



P 02922

PRIME MINISTER

TRANSITION TO THE COMMUNITY CHARGE

The purpose of the meeting is to decide the arrangements for transition to the community charge in England. Decisions are needed now if there is to be any chance of amending the Rates Reform Bill before it is introduced in early December. We have provided a short paper defining the options, with background figures from the Treasury and Department of the Environment.

## DECISIONS

2. There are two options left in play. Both incorporate a safety net which is subject to a maximum contribution of £75 per adult in any area. The difference between the two options is in the extent of dual running of rates and the community charge:

a. Option 1, full dual running, would require all local authorities to operate both tax systems for the four years 1990/91 to 1993/94.

b. Option 2, minimal dual running, would require dual running only where spending exceeds £130 per head above GRE in their 1987/88 budgets: in other words, in inner London and Waltham Forest. Elsewhere the community charge would be introduced in full in 1990/91, subject to the safety net.

## MAIN ISSUES

3. The Chancellor favours option 1. His key argument is that it is essential to moderate the substantial changes in individuals' tax bills resulting from the community charge, particularly in the first year. The Environment Secretary favours option 2. His key arguments are the need to respond to the strong preference of MPs



and local authorities for avoiding dual running, and the wider political advantages of getting rid of domestic rates immediately throughout most of England.

#### Effects on tax payers

4. Figures showing the effects of the two options are annexed to the Cabinet Office paper. Annex B shows the gains and losses of households of different sizes under the two options in £ per week, both for England and separately for the main regions. Annex C shows gains and losses in each region as a percentage of existing rate bills. Annex D shows overall tax bills for certain households in a selection of typical local authorities throughout the transitional period. The DOE have also circulated figures showing the impact of the options on individuals as well as householders. All the statistical material which the Chancellor and other Ministers have requested has therefore been supplied.

5. We have tried to make some of this material more digestible by setting it out in three bar charts attached to this brief (which the other Ministers will not have). Key features are as follows:

i. There is little to choose between the two options in their impact on different areas: see Chart A. Both benefit the North and to a lesser extent Greater London. The South and to a lesser extent the Midlands will be better off when the community charge is fully in place. This reflects the safety net.

ii. The number of gainers and losers is also similar under the two options: see Chart A again. Under option 1, 8.6m households lose and 9m gain. Under option 2, 8.8m lose and 8.8m gain. The extra 200,000 losing households (containing around 500,000 individuals) are largely concentrated in the North.



iii. The size of gains and losses is much greater under option 2: see Chart B. For instance the number of households losing more than £2 per week is 837,000 under option 1, but 2.8m under option 2. But these high losses are counterbalanced by higher gains for other households: option 1 would mean that 1.1m would be more than £2 per week better off whereas option 2 would benefit 2.8 m in this way.

iv. The same pattern applies in all regions, including the South, where the number of households losing more than £5 per week is only 9,000 under option 1, but 171,000 under option 2.

v. The percentage figures tell the same story: see Chart C. Under option 1, 387,000 households see their bills increase by 100% or more: under option 2 this rises to 1,315,000 households. But there are also larger gains: 79,000 households get a cut of 50% or more in their bills under option 1 whereas 1,152,000 benefit in this way under option 2.

6. The illustrative household tax bills in Annex D help to explain the reasons for these differences.

i. Under option 2 eventual gainers from the community charge tend to get much more of the benefit in year one. They include single adults paying rates now and couples in larger houses with high rateable values.

ii. Equally, under option 2 eventual losers tend to suffer more of their losses in 1990/91. They include non-rate payers, couples in smaller houses and households with 3 or more adults.

7. The Chancellor will probably use Annex D to show that option 2 produces some particularly odd effects. For example:



i. Some eventual gainers in high resource areas (which contribute to the safety net) suffer large losses in 1990/91 under option 2. In Elmsbridge a couple in a smaller house would see their bill rise from £498 to £628 in 1990/91, even though their eventual bill in 1994/95 would be £478.

ii. Some eventual losers in low resource areas (which benefit from the safety net) have gains in 1990/91 under option 2. In Hyndburn a couple in a larger house would see their bill cut from £337 to £284 in 1990/91, even though their eventual bill in 1994/95 would be £424.

