5% per annum for ease of illustration. Only the district council portion of the total community charge has been illustrated but a similar pattern would apply to the county council portion.



014/3298

CeBG

Treasury Chambers, Parliament Street, SW1P 3AG

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

17th July 1987

Dear Nick,

NON-DOMESTIC RATING

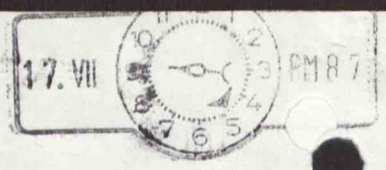
You wrote to the Prime Minister on 25 June putting forward proposals for the operation of the national non-domestic rate (NNDR) pool and for certain amendments to rating legislation. I have also seen the comments from Kenneth Clarke.

Operation of the NNDR pool

I agree with your proposal that the income to the NNDR pool should broadly be paid out taking one year with another. But I do not accept that the Exchequer should be expected to meet any temporary deficit in the pool, in order to assure local authorities of their income. Certainty of income from the pool is clearly desirable to help local authorities in their financial planning: but to achieve that certainty, we must require authorities to collect non-domestic rates efficiently and pay them promptly into the pool. And mechanisms must be devised which avoid, so far as possible, the Exchequer making up any shortfall.

I therefore suggest that we should provide for schedules of payments to be fixed each year for each LA's contributions into the pool as well as the payments out of it. The contributions and payments should be set to generate a very small surplus as a safety margin, as part of the administration costs of the scheme. In that way, we should be able to avoid

LOCAL GOVT: Rating PT7.



any call upon the Exchequer; only on a contingency basis should there therefore be any recourse to the Vote provision for grant. This proposal would also mean that these authorities, and in particular those which have a greater non-domestic rates yield than their entitlement would have to collect their rates efficiently and promptly to meet the schedules - or borrow to the cost of their chargepayers.

Indexation of the NNDR

You propose that a decision in principle to override the automatic indexation of the NNDR should be taken before the rate support grant settlement has been approved by Parliament. I agree with this.

Other amendments to rating legislation

I am content with your proposals on the rating of empty commercial property and future revaluations.

I note that Kenneth Clarke supports your view that the duty on local authorities to consult business should be repealed. I appreciate that the duty is unenforceable; but might not repeal give the wrong signal and suggest that Government does not continue to attach importance to local authorities seeking businesses' views on their spending policies.

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

Yours Ever,
John

JOHN MAJOR

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Prime Minister 2
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CONFIDENTIAL

Prime Minister

ABOLITION OF DOMESTIC RATES ETC (SCOTLAND) ACT 1987 COMMENCEMENT

A Commencement Order is required to bring the provisions of the Act into force and the purpose of this minute is to let you and members of E(LF) know that I propose to bring the Act into force around the middle of August.

Although quite a bit of preparatory work has been done at official level, and I have commissioned a preliminary study on computer system requirements which should be ready by the end of this month, it is clear that, at the political level, there may be some tendency to foot-dragging on the part of local authorities. Making the Commencement Order will place the Government's intentions beyond doubt. At the more technical level, it confers upon existing local authority officials (the Assessors) the duties of community charges registration officer and requires local authorities to provide sufficient staff, accommodation and other resources to enable the registration officer to perform his functions under the Act. I hope that, once the Act is in force, there will be no question of local authorities in Scotland refusing to obey the law. But I have to acknowledge that there will be considerable scope for them to delay action on some of the necessary preparatory work, and it will only become clear over a period of several months whether or not this is happening, and whether there is any serious risk to the timetable of introducing the new system on 1 April 1989.

I propose to undertake formal consultations with the Convention of Scottish Local Authorities, and will be sending them a draft of the Commencement Order in the next few days. I intend to announce in Parliament that this has been done and to make clear the general timetable I envisage, since it is plain that the Order (which requires no Parliamentary procedure) cannot be made until after the House has risen.

I am copying this minute to members of E(LF) and to Sir Robert Armstrong.

MR

MR

14 July 1987

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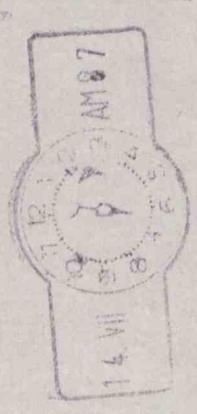
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cc BG.

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01-270 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru
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01-270 (Direct Line)
From The Secretary of State for Wales
0538

The Rt Hon Peter Walker MBE MP

14 July 1987

N BPM

NON-DOMESTIC RATING

I am content with the proposals for the operation of the NNDR pool and transition as outlined in your minute of 25 June to the Prime Minister and would wish to apply them in Wales. The combined effects of revaluation and the introduction of NNDR are unlikely to be as dramatic in Wales and I may not need to set the same limits as yourself. The legislation will therefore need to provide for me to make separate arrangements in Wales.

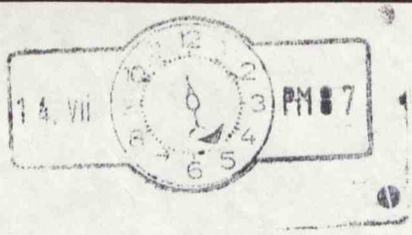
at trap PT6

I am content also with the terms of the consultation document which I would like to be issued jointly from our two Departments.

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

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

LOCAL OUT : Rabaq
PT7



10 DOWNING STREET

Prime Minister

New papers:

- figures for outer London
- Cabinet Office brief
- Policy Unit note
- Note by the Chief Secretary
  E(LF)(87)32.

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CONFIDENTIAL

PRIME MINISTER

13 July 1987

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

You are meeting tomorrow to discuss the transitional arrangements for the Community Charge following earlier rejection of Mr Ridley's proposal to introduce the Charge without a transitional period in most areas. There are papers from Mr Ridley, Mr Walker and the Chief Secretary.

Background

The Community Charge has three distinct effects:

(i) Those adults who are not ratepayers (and are not married or cohabiting with a ratepayer) will be subject to local taxation for the first time;

(ii) The Charge will be higher than the average rate bill per adult in areas with low rateable values and lower in those with high rateable values because grant will switch from a rateable value to a per capita basis;

(iii) Within each area, those living in houses with below average rateable values will lose and those in houses with above average rateable values will gain.

There are two possible transitional measures:

(i) A safety net grant. This is designed to ease the switch of grant between areas and will therefore help areas that lose under (iii) above. But it can do nothing for those who lose under (i) and (ii) if the Community Charge is introduced in full from day 1.

(ii) Phasing out Rates gradually. This helps those living in below average rateable houses or facing the Charge

for the first time. It is the only way of targetting help on those in low rateable value houses.

Mr Ridley's proposals

Mr Ridley proposes three alternative types of transitional arrangement. The first involves introducing the Community Charge in full in year 1, but phasing the change in grant between areas over 3 years. The figures in table 2 of his paper illustrate the point made above that this does not ensure that all charge payers face a gradual increase in their obligations. For example, a first time Community Charge payer in Camden will face an extra £456 a year - £8.75 a week - in year 1, whilst a married couple in a house or flat with a rateable value of one half the average will face an increased bill of £490 a year.

Mr Ridley's second option involves first phasing out rates (whilst maintaining a safety net) and then phasing out the safety net. This achieves a smoother transition than in his first option, but produces some anomalous results in areas that will gain grant when the Community Charge is introduced in full. Because of the safety net they initially face a higher Community Charge than at the end of the transition.

Mr Ridley's third option involves phasing out rates and safety net together over a three year period. We support this approach because it provides a smoother transition without introducing the anomalies encountered with the second option, but consider that the transitional period is still too short. In the worst case, Camden, a first time Charge payer will still face an extra bill of £227 a year - over £4 a week - in years 2, 3 and 4 and a married couple living in a house with rateable value of half the average will face an increased bill of £673 in each of those years.

The Chief Secretary's paper sets out these objections and suggests a five year phasing with an initial Community Charge of £50 rather than the £100 proposed by Mr Ridley. We agree that £50 a year - £1 a week - is about the right level for the initial Community Charge and suggest that subsequent steps should be no larger than this.

In order to present it in the best possible light, we suggest:

(i) introducing the Community Charge in £50 steps in each area;

(ii) a full safety net in year 1 phased out over the next 5 years.

This would mean that the Government could assure Charge payers that provided their local authorities were not extravagant, the most they would have to pay extra each year would be £50 (ie £1 a week). In all but 17 areas the transition would be completed after 5 years and all areas that gain would realise the benefits within 5 years.

Mr Walker's proposals

Mr Walker proposes introducing the Community Charge in Wales in a single step in 1990-91, with a safety net applying for at least 10 years. The safety net would not be withdrawn, but would erode with inflation. The highest Community Charge in Wales under these proposals would be £188 a year in Colwyn - less than a quarter of the highest Community Charge in England. Because of the safety net, it is unlikely that any charge payer (including treating a married couple as a single charge paying unit) will face an increased bill of more than this. Although at £3.62 a week this is much more than the £50 a week that we are proposing in England, it is manageable as a once-for-all increase.

Conclusion

The Rates should be phased out gradually in order to moderate the effect of the Community Charge on those living in lower than average rateable value houses and those becoming liable to local taxation for the first time. A safety net is needed in order to moderate the switch in grant between areas. Although one of Mr Ridley's options achieves this, it involves too high an initial Charge and too short a transitional period.

We recommend introducing the Community Charge in £50 steps. This will enable the Government to focus on a maximum extra charge each year of £1 a week. Accountability will still be strengthened because expenditure in excess of the standard assumed for grant purposes will have to be met in full through a supplement to this Charge. There should be a full safety net grant in year 1, withdrawn over the subsequent 5 years. This will ensure that the transition is completed by year 6 in all but 17 areas and that those areas that benefit from the Charge do so in full by year 6.

The situation in Wales is different because the highest expected Charge there is £188 a year (compared to £782 in England). Although some charge payers will face an increased burden of up to £3.62 a week, this is manageable as a once-for-all increase.

Peter Stredder

PETER STREDDER

CONFIDENTIAL

P 02783

PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

[(E(LF)(87)28, 29) & 32]

DECISIONS

The Sub-Committee needs to decide on transitional arrangements for introducing the community charge in England and Wales, and in particular -

a. whether to confirm its earlier decision that there should be a phased transition from domestic rates to the community charge, or (as Mr Ridley and Mr Walker would prefer) to agree that the community charge should be introduced in full in 1990/91;

b. how fast the transition should be, both as concerns any phased abolition of rates and the removal of safety net protection for different areas (Mr Ridley argues that if there is a transition, it should be 3 years at most; the Chief Secretary bids for 5 years);

c. whether special arrangements should be made to deal with the very high potential community charge levels in London, possibly through preferential access to the national non-domestic rate (NNDR).

BACKGROUND

2. During the preparation of the Green Paper "Paying for Local Government", E(LF) became concerned about two sorts of changes

which would follow from its proposals. First, the very substantial shift in the burden of domestic taxation from the South to the North of the country. To limit this shift, E(LF) agreed a system of safety nets, operated through the grant system or NNDR pool, to prevent any immediate changes in the burden of domestic taxation as between local authority areas. The grant adjustments would be fixed in cash, and would diminish only as they were eroded by inflation. Second, E(LF) became concerned about changes in the tax burden on individuals in any area. To limit these changes E(LF) agreed a phased transition from domestic rates to the community charge, with a period of up to 10 years during which both systems would run in parallel. Both these transitional arrangements were included in the Green Paper.

3. During the Parliamentary consideration of the Abolition of Domestic Rates etc. (Scotland) Bill there was pressure, backed by Scottish Councils, to move straight to the full community charge in 1989/90. E(LF) agreed on 24 February (E(LF)(87)2nd Meeting) to drop dual operation of the two domestic tax systems, and the Bill was amended accordingly. However, safety net arrangements are still proposed to limit shifts in the burden of taxation between areas in Scotland.

4. At E(LF) on 2 July (E(LF)(87)11th Meeting) Mr Ridley proposed to follow the Scottish example by introducing the community charge in full in 1990/91, and also to dispense with the general safety net on changes between areas. In their place he proposed a limited scheme of safety nets to mitigate only the highest community charges, principally in London. However, E(LF) did not accept these proposals, and considered that it was essential to retain transitional arrangements, including a phased transition from rates to the community charge and a general safety net to limit changes in average domestic tax bills. But they agreed that there should be further consideration of the precise period of the transition, and also asked Mr Ridley to look at the possibility of further special arrangements for London, including a purely local element of non-domestic rates or a larger allocation for London from the

NNDR pool.

MR RIDLEY'S PROPOSALS

Community Charge

5. Mr Ridley's paper returns to his earlier proposal to abandon a phased transition from rates to the community charge. He argues that running both systems together has formidable disadvantages: it keeps domestic rates in place for a considerable period; it is expensive; it is not cost effective; and it will mask accountability and confuse domestic taxpayers. He therefore recommends, despite the earlier decision of E(LF), that you should now agree to move straight to the full community charge as in Scotland. However, he recognises that E(LF) may not feel able to accept this recommendation: in that case he recommends a short transition of no more than 3 years, under which rates would disappear completely on 1 April 1993.

Safety Net

6. Mr Ridley also proposes a much shorter transition to the full effects of the new system as between areas and regions. IF colleagues agree to move straight to the community charge, he proposes then phasing out safety nets over 3 years. This is his preferred option. If, however, rates are phased out gradually (3 years at most in his view), he suggests that the safety net should be phased out pari passu with them. He points out that to allow the safety net to be eroded by inflation would only imply decline by a third in real terms after 10 years.

London

7. Mr Ridley argues against any special arrangement to keep down community charge bills in London by providing a larger contribution from non-domestic rates. He points out that the safety net will provide London with about £410 million of transitional assistance

in 1990/91. A further subsidy from non-domestic ratepayers would mean either non-domestic rates in London above the uniform national figure, or a reduced NNDR pool for distribution to all other areas.

MR WALKER'S PROPOSALS

8. Mr Walker also proposes to follow the Scottish example, by abolishing domestic rates completely in 1990/91, and to retain safety nets to prevent changes in the average domestic tax bill in different areas in Wales. But unlike Mr Ridley, he sticks with the Green Paper proposal of a safety net fixed in cash terms, and retained for at least 10 years.

THE CHIEF SECRETARY'S PAPER

9. The Chief Secretary argues strongly in favour of a transition from rates to the community charge. He advocates 5 years (as for the NNDR) with the safety net phased out over the same period. He argues that this is essential to prevent perverse effects on community charges during the period when the safety net applies, to smooth the transition to the new system. He also disputes Mr Ridley's figure of £200 million for the cost of running rates in parallel with the community charge, and contrasts this with the earlier estimate of only £50 million. The key issue here is how far the two systems - and particularly enforcement - can be run jointly.

THE RELEVANCE OF ILEA

10. You had asked the Education Secretary to provide a paper for this meeting, setting out a breakdown of ILEA expenditure, so that you could form a view of how savings on that front would affect the transition problem in London. Mr Baker has not been able to produce that paper in time for the meeting, and the ILEA factor is now less important for Mr Ridley since he is proposing a safety net for the first three years. You should probably assume that savings on ILEA would not begin to show for the first 3 years or so of the

opting out regime, and would therefore not have much influence on the community charge levels that would face London charge-payers when a 3 year safety net was phased out.

