CC B/ulp

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.

CONFIDENTIAL

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