

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