VIEWS OF OTHER MINISTERS

11. Other Ministers will have personal views about the advisability of moving straight to the full community charge in 1990/91 - most members of the Sub-Committee spoke against this proposal at the earlier meeting. The Social Services Secretary also has a major Departmental interest, because of the implications for housing benefit. The Green Paper estimated (in 1984/85 figures) that introducing the community charge in full would increase the benefit caseload by about 1,170,000 (18%) and benefit costs by £100 million (4%). But both the caseload and cost implications would be somewhat lower with a phased transition. With the £50 first year community charge proposed in the Green Paper, they would be 880,000 (14%) and £20 million (1%) respectively.

MAIN ISSUES

12. Mr Langdon's minute of 10 July discussed the main issues which arise from both papers. In particular it covers the following:-

i. whether to reverse your earlier decision and agree that rates should be abolished completely in 1990/91 (paragraphs 8 and 9);

ii. whether to have a safety net alone if you do decide to move straight to the community charge (paragraph 10);

iii. how long the transitional period should be (paragraph 11);

iv. whether to introduce special arrangements for London (paragraphs 12 and 13).

13. Taking Mr Ridley's fall back position, there are effectively three proposals on the table:

	Rates/Community charge	Safety Net
Mr Ridley	3 year transition	3 year transition
Mr Walker	Instant change	At least 10 years
Chief Secretary	5 year transition	5 year transition.

Mr Ridley's proposal certainly has substantial advantages; it offers the prospect of abolishing rates completely by 1 April 1993, and also bringing the full distributional effect of the new system into place by that date. But this means some fairly sharp changes in individual tax bills between years (exemplified in table 4 to Mr Ridley's paper). Mr Walker's proposal would prevent such large changes as far as Wales is concerned, but at the cost of a very slow movement towards the full Green Paper system. It would of course be possible to have different arrangements for England and for Wales, as you have already agreed for the new grant system. Nevertheless, the Sub-Committee may want to express a definite preference on the speed of transition, which should then apply in both England and Wales. In reaching a decision you will obviously want to take account of political as well as practical considerations, including the timing of elections.

TIMING

14. A decision on whether or not to have a phased transition from rates to the community charge will have to be reflected in the legislation. The Bill has to be ready for introduction in the Autumn. If drafting is not seriously to be delayed, you therefore need to reach agreement <u>before the Recess</u>. You will also need to decide on the same timetable what general arrangement for safety nets you want, although the powers could be drawn fairly wide, leaving the exact form and speed of the transition to be decided later.

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ii. whether to have a safety net alone if you do decide to move straight to the community charge (paragraph 10);

iii. how long the transitional period should be (paragraph 11);

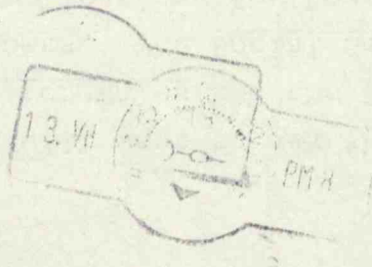
iv. whether to introduce special arrangements for London (paragraphs 12 and 13).

HANDLING

15. You will want to ask the Environment Secretary, the Secretary of State for Wales and the Chief Secretary, Treasury to introduce their papers. The Social Services Secretary will want to comment on the implications for housing benefit of the transition from rates to the community charge. Other Ministers will also wish to comment.

J B UNWIN

13 July 1987
Cabinet Office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SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

13 July 1987

Dear David,

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

You rang me earlier this afternoon, and asked for exemplifications for outer London Boroughs of the various options for introducing the new system that are set out in my Secretary of State's paper (E(LF)(87)28), to be discussed by E(LF) tomorrow.

I enclose 4 tables, showing the figures you asked for. These are comparable to the existing material in Tables 1 to 4 of the paper.

Yours
Brian Leonard.

B H LEONARD
Private Secretary

PS. I am afraid that in the short time available we have not been able to produce a further explanatory note — please let me know if you require this.

100%
RECYCLED PAPER

TABLE 1

Community Charge With and Without Safety Net

	1987/88 Average rate bill per household Col 1	Community charge full safety net Col 2	Community charge no safety net Col 3	Safety net receipt (contribution) per adult Col 4
OUTER LONDON				
Barking and Dagenham	£ 406	£ 208	£ 221	£ 14
Barnet	£ 655	£ 317	£ 222	£(95)
Bexley	£ 417	£ 207	£ 211	£ 4
Brent	£ 676	£ 326	£ 283	£(44)
Bromley	£ 430	£ 217	£ 173	£(44)
Croydon	£ 435	£ 218	£ 158	£(60)
Ealing	£ 634	£ 301	£ 278	£(23)
Enfield	£ 463	£ 226	£ 199	£(28)
Haringey	£ 619	£ 340	£ 329	£(11)
Harrow	£ 565	£ 276	£ 223	£(52)
Havering	£ 433	£ 208	£ 189	£(19)
Hillingdon	£ 488	£ 239	£ 221	£(18)
Hounslow	£ 394	£ 205	£ 170	£(35)
Kingston-upon-Thames	£ 496	£ 252	£ 212	£(40)
Merton	£ 417	£ 222	£ 173	£(48)
Newham	£ 583	£ 304	£ 304	£ 1
Redbridge	£ 427	£ 208	£ 171	£(38)
Richmond-upon-Thames	£ 541	£ 291	£ 233	£(58)
Sutton	£ 518	£ 262	£ 224	£(39)
Waltham Forest	£ 677	£ 351	£ 365	£ 14

Community Charge Introduced in Year One - Safety Net Phased Out Over Three Years

	1987/88 Average rate bill per household Col 1	Year 1 Community charge full safety net Col 2	Year 2 Community charge Col 3	Year 3 Community charge Col 4	Year 4 Community charge full safety net Col 5
OUTER LONDON					
Barking and Dagenham	£ 406	£ 208	£ 212	£ 217	£ 221
Barnet	£ 655	£ 317	£ 285	£ 254	£ 222
Bexley	£ 417	£ 207	£ 209	£ 210	£ 211
Brent	£ 676	£ 326	£ 312	£ 297	£ 283
Bromley	£ 430	£ 217	£ 202	£ 187	£ 173
Croydon	£ 435	£ 218	£ 198	£ 178	£ 158
Ealing	£ 634	£ 301	£ 294	£ 286	£ 278
Enfield	£ 463	£ 226	£ 217	£ 208	£ 199
Haringey	£ 619	£ 340	£ 337	£ 333	£ 329
Harrow	£ 565	£ 276	£ 258	£ 241	£ 223
Havering	£ 433	£ 208	£ 202	£ 196	£ 189
Hillingdon	£ 488	£ 239	£ 233	£ 227	£ 221
Hounslow	£ 394	£ 205	£ 194	£ 182	£ 170
Kingston-upon-Thames	£ 496	£ 252	£ 239	£ 225	£ 212
Merton	£ 417	£ 222	£ 206	£ 190	£ 173
Newham	£ 583	£ 304	£ 304	£ 304	£ 304
Redbridge	£ 427	£ 208	£ 196	£ 183	£ 171
Richmond-upon-Thames	£ 541	£ 291	£ 271	£ 252	£ 233
Sutton	£ 518	£ 262	£ 249	£ 237	£ 224
Waltham Forest	£ 677	£ 351	£ 356	£ 361	£ 365

Option (i)

TABLE 3

Initial Community Charge of £100 : Phase Out Rates, Then Phase Out Safety Net

	1987/88	Year 1		Year 2		Year 3		Year 4	Year 5	Year 6	Year 7
	Average rate bill per household Col 1	Average rate bill per household Col 2	Community charge Col 3	Average rate bill per household Col 4	Community charge Col 5	Average rate bill per household Col 6	Community charge Col 7	Community charge full sfty net Col 8	Community charge Col 9	Community charge Col 10	Community charge no sfty net Col 11
OUTER LONDON											
Barking and Dagenh	£ 406	£ 210	£ 100	£ 140	£ 136	£ 70	£ 172	£ 208	£ 212	£ 217	£ 221
Barnet	£ 655	£ 449	£ 100	£ 299	£ 172	£ 150	£ 245	£ 317	£ 285	£ 254	£ 222
Bexley	£ 417	£ 216	£ 100	£ 144	£ 136	£ 72	£ 171	£ 207	£ 209	£ 210	£ 211
Brent	£ 676	£ 469	£ 100	£ 313	£ 175	£ 156	£ 251	£ 326	£ 312	£ 297	£ 283
Bromley	£ 430	£ 232	£ 100	£ 155	£ 139	£ 77	£ 178	£ 217	£ 202	£ 187	£ 173
Croydon	£ 435	£ 236	£ 100	£ 157	£ 139	£ 79	£ 179	£ 218	£ 198	£ 178	£ 158
Ealing	£ 634	£ 424	£ 100	£ 282	£ 167	£ 141	£ 234	£ 301	£ 294	£ 286	£ 278
Enfield	£ 463	£ 259	£ 100	£ 172	£ 142	£ 86	£ 184	£ 226	£ 217	£ 208	£ 199
Haringey	£ 619	£ 437	£ 100	£ 292	£ 180	£ 146	£ 260	£ 340	£ 337	£ 333	£ 329
Harrow	£ 565	£ 360	£ 100	£ 240	£ 159	£ 120	£ 217	£ 276	£ 258	£ 241	£ 223
Havering	£ 433	£ 225	£ 100	£ 150	£ 136	£ 75	£ 172	£ 208	£ 202	£ 196	£ 189
Hillingdon	£ 488	£ 284	£ 100	£ 189	£ 146	£ 95	£ 193	£ 239	£ 233	£ 227	£ 221
Hounslow	£ 394	£ 202	£ 100	£ 135	£ 135	£ 67	£ 170	£ 205	£ 194	£ 182	£ 170
Kingston-upon-Tham	£ 496	£ 299	£ 100	£ 199	£ 151	£ 100	£ 201	£ 252	£ 239	£ 225	£ 212
Merton	£ 417	£ 229	£ 100	£ 153	£ 141	£ 76	£ 181	£ 222	£ 206	£ 190	£ 173
Newham	£ 583	£ 391	£ 100	£ 261	£ 168	£ 130	£ 236	£ 304	£ 304	£ 304	£ 304
Redbridge	£ 427	£ 222	£ 100	£ 148	£ 136	£ 74	£ 172	£ 208	£ 196	£ 183	£ 171
Richmond-upon-Tham	£ 541	£ 355	£ 100	£ 236	£ 164	£ 118	£ 227	£ 291	£ 271	£ 252	£ 233
Sutton	£ 518	£ 320	£ 100	£ 214	£ 154	£ 107	£ 208	£ 262	£ 249	£ 237	£ 224
Waltham Forest	£ 677	£ 484	£ 100	£ 323	£ 184	£ 161	£ 267	£ 351	£ 356	£ 361	£ 365

Option (ii)

TABLE 4

Initial Community Charge of £100 : Phase Out Rates and Safety Net Concurrently

	1987/88	Year 1		Year 2		Year 3		Year 4
	Average rate bill per household Col 1	Average rate bill per household Col 2	Community charge Col 3	Average rate bill per household Col 4	Community charge Col 5	Average rate bill per household Col 6	Community charge Col 7	Community charge no safety net Col 8
OUTER LONDON								
Barking and Dagenham	£ 406	£ 210	£ 100	£ 140	£ 140	£ 70	£ 181	£ 221
Barnet	£ 655	£ 449	£ 100	£ 299	£ 141	£ 150	£ 181	£ 222
Bexley	£ 417	£ 216	£ 100	£ 144	£ 137	£ 72	£ 174	£ 211
Brent	£ 676	£ 469	£ 100	£ 313	£ 161	£ 156	£ 222	£ 283
Bromley	£ 430	£ 232	£ 100	£ 155	£ 124	£ 77	£ 148	£ 173
Croydon	£ 435	£ 236	£ 100	£ 157	£ 119	£ 79	£ 139	£ 158
Ealing	£ 634	£ 424	£ 100	£ 282	£ 159	£ 141	£ 219	£ 278
Enfield	£ 463	£ 259	£ 100	£ 172	£ 133	£ 86	£ 166	£ 199
Haringey	£ 619	£ 437	£ 100	£ 292	£ 176	£ 146	£ 253	£ 329
Harrow	£ 565	£ 360	£ 100	£ 240	£ 141	£ 120	£ 182	£ 223
Havering	£ 433	£ 225	£ 100	£ 150	£ 130	£ 75	£ 160	£ 189
Hillingdon	£ 488	£ 284	£ 100	£ 189	£ 140	£ 95	£ 181	£ 221
Hounslow	£ 394	£ 202	£ 100	£ 135	£ 123	£ 67	£ 147	£ 170
Kingston-upon-Thames	£ 496	£ 299	£ 100	£ 199	£ 137	£ 100	£ 175	£ 212
Merton	£ 417	£ 229	£ 100	£ 153	£ 124	£ 76	£ 149	£ 173
Newham	£ 583	£ 391	£ 100	£ 261	£ 168	£ 130	£ 236	£ 304
Redbridge	£ 427	£ 222	£ 100	£ 148	£ 124	£ 74	£ 147	£ 171
Richmond-upon-Thames	£ 541	£ 355	£ 100	£ 236	£ 144	£ 118	£ 189	£ 233
Sutton	£ 518	£ 320	£ 100	£ 214	£ 141	£ 107	£ 182	£ 224
Waltham Forest	£ 677	£ 484	£ 100	£ 323	£ 188	£ 161	£ 277	£ 365

Optim (iii)

CC(87)

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

13 July 1987

(for E(LF) back up).

Dear Nicholas.

E(LF)(87)28: THE COMMUNITY CHARGE, TRANSITIONAL ARRANGEMENTS AND THE IMPLICATIONS FOR INCOME SUPPORT

My letter of 6 July set out the further work which in my view was required to properly assess the consequences of much faster replacement of domestic rates by the community charge in England and Wales.

Much of that letter still stands in the light of your further paper, E(LF)(87)28, circulated for tomorrow's meeting. In particular:

1. I can see only too well the administrative advantages in avoiding or minimising a period in which domestic rates are administered alongside the community charge.

2. Nevertheless, I agree with the Chancellor that the political realities require at least five years to phase out the safety-net as this will have a crucial impact on assumed service expenditure, not least in inner city areas. Similarly, we need to allow a long enough period, as local tax obligations build up especially for larger households, for the electorate to exert downward pressures on the spending policies of their local councils.

3. We still need to exemplify the detailed effects and discuss the provision for low income families on the basis of commitment to protect the poorest from the effects of the community charge. Compensation for everyone liable for the first time to a separate charge would require a substantial increase in public expenditure. There are also complicated issues of timing to be resolved for the regulations and implementation given the different timetables

E.R.

operating in Scotland and England and Wales and the fact that income support rates are set nationally.

