

PM

PRIME MINISTER

STANDARD COMMUNITY CHARGE ARRANGEMENTS

Earlier in the year, Malcolm Rifkind expressed concern about the operation of the standard community charge arrangements in Scotland; his worry was that setting the standard charge at twice the personal charge produces great unfairness in Scottish circumstances. But you and other colleagues resisted any change to the existing arrangements.

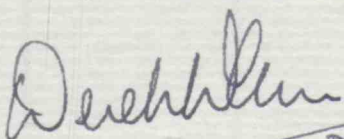
Malcolm Rifkind has now returned to the charge. I have not so far bothered you with these latest exchanges. But the issues show no sign of being resolved.

I am attaching the latest papers, although I do not suggest you try to go through them all. You may like just to go through John Mills' minute immediately below, which summarises the issues and problems. (The Ministerial exchanges are below that if you wanted to dip into them.)

Procedurally, John suggests the best way to sort this out is to add this issue to the agenda for next Thursday's meeting of E(LF).

Are you content to do this?

Yes no


+ PAUL GRAY *Duty Clerk*

30 June 1989

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PAUL GRAY

30 June 1989

STANDARD COMMUNITY CHARGE

This is a difficult issue and I have therefore set out in an annex a summary of the main differences between Scottish and English Law and the various proposals for change.

It is clear that enough difficulty on standard charge has emerged in Scotland to make us think carefully whether any changes are needed in England and Wales before next year.

The main issue: setting the overall multiplier

Malcolm Rifkind's main aim is to ease hardship on second home owners by bringing the multiplier down from 2, the figure most local authorities have set, to 1. He would achieve this by taking power to prescribe the multiplier himself.

But Nicholas Ridley and Peter Walker are both strongly opposed to this because of the severe un wisdom of Ministers becoming directly involved in setting charges for second homes. They would all be accused of having a personal interest and, to the extent they were seen to be 'reducing' charges, of acting against the interests of personal charge payers whose bills would go up.

The Prime Minister endorsed this view in the first round of correspondence and I strongly recommend she maintains her position against Malcolm Rifkind's proposal.

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Rifkind's other proposals

All of these together would drive a coach and horses through standard charge as a means of raising revenue on second homes. In any case he already has power to exempt prescribed classes of property. But there is no doubt that the Scottish scheme is less flexible than the English, and it would be quite reasonable to bring the two into line. This is in essence Peter Walker's proposal. It would be much better than creating a divergent set of rules in Scotland, for example on furnished property and holiday-lets.

This should however be subject to the clear understanding that the power to prescribe classes of exempt or reduced-rate property can in fact be used to deal with the worst kind of hardship cases Malcolm Rifkind cites.

Could, for example, an 'empty house' class distinguish between a typical holiday home and one where an elderly parent had gone away to convalesce with children (thus becoming liable to personal charge at the children's address)? If not, the English law, as well as the Scottish, ought to be looked at urgently.

There is some suggestion that in Scotland, Community Charge Registration Officers, who are employed by local authorities fundamentally hostile to the whole business, are interpreting such cases very strictly and imposing standard charges when a house is empty in such circumstances just for a few months. If such practice is not nipped in the bud, it could cause endless trouble next year.

A way round this is to consider whether a specific exemption should be made for temporary absence from a sole or main residence.

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Nicholas Ridley's counter-proposal

He suggests meeting Scottish concern by giving local authorities in all three countries greater discretion to reduce or remit standard charges in case of hardship.

This is ostensibly attractive, not least because it puts the onus for discretion on local authorities not Ministers, but it needs to be approached with great care:

- it will be seen as a benefit for second-home owners, generally regarded as a well-off group, with the cost falling on personal charge payers;
- it will be tantamount to an admission that the Community Charge was having unjust effects. Certain local authorities would exploit this;
- it will intensify pressure for personal community charge relief, especially in remote areas where holiday homes are situated and where standard charge relief would have most impact on the personal charge itself;
- as Malcolm Rifkind says, it would be very difficult to set criteria which met all the kinds of hardship likely to arise.

