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P 01829

PRIME MINISTER

Green Paper on Local Government Finance

E(LF)(85)20, 21, 23, 24

BACKGROUND

1. The last meeting of the Committee, on 12 November, completed the main consideration of the local government finance reform package. The agreed elements are:

(i) non-domestic rates to be set nationally, with the yield pooled and distributed per capita;

(ii) a new, simpler grant system, but with a transitional safety net grant to prevent re-distribution between local authorities at the outset;

(iii) the introduction of a community charge, which, over a suitable transitional period (10-12 years at most in England and Wales; sooner in Scotland), should increasingly replace domestic rates.

The Secretary of State for the Environment was invited to produce a draft Green Paper for the Committee to consider. The aim is to publish the Green Paper in January, before the Second Reading of the Social Security Bill.

Flag A - 2. Attached to E(LF)(85)20 are the main parts of the Green Paper. The chapter dealing with Wales has been circulated separately as

Flag B. - E(LF)(85)23. (A number of the more minor chapters and annexes are not yet ready, but will be circulated for clearance in correspondence before Christmas.)



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- Flag C - 3. The Environment Secretary's paper E(LF)(85)21 draws attention to a number of specific points the Committee will need to address - in particular the speed of the progression from rates to the community charge. His paper E(LF)(85)24 contains an analysis of gainers and losers by households and tax units. The Social Services Secretary raises in his minute of 10 December the interaction with the Housing Benefit scheme.

- Flag E - 4. The Secretary of State has also circulated under cover of E(LF)(85)22 a draft chapter on the control of capital spending. There has been good progress in agreeing this among the Ministers concerned (particularly with the Chief Whip, on the proposals for dealing with accumulated capital receipts). The remaining issues will be resolved at a meeting chaired by the Lord President on next week. This paper is therefore not on the agenda for tomorrow's meeting.

MAIN ISSUES

5. The draft is long, and you will not want to work through it in detail. Ministers can send comments in writing. I suggest, therefore that you invite the Committee to consider the general style and presentation of the document, and to focus on two key points:

- (i) the speed of transition from rates to community charge, and the extent to which this can differ in Scotland and England (paragraphs 3.41 to 3.46 of the draft);
- (ii) the impact of the community charge proposal on the Housing Benefit (HB) scheme.

Style and Presentation

6. The draft sets the proposals at some length in a historical context, and argues the principles underlying the reform in detail. As such, it looks like a document drafted for civil servants, academics, and local authority treasurers. But given the complexity and importance of the subject, I think it is right that,





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like the Social Security Reform consultation document, the Green Paper should provide a thorough and serious intellectual justification for the reforms. However, it will also be necessary to ensure that the proposals get across more widely. The foreword, which has not yet been drafted, can no doubt be shorter, more punchy, and more 'political' in its message. And no doubt Mr Baker will be ensuring that the presentation of the Green Paper to Parliament and to the press is positive and effective. Perhaps a "pop" summary should be produced for wider public consumption.

7. The present text still needs a fair amount of drafting work on it. In particular, the English, Scottish, and Welsh chapters have been drafted independently, and need to be made consistent in substance (see below) and in length and style. An overall editor should be appointed.

The Transition from Rates to Community Charge

8. At the last meeting, the Welsh Secretary suggested transitional arrangements for introducing the community charge. The charge would be fixed initially at a modest level - £50 - with rates being reduced by a corresponding amount (£100 on average). Rates would then be frozen so all future increases in spending would fall on the community charge. The amount of revenue raised through rates would diminish in real terms, until the point was reached at which they could be eliminated. The Committee had in mind a maximum transition period of 10-12 years in England and Wales, and faster in Scotland.

9. The Environment Secretary's transition proposals are set out in paragraphs 3.41 to 3.46 of the draft. This opens with the





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statement that it is for consideration whether rates are to be replaced entirely. The corresponding paragraph in the Scottish chapter (S.12) says

"it is therefore urgently necessary to move rapidly towards the total abolition of domestic rates."

The Committee will need to decide whether this question should be left quite so open to consultation (which is Mr Baker's preference). The clear view of the Committee at their last meeting was that, although the door should not finally be closed, there should be a strong presumption that domestic rates would be eliminated after an appropriate transitional period.

10. The draft goes on in paragraphs 3.43-3.46 to set out various options for the speed of any transition. It is clear that if rates are simply frozen, they will continue to provide a substantial proportion of local Government finance for many years. So in order to eliminate rates in 10-12 years, it will be necessary to increase annually the proportion of revenue raised through the community charge. With a shift of £20 a year onto the community charge, it would still take 21 years to eliminate rates in all authorities, although the vast majority (96.4 per cent) would be eliminated after 10 years (the really hard core comprises mainly the London boroughs, as is shown in the Tables in Annex A to E(LF)(85)21). Unless the initial £50 were increased, the best way of achieving a faster transition would probably be at some point, to make a final switch. This could clearly be painful in some areas, but it would presumably be managed as a specifically London directed measure.