I shall be circulating a paper shortly on the options and the expenditure implications. We cannot give any detailed commitments until the issues have been properly examined and decisions taken.

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

JOHN MOORE

LOCAL GOVT' Rating PT7

CONFIDENTIAL

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister
Relevant to E(LF) tomorrow. DRV 13/7.

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

13 July 1987

Dear Secretary of State

ABOLITION OF DOMESTIC RATES

I have been giving some thought to the political effect of the proposed community charge and the abolition of domestic rates on the General Election in Scotland. In what follows I am taking into account both my own experience and that of fellow candidates, both successful and unsuccessful, as reported to me.

Although the election results in Scotland were very bad I do not believe that rates reform was a major contributory factor. That is not to say that it was not a significant issue during the campaign. It was. It was raised at most public meetings and it aroused strong feelings on both sides of the argument. However, it seems probable that its political effect was broadly neutral. It won back a significant proportion of those who left us over revaluation; it alienated many who had no intention of voting for us anyway.

This is my general conclusion although I must report that a number of candidates, particularly in the rural areas where the need for rate reform has never been felt so strongly, believe it had a damaging and net vote losing effect.

The following is a more detailed assessment beginning with the beneficial political effect of rates reform during the campaign.

1. It largely neutralised the furore over revaluation - Amongst those who felt strongly about the subject (and there were many) there was a general feeling that the Government had responded in a helpful way and that, at long last, rates abolition was going to become a reality.

2. The principle of the community charge, and especially that all adults will in future contribute, was welcomed by most of those who have heavy rates burdens.

EML19405

3. The single pensioner and the elderly on fixed incomes gave a warm welcome to the reform when it was properly explained.

4. We have easily won the battle that domestic rates is an unfair anomalous, discredited system that needs to be replaced by 'something'.

5. There was a general acceptance that it is right and proper that all adults who benefit from local services should contribute to the cost of them.

6. There was general recognition that those on lowest incomes should be protected by rebates though great uncertainty as to who would benefit.

These were the beneficial aspects. There were also substantial negative and harmful effects.

1. By far the greatest was a general feeling, even amongst many who will benefit, that the community charge was unfair because all will pay the same. There is an uneasiness amongst those with substantial incomes that they will gain great benefit while poor families or, at least, those on modest incomes will pay more. The argument that the charge will be personal and not on households was not accepted as valid and there was a perception that "large families will pay far more" as if this was a collective charge rather than one on individuals.

2. Related to this was a deep feeling that 'ability to pay' should be the basis of taxation. It can be, and it was pointed out, that ability to pay is taken account of by rebates and that Government support for local government will continue to be funded by central taxation based largely on ability to pay. While the logic of these arguments was accepted they have not had a significant impact on public opinion. It was particularly notable that the concessions we had agreed at a late stage, especially additions to income support levels to cover the minimum contribution to rates, scarcely seemed to be appreciated.

3. There remained much ignorance about the community charge, who will be liable, how it will be collected, what it will be based on. There was considerable concern about whether the new scheme would be workable and at what cost, about the possibility of large scale avoidance of registration and about the difficulty and expense of collecting charges from those who refuse to pay.

4. The Opposition parties had an inevitable field day with black propaganda. Because no one is yet paying the community charge the Labour Party, in particular, have published numerous 'studies' and 'calculations' of what the size of the community charge will be in different localities. Local authorities, whether Labour-controlled or not, have aided and abetted them in this. These predictions have caused considerable alarm amongst those least able to assess their accuracy.

5. As has already been seen in England the attempt to describe the new payment as a community charge rather than a poll tax has

been largely ignored by the press and media and by other commentators.

6. There is an assumption amongst many parents that even if they have no legal obligation to pay the community charge of their adult children they will end up having to do so. (Farmers assume the same in respect of their employees.)

7. Beneficiaries of rates relief such as the churches and charities have drawn attention to the disadvantage of the new system from their point of view.

I have concentrated on the community charge and domestic rates but one major problem we will have to contend with is the implication for the size of the community charge of the limitation on the amount raised by non-domestic rates. While we can point out that any increase in spending beyond the rate of inflation ought to be paid for by the electorate this argument will not be accepted where local authority burdens increase, for instance, because pay increases over which the individual authority has no control are higher than the rate of inflation; because central government reduces its support to local government; or because the actual rate of inflation experienced by local authorities is higher than Government allows for.

In these cases the full additional cost will fall on the community charge payer and could lead to very high community charge increases even by a local authority whose expenditure in real terms is static. This issue began to be raised during the General Election campaign and is, perhaps, the most significant 'smoking gun' around.

In general if we can win the argument on fairness and on ability to pay and if we can demonstrate that the limitation on the amount raised by non-domestic rates will not lead to dramatic increases in community charge, rates reform will be a political asset. If we cannot the best we could hope for, in my judgment, is that it will be politically neutral. In Scotland the actual experience of a massive revaluation proved to many the need for major reform. You are in the best position to know whether the threat of a revaluation in England will have a similar effect.

I am copying this letter to the Prime Minister, to other Members of E(LF) and to Sir Robert Armstrong.

Yours sincerely

Malcolm Rifkind

MALCOLM RIFKIND

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

EML19405

CONFIDENTIAL

CC(87)6

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For back up E(LF)

PRIME MINISTER

E(LF): TRANSITION TO THE COMMUNITY CHARGE

E(LF) is to return on Tuesday to the issue of transition to the community charge in England and Wales, including the problems posed by the ILEA's spending. Mr Ridley will be giving an opening presentation, as you asked, but this minute is intended as a background note for your weekend box, to expose the main issues you will need to consider. We shall submit detailed briefing on the new papers by Mr Ridley, Mr Walker and Mr Baker on Monday.

BACKGROUND

2. The purpose of transitional arrangements is to moderate the changes in tax burdens which will result from the introduction of the new local government finance system. You have already decided (E(LF)(87)7th Meeting) on transitional arrangements for non-domestic rates. They will limit the gains and losses arising from the non-domestic revaluation and the introduction of the uniform national non-domestic rate (NNDR) to a maximum of 20-25 per cent per annum: the largest changes will feed through in full in about 5 years. Because NNDR income will be pooled and distributed to all areas on a per adult basis, this transitional scheme is entirely self-contained: it has no implications for domestic taxpayers. You now need to decide on transitional arrangements for them.

EFFECTS OF NEW SYSTEM ON DOMESTIC TAXPAYERS

3. If the community charge and the new grant system were introduced in full in year one they would lead to two sorts of changes in domestic tax bills -

i. changes between individuals within each local authority area;

ii. changes between areas in the overall tax bill on their residents.

Changes between individuals

4. Within each area, the switch from rates to the community charge would broaden the burden of local taxation from householders to all adults. As far as households are concerned, 80% of single person households would stand to gain; among those with two adults gainers and losers would be evenly balanced; and 75% of those with three or more adults would stand to lose. Households in dwellings with high rateable value (RV) would tend to gain, those in dwellings with low RV to lose. As far as individuals are concerned, ratepayers would tend to gain, and non-householders, particularly young adults, would stand to lose (on the assumption they make no contribution to rates at present).

Changes between areas

5. The removal of domestic resource equalisation and the pooling of non-domestic rates would also lead to large shifts in the burden of domestic taxation as between areas. Areas with high rateable values and low spending levels would tend to gain; those with low rateable values and high spending would tend to lose. London is a special case. Although it has high RV's, it has received very favourable treatment through the London resource discount under block grant and its predecessors. A substantial number of London authorities are also very high spending. Consequently domestic taxpayers in the capital stand to lose from the community charge.

6. These effects can be quantified in two ways. In terms of the balance between gainers and losers, about 70% of households in the

Northern region and in Yorkshire and Humberside stand to lose, as do over 60% in London. In contrast, 80% of households in the South East and over 70% in East Anglia and the West Midlands stand to gain. In cash terms the Green Paper gave the following figures for the shift in the burden of domestic taxation (1984/85 figures) -

South East	gain of £470m
West Midlands	gain of £152m
South West	gain of £83m
Northern region	loss of £115m
Yorkshire and Humberside	loss of £155m
London	loss of £475m

TRANSITIONAL MECHANISMS

7. Different mechanisms are needed to deal with the different categories of changes -

i. Changes between individuals. The only practicable way to moderate changes within a local authority area is a phased transition from rates to community charge, with both running in parallel for a time;

ii. Changes between areas. These changes can best be moderated by safety net arrangements, operated through the grant system, or variable payments out of the NNDR pool (or a combination of both).

In addition a special variant of the second approach could be considered as a solution to the problems posed by London, either on a temporary or a permanent basis. The existing resource discount could be replaced by a preferential level of payments through grant

or the NNDR pool, or by the retention of a purely local element of non-domestic rates.

MAIN ISSUES

8. The first issue you need to decide is whether you want to moderate changes in tax bills between individuals, by a phased transition from rates to the community charge. If you do, then I suggest that you will also want to introduce a safety net to moderate changes between areas. Otherwise shifts in the burden of taxation between the North and the South will make a nonsense of the phased transition. (With no safety net, the average household bill in, say, Barnsley might rise by 60%. If a £50 community charge were introduced, that would still lead to a 30% increase in all rate bills in 1990/91 on top of an average community charge bill of £100 or so per household. Domestic taxpayers would simply not be protected from sharp changes in bills).

9. A full transitional package like this has some clear advantages -

i. it prevents unreasonable changes in individual tax bills from one year to the next;

ii. it defers the shift in the burden of taxation from the South to the North which is implicit in the new system;

iii. it avoids putting the burden of nearly a quarter of local government expenditure (and the full burden of marginal expenditure) on an untried tax in 1990/91.

But it also has substantial disadvantages -

iv. it masks the greater accountability which is a key aim of the new system. In the transitional period there would be

complex and confusing changes in rate and community charge bills, unrelated to the spending decisions of local authorities;

v. it means retaining rates during the transitional period;

vi. it is expensive, costing perhaps £600m per annum to administer both rates and the community charge compared to £400m for the new tax alone.

You need to weigh these pros and cons.

10. If you decide not to have a phased transition from rates to the community charge, you will need to decide whether to have a safety net alone. That would prevent sharp and immediate shifts in the average burden of domestic taxation between areas, and particularly between the North and the South. But it would not prevent large changes in individual tax bills. It therefore has some very questionable effects: for example, a non-ratepayer in Elmbridge in Surrey would be asked immediately to pay a full community charge of £366 (compared to £239 if he did not have to contribute to the safety net). At the same time a non-ratepayer in Barnsley would have his charge limited to £168 (compared to £264 without the safety net) because domestic rateable values in Barnsley are low at present. A safety net alone will not therefore address concern about unreasonable changes for individuals. You need to decide whether it is justified in terms of its economic effects as between areas and regions, particularly the North, parts of Wales and London.

Speed of transition

11. If you decide to have transitional arrangements of either sort, you will want to decide on the speed at which to move to the full Green Paper system. The Green Paper proposed -

i. introducing the community charge at £50 in the first year, with further tranches in subsequent years. Rates would have been replaced quickly in certain areas, but only after 10 years or so in parts of London;

ii. a safety net fixed in 1990/91 to prevent all shifts in the burden of domestic taxation between areas, and then frozen in cash terms indefinitely.

Arrangements of this sort would persist - and distort equity and accountability - for a very substantial period. You will want to decide whether it is advantageous to move faster to get the new system fully in place, and if so, what is the best timing from a practical and political point of view.

Special London arrangements

12. If you have a safety net, that will provide transitional protection for London ratepayers in the same way as for those elsewhere. If not, you could still introduce a temporary cap on the highest charges in London, on the lines Mr Ridley suggested when E(LF) last considered the transition. A special arrangement for London to have access to a purely local non domestic rate or a preferential rate of payments from the NNDR pool therefore seems to make sense, if at all, as a permanent arrangement. It could be presented as a continuation of London's preferential treatment under the existing block grant system. But with the abolition of rates, there is no reasoned justification for such treatment. (Higher costs in London, and in particular London weighting payments to employees, are taken into account in needs assessments, and therefore reflected in higher grant payments to London authorities.) It is arguable that London's favourable position in rating terms has been one factor in the high level of spending in the capital. These points argue against a special scheme.

13. However you may feel that the levels of community charge in prospect in London are so high as to be unacceptable, even with a transitional period. One response would be to seek sharp cuts in the level of expenditure in London, through rate capping and other measures. But experience since rate capping was introduced in 1985/86 does not give great reason for optimism that it will be successful even in holding spending constant in real terms, much less achieving cuts. And, at the last E(LF) meeting, Mr Baker did not think that the available options on ILEA could greatly affect that element of the burden on the local charge-payer in the short term. You might therefore want a special scheme as a purely pragmatic solution to the problem of high community charges in London.

CONCLUSION

14. To summarise, the main issues are -

i. whether you want a phased transition from rates to the community charge, coupled with a safety net on changes between areas, which would limit changes for individuals;

ii. if not, whether you want a safety net alone, which would limit regional changes;

iii. the speed of any transition; and

iv. whether you want special arrangements for London as a pragmatic response to the high community charges in prospect there.

A.J.L.

