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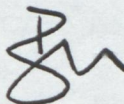
LORD PRESIDENT

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E(LF)(86) 1st Meeting

There are two items for this meeting. The first concerns a number of practical issues about the introduction of the Community Charge. The Scottish Secretary needs decisions now in order to send instructions to Counsel by the end of June for the Bill for the next Session. We have placed it first on the Agenda so that the Committee can make the necessary decisions: the Social Services Secretary's paper raises more important issues, but if that were first it would risk crowding out the Scottish Secretary's paper.

2. The second item is much more difficult. It concerns the interaction of the Social Security System and the proposed Community Charge. It raises belatedly and not very helpfully some fundamental issues which require very careful consideration. It seems astonishing that, despite all the pressure from the Cabinet Office and others last autumn, these issues have not been further progressed before now. To add insult to injury, Mr Fowler's paper was available only on Tuesday lunchtime and Ministers will not have had long to reach a view on it. (We considered recommending to you that the item should be struck off the agenda as the 48 hour rule has been breached, but in this case it is the Scottish Office who are pressing for an early decision, and we suspect that DHSS would be content to defer the item for as long as possible.) My very firm advice is that, given the importance and unsatisfactory nature of this paper, further and more constructive work will be necessary before final decisions can be taken. This meeting, however, might provide an opportunity for Ministers to define their initial positions and perhaps narrow the options a bit.




J B UNWIN

18 June 1986  
Cabinet Office

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*Mr Noyce*

*You may like to see - I mentioned this to you this morning.*

  
*18/vi/86*

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LORD PRESIDENT

INTRODUCTION OF THE COMMUNITY CHARGE  
(E(LF)(86)1)

BACKGROUND

The Cabinet agreed in January that legislation should be introduced in the next Parliamentary session to replace domestic rates in Scotland with a community charge. The Committee must now give policy approval for the detailed proposals on how the charge is to operate so that the Scottish Office may send instructions to Counsel by the end of June.

MAIN ISSUES

2. A large number of issues have been agreed between the officials of interested Departments (Scottish Office, DOE, Treasury, Welsh Office, Home Office). These are set out in paragraph 7 of the Scottish Secretary's memorandum. There are, however, four issues on which the Sub-Committee must reach decisions:-

First registration of 18 year olds (paragraph 9 of the memorandum)

The framework of duties and offences (paragraphs 10-13)

Second homes (paragraphs 12-13)

Relief from the community charge (paragraph 14).

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Compatibility between Scotland and the Rest of Great Britain

3. The legislation in due course to implement the Community Charge in England and Wales need not be identical for Scotland. But in practice the scope for variation will not be that large, and is probably limited to differences reflecting the different local government and legal systems. It is therefore important that the Scottish Secretary is not allowed to set any precedents which would be unacceptable south of the border.

General arrangements

4. The general arrangements described in paragraph 7 of the memorandum are very much in line with what the Committee had in mind when debating the Community Charge last autumn. Local authorities will be responsible for maintaining a register of local residents liable to pay the charge. They will draw this up from returns from households, and other local information. For cases where individual registration will not be appropriate - for example some hostels - there will be a collective Community Charge, based either on a notional standard occupancy or on actual occupancy levels. Second homes which are nobody's sole or main residence would be subject to a standard charge, the size of which has not yet been agreed. These arrangements follow naturally from the decision to introduce a locally-based community charge, and there should be little difficulty in endorsing the Scottish Secretary's proposals.

First registration of 18 year olds (paragraph 9)

5. The Green Paper suggested that adults should pay the charge from the start of the financial year following their 18th birthday (or 19 for those in full time education still in receipt of child benefit). The local authority associations have suggested that it would be simpler for liability to begin on the 18th birthday (or when leaving school if that is later). This is not an important issue in itself, but the Bill will have to be explicit and there must be consistency throughout Great Britain. DOE officials

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favour sticking with the original proposals (because it avoids a number of problems over people who leave school and return to sit exams after their 18th birthday, or would be required to pay the charge for a relatively short period at home before moving to university). The Scottish Office support the view of the local authority associations.

The Framework of Duties and Offences (paragraphs 10 and 11)

6. The Scottish Secretary proposes that there should be no duty on individuals to register themselves, and no sanction for non-registration. The only duty would be on "heads of households" to respond to an annual canvass and to notify changes occurring during the year. At first sight it seems surprising that there should be no duty on individuals. The arguments advanced against it are that the duty would be easy to avoid, if backed up by sanctions would be unduly onerous, and would put at risk to sanctions those incapable of taking responsibility for their own registration. Nevertheless the lack of an individual responsibility gives the impression of a "voluntary" tax, with every encouragement for people to evade payment. The Treasury are likely to oppose the Scottish Secretary's proposal.