Similar effects can occur under option 1, but they are bigger and more widespread under option 2.

#### Other issues

8. You will also wish to consider other implications of the two options.

i. Local accountability. Both options will put the full weight of funding spending increases on the community charge from 1990/91. But option 2 will make this much clearer than option 1, under which households will experience annual changes in both rate and community charge bills.

ii. Local authority costs. Full dual running under option 1 was earlier estimated to cost £200m per annum. Under option 2 dual running would apply only in London and the cost would be much lower.

iii. Drafting of legislation. Option 1 requires no changes to the draft Rate Reform Bill. Option 2 requires amendments to provide for dual running only in selected areas.



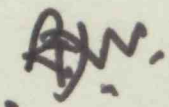
iv. Passage of the Bill. Backbench MPs seem likely to favour option 2, which might result in an easier ride in Parliament.

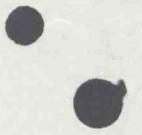
You will want to seek the views of the Business Managers on the last two issues, and on the chances of amending the Bill before introduction in December. It is highly desirable that the Bill as introduced should reflect Government policy as decided at this meeting.

#### CONCLUSIONS

9. Mr Ridley's new approach (option 2) make relatively little difference to the overall numbers of gainers and losers in 1990-91 compared with the Chancellor's favoured approach (option 1). The main difference between the two options is that option 2 will mean larger gains and losses for a significant proportion of households compared with option 1; and option 2 produces more pronounced anomalies in some places (eg Cambridge). You will want to weigh up the political implications of the two approaches taking account not only of these statistical comparisons, but also the financial cost of running both the rating system and the community charge nationally for four years, the enhanced impact which option 2 would bring to local accountability in 1990-91 and the value of responding to the views of MPs and local authorities.

10. If option 2 is chosen, you will also wish to explore the scope for amending the Bill to reflect it, before introduction.