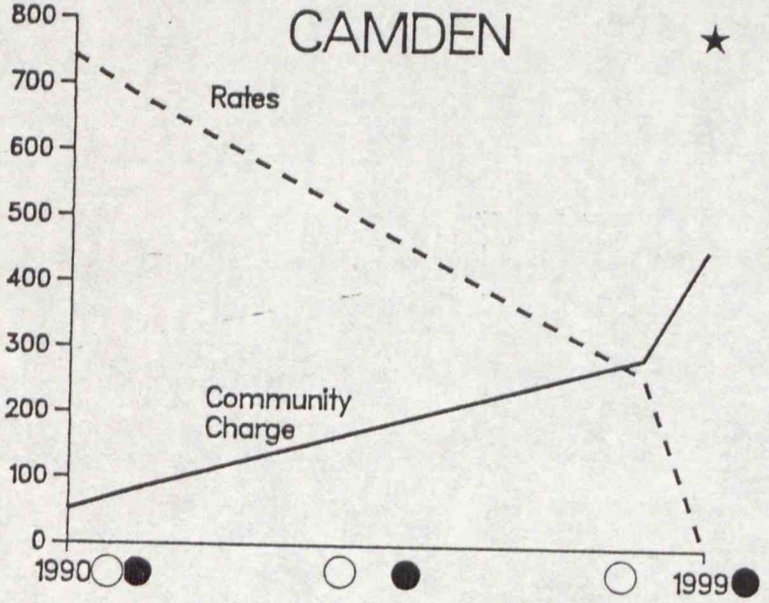
A J LANGDON

10 July 1987

DUAL RUNNING, FULL SAFETY NET

£50 Initial Community Charge, £30 Maximum Annual Increase

CAMDEN



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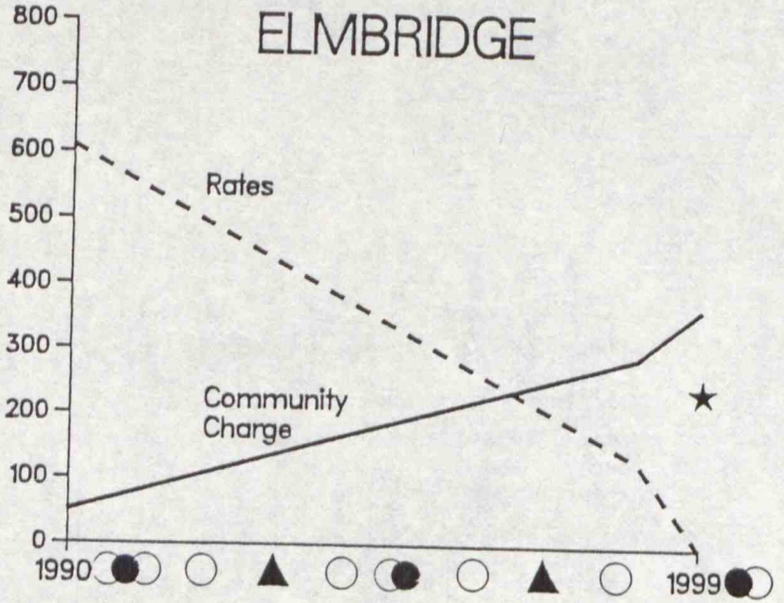
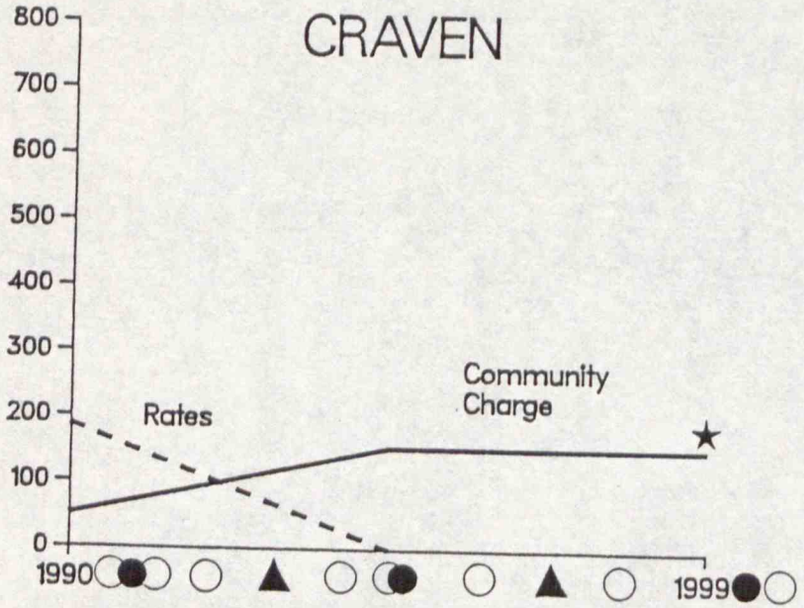
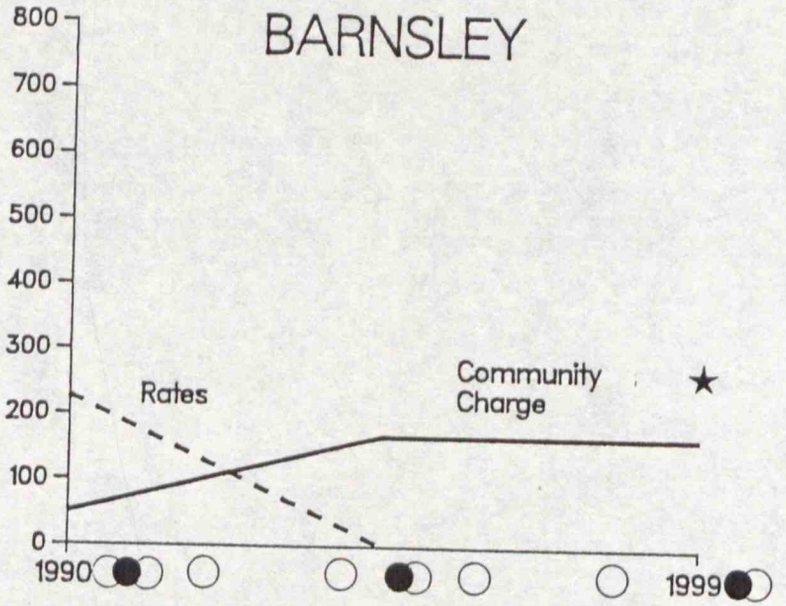


○ DISTRICT ELECTIONS ▲ COUNTY ELECTIONS ● GENERAL ELECTIONS

CRAVEN



BARNSLEY



PROPORTION OF HOUSEHOLDS PAYING RATES

Assuming Green Paper transition from rates to community charge

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
100%	100%	100%	98%	86%	61%	37%	17%	8%	5%
	●				●				●

Key: ● Possible General Election

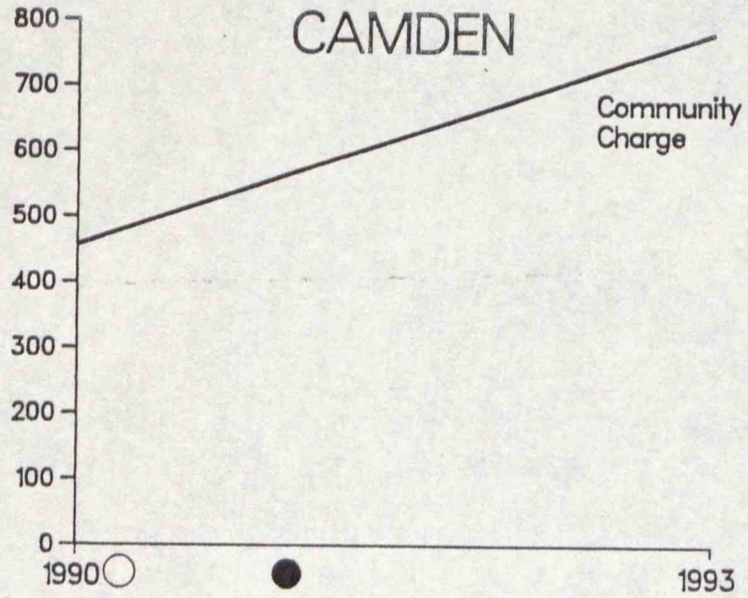
DUAL RUNNING - COST AND REVENUES IN 1990/91

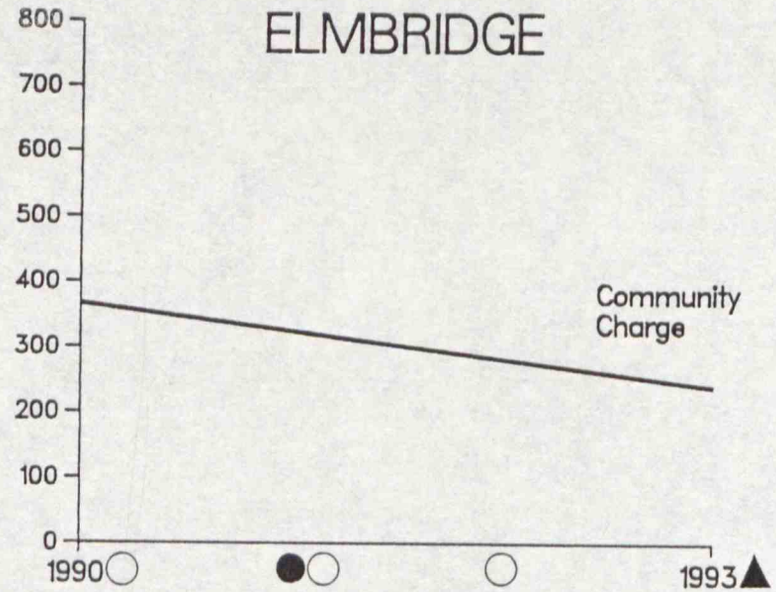
	Domestic rates	Community charge	Total
Revenue	£6200 M	£1800 M	£8000 M
Admin cost	£200 M	£400 M	£600 M

SAFETY NET - EFFECT ON COMMUNITY CHARGE BILLS
(Assuming 1987/88 spending)

	Overspending	Community charge, no safety net	Community charge, full safety net
Camden	£604	£782	£456
Elmbridge	£60	£239	£366
Craven	£6	£184	£154
Barnsley	£86	£264	£168

NO DUAL RUNNING, PHASE OUT SAFETY NETS





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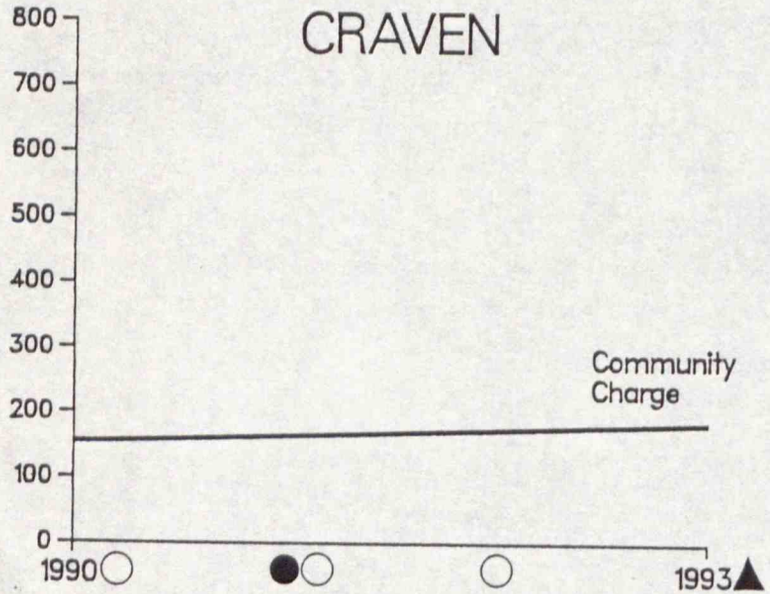
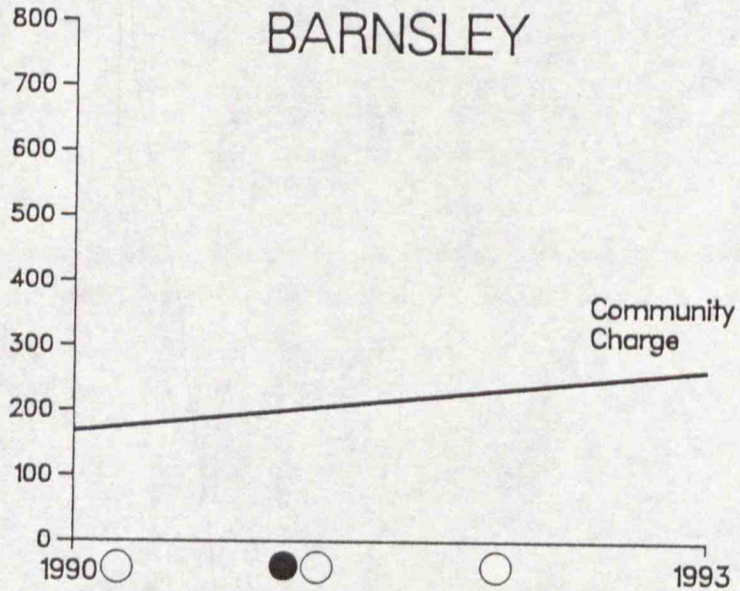
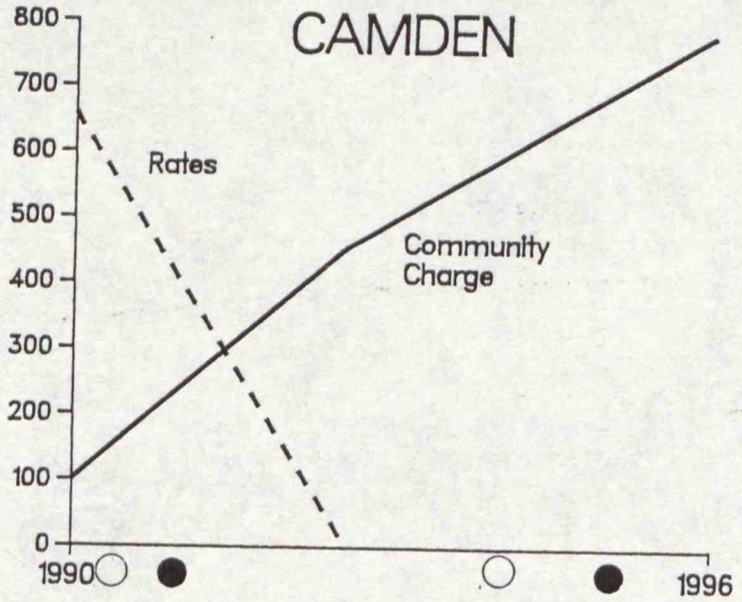
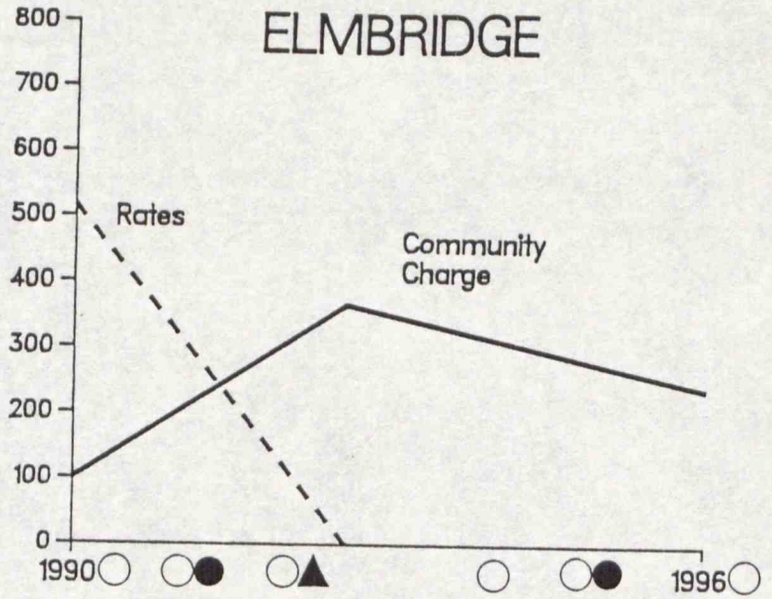