11. The Scottish chapter says (S.12) that the transitional period must not exceed three years. This reflects the political view taken by the Committee in their last meeting, in face of the arguments by Mr Younger. But I think the Committee should just pause to reflect on this further. First, so far no exemplifications have been produced





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for Scotland. The figures attached to E(LF)(85)24 now show that 14 per cent of Scottish tax units will lose between £100 and £250 if there were a 100 per cent community charge in the first year. This is broadly the same figure as for England (15 per cent) and does not of itself square with a substantial difference in the length of the transitional period proposed. Second, the Committee will wish to be satisfied again, now that the proposals have been set out in the draft Green Paper, that such a large difference in the proposed treatment for England and Wales and for Scotland can presentationally and practically be justified.

Effect on the Housing Benefit Scheme

12. The Social Services Secretary has pointed out that introducing the community charge will bring a substantial number of new people into the Housing Benefit scheme. The caseload will increase substantially - perhaps by 1 million cases. Furthermore, local authorities will be left to collect the 20 per cent contribution from these people, and at the outset it will be only £10 per year. He therefore floats a new alternative approach. Under this all adults would be responsible for paying the whole of their community charge, with national income support and family credit rates being increased to assist low income households with more than one adult. No interdepartmental consideration has yet been given to this last minute proposal. On the face of it, the main drawback is that after a few years the community charge will be very different in different local authority areas, not because expenditure levels vary but because the existing variation in rateable values will be locked into the new system by the safety net grant. As the annex to E(LF)(85)21 shows, the community charge is likely to be about £100 in Barrow in Furness compared with about £290 in Wandsworth and £945 in Kensington and Chelsea. A pensioner living in Westminster would therefore lose very substantially from any proposal along the Social Services Secretary's lines.





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13. This issue will need fuller consideration in due course. We need to know its precise financial (PSBR and public expenditure) as well as distributional implications. But in the meantime, the Committee might consider it sufficient merely to use in the Green Paper similar language to that in the Social Security White Paper, ie that the principle of assistance for those on low incomes will continue, as well as the new principle that everyone should pay at least a proportion of their local domestic tax themselves. It would probably be tactically wise, also, to accept in the Green Paper that there are transitional problems in achieving that result with a community charge, but to express confidence that they can be overcome. Mr Fowler suggests that the Cabinet Office should arrange for officials to study the problem further. We could do so; but I see no need for that, at least in the first instance. DHSS and DoE, in consultation with the Treasury, should be asked to get on with it urgently.

Other Issues

14. There are a number of more minor issues which will also need to be considered.

15. First, the Scottish section says (paragraph S.15) that the Government are prepared to consider bringing forward the necessary Scottish legislation in the 1986-87 parliamentary session. Two issues arise: does the Committee endorse its earlier provisional view that it would be acceptable to legislate for Scotland sooner than England and Wales, and is it prepared to see a commitment of this kind, especially as QL has not yet considered the legislative programme for the next session. Secondly, is it technically possible to legislate on this timetable: the Environment Secretary earlier had grave doubts, and the Committee will need to have the Scottish Secretary's assurance that his Department can work to this timetable.





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16. If Scotland does legislate earlier, it will be necessary to introduce interim arrangements for non-domestic rating until the national poundage arrangement is established in England and Wales in 1990. The Secretary of State is proposing to cap existing rate levels. There may be pressure to do the same in England and Wales as an interim measure. The Environment Secretary will, however, resist this on the grounds that it would place an intolerable burden on domestic rate payers in advance of the other reforms.

17. There is a further problem concerning the industrial rate in Scotland. The adoption of a standard Great Britain poundage would result in a reduced revenue from industry and commerce in Scotland, since average local poundages there are higher than in England and Wales. This shortfall, which might amount to £500 million, would have to be found either from Scottish domestic rate payers, from the exchequer, or from a transfer from England and Wales. This issue has only recently been identified. A Note is being prepared, and if the issue is raised in discussion, it might be appropriate to defer this to the meeting to be held next week under the Lord President's chairmanship.

HANDLING

18. You will wish to invite the Secretary of State for the Environment to introduce the draft. You may then wish to invite any other Minister to give a brief initial reaction to the style and presentation of the document. You will wish then to consider specifically the rate of transition to a community charge and the Scottish question, on which the Environment and Scottish Secretaries will wish to lead. The Social Services Secretary will wish to speak to his minute about the interaction with the Housing Benefit proposals.





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Next Steps

19. Subject to the discussion, you will wish to ask the Lord President to settle the proposals on capital expenditure and any other outstanding issues. You may also wish to ask the Social Services Secretary to arrange for DHSS, DoE and Treasury officials to examine the relationship with the Housing Benefit scheme, though it seems most unlikely that this could be taken substantially further before the text of the Green Paper is finalised. The Environment Secretary will then need to produce quickly a final version, for clearance in correspondence with the Ministers most closely involved. The final text will then need to go to Cabinet on 9 January, with a view to publication about 27 January.

CONCLUSIONS

20. You will wish to reach decisions on:

(i) whether the style and presentation of the draft document is broadly acceptable;

(ii) whether the Green Paper should leave open the possibility of rates continuing indefinitely in some form;

(iii) the appropriate speed for the transition from rates to the community charge, and how this should be presented, particularly in relation to the difference between England and Wales and Scotland;

(iv) what the Green Paper should say on the relation with Housing Benefit, and whether to consider further the Social Services Secretary's suggestion;





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✓ (v) whether the intention to legislate in 1986/87 for  
Scotland should be canvassed.

J B UNWIN

Cabinet Office

11 December 1985

CONQUEROR