Pressure for Personal Charge Relief

This is a particularly sensitive reason for caution on standard charge relief. For example, the Laird of Eigg is already campaigning against anyone on his island paying Community Charge since they receive no local authority services. And the annexed cutting indicates the pressures emerging

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in remote areas where few services are available and where, in the past, rates were particularly low. Were concessions in the offing, cases such as these might well be thought more deserving than the plight of second home owners.

Conclusion

A prudent approach to any change seems necessary. The two obvious courses of action are

- to bring Scottish practice into line with the more flexible English legislation;
- clarification on temporary absence from a main residence, which could also avoid a repeat in England of the most emotive hardship cases which have undoubtedly emerged in Scotland.

As for action to get the overall multiplier down, Ministers must keep themselves away from direct involvement. One option for Malcolm Rifkind to pursue is Peter Walker's suggestion that he should announce that next year's RSG in Scotland will be based on an assumed multiplier less than the maximum of 2 (on which this year's settlement was based). This may persuade at least some authorities to set a lower standard charge. This would require a very marginal reallocation within the Scottish block.

To go any further would need very careful consideration of the adverse impact on personal charge levels, the pressure for personal charge relief which would arise, and the sensitivities of Ministers' own position. All these seem to rule out any major change.

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Any solution must also be subject to legislative constraints. Malcolm Rifkind's proposed changes, and indeed Nicholas Ridley's, would require amendment to the Local Government and Housing Bill, which is already under pressure because of its size.

Given the clear division of view between Ministers, and the range of options involved, a discussion in E(LF), perhaps at the 11 July meeting, might be opportune. I understand that, even if it was decided to introduce amendments to the Bill, this could at a stretch be done at Lords Report stage in the spillover.

Recommendations

I recommend that the Prime Minister should

- continue to oppose the idea that the Secretary of State should set the multiplier because of the sensitivity of Ministerial involvement;
- express the need for great caution on any changes in Standard Charge rules, for the above reason and to avoid creating pressures on the personal charge side. This includes Nicholas Ridley's proposal for local authority discretion, where the accusation that the Community Charge was unjust could also arise;
- nevertheless recognise the reality of concern about Standard Charge in Scotland, but suggest it would be impracticable to go further than bringing Scottish legislation into line with ours. Any action to get the multiplier down would require reallocating resources in the Scottish block so that, in settling next year's grant, the assumed multiplier could be lower than 2;

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- ask Nick Ridley whether the Scottish experience has lessons for England and Wales next year, and in particular whether a specific exemption is needed in all three countries to cover temporary absence from a main residence to remedy the kind of case described by Malcolm Rifkind concerning elderly parents staying with their children;
- suggest a discussion in E(LF) to settle this once for all.

John Mills

JOHN MILLS

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STANDARD COMMUNITY CHARGE: SUMMARY OF DIFFERENCES BETWEEN
SCOTLAND AND ENGLAND/WALES AND PROPOSALS FOR CHANGE

1. In Scotland:

- Local authorities determine a standard charge multiplier for their areas between 1-2 times their personal community charges.
- Secretary of State can prescribe classes of property to be exempt from standard charge.
- Unfurnished and unoccupied property is exempt for 3 months, or more at local authority's discretion.

2. In England/Wales:

- Local authorities determine a multiplier between 0-2 times the personal charge.
- Secretary of State can specify particular classes of property.
- Local authorities at their discretion can determine different multipliers between 0-2 for such classes of property.
- But the Secretary of State can lay down maximum multipliers between 0-2 for such classes.

3. Malcolm Rifkind proposals for Scotland:

- Secretary of State to determine the multiplier up to a maximum of 2, but with serious consideration to setting it at 1.