INITIAL CHARGE £100: PHASE OUT RATES, THEN PHASE OUT SAFETY NET





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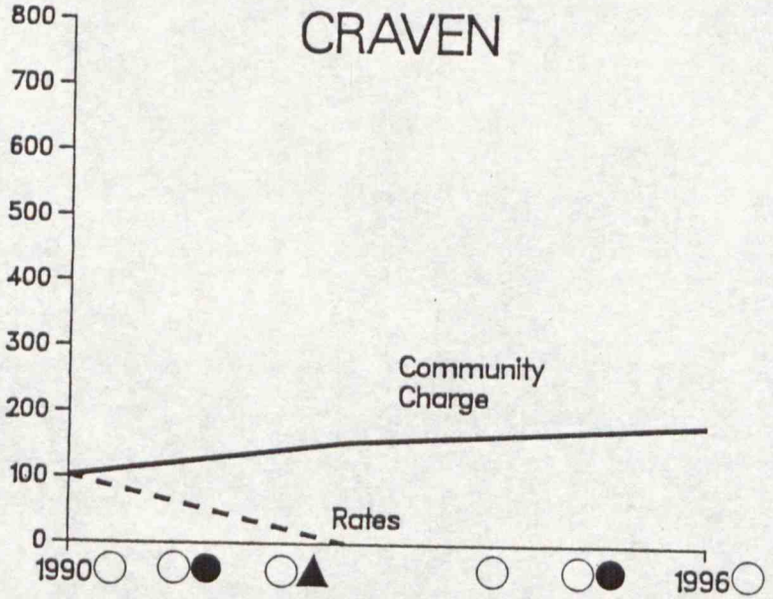
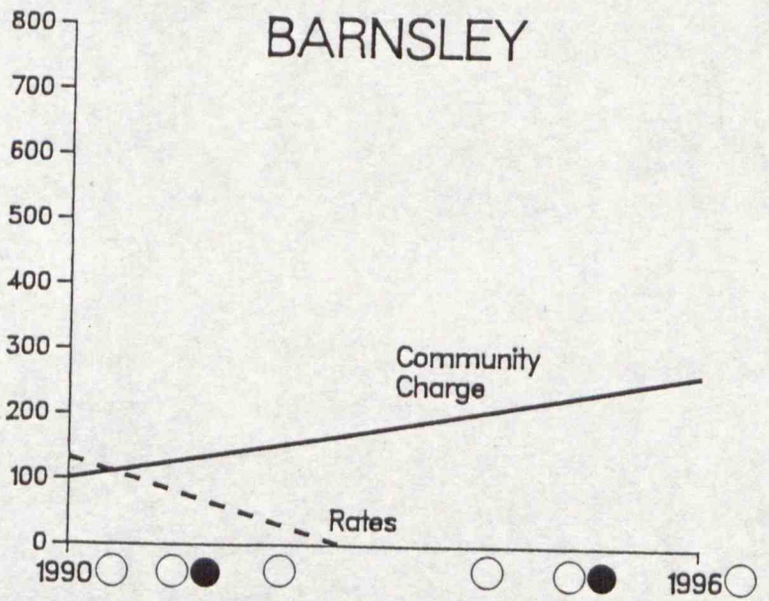
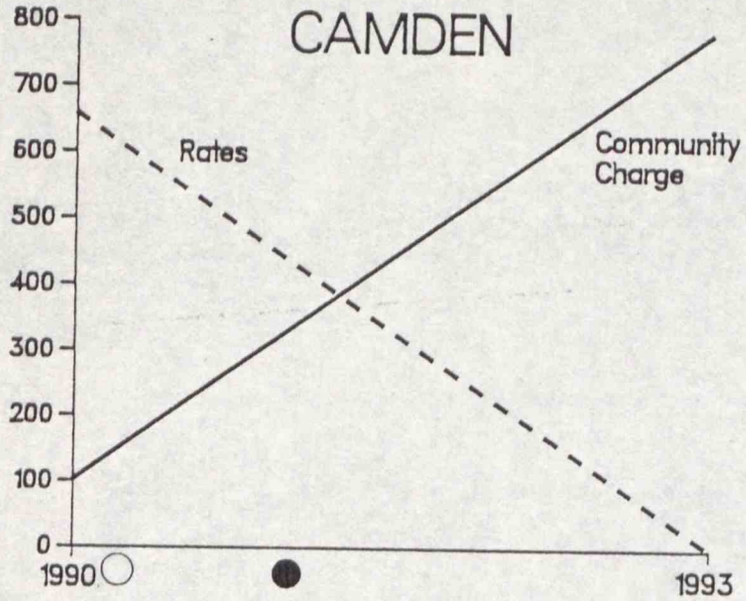
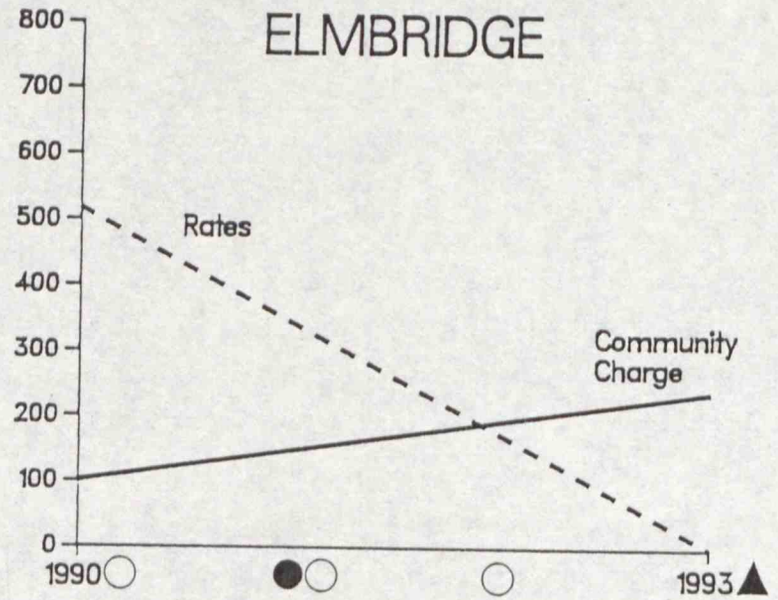




PHASE OUT RATES AND SAFETY NET TOGETHER

Initial Community Charge £100





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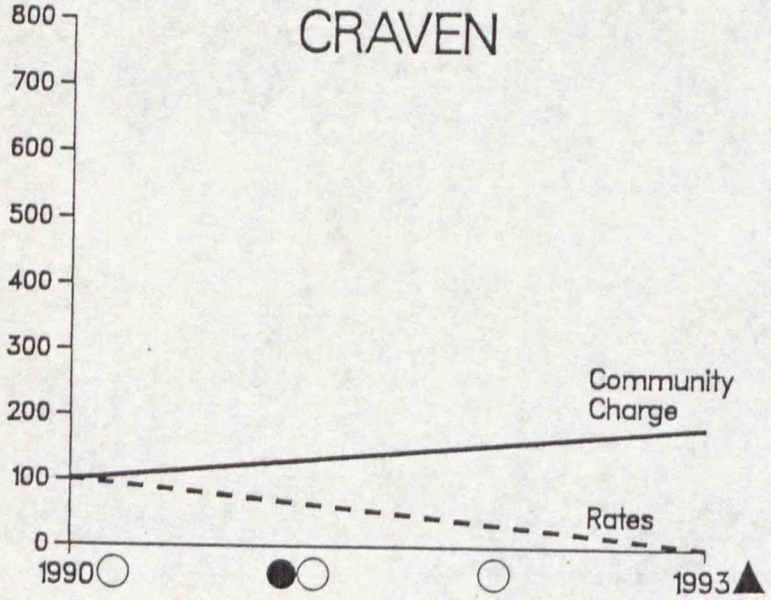
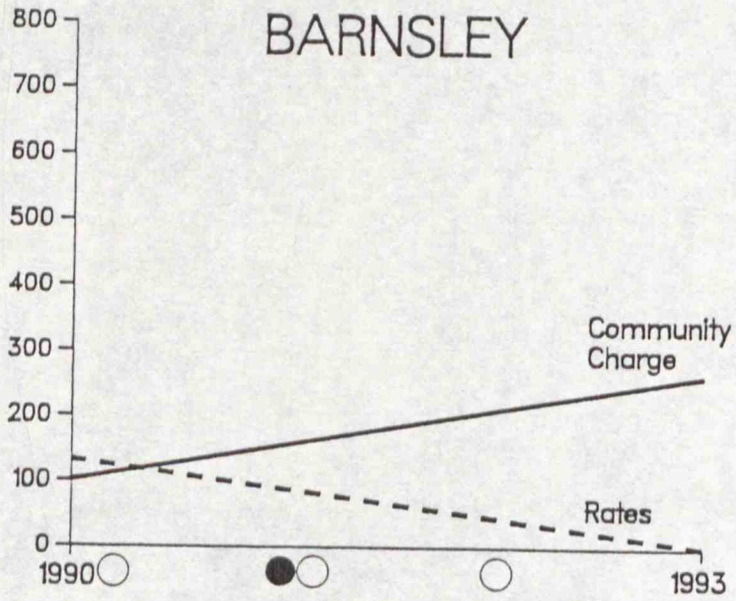




CONFIDENTIAL

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

Non-Domestic Rating

1. I agree broadly with the proposals which Nicholas Ridley makes in his minute to you of 25 June; but I have one or two comments.

Meeting the Cost of Transition

2. There are two ways of meeting the transitional arrangements for losers from within the NNDR pool. We can, as Nicholas Ridley suggests, make a small increase in the initial NNDR poundage in 1990; or we can introduce parallel transitional arrangements for big gainers. Many of the big gainers will be in the north and in those disadvantaged urban areas we are determined to help, and I therefore support the proposal to increase the initial NNDR poundage.

999-49

This once and for all increase will be disliked by the general run of business but on balance I believe it is the right thing to do.

Rating of Empty Commercial Property

3. If we allow authorities to keep this discretion under the new system, their community chargepayers will have to bear the full cost. It would be more consistent with our policy of greater local accountability to allow the authorities to keep the discretion on these terms. I do not see why we should oblige authorities to rate empty shops and offices if they are prepared to face up to the cost of not doing so.

Future Revaluations

4. In principle it is plainly desirable to have more regular revaluations in future and we should aim to achieve that. However revaluations are always controversial and unpleasant occasions and I do not see why we need to impose a set timetable on ourselves in legislation and deny ourselves any discretion over the timing in future.

999-49

Duty to Consult Business

5. The CBI say that they would like this duty to be retained, for any authorities where business asks to be consulted. But the provision in the 1984 Act has proved quite useless in practice and I support its withdrawal.

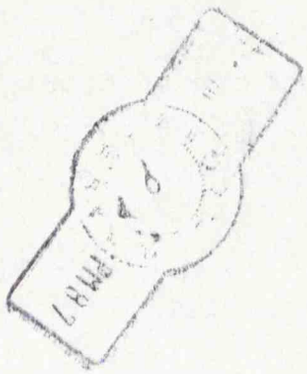
6. I am copying this minute to the other members of E(LF) and to Sir Robert Armstrong.

K C

July 1987

999-49

13 + 14 w/o



PRIME MINISTER

TRANSITION TO THE COMMUNITY CHARGE

Mr. Ridley argues that there should be no overlap between rates and the community charge, safety nets should be put in place but phased out over three years, there should be no surcharge on non-domestic ratepayers in London, and no use of non-domestic rate income in London to help London community charge payers.

Mr. Ridley has throughout argued strongly that the levels of community charge expected in London would be intolerable and that a phased transition towards them would postpone the problems but not remove them. His latest proposals do nothing to help the London problem, yet he now seems prepared to accept a transition to the full community charge over three years. In effect, he is relying on the pressures of the community charge to reduce expenditure in high spending London Boroughs to the point where their charges in the third year will be tolerable.

If you decide that approach is not acceptable, to use some of the London non-domestic rate income to help domestic community charge payers (paragraph 17 of the paper) may still be worth running.

Do the amounts are very much higher in London than elsewhere this may be worth considering but what is the position in other London?

DRN

DAVID NORGROVE
10 July 1987

SLHAKY

MR NORGROVE

The attached letter from the Secretary of State for the Environment's PS is an accurate summary of the conclusions of a meeting held at the D/Environment on Monday, July 6 under the chairmanship of Terry Heiser. It comes at the end of a relatively successful week on the presentation of the Community Charge.

I have briefed the Prime Minister in your presence on the importance of the Department doing nothing to arouse criticism of its "propaganda" effort at a time when it is taking through Parliament a Bill directed against the use of ratepayers' money for party political purposes.

Steps have already been taken by the Director General, COI, to assist with the provision of staff, including a Principal Information Officer and more junior staff.

Mr Ridley has a very strong point in respect of the all round effort of Ministers to put over the case and we shall need to keep an eye on this.

BERNARD INGHAM
10 July 1987

LOCAL GOVT — Rating

PRIME MINISTER

E(LF)

You have two E(LF) meetings tomorrow. I have asked that Ministers should bring their afternoon papers also to the morning meeting so that you can move on to the afternoon's agenda if there is time. It is possible however that some Ministers may need to leave as noon approaches.

The new papers in this folder are a Policy Unit brief, an interesting letter by Mr. Moore drawing attention in particular to the weight which Mr. Ridley's proposals will place on the needs assessments, and a table reflecting your conversation with Michael Howard and Chris Brearley.

DAVID NORGROVE
6 July 1987

EL3CAZ

CONFIDENTIAL

PRIME MINISTER 6 July 1987

THE NEW LOCAL AUTHORITY GRANT SYSTEM

You are meeting to discuss Mr Ridley's paper on the new local authority grant system and Mr Walker's dissenting from it.

One grant rather than two

We agree with Mr Ridley and Mr Walker that a single Revenue Support Grant is preferable to the two grants proposed in the Green Paper.

Payment of Grant

Mr Ridley proposes that the new grant would be paid, at least notionally, to individual charge payers rather than to each tier of local government. The bill sent to each charge payer would set out the gross charge levied by each tier, the amount of central government grant to be deducted from it and the net liability to be met by the charge payer. The bill would also show how much the Government assessed each tier should spend, the amount of grant that would then be payable and the resulting community charge. We see several advantages in this approach:

(i) if the bill increased from one year to the next, a charge payer could identify whether this was caused by increased spending by one or other tier or by a reduced government grant;

(ii) it would emphasise to charge payers how much of their local authorities' expenditure was paid for from government taxation;

(iii) a charge payer would be able to tell how well their authority was performing by comparing the actual bill with the needs assessment.

Mr Walker argues against this approach in favour of one which would show a single net charge for each tier of government. Each tier's level of expenditure depends both on its need to spend and on its relative efficiency. He argues that charge payers might draw the wrong conclusion by looking at a gross figure but that a net figure is more relevant because the grant equalises for different needs. He suggests that these net figures will give charge payers a better idea of the relative performance of their authority since they can be compared with those for other authorities of a similar type.

There is some force in Mr Walker's argument but the needs assessment which will explicitly be shown under Mr Ridley's proposal will similarly enable charge payers to assess the performance of their authority. Moreover Mr Ridley's approach is more transparent in unravelling the effects of grant (although specific grants will still be netted off expenditure figures).

Mr Ridley's approach works well once the community charge is fully in operation. But the last meeting of E(LF) favoured retaining transitional arrangements of the sort proposed in the Green Paper. These included a "safety net" grant which would initially ensure that domestic rate and charge payers in each local authority did not face an increased burden. Gradually this safety net grant will have to be withdrawn. Depending on the rate of withdrawal, this could appear as a year to year reduction in government grant. Far from

blaming the local authority for increased expenditure, charge payers in such authorities might blame the Government for lower grants. We therefore suggest taking no final decision on this issue until the precise proposals on transitional grants have been agreed.

