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PRIME MINISTER

8 September 1989

LOCAL AUTHORITY GRANT SETTLEMENT

The starting-point in responding to Chris Patten's note must be the public perception which now seems to have emerged that the Government accepts that something must be done to ease the safety-net problem. This will be heightened by your interview in yesterday's Express.

But action on the safety-net, while allaying backbench concern, will not impact directly on the problem of individual's gains and losses. This has not yet surfaced strongly in the media or among backbenchers but it is almost certainly a worse problem from the political point of view, and much more intractable.

Two important aspects of the problem which you need to have in mind for next week's discussion are the impact of Community Charge on the RPI and the results of research on the precise impact on individuals.

(i) IMPACT ON RPI

On the assumptions DOE is now making about actual local authority spending next year, it is clear that community charge will have a direct and visible impact on the RPI next April.

If spending comes out at 11% up (col.3 of Annex D) an average charge of £331 will represent a 23% increase for the average household over this year's rates. This will put 1.1 percentage points on next April's RPI. This compares with last April's average 9.6% rise in domestic rates, whose RPI impact was 0.4.

0.7
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If the Government funded the safety-net (£650 million) this would reduce the direct RPI impact from 1.1 to 0.7. The reduction of 0.4 holds good whatever the level of average community charge.

The Treasury assumes extra public expenditure of about £300 million in the following year for every 1 point on the RPI.

This is mainly because of Social Security uprating. So Government funding of the safety-net would create a modest claw-back in 1991 of about £150 million.

The judgement which has to be made is whether it is better to keep down inflation (as measured by the index) in this way (bearing in mind the pay round implications) as against the higher expenditure feeding through into inflation indirectly. But there is little doubt that just after next year's Budget, which will no doubt have the fight against inflation as its centrepiece, the Community Charge will be seen as a substantial and visible contribution to inflation. (Any other increase in direct taxation would not have any such an effect on the RPI).

(ii) THE ACTUAL IMPACT ON INDIVIDUALS

Research has been done on this based on Conservative Party canvass returns in Westminster North. (See Annex A). The clear message is that the majority of 2-adult households will lose out quite heavily. Far fewer people will share the gains created by others' losses, and you will be criticised for benefitting the rich (or those in large houses) at the expense of the less welloff. Moreover, many of the losing households have been specifically identified from canvass returns as pledged Conservative voters. We understand Kenneth Baker will have more telling examples of this kind.

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problem, and if so roughly how much. Less than the £650 million for the safety net is not going to make much impact. There is no meaningful scope for further juggling of existing commitments, which are anyway a publicly-announced baseline.

Only after this decision is taken should we decide how best to apply the extra funds to mitigate all the difficulties identified.

There is now a clear expectation fostered by the Press that the Government is prepared to meet backbench concern over the safety-net. So the question is, how much? There is force in Chris Patten's argument that to find, say, only half the safety-net cost would achieve little because it would not address the principles involved, either about

- responsible authorities having to subsidise the profligate, or
- the safety-net blunting accountability (which you highlighted in the Express interview).

And in this vein, there is also force in Chris Patten's arguments about the difficulty of getting the safety-net through the House (at least without damaging backbench desertions) unless the decision is taken to fund it by the Government.

John Mills
JOHN MILLS

The Effect of the Community Charge on Two-Adult Households in Little Venice Ward

The introduction of community charge will lead to an overall increase of over £100,000 in the local taxation of two-adult households in Little Venice. Because of the phenomenon described in earlier reports, whereby households in some parts of the Borough gain several thousands of pounds each, most two-adult households in Little Venice will lose money in 1990. Little Venice is typical of the Westminster North constituency in terms of household composition and demography.

This paper shows the existing rate bill, community charge (at £428 per adult) and the gain (+) or loss (-) to virtually all two-adult households in Little Venice ward. The figures are given in the appendix attached. Rates shown are for 1989-90, while the community charge is the Government's most recent estimate for 1989-90.

The cash gain or loss is, of course, net of any rebates, and it is likely that a small proportion of the households shown will receive rebates under both rates and the community charge. But even for households with rebates (assumed to be a maximum of 80 per cent under both systems), the percentage change in bill will be the same whether or not there is a rebate.

A summary of the appendix is given below, with gains and losses being put into bands:

GAINERS		LOSERS	
Gain to household (£)	Number	Loss to household (£)	Number
2000 +	5	600 +	3
1000 to 999	27	500 to 599	37
500 to 499	45	400 to 499	99
400 to 399	19	300 to 399	230
300 to 299	8	200 to 299	171
200 to 199	27	100 to 199	90
100 to 99	31	50 to 99	66
50 to 49	18	0 to 49	28
0 to 49	35		
TOTAL	215	TOTAL	724

The total gain to the 215 gaining households would be £100,258, while the total loss to the losing households is £206, 890. Thus, the overall effect on two adult households in Little Venice is a loss of £106,632. The majority of two adult households in the ward (540 out of 939) lose more than £200 each. On average, losing households lose just under £300 each. Many of these losing two-adult households are pledged Conservative voters.

The 'Westminster Phenomenon' in Barnet

Earlier work has shown how the introduction of community charge in Westminster will lead to sharp increases in local tax burdens for couples - and many others - in politically marginal areas of the authority. Looking at the average community charge impact on two adults living in an 'average' property gives a wholly misleading view of the impact of the new tax on many real couples.