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- Unoccupied and unfurnished property to be prescribed as exempt.
- Unoccupied but furnished property to be exempt for 3 months, or more at local authority's discretion.
- Second homes genuinely available for holiday lets should be moved into non-domestic rating.

4. Counter-proposals

Nicholas Ridley:

- Local authorities in all three countries should have discretion, on the basis of criteria to be agreed, to reduce or remit standard charge in cases of undue hardship.
- Rifkind opposes this because of the sheer difficulty of defining all the appropriate categories of hardship.

Peter Walker:

- Scotland should adopt English/Welsh model where Secretary of State can prescribe various classes and set maximum multipliers in each case. But there must be no presumption to set an across the board multiplier of 1.

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The wild and remote Scottish settlement of Kilchoan where poll tax anomalies can be seen — and felt. In rural Kilchoan the basic charge is £237; in urban Inverness it is £226 Photographs: John

Highland crofts suffer most as poll tax bite

ALLAN MACLACHLAN is a crofter living at the western extremity of the British mainland on the wild Ardnamurchan peninsula in the Scottish Highlands. His house at Kilchoan, a remote settlement amid spectacular scenery, overlooks the northern tip of the Island of Mull.

Last year, it cost him £315 in rates. This year, the MacLachlan household, including his wife and two adult daughters, could have to pay more than £900 in poll tax.

Like others in far-flung communities, Mr MacLachlan wonders why they should have to pay so much more when they receive so little. Kilchoan has mains water, a primary school and a subsidised bus but little else. Its lifeline is a single-track road which winds for 28 miles to Strontian and the nearest policeman.

The closest big town, Fort William, is more than 50 miles and a £3 car ferry away. Tourists and locals often catch the summer-

Scottish crofters paid little in rates because they received little in return. But the poll tax is higher in the country than in towns, bringing demands for more to be spent on rural amenities. Mark Douglas Home reports.

only passenger ferry from Kilchoan to shops five miles across the sea in Tobermory, Mull.

Under the rating system, scarcity of services was reflected in low rateable values. Crofters such as Mr MacLachlan also had 50 per cent relief.

But the distinction between remote rural and well-served urban areas disappeared when the poll tax was introduced in Scotland this year. It has led to what critics regard as an indefensible anomaly. Mr MacLachlan and others in Kilchoan, where council services are few and far between, must pay the same as people in Fort William and £11 more than those in Inverness, the administrative capital of the Highlands.

The poll tax in Kilchoan and

Fort William is £237 — made up of the Highland Regional Council's charge of £180, a water charge of £20, and Lochaber District Council's charge of £37.

The tax in Inverness is £226. The regional council charge and the water charge again add up to £200, but Inverness District Council's charge is only £26.

Dr Arthur Midwinter, senior lecturer in politics at Strathclyde University and a financial consultant to Highland Regional Council, says the tax has brought about a widespread shift in burden from urban to rural areas.

After a study last year, he estimates 70 per cent of households throughout Highland region will be worse off; in the most remote areas that figure is 90 per cent.

"One of our main concerns is that losses are likely to be concentrated in the very areas where the Government has traditionally put in public money to try to keep local economies healthy."

Mr MacLachlan, who keeps 100 sheep and eight cows and is also Kilchoan's piermaster, has applied for a poll tax rebate. "I will have to go to the bank for an overdraft unless I get the rebate," he said. He is not optimistic.

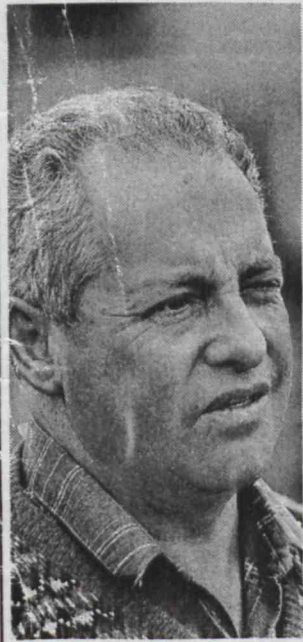
The "Standard Community Charge" on second homes such as holiday cottages has also boosted local authority income. In Highland, as in most regions, the charge amounts to twice the personal poll tax.