Freeze

Conclusion

We agree with Mr Ridley's proposal for a single Revenue Support Grant. But decisions on whether the grant should be paid at charge payer level should be deferred until the precise nature of any transitional grant has been agreed.

Peter Stredder

PETER STREDDER

CCBG
CCBlup.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

6 July 1987

Dear David,

E(LF) - THE NEW GRANT SYSTEM

The Prime Minister discussed with the Minister for Local Government and Chris Brearley this morning my Secretary of State's paper to be taken in E(LF) tomorrow (E(LF)(87)26). In particular, they considered the format of the proposed Community Charge Demand note.

We have now prepared a revised version, taking account of the Prime Minister's comments. My Secretary of State will be bringing copies with him to the meeting tomorrow, but you may like to have the enclosed advance copy for the Prime Minister to look at.

I am sending a copy to Brian Unwin (Cabinet Office).

Yours,

R U Young

R U YOUNG
Private Secretary

100%
RECYCLED PAPER

A POSSIBLE FORM OF COMMUNITY CHARGE DEMAND NOTE: CHELTENHAM 1987/88

	Figures for actual spending 1987/88	(1986/87)	Figures for standard spending 1987/88	(1986/87)
Gloucester CC spending *	536	(473)	530	(492)
Cheltenham DC spending *	80	(73)	85	(90)
Total cost of local services *	616	(546)	615	(582)
less				
Business contribution	–233	(–220)	–233	(–220)
Revenue Support Grant	–204	(–192)	–204	(–192)
Community charge payable	179	(134)	178	(170)

* These spending figures are after deducting income from fees and charges for local services, and Government grants for specific services – eg police. Further details are shown in the attached leaflet.

CONFIDENTIAL

CC BG
CC Rup

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

6 July 1987

Dear Nicholas.

THE NEW GRANT SYSTEM

I have now seen your proposals for a different new grant system to that proposed in the Green Paper "Paying for Local Government" and Peter Walker's paper giving his response. It may be helpful if I too set out my reactions before our meeting tomorrow.

Firstly, I support the proposal to combine the needs and standard grants into a single grant. This seems a sensible simplification - and a necessary one in view of the difficulties identified by your officials.

Like Peter, I am less happy with the proposals to pay the grant notionally to charge-payers. I too have my doubts about how far this will be understood by charge-payers thus enhancing accountability. Particularly if funding for specific grants is also included - as it would clearly need to be to present a full picture. And I too would have difficulty with the blurring of the grant distribution to different tiers that would result and which is important to me in relation to PSS services. I need to be able to be clear about what support there has been at Shire County level for these services. I would, therefore, agree with Peter that grant should be paid at local authority level as previously proposed.

I also have some difficulty with some of your proposals for simplifying the system - though of course I quite appreciate your reasons for wishing to achieve this. At the root of my main concern lies my unease about the high profile which the needs assessments will have under the new system. Indeed, I am concerned that they are given too much weight already under the existing arrangements. Personal social services (PSS) is a complex service and the factors which give rise to increased need are both complex

E.R.

and insufficiently understood. Even where the general reasons for higher levels of need are recognised there is considerable difficulty in quantifying this at the individual authority level. I therefore await your paper setting out proposals for needs assessments with great interest. In the meantime, I must express my unease that we should agree to exclude decisions on actual expenditure in the new system, focusing instead on 'need to spend'. Total expenditure is, of course, the most difficult area to decide at the moment and much flows from that decision - including the setting of service totals. But how will these be set under the new arrangements? Will I simply be able to feed in my assessment of the total PSS need to spend? I rather doubt it. I think that Service Departments need to have a better knowledge of how these decisions will affect their services in the future and how decisions on the various parts of the system will fit together. Until we have a more comprehensive picture of the new arrangements, we will be unable to give you more than provisional decisions on some of these matters.

However, I can, if I have interpreted it correctly, welcome the separation of the general rate support grant system and specific grants. As I understand it, decisions will be taken at the outset as to the appropriate levels for each but thereafter changes in specific grants will not affect the level of Revenue Support Grant. That I support.

I also agree that needs assessments could be made by a separate order and that annual changes should not be necessary. However, I must make it clear that I would wish to assure myself that PSS needs assessments provide a reasonable level of accuracy in determining different spending needs in different authorities. I therefore think it quite likely there will be a need to make changes at fairly regular intervals after the introduction of the new system.

I have sympathy with the desire to remove nets and caps from the system but think we will need to study carefully the likely effects of doing this - particularly on those Boroughs which are particularly vulnerable to financial collapse and which would currently suffer substantial grant losses of nets were removed.

I agree that it is sensible to allow for some in-year grant changes though I think we should be careful to limit this to exceptional circumstances or much of the old uncertainty will be reintroduced.

On consultation, I have rather mixed feelings. There is certainly too much consultation at the moment that is little more than ritual. We should prune that out. But I feel that less but more genuine consultation should be the aim and I fear that your proposals may be too minimal to convince local authorities that they are genuine. Perhaps we should come back to this again once the major decisions on the new system - including the needs assessments - have been taken.

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

JOHN MOORE

CCB5

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

6 July 1987

1. QSA!
2. NRSEN

Dear Nicholas,

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

Following the conclusions reached by E(LF) on 2 July, I am writing to set out the areas of my Departmental responsibility which need now to be taken into account in the more detailed consideration of the transition to the community charge which the Committee agreed.

First, in assessing the period of transition to the community charge, we do need to reassess carefully the impact of the proposal on individuals. When we agreed last autumn to have a community charge rebate scheme, we were looking ahead ten years with a long transition and safety-netting to help control its impact. We then decided, just before the Election, to help the poorest people on benefits to meet their 20 per cent contributions to domestic rates next April. The decision was taken to increase income support rates by their average 20 per cent liability (about £1.30 a week) and we expect this principle to be carried forward to the community charge in due course. We now need to update last year's exemplifications of the impact on individuals and households, based on the most recent data and taking account both of the decision to compensate for the average minimum contribution and of the community charge levels implied by your current proposals.

Second, we need to assess the potential impact of the proposal on the revenue of local authorities and their provision of essential services. Sudden, unplanned reductions in spending could have unwelcome consequences for service provision, for example in the personal social services. Clearly, a key component in this is the mechanism for assessing local authorities' spending needs on which we have not yet seen your proposals.

FR.

Third, we need to assess the effect of your proposal on Government expenditure. The levels at which community charges are to be met will determine the level of local authority expenditure on community charge rebates, which will in turn determine the level of expenditure by my Department on housing benefit minimum contributions which will also affect benefit levels and my Department's expenditure.

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

JOHN MOORE

PM
06. VII

CONFIDENTIAL

P 02762

PRIME MINISTER

THE NEW GRANT SYSTEM

[E(LF)(87)26 & 27]

DECISIONS

The Sub-Committee needs to decide on the main features of the new grant system which will start to replace the existing system in England and Wales in 1990/91. The most important issues are:-

i. whether there should be two separate grants (needs grant and standard grant) or only one grant combining these two elements;

ii. whether grant should be paid directly to each tier of authorities or only to the lower tier;

iii. how much discretion the Government needs to retain over the distribution of grants.

The papers do not discuss how needs should be assessed under the new system (the subject of recent correspondence between the Chancellor and Mr Ridley). Mr Ridley promises a later paper on this.

BACKGROUND

2. One of the main features of the proposals in the Green Paper "Paying for Local Government" was a much simpler grant regime than at present. The introduction of the community charge and explicit sharing of national non-domestic rate (NNDR) income by pooling will give all authorities broadly the same resources. Grant will no longer have to be paid to achieve resource equalisation as at

present. Nor will grant need to vary with expenditure. The two remaining aims of the grant system will be to compensate for differences in needs and to provide a contribution from national taxpayers towards the cost of local services.

3. The Green Paper proposed a system comprising two separate grants to achieve these two aims:-

i. needs grant, which would be paid to bring each authority's remaining spending needs down to those of the authority with the lowest needs;

ii. standard grant, which would be paid to all authorities as a common per capita amount in each area, designed to reduce the community charge they would otherwise have to levy.

The new system was intended to be simpler and more stable than block grant. Accountability was also a major aim - since grant would not vary with expenditure, any spending above the level of assessed needs would be met in full by community charge payers.

MR RIDLEY'S PROPOSALS

4. Mr Ridley now proposes some changes -

i. to replace the separate needs and standard grants with a single revenue support grant. This would be calculated so that authorities in each area could spend at the level of their assessed needs by levying a common community charge. The change is more of presentation than substance;

ii. to pay grant (and the NNDR pool) notionally "at taxpayer level" rather than to each authority as in the Green Paper. The grant and NNDR contribution in support of services provided by both tiers of local authorities in each area would be paid to the district or borough council. County Councils would issue a community charge precept for their gross

expenditure. The district councils would combine this with their own gross expenditure, and then net off grant and NNDR money. Community charge payers would get a bill showing these calculations, along the lines set out in paragraph 5 of the Note attached to Mr Ridley's Memorandum. Mr Ridley believes that this approach will improve accountability.

5. Mr Walker's paper disagrees with the proposal to pay grant at taxpayer level. He believes that community charge payers should be able to relate the charge they pay directly to the spending of the district and county councils. He therefore wishes to continue to pay grant to both tiers of authorities in Wales.

6. Mr Ridley makes a number of other proposals about the detailed operation of the new grant system. The main ones are -

i. to remove the existing statutory concept of aggregate Exchequer grant (AEG), which is the total of rate support grants, specific grants and supplementary grants to local government;

ii. to specify the formulae for needs assessments in a separate Order from the annual RSG Report, which would not necessarily be changed every year;

iii. to have no arrangements to limit grant changes between years using safety nets or caps;

iv. a discretionary power to pay extra grant when special circumstances arise after the start of a year;

v. to keep a statutory requirement to consult local government, but at a minimum level.

MAIN ISSUES

7. It is important to note that Mr Ridley's proposals relate solely to the simple grant regime which will apply when the Green Paper system is fully in operation, and were predicated on the assumption that his proposals for an instant switch to the community charge would be accepted. Your decision at the last meeting of E(LF) to retain transitional arrangements of the sort proposed in the Green Paper implies very complex grant arrangements during the transition. You will wish to ensure that these are being worked up for inclusion in the Bill (if possible, they should be covered in the new paper requested from Mr Ridley on the transitional arrangements). The rest of this brief is concerned with the long term arrangements proposed in Mr Ridley's paper.

One Grant or Two

8. Mr Ridley's proposal to combine needs and standard grant into a single revenue support grant seems a presentational improvement. The Green Paper sought to draw a distinction between the amount of grant provided by the Government to equalise needs, and the amount provided simply to reduce the level of local taxation. But no hard and fast distinction exists. As Mr Ridley points out, if the needs assessment of the minimum need authority goes down, the needs grant of every other authority will go up, and there will be less left to be paid as standard grant. But the combined grant entitlement of most authorities will hardly have changed. It makes sense to avoid confusing fluctuations between the two grants by combining them into a single revenue support grant. Against this it may make the new arrangements a bit more difficult to understand and therefore to present. But on balance you will probably want to agree with Mr Ridley.

Payment at Taxpayer Level

9. This is probably the most important issue the Sub-Committee

needs to decide, and it is the one on which Mr Ridley and Mr Walker are divided. It would be possible to adopt different approaches in England and Wales, but this would be decidedly odd. You will probably want to reach a common decision for both countries.

10. Mr Ridley's proposal to pay grant only to the lower tier has advantages -

i. it avoids the need to split grant between tiers, and therefore results in a simpler system (although Mr Ridley still proposes to assess needs for each authority individually);

ii. it makes the total benefit which each chargepayer receives from Exchequer grant and business rates more explicit;

iii. it avoids some technical quirks, such as the possibility of a few very low spending districts getting more in grant and NNDR income than they actually spend, and thus having a "negative" community charge (which in practice would simply mean they could set a charge below the level of the county "precept").

But there are also some disadvantages -

iv. unless they are very sophisticated, chargepayers will not be able to tell which tier is responsible for the particularly high or low charge in their area. A high county precept may reflect high needs or extravagance - it will be difficult to tell which;

v. it may not promote accountability as far as upper tier authorities are concerned. They will issue a gross precept. Councillors will not be asked to look at the net figure which will fall on chargepayers. A key feature of the system - that it is highly geared because all extra spending falls on the

community charge - will not be brought home to them;

vi. no grant is provided directly to authorities providing the major services of education, police, social services and transport throughout most of England and Wales. This may blunt the presentational advantages of providing extra grant - eg in support of police or teachers' pay.

11. It may help to put the arguments on accountability in terms of the figures in paragraph 5 of Mr Ridley's Note. Under his option, Gloucester County Council would levy a gross precept on Cheltenham of £536 per adult. Cheltenham's spending of £80 per adult would be added to get a total of £616 per adult. Subtracting grant of £204 and an NNDR contribution of £233 leaves a community charge of £179. But it is not clear how far accountability will bite on the county. If it spends 5% more, its gross precept will increase by just 5%. But the whole of the £27 per adult increase will be met by chargepayers, increasing their bills by 15% - it is not clear that the county will take the blame. Under the alternative system, grant would be paid to both tiers. The county would levy a net precept of perhaps £156 per adult (£536 less grant and NNDR of £380). If it increased its spending by 5%, its precept would have to rise by 17%, and the pressures of the new system would be very clear.

12. On their own, these arguments on accountability probably point in the direction of paying grant to both tiers as at present (and as is being done in Scotland). That will bring home to county councils - the largest class by far - the direct implications for chargepayers of their spending decisions. But you will want to decide whether the other advantages of Mr Ridley's proposals - simplicity and the greater visibility of the Government and business contribution to spending - outweigh the doubts on accountability.

Ability to influence the distribution of grant

13. The other key issue arises not out of any particular aspect of Mr Ridley's proposals but out of the whole package. His proposals will leave the Government with very few decisions to take each year. If, as he suggests, you change needs assessment methods infrequently, you will normally decide on only two figures - the total of "needs" and the total of grant to be made available. The distribution of grant would then be entirely automatic. The Government would have no levers of the sort it can currently use to produce an acceptable distribution - for example safety net and cap arrangements, and the distribution of the spending total between service GRES. This may have advantages: it could make the grant settlement less controversial and reduce opportunities for litigation. But it could also lead to results which are not ideal from a political point of view. You will want to decide whether this is acceptable.

14. On a more detailed level, the proposal to take no powers to limit grant changes between years seems rash. It is also strangely at odds with Mr Ridley's proposal to take a power to pay extra grant to compensate for changes in circumstances in mid-year. If changes in needs assessment methods are infrequent they are also likely to be bigger (when they occur) than under the present system. New data - particularly from a new Census - can also lead to sharp changes in grant. This suggests that if there are no powers to limit changes, community charges will sometimes have to change sharply in ways quite unconnected with spending changes. It might be prudent to take powers to mitigate grant changes, even if you use them more sparingly than under block grant.