7. On the mode of enforcement, the Scottish Secretary proposes criminal sanctions with fines and fixed penalties. The Home Secretary, however, is being briefed to propose that civil procedures might be adequate and should be further explored. The Home Office are anxious about bringing very large numbers of people into the net of the criminal law.

Second Homes (Paragraphs 12 and 13)

8. The Green paper suggested that there should be a standard charge of 2 units of community charge on second homes, which was regarded as broadly equivalent to the present burden of rates. DOE and the Scottish Office now propose that the charge should be set at 1 unit, since most second homes are of below average rateable value and because setting the charge at 2 units would

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encourage avoidance. The Welsh Office, reflecting the particular sensitivity over second homes in the province, wish to maintain the original proposal. In steering the discussion you may wish to ask for information on the reactions so far to the Green paper proposal. If opposition has been muted, there seems no good reason to drop it.

Reliefs on the Community Charge (Paragraph 14)

9. Present rating law allows reliefs for certain categories, including alms houses, vicarages, certain other charitable exemptions, and those living in tied houses (eg policemen) do not pay tax on the benefit if their employer pays the rates. The present situation is complex and anomalous. There is an argument for abolishing all reliefs under the new system, on the grounds that the community charge is a personal rather than a property tax, and that the social security system will protect those who cannot bear the full cost. The Scottish Secretary foresees strong pressure, however, from the various interests involved, particularly from public sector groups such as the police and prison officers who live in tied houses. He therefore seeks authority for his officials to undertake informal consultations to establish the main areas of difficulty for further consideration later. Treasury Ministers are likely to oppose any significant new reliefs, on the grounds that the tax base should be as widely drawn and with as few anomalies as possible. It would seem a pity to resile from the earlier objective.

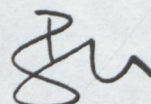
HANDLING

10. You will wish to invite the Scottish Secretary to introduce his proposals and then to deal in turn with each of the issues for decision. You will wish to invite the Environment Secretary, the Home Secretary, the Welsh Secretary, and the Chief Secretary to comment on each.

DECISIONS

11. In summary, you will wish to reach decisions:-

1. To agree the proposals summarised in paragraph 61 of the report by officials attached to the Scottish Secretary's paper.
2. To resolve each of the 4 points for decision listed above and summarised in paragraph 62 of the report by officials.
3. To invite officials to consider further the detailed issues for further consideration summarised in paragraphs 63 and 64 of the report by officials.



J B UNWIN

18 June 1986  
Cabinet Office

P 02114

LORD PRESIDENT

SOCIAL SECURITY AND THE COMMUNITY CHARGE

[E(LF)(86) 2]

BACKGROUND

When the Sub-Committee discussed the Community Charge proposal last December, it was recognised that further consideration would have to be given to the relationship with the social security system. There were two particular issues. First, whether the social security review and the local government finance review would produce coherent results. In some respects it was clear they were pulling in different directions. For example, some individuals would lose under one and gain under the other, while others would either gain or lose under both. Second, it was recognised that with the extension of the community charge to a large number of people not at present paying rates, the case load and cost of the housing benefit rebate scheme would rise considerably with implications for the administrative burden on local authorities. It was because of awareness of these problems that the Cabinet Office pressed very strongly at the time for a more coordinated and synoptic examination of the two reforms.

2. The Social Service Secretary suggested avoiding the second problem by excluding the community charge from the scope of housing benefit, with a compensating flat rate addition to incomes support. DoE Ministers pointed out that the wide variation in the community charge between authorities might make this approach impossible. The relevant Ministers were asked to consider these issues further.

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3. The Social Services Secretary has now circulated - very late - a Memorandum (E(LF)(86) 2) that does little more than wring hands and draw attention to the considerable turbulence which the various reforms will cause for local authorities and those on housing benefit, and seek a decision in principle on whether a rebate system broadly in its present form should be applied to the new community charge. He has also circulated a very detailed, and rather opaque, Report by Officials analysing the implications for expenditure and for household incomes of a number of possible options for adopting the present system.