Last year, John MacPhail, who runs the Sonachan Hotel in Ardn-

namurchan, paid £98 in rates for a second house in Kilchoan. Last year his standard community charge is £474, second only to parts of the £1,205 estate business rates and poll tax he and his family must pay.

One effect of the poll tax is more money from rural areas to increase demands for local authorities to spend more. Mr MacLachlan is among those wanting Highland and Strathclyde regions to build slipways at Kilchoan and Tobermory so they can use the ferry.

Highland region has adopted a policy of steering money towards rural areas, but Dr Michael Foxley, a Fort William general practitioner and regional councillor in Ardnamurchan, wants more. "I will not be paying the tax until there's either a reduced charge in poorly-served areas or until the local authorities provide comparable services or at least make an effort to



Allan MacLachlan, who is not optimistic he will get a rebate

RA

CCB/KUP (A-B)

PRIME MINISTER

COMMUNITY CHARGE SAFETY NET

Buffing!
more variants!
Est. Column 6
rather = not
good.
More
check.

We had a brief word on Thursday evening about the position reached on the safety net discussions. The issue is due to come to the next meeting of E(LF) on Thursday. But you agreed that the most sensible next step would be for you to have a word with Nick Ridley and John Major.

Given diary constraints this may have to wait until Wednesday morning. But over the weekend you might like to have a further look at some of the papers.

I suggest you start by looking at the paper that was before the last E(LF) meeting. This is at Flag A. I suggest you look particularly at the exemplifications in table 4 of that paper. You will want to work through this area by area, so that you can judge which present the most political sensitivity. I suggest you concentrate on the variants set out in column 7 of table 4 (the so called option 5) and column 8 (the so called option 6). Option 5 is John Major's preferred starting point. Option 6 is that favoured by Nick Ridley.

The next note to look at is the further material provided today by John Major's office at Flag B. This explains his thinking on the sensitive areas in the north west, and the way in which this might be met at an additional cost of around £70 million.

Finally, there is also some additional material provided by Nick Ridley's office at Flag C. This is more complex to follow, and provides another table with yet more options. All the new options set out there have a different starting point to those in the original paper at Flag A; rather than

contributions to the safety net being shown on the community charge bills, it is assumed the total of basic grant is first reduced by some £950 million and then distributed separately as grant to pay for the safety net. The later columns of the new table then set out various ways in which extra grant of £100 million might be used to achieve the sort of targeting John Major is advocating.

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PAUL GRAY
30 June 1989

Duty Clerk

RA

PRIME MINISTER

MEETING OF E(LF): 6 JULY

A few weeks back Nick Ridley circulated revised proposals for the transition arrangements under the uniform business rate. John Major (and to a lesser extent Tony Newton) raised objections, and you decided it would be best to remit the issue to E(LF). It will now be discussed at next Thursday's meeting of the Committee.

Immediately below this note is my earlier minute that sought to summarise the issues and the positions taken by the different Ministers. The further papers below are:

Flag A - Summary paper by Nick Ridley and Peter Walker, to which the earlier exchanges of correspondence are annexed.

Flag B - John Mills' brief

Flag C - Cabinet Office brief

Next Thursday's meeting of E(LF) will also need to consider the position of the Community Charge safety net: I have put the latest papers on this separately in the box.

The meeting may also need to consider the latest exchanges between colleagues on the standard Community Charge; again you will find these separately in the box.

RRCB.

PAUL GRAY

30 June 1989

KK1ASA

Mills I agree with John
 (i.e. support Nick
 Ridley on increased
 thresholds - John Major
 against a premium or powerage
 + transitional protection for existing
 occupiers only) If this could be
 agreed - we wouldn't need the
 meeting.