VIEWS OF OTHER MINISTERS

15. Mr Walker's views are set out in his paper. I understand that the Chancellor and Chief Secretary are mainly concerned about issues related to specific grants. They favour the retention of the aggregate Exchequer grant (AEG) concept, at least within

Government, because of the control it gives them over the total grant going to local authorities (under the present system, any increase in a specific grant automatically reduces the amount paid as block grant). Mr Ridley may accept this provided AEG is not enshrined again on the face of the legislation. They may also argue for specific grants to be shown on community charge bills as part of the Government contribution to spending. Other Ministers are likely to be concerned about the implications of the grant system for their services, and in particular whether needs assessments will continue to be calculated separately for each service. This is an issue for the later discussion on needs assessments.

TIMING

16. Final decisions are needed on these issues before the Recess, so that the Local Government Finance Bill can be drafted for introduction in the Autumn.

HANDLING

17. You will want to ask the Environment Secretary to introduce his paper. The Secretary of State for Wales will wish to speak to his paper. The Chancellor or the Chief Secretary, Treasury will wish to comment, and other Ministers will also wish to contribute.

J. B. UNWIN

Cabinet Office
3 July 1987

PERSONAL AND CONFIDENTIAL

Subject cc Master

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 July 1987

Dear Robin,

REFORM OF LOCAL AUTHORITY FINANCE

The Prime Minister this morning held a short meeting after E(LF) to consider how best to present the Government's case on the reform of local authority finance. There were present the Lord President, the Chancellor of the Exchequer, your Secretary of State, Secretary of State for Education and Science, the Minister of State (Department of the Environment), the Chief Whip, Professor Brian Griffiths (No.10 Policy Unit) and Mr. Bernard Ingham.

The Prime Minister stressed the need for the Government to put across the case for the reform of local authority finance more effectively. A true comparison was not between the existing system and the community charge, but between the system with a revaluation and the community charge. The example set by Scotland, and the controversies surrounding revaluations in the 1960s and early 1970s ought to be pointed out to those who were arguing against the new system. There was a need to marshal all the facts. It would be important in particular to prevent Conservative MPs from committing themselves during the Recess to opposing the reforms.

Your Secretary of State described the efforts which were already being made with Conservative MPs and through Conservative Central Office. A unit had been established in the DOE to deal swiftly with correspondence from MPs.

After discussion it was agreed that the Department of the Environment should establish a small unit to handle the campaign to put across the Government's case for the changes. The Prime Minister's Chief Press Secretary, Mr. Bernard Ingham, should have an input to this. Government supporters both in the House and outside it who would be prepared to speak out strongly in favour of the changes should be identified and encouraged to speak as appropriate in the House, to appear on local and national television and radio and to write articles and letters. All Cabinet colleagues should be encouraged to speak out on the reforms, and full material should be gathered to provide ammunition. This should also deal with arguments about the community charge that it would be regressive and costly to administer. It was noted that a lobby was likely to grow for a local income tax and this would need to be tackled. More attention should be

PERSONAL AND CONFIDENTIAL

given to explaining the transitional arrangements for the introduction of the unified business rate. Conservative backbench MPs who were doubtful about the merits of the changes would need to be seen individually, but it would also be appropriate for your Secretary of State to write to all Members of Parliament from time to time describing what was proposed and setting out the arguments.

I am sending copies of this letter to Steven Wood (Office of the Lord Privy Seal) and Murdo Maclean (Chief Whip's Office).

Yours
David

DAVID NORGROVE

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

P 02758

PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS, ILEA AND LONDON [E(LF)(87)18 & 20]

DECISIONS

The Sub-Committee needs to decide on transitional arrangements for introducing the community charge in England and Wales, and in particular -

a. whether the community charge should simply replace domestic rates completely in year one (as in Scotland) or whether (as envisaged in the Green Paper) there should be a phased transition;

b. whether there should be a general system of safety nets to prevent excessive changes in the overall level of domestic taxation in each local authority area;

c. whether special arrangements should be made to deal with very high potential community charge levels, principally in London. This might include action on ILEA's very high spending level.

You may also wish to use this opportunity to consider with colleagues your general stance on the introduction of the community charge, in the light of recent criticism in the Press and elsewhere.

BACKGROUND

2. The Green Paper "Paying for Local Government" recognised that

the introduction of the community charge would involve substantial changes in the burden of domestic taxation, both between individuals within each local authority area, and between areas. It proposed a complex set of transitional arrangements to limit the speed of both sorts of changes -

a. a phased transition from domestic rates to the community charge, with a period of up to 10 years during which both systems would run in parallel. This would limit changes in the tax burden on individuals in any area;

b. a system of "safety nets", operated through the grant system, to prevent any change in the burden of domestic taxation as between local authority areas. The grant adjustments would be fixed in cash, and would diminish only as they were eroded by inflation.

The Green Paper recognised that these arrangements would, during the transitional period, blunt the increased accountability which was a major aim of the new system. To deal with this problem, a power similar to selective rate capping was proposed "to prevent irresponsible authorities from imposing excessive burdens on their taxpayers". (Green Paper: paragraph 5.28).

3. Similar transitional arrangements were proposed for Scotland. But during the Parliamentary consideration of the Scottish legislation there was pressure, backed by Scottish councils, to move straight to the full community charge, with no transitional arrangements to phase out domestic rates. E(LF) agreed on 24 February (E(LF)(87)2nd Meeting) to drop phasing, and the Bill was amended accordingly. However safety net arrangements are still proposed to limit shifts in the burden of taxation between areas in Scotland.

MR RIDLEY'S PROPOSALS

4. Mr Ridley now proposes to dispense with most of the transitional arrangements proposed in the Green Paper. He seeks agreement -

a. to abolish rates completely in 1990, and introduce the full community charge;

b. to dispense with any general safety net on changes in average tax bills.

In his view the Government's main problem is the very high level of community charges which will have to be levied in some areas because of excessive spending. The problem is worst in inner London, where the ILEA's expenditure alone results in community charges £246 above the standard national figure for spending at assessed needs. Where the boroughs are also high spenders, this results in some very large community charges - e.g. £769 in Camden and £674 in Tower Hamlets, compared to a national average of about £205 per adult.

5. Mr Ridley sets out a number of possible options to help deal with these high charges, out of which he favours -

c. providing in legislation for a limited scheme of safety net grant to mitigate the highest community charges, but without any commitment at this stage to use these powers;

d. possibly an interim scheme of community charge capping (but no permanent scheme);

e. a new examination of the merits of annual elections (by thirds), in London at least.

6. Mr Ridley concedes, however, that none of these proposals is likely to solve the problem of high community charges in London. He therefore suggests that only "direct action on ILEA" will successfully tackle this problem. Elsewhere he suggests bringing forward the date at which boroughs can opt out of ILEA, and ensuring that the terms do not require them to inherit ILEA's high spending; and reconsidering the earlier decision to allow schools to opt out at the same level of funding as they would have received

from ILEA. But, without being specific, he clearly also has in mind more radical solutions, such as direct intervention to reduce ILEA's spending.

MR BAKER'S PAPER

7. Mr Baker's paper does not really tackle these issues. It is concerned with the legislative and procedural arrangements for implementing your Manifesto commitment to allow inner London boroughs to opt out of ILEA. Mr Baker sees no realistic prospect of boroughs opting out before 1 April 1990, when the community charge will be introduced. Nor does he anticipate any substantial reductions in expenditure in year one, although he does expect benefits in later years. He notes that the Government will need to bring pressure to bear to reduce spending in a slimmed down ILEA after opting out. But his paper contains no proposals designed to achieve this. It does however make one proposal which is likely to prove very controversial: that he should have a reserve power to require authorities which are still in a rump ILA to opt out at some stage.

MAIN ISSUES

8. Mr Ridley's proposals represent a radical rethinking of transition to the community charge, with the aim of introducing the Green Paper system in full in the quickest possible time. This has substantial attractions. But it will involve much sharper gains and losses. You need to decide whether these are politically acceptable; and indeed whether you are willing to take decisions now without seeing full exemplifications of the effects on individuals, households and regions.

The ILEA

9. Mr Ridley is obviously right to highlight the problems caused by ILEA - if it spent at its assessed needs, the problems of high community charges in inner London would be much reduced. But Mr Baker is probably also right in saying that existing policies on

opting out cannot take effect in time to help much. Equally, tinkering with the financial arrangments for individual schools to opt out is unlikely to help unless they do opt out in substantial numbers - which a less favourable financial regime is hardly likely to encourage. You will therefore need to consider whether to explore more radical options of the sort Mr Ridley hints at, though Mr Baker will claim that the Manifesto precludes him from going anywhere near as far as Mr Ridley would wish. You might like to take this issue first, because it determines the magnitude of the problems which arise with Mr Ridley's other proposals. You will also wish to consider whether to approve Mr Baker's proposals on procedures for opting out, and particularly the suggestion of a power eventually to compel reluctant boroughs to opt out It is not easy to see how this would work with a hostile authority.

Abolition of Rates

10. To move straight to the full community charge in 1990 will mean that both gains and losses occur immediately. Many people paying rates at present will move straight onto a much lower community charge. Conversely, those making no contribution to rates now will face an immediate liability for a full charge of over £200 on average. This is the course the Government has now adopted in Scotland. It has the substantial benefit of getting rid of domestic rates immediately, rather than retaining them (at a diminishing level) for ten years or more in some areas. There is a consequent saving on administration, which Mr Ridley estimates at £50 million annually. You will want to weigh these advantages against the political dangers inherent in much larger gains and losses in 1990. You would also need to be sure that an entirely new and untried tax could take the full weight of local authority spending in 1990/91, particularly in inner city areas where it may prove hard to collect.

General Safety Net

11. If you agree to abolish domestic rates completely in 1990, the safety net proposed in the Green Paper no longer makes much sense.

There will be very substantial changes in the liabilities of individuals in each area, which will not be prevented by a safety net designed to limit changes in average domestic tax bills between areas. If a non-ratepayer in, say, Surrey can move straight onto a charge of £200, there is no reason in logic why a non-ratepayer in, say, Durham cannot do the same. But against this you will want to consider the implications for concern over the North/South divide of a very sharp shift in the burden of domestic taxation in favour of the South East in particular.

Transitional Grant to prevent high Community Charges

12. Annex B to Mr Ridley's paper describes a scheme which would allow him to pay additional grant to areas where the community charge would otherwise be excessive, principally in inner London. The illustrative scheme provides extra grant to areas where the charge would otherwise exceed £350 per adult, with the aim of reducing the charge to this level in year one. In the subsequent year the transitional grant would be halved, and it would disappear in year three. The cost of this scheme is estimated at £390 million in the first year, and £195 million in the second. Mr Ridley suggests that the cost could be met either by the Exchequer, or by community charge payers elsewhere (at a cost of £12 each in year one). There would be an offsetting saving in reduced benefits of more than £100 million in year one.

13. In the absence of more direct action on ILEA or a more general safety net, a scheme of this sort provides the only sure mechanism for substantially reducing the level of the highest community charges in 1990. But it has substantial disadvantages -

a. it takes the pressure of the new system off the highest spending authorities in years one and two. They might also seek to manipulate their finances to maximise their benefit from the transitional grant;

b. it brings all high community charges down to a certain level, irrespective of differences in spending by the

authorities concerned, for example, Wandsworth would have the same community charge as Camden in 1990/91 (because ILEA's spending pushes the Wandsworth charge above £350, despite the borough's own relatively low budget);

c. it provides only a temporary respite from very high charges, which would apply in full in year three.

d. it pushes the Government right to the front in settling the effective charges in the most sensitive areas.

You need to decide whether the advantage of avoiding very high charges in 1990/91 outweighs these disadvantages. If so, you might want to adopt that as your policy now, rather than simply taking the powers as Mr Ridley suggests, with the risk of appearing later to have been pushed into introducing a scheme as a response to opposition.

Community Charge Capping

14. You need to decide whether you want to introduce powers to cap the community charges of high spending authorities after 1990, either on a temporary basis or permanently. Mr Ridley believes that a permanent scheme contradicts the arguments of accountability which form the basis for the community charge. He argues that a temporary, transitional scheme might have some advantages, but could also lead to the Government taking part of the blame for very high charges. Annex A to his paper sets out his proposals for how such a scheme might work. It follows the Scottish precedent (which has been incorporated in the new Scottish financial system) rather than the rate capping regime which has applied in England since 1985/86.

15. There are clearly very major issues here. If you agreed with Mr Ridley and dispensed with capping - at least in the long term - you would have to rely entirely on the greater accountability provided by the community charge. You would not be able to intervene, even if some high spending authorities levied very high

charges indeed. On the other hand, capping may simply transfer part of the odium of high charges to the Government. If you also went for a scheme of transitional grant to mitigate the highest charges in the early years, you might have to endorse steeply rising charges through capping (e.g. for Camden £350 in 1990/91, £559 in 1991/92 and £769 in 1992/93). This is not an attractive prospect. You will probably not want to do more at this meeting than decide in principle whether you want community charge capping. If so, you might ask Mr Ridley to develop his proposals in detail in another paper dealing solely with capping, and to provide figures for the sort of community charges the Government might have to impose.

Elections by Thirds

16. The suggestion that all local authorities should be elected by thirds has been considered in the past and rejected, most recently by the Widdicombe Committee. Its proponents claim that having elections in three years out of every four would increase accountability. But the evidence of councils where it already applies - which include many metropolitan districts including Liverpool - is not particularly encouraging. To make it work properly would involve extensive re-working of local election boundaries to create three Member wards everywhere. If you wish to consider it again, you will want to ask the Home Secretary to bring a paper to the Sub-Committee. You may also wish to explore Mr Ridley's less radical proposal for bringing forward the May 1990 elections so that they take place before final community charges are set - this could be done under existing legislation.

VIEWS OF OTHER MINISTERS

17. Mr Baker will strongly resist Mr Ridley's proposals on ILEA. He is also likely to argue for retaining the original transitional proposals, for which he was largely responsible. The Social Services Secretary is likely to be concerned about the implications of the proposals for the benefit system. The Home Secretary will probably resist the proposal on elections by thirds, but may be

more receptive on moving the date of the 1990 local elections if colleagues see benefits in this. The Secretary of State for Wales is likely to seek flexibility to introduce rather different transitional arrangements in Wales: he has no problem of very high charges, but will be concerned about some very high percentage increases in domestic taxes. The Chancellor and the Chief Secretary, Treasury will of course be concerned about the public expenditure implications, including the cost of the proposed transitional grant and any increased benefit costs. They may also argue for retaining domestic rates for a transitional period for prudential reasons; and for exploring alternative approaches to the London problem, such as retaining a purely local contribution from business ratepayers (as is proposed for the City).

TIMING

18. The main constraint is the need to get the Abolition of Domestic Rates Bill drafted in time for introduction soon after the Recess. To achieve this, you will need to take final decisions on these issues, and on other issues like the new grant system (which E(LF) is due to consider next Tuesday), before the Recess.
Mr Ridley will also need at some stage to make a major announcement about his revised proposals. This should ideally be done before the Recess if a damaging period of uncertainty is to be avoided.