  
R T J WILSON  
Cabinet Office  
16 November 1987

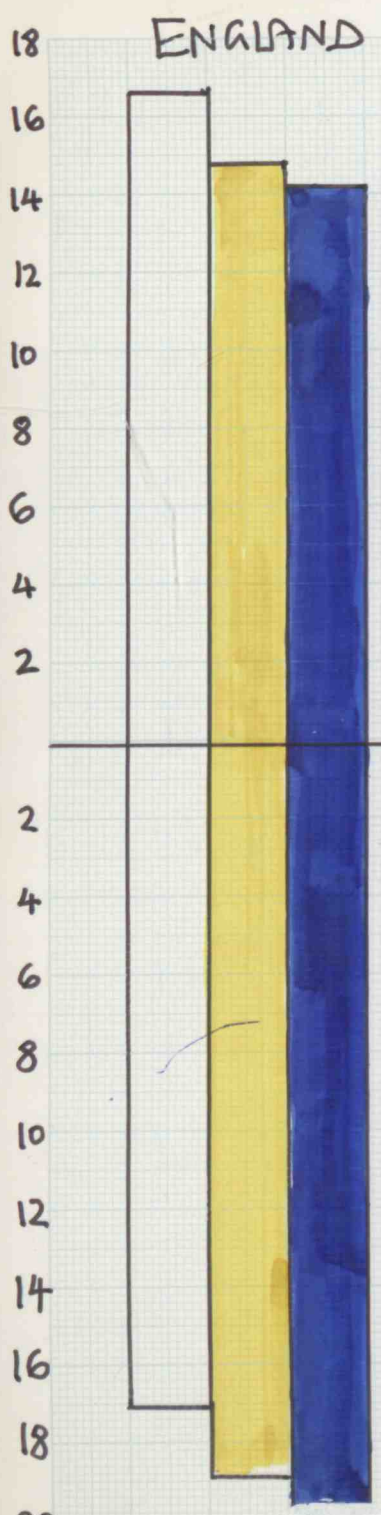


CONDICION

11  
PM  
10

IN MILLIONS  
OF INDIVIDUALS

GAINERS

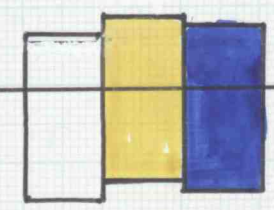
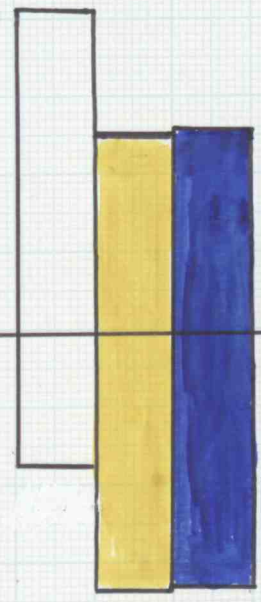
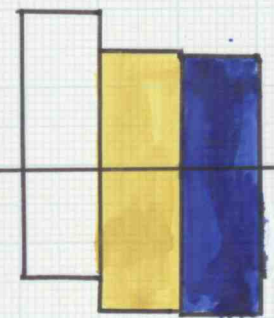
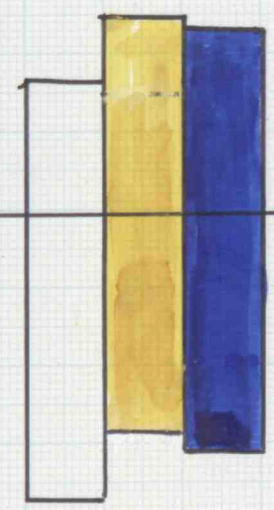


NORTH

MIDLANDS

SOUTH

GREATER LONDON

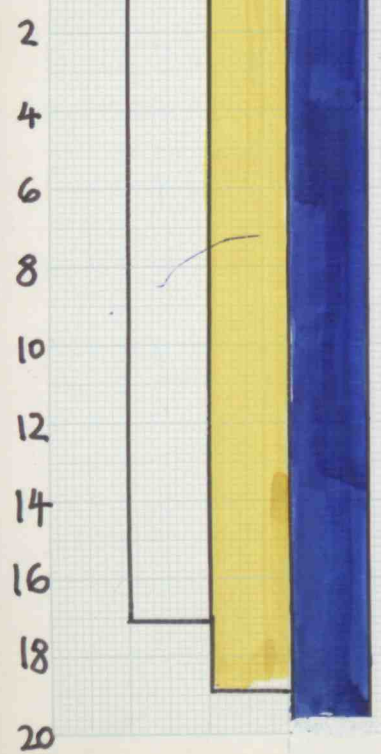


☐ = FULL COMMUNITY CHARGE

■ = DUAL RUNNING EVERYWHERE: OPTION 1.

■ = DUAL RUNNING ONLY IN INNER LONDON: OPTION 2

LOSERS



GAINS AND LOSSES:  
€ PER WEEK

MILLIONS OF  
HOUSEHOLDS

CHART B

FULL DUAL RUNNING: OPTION 1

LOSERS

GAINERS

€ per week

5-10

-5

1-2

0-1

0-1

1-2

2-5

5-10

DUAL RUNNING: OPTION 2

~~MINIMAL DUAL RUNNING: OPTION 1~~

LOSERS

GAINERS

€ per week

10+

5-10

2-5

1-2

0-1

0-1

1-2

2-5

5-10

10+



GAINS AND LOSSES:

MILLIONS OF HOUSEHOLDS

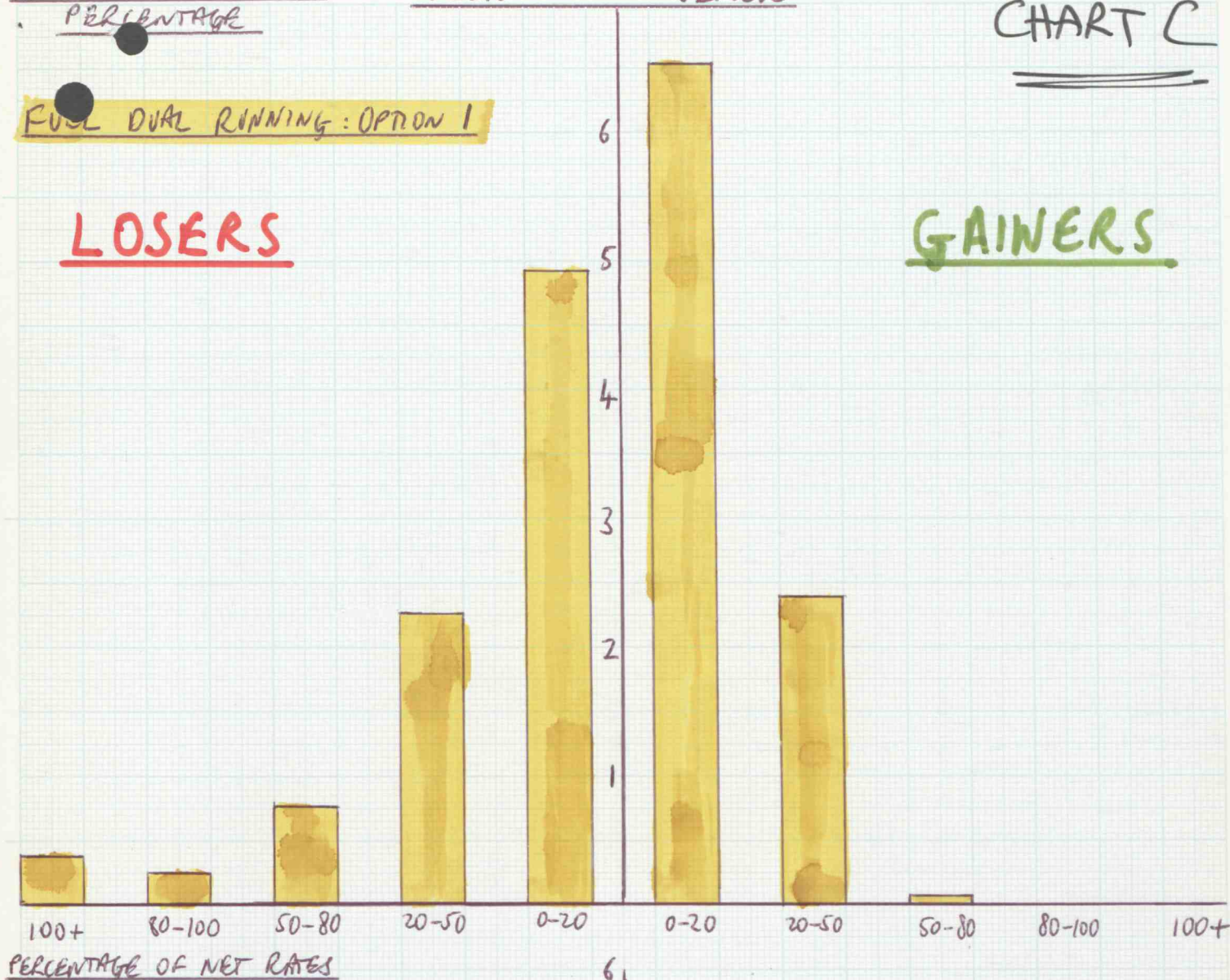
CHART C

PERCENTAGE

FULL DUAL RUNNING: OPTION 1

LOSERS

GAINERS



MINIMAL DUAL RUNNING: OPTION 2

LOSERS

GAINERS