MAIN ISSUES

4. The issues are complex, and there will certainly not be enough time to explore them all in detail at this meeting. Decisions on what broad approach to adopt can only be taken in the light of exemplifications of the effects on housing benefit workload, public expenditure, the PSBR, and on individuals disposable incomes. A realistic objective for tomorrow's discussion might be to secure from the Social Services Secretary, Environment Secretary and Chief Secretary, initial statements of their positions, and to commission for a meeting in a fortnight a note summarising the key options from the detailed note by officials, together with, if possible, specific recommendations from Mr Fowler and Mr Ridley on them.

Timing of Reforms

5. As Mr Fowler points out - and as was apparent from the start - there is a considerable period of turbulence ahead. Local authorities will be required to implement the social security reforms in April 1988, with a large reduction in case load, and then to introduce the community charge in Scotland in the following year, with potentially a large increase in case load - a potentially very embarrassing Duke of York exercise. Although



this situation is inherent in the decisions which the Cabinet took last winter, very great care and skill will have to be exercised in explaining and presenting it.

Social Security and the Community Charge

6. Ministers differ on whether the current rate rebate system should be applied to the community charge. Mr Fowler starts from the point that his review has, with difficulty, secured a reduction of 1.2 million in the case load and £350 million in the PSBR. (Rate rebates are regarded as income foregone, and therefore are not scored as public expenditure). Extending rebates to those paying the community charge will produce 1.5 million extra cases, and add £140 million to the PSBR. More fundamentally, rebates represent 22 per cent of local authorities' income from domestic rates and over one-third of rate payers receive rebates. The changes to the system provide an opportunity for the Government to disengage, making more people bear the consequences of local authorities' spending decisions. Although his paper does not state his position clearly, we understand that Mr Fowler would prefer if possible not to rebate the community charge, providing assistance for the poorest only through the basic incomes support scheme. (He indicated that this would be his preference in E(LF) when the Green Paper was being finalised, but the point was pursued then.)

7. Environment and Scottish Ministers on the other hand argue that if it is right to pay rebates in respect of rate bills at present, this should be carried over into the new system. It will be difficult enough to present the community charge, where a large number of adults (many of whom will have little or no income) will be required to pay a local tax for the first time. They argue that accountability can be retained by the 20 per cent requirement, but think it equitable that the remaining 80 per cent should be rebated. Increasing the level of basic income

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support will only help those at the poverty line, leaving a large number just above with no assistance. Moreover, the variation of community charge between authorities is likely to be as great as the present variation in rates, and any scheme which reflects the average community charge in the basic national income support levels would be over-generous to those living in low spending authorities and the reverse to those in high spending areas. DoE and Scottish Ministers would therefore prefer to retain the existing system.

8. These are the extreme positions. There are a number of options open to the Government which are described in the report by officials: the level of basic income support; the rate of taper of the rebates for those above the IS levels; thresholds to disregard very small rebates; and the possibility of capping the amount of community charge eligible for rebate to one and a half times the national average. At this meeting it will not be possible to examine any of these in detail. But if you can persuade the Committee to decide on certain guiding principles, it will be possible to summarise the key effects of the relevant options for a subsequent meeting. The general principles are:

1. Whether the possibility of a scheme limiting support only to those on income support, and relying on national averages, is ever likely to be acceptable;

2. whether it is acceptable to limit the size of community charge the Government is prepared to rebate?

Timing

9. On timing, the Social Services Secretary argues for no public statement to be made while the Social Security Bill is before Parliament (ie since the Lords third reading is 22 July not before the summer recess). The Scottish Secretary will wish to

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explain his difficulty in completing consultation by 31 July in the absence of a clear policy on this point. The Chief Secretary will be anxious to avoid hasty commitments in Scotland that could prove very expensive in England and Wales, and he will certainly ask for more time to think. One possible compromise would be to label any decisions taken for Scotland as explicitly interim measures, pending decisions in the wider GB context.

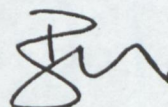
HANDLING

10. You will wish to ask the Social Services Secretary to introduce the discussion, and the Environment Secretary, Scottish Secretary, Welsh Secretary and Chief Secretary, to state their positions.

DECISIONS

11. Subject to the discussion, you may wish to invite the Social Services and Environment Secretaries, in consultation with the Chief Secretary and the Territorial Ministers, to circulate a paper for a meeting in, say, two week's time which:-

- (a) summarises the relevant options from the report by officials;
- (b) contains their specific joint or several recommendations on the way ahead.



J B UNWIN

18 June 1986  
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