HANDLING

19. It may be helpful to take the question of ILEA first - the Environment Secretary and the Education Secretary will both want to speak on this issue. You might then ask the Environment Secretary to introduce his other proposals. The Home Secretary, Social Services Secretary, and the Chancellor or Chief Secretary, Treasury will wish to speak on certain aspects, and other Ministers will also wish to contribute.

J B UNWIN

Cabinet Office
1 July 1987

PRIME MINISTER

1 July 1987

TRANSITION TO THE COMMUNITY CHARGE

You are to discuss Mr Ridley's paper on the arrangements for transition to a Community Charge.

Doing without a transitional period

Mr Ridley proposes that instead of the long transitional period proposed in the Green Paper, the Community Charge should be introduced in full on 1 April 1990. We agree with this since:

a. it ensures that the improved accountability of the Community Charge will operate in full from an early date;

b. it avoids the annual wrangling that will arise with a long transitonal period.

But you should note that 1 April 1990 is perilously close to the date of the next General Election which will almost certainly be held sometime between June 1991 and 1992. It is practically impossible to introduce the Charge any earlier than proposed whilst to delay introduction until after the election would enable the Opposition to fuel fears about its impact. The worst of all worlds would be if later developments force a delay 1 April 1991. So you need to ensure that Mr Ridley is fully confident that 1 April 1990 can be achieved.

Other transitional measures

Mr Ridley lists a number of measures to keep down expenditure before 1990. The only ones that require decisions are the operative date for opting out of ILEA and the financing arrangements for schools that opt out. These will already have been discussed earlier on the agenda.

Mr Ridley identifies two groups of Charge payers who will be particularly hard hit by the introduction of the Charge without phasing:

i. Those living in areas with low rateable values who at present have low rate bills. They will face large percentage increases but not high absolute Charge bills.

ii. Those living in areas, mostly high spending boroughs in inner London, which face high absolute Charge bills.

He recommends against introducing a general safety net to deal with this problem since it would blunt accountability. We agree with this. He also proposes no special help for those facing large percentage increases but a special transitional grant which would limit the maximum charge to £350 a head in the first year increasing in equal amounts to the full charge by the third year (ie by 1992-93).

We agree that some transitional help is needed but think that Mr Ridley has not yet got it right. What matters for most people is how many pounds extra they will have to find to pay the Charge. But Mr Ridley's proposal would:

a. Reduce the amount paid per head in Camden by £90 a year in 1990-91 compared to Rates;

b. But increase it by, for example, £106 a year in Barnsley.

Instead, the special transitional grant should be based on limiting the absolute increase in the Community Charge compared to the average Rate bill to a maximum sum per head. We suggest something in the range £50 to £100 a year (equivalent to £1-£2 a week per head or £2-£4 a week for the typical household).

Some Fallacies

During the discussion some Ministers may argue that no decision should be taken until Mr Ridley has introduced detailed exemplifications of the impact of the Charge in each area on each type of household. Little would be gained by this although such exemplifications will eventually have to be produced during the passage of the Bill. The Community Charge, because it involves a radical change from the rates, inevitably involves many gainers and losers. Its impact could be softened by phasing it in but we reject this for the reasons stated above. Ministers can explain the advantages of the Charge. But this will not stop those who lose disliking higher bills. The important thing is for the Government to maintain its purpose in the expectation that once people are used to the charge and see its benfits they will support it.

Another fallacy that may be raised is the adverse impact of the charge on large households. The charge is a personal charge and the most that an existing ratepayer will be responsible for is the charge for two people. Other members of larger households will be responsible for their own charges helped, if necessary, by housing benefit. The point can be illustrated by the example of a four person household (two adults, two children) in, say, Dartford:

False Analysis			Correct Analysis
Rate bill	£293		£293
Charge bill	£568	(4x£142)	£284 - householder & spouse
			£142 - each child
No. of gainers	Nil		2
No. of losers	4		2

Capping

Mr Ridley recommends against taking permanent powers to cap the Community Charge but is prepared to consider interim powers. We think this is unwise since we cannot be sure that even the enhanced accountability of the new system will prevent very high levels of Community Charge. We therefore recommend a permanent charge capping power.

Annual Elections in London

Mr Ridley recommends moving to system of annual elections by thirds in London as a way of further improving accountability. We think the arguments in favour of this are unproven. On the one hand:

i. It will deter large increases in the Community Charge. Waltham Forest, now facing a Ratepayers revolt after a 66% Rate increase, would almost certainly not have imposed such an increase had it faced elecions next April.

ii. On the other hand it will make it more difficult for councils to reduce expenditure where necessary. Mr Ridley is fond of quoting Humberside where councillors never put up the council house rents because they face annual elections. The Treasurer in my own Borough, Bromley, told me that a long

period of political stability has made it much easier to keep expenditure under control. And how would Wandsworth have fared in its early years with annual elections?

Capping can deal with the problem of large increases. We would therefore stick with the present electoral arrangements.

Conclusions

We recommend:

i. introducing Community Charge in full from 1 April 1990

ii. providing for special transitional grant not on the basis Mr Ridley proposes but to limit the cash increase in the first two years

iii. providing for permanent Community Charge capping

iv. against annual elections by thirds in Greater London.

Peter Stredder

PETER STREDDER

PRIME MINISTER

TRANSITION TO THE COMMUNITY CHARGE

It would be worth spending some time at the start of the meeting on presentation of the Government's case. The argument is at present going the way of the opponents of the community charge, which is receiving virtually no support in Parliament, in the press or even from Conservative controlled councils. It is vital that the Government should now mount an effective campaign. This could have three main parts:

(i) The Whips are already mounting a campaign to encourage supporters of the changes to speak out in the House. This will need to be kept up for several months.

(ii) Senior backbenchers in particular need to be mobilised to speak out, particularly outside the House, people like Sir Peter Hordern, Sir Michael Shaw, and Sir Giles Shaw; you might ask the Chief Whip and Mr. Ridley to take this on.

(iii) The DOE should set up a small publicity unit to run the campaign, with an input from Bernard. This should be able to respond instantly, and at local level where necessary, to criticisms and mis-information. The Conservative Party needs to be involved, especially to rally the doubters among your supporters in local government.

ILEA

Mr. Baker's paper takes opting out of the ILEA only a little further forward. The next paper really must get to grips with the practical aspects of the proposal, in some detail.

In particular, Mr. Baker's paper offers no comfort or ideas for tackling the effects of the ILEA on the community charge in London. He points out that the new system of local authority finance will substantially remove the problem of how to equalise London resources (mainly because the unified business rate will equalise rate poundages and redistribute money according to population). But the opting out of Kensington and Chelsea and other boroughs may still increase rather than reduce the problem of the community charge in the rump ILEA. Kensington and Chelsea is likely, for example, to have fewer children in relation to its adult population than Camden or Islington and almost certainly the ILEA overspends by more on schools in Tower Hamlets than it does on schools in Westminster.

There are no magic solutions to reducing ILEA overspending. But it would be helpful in developing approaches to know where the overspending arises. I understand for example that it arises more on things like the youth service, adult education, non-teaching costs and administration than directly on teaching activities in schools. You might ask Mr. Baker to circulate a note.

A small suggestion both for the ILEA and also for LEAs generally might be to try to create a greater opportunity for schools and parents to put pressure on their authorities to reduce central costs. At present there are no figures on which people can focus their criticisms and discontent. LEAs could be required to allocate out to schools and other end-users their entire income. The LEAs would then in a book-keeping transaction charge schools for central administration, the school inspectorate and so on. The charges would be fully displayed in the accounts of each school. The Audit Commission could issue guidelines on best practice costs for these functions, against which head teachers and parents could judge the performance of their LEA.

Community Charge

Mr. Ridley does not argue the case for moving straight to the community charge. He simply asserts it. But a transition could well help the ~~wider~~ London problem.

Assuming that a transition is undesirable, Mr. Ridley opens up the possibility of special transitional help to ease the way into the community charge in high community charge areas. This would have a high public expenditure cost. It might alternatively be possible to take action on the revenue side. Possibilities include:

- an "ILEA surcharge" on business rates in London; or
- a change in the basis for distributing the unified business rate so that it would include (in London alone or generally) an element reflecting levels of expenditure as well as population.

DCN

DAVID NORGROVE
1 July 1987

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original on EDUCATION: ILEA pt 4.

Prime Minister

1 July 1987

Opting-Out of ILEA

The Secretary of State would like to secure two specific decisions at tomorrow's meeting of E(LF) - a commitment to include opting-out in the Education Bill as set out in the Manifesto and a on a timescale such that boroughs could opt out by but not before 1990.

1. Manifesto Commitment

The Manifesto makes a strong commitment to allow individual boroughs to opt out of ILEA. It appears that Nick Ridley and the DOE would like to backtrack on this, and force a compuslory break up of ILEA.

There are very good reaons for our Manifesto commitment and we would look foolish if we were to change it now, particularly for a more draconian alternative.

2. Timescale

The second issue to be decided is a commitment for boroughs to opt out in April 1990, but not before. This is because

(a) the Community Charge will be in place by then. If opting out were to be introduced in 1989 it would be under the present rating system, would involve a major change the following year and which would inevitably lead to a very messy situation;

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(b) the boroughs who wish to opt out will need time to plan their education policies, make appointments etc and this will take time. This morning the Councillor from Tower Hamlets who has been asked to look into opting out of ILEA came to see me and handed me a list of 17 questions (Annex A). They are a Liberal Council but very sympathetic to our proposals. Neverthelss as you can see from the questions it is a major step forward for a borough such as Tower Hamlets, and they will clearly need a few years to get their act together.

Conclusion

The weakness of the paper from the Secretary of State is that it does not discuss in detail any of the difficult issues associated with opting out. I am told that DES officials are preparing papers and that we shall be sent them later.

It might be useful to emphasise the need for comprehensive and meticulous work by DES on this issue - as it will be very hard fought politically, with many Left-wing boroughs using first class minds to oppose us.

BRIAN GRIFFITHS

Annex A

KEY QUESTIONS ON EDUCATION

1. When will appropriate legislation be introduced and what is the expected time for passage through the Commons?

2. What powers will there be for individual London Boroughs to withdraw from the ILEA and establish themselves as Education Authorities?

3. What will be the major powers available to Local Authorities wishing to establish themselves as Education Authorities?

4. What will happen to the Careers and Youth Services?

5. How will these services be finanaced in the future?

6. Will the National Curriculum set a required minimum standard for quality of education in each Education Authority?

7. Will individual Education Authorities be empowered to take account of special education needs within their areas?

These to include special schools provision.
Language teaching for ethnic minority children.
Have decisions been made on the locations City Technical Colleges?

9. Will these be Government funded?

10. What will be the relationship between City Technical Colleges and Manpower Services Commission?

11. Will there be specific action to deal with the mismatch between employer's requirements and lack of skills among many of those leaving school after formal education?

12. Will each new Local Education Authority have a specific capital programme?

13. What will happen to accumulated capital debt, particularly in the ILEA area?

14. What additional resources by way of revenue support will the Government make available to the new Education Authorities by way of subsidy?

15. How will those Authorities which have been and are rate-capped be affected. Should they establish themselves as Education Authorities?

16. Will teacher's pay and conditions be determined nationally or will this become a local responsibility?

17. Will there be a specific budget for essential equipment and for books and other teaching materials?

Prime Minister!

Note that one of Nr Ridley's detailed proposals involves winding down (but not abolishing) the appeals system for domestic rates. Questions to you are in the margin. DLR 17/7

PRIME MINISTER 1 July 1987

(Treasury comments were late I'm afraid.)

NON-DOMESTIC RATING

AT FLAP.

Nicholas Ridley minuted you on 25 June about a number of aspects of introducing the national non-domestic rate. Most of these are technical, but some have a direct impact on Rate and Community Charge payers.

Operation of the NNDR Pool

Local authorities will collect the non-domestic rate. Where they collect more than they are entitled to on a per capita basis they will make a payment to the Secretary of State and where the reverse is true, he will make a payment to them. At the start of the year it will possible only to estimate the amount that the NNDR will raise because, for example, of new developments and changes in the number of vacant buildings. In order to take account of this uncertainty Nicholas Ridley wants to be able to build a contingency margin into what is collected from and paid to the local authorities. Assuming his estimate of income in the first year is broadly right, this should leave a surplus to be carried forward to later years and finance most, if not all, the contingency margin thereafter. But in the first year local authorities may receive less than the full proceeds of the non-domestic rate.

In order to bridge the gap they will need to levy a higher community charge. The amount of this extra charge will probably be about 1% for every 1% contingency margin the Secretary of State wants to have. So a 5% contingency charge could have a noticeable effect on the community charge. The DoE believe that this will be "lost in the wash" of all the other changes that will be involved in the first year in which the community charge is introduced. However, it will increase the number of losers and reduce the number of

G.R.

gainers from the change. This point is not brought out in the Secretary of State's minute. The alternatives need to be explored before a decision is taken. The Chief Secretary has proposed one possible method.

Agree? Yes

Paying for transition

The transitional arrangements agreed before the election mean that no non-domestic ratepayer will face an increase in his bill of more than 20% in any one year. Other ratepayers will move to the new level of rates in a single year. These transitional arrangements therefore have a cost which Mr Ridley proposes to meet by levying a slightly higher non-domestic rate than would be needed without transitional arrangements. Although regrettable, we accept this approach since Mr Ridley proposes to ensure that the additional poundage involved is phased out by the end of the transitional period.

Rating of empty commercial property

Mr Ridley proposes that empty shops and offices should be rated at 50%. At present local authorities have discretion in this matter. I understand that most urban authorities already levy rates at 50%, but some rural authorities do not. Clearly with a move to a national non-domestic rate practice must be standardised. Levying rates on such premises provides an incentive to owners to keep them in use - alternatively they may take the roof off as they have done in the past.

Duty to consult businesses

Mr Ridley proposes that the statutory duty on local authorities to consult business interests should be abolished since it is less relevant, with the introduction of the national non-domestic rate, and in substance unenforcable. We agree with this conclusion. The Chief Secretary thinks this may give the wrong signals. Agree to write in support of the Chief Secretary?, asking Mr Ridley to reconsider this? Yes no

Nevertheless the lack of any incentive in the new system for local authorities to create a climate that favours new businesses is unsatisfactory. This highlights the importance of the various measures now being developed to circumvent local authorities that are hostile to the private sector and enterprise.

Conclusion

We support most of the detailed measures Mr Ridley proposes on the non-domestic rate. But further consideration should be given to the alternatives to including a contingency margin in the non-domestic rate pool in view of the impact on the community charge.

Agree? (including winding down the appeals system for domestic rates?)

I don't think we can delay appeals so long as we have rates

Peter Stredder

PETER STREDDER

LOCAL GOVT. Rates - Pt 6

PART SIX ends:-

Totals of 'for' and 'against' Community Charge uld.

PART SEVEN begins:-

P. Shedden to PM 1.7.87.

Grey Scale #13
C
Y
M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19