Averages mislead because in a number of authorities - notably Westminster - a substantial minority of households currently pay very large rate bills. For example, where a couple are now paying £2500 in rates and will pay £800 under community charge, there will be a gain of about £1700 per year. Elsewhere in the same authority, there may be eight or nine households losing £200 each to make up the £1700 gain.

Westminster is not the only authority which has substantial numbers of very highly rated property in some parts of the Borough with a large number of average and below average-rated households elsewhere. Barnet also appears to have areas, for example in Totteridge and in Golders Green, where some households will gain thousands of pounds because of the move to community charge. Elsewhere in Barnet, particularly in the Finchley area, many average houses and flats will lose.

The attached tables examine four streets in Barnet. The first two are in the centre of the Borough (in the **Finchley** constituency). Ballards Lane, N3 and N12 is a major road in a reasonably pleasant part of the Borough. The first table looks at properties from 102 to 125 Ballards Lane, though it is clear that the results would be similar for the rest of the road. Properties with no adults shown on the electoral register (appearing as '0' voters) are assumed to pay a standard community charge of twice the personal charge.

In the properties examined in Ballards Lane, single adult households gain in every case. However, all two, three and four adult households lose. The two adult households lose £172 each on average, with greater losses in bigger households. In total, twenty-two households lose, net, just under £3000.

A similar pattern emerges in the second table, which looks at numbers 1 to 25 Elmshurst Crescent, N2. These are (or in some cases used to be) council homes. Once again, all two adult households lose. The average loss per couple is £148.

The second pair of Barnet streets examined is in the **Chipping Barnet** constituency. The Close, N20, is a small group of properties which currently have rate bills which average just under £2800 each. Six of the seven households will gain over £1600 each in 1990-91, with one - Windyridge - gaining almost £4000.

Households on Totteridge Common, N20, are now paying rate bills averaging £2950. All but one of the twenty properties shown will gain, with several gaining over £2000. Two of these households will each gain about £7000.

Comparison of the effects in the two Finchley streets (including all of the households shown in Ballards Lane and Elmshurst Crescent) with the impact on just two properties: 'Laxwood' and 'Montebello' on Totteridge Common demonstrates the Westminster Phenomenon at its starkest. **The gain to the two adults living at 'Laxwood' is £2000 greater than the net losses in the 48 households shown in Ballards Lane and Elmshurst Crescent put together.** Two adults in a politically-safe part of the borough gain at the expense of dozens in a marginal part.

In short, it will require 47 couples each losing £150 in areas like Ballards Lane to make up for one household gaining £7000 in Totteridge Common. This is similar to what will happen in Westminster.

Effect of Community Charge on Ballards Lane, N3 and N12

Annual
CCSS = 290.

Ballards Lane, N3	No of voters	1989-90 rates (£)	1990-91 community charge (£)	Gain/ Loss (£)
102, 1st Floor	1	452	322	+130
102, 2nd Floor	2	452	644	-192
106A	2	460	644	-184
106B	0	452	644	-192
108, 2nd Floor	2	452	644	-192
110, 1st Floor	3	452	966	-514
110, 2nd Floor	1	460	322	+138
112	1	460	322	+138
114A	1	460	322	+138
114B	2	435	644	-209
115A	2	566	644	-78
116A	2	460	644	-184
116B	2	460	644	-184
117A	2	581	644	-63
118A	0	452	644	-192
118B	1	468	322	+146
123 1st Floor	2	386	644	-258
123 2nd Floor	1	386	322	+64
124A	3	460	966	-506
124B	1	460	322	+138
125A	1	370	322	+48
125B	4	370	1288	-918
Total gain/loss to 22 households				<u>-2926</u>

**ALL TWO ADULT HOUSEHOLDS LOSE
AVERAGE LOSS PER COUPLE: £172**

Numbers 102 to 125B selected at random. The rest of Ballards Lane (1 to 101 and 126 to 382) are similar.

Effect of Community Charge on Elmshurst Crescent, N2

Elmshurst Crescent, N2	No of adults	1989-90 rates (£)	1990-91 community charge (£)	Gain/ Loss (£)
1	1	427	322	+105
1A	0	495	644	-149
2	2	427	644	-217
3	2	427	644	-217
4	3	443	966	-523
5	3	495	966	-471
6	0	558	644	-86
7	2	488	644	-156
8	3	620	966	-346
9	1	468	322	+146
10	2	620	644	-24
11	2	468	644	-176
12	3	620	966	-346
13	2	468	644	-176
14	1	620	322	+298
15	2	468	644	-176
16	2	620	644	-24
17	0	468	644	-176
18	2	558	644	-86
19	1	468	322	+146
20	1	620	322	+298
21	2	468	644	-176
22	1	620	322	+298
23	1	468	322	+146
24	2	620	644	-24
25	2	468	644	-176
Total gain/loss to 26 households				-2288

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Effect of Community Charge on Totteridge Common, N20

Totteridge Common, N20	No of adults	1989-90 rates (£)	1990-91 community charge (£)	Gain/ Loss (£)
Redings	2	1488	644	+844
Manor House	1	2383	322	+2061
Laurenny Cottage	1	1408	322	+1086
Laxwood Cottage	2	495	644	-149
Laxwood	2	7582	644	+6938
Oakhurst	4	3374	1288	+2086
Park House	2	1757	644	+1113
Croxton	1	1180	322	+858
Kyrle Cottage	2	1008	644	+364
Longbourn	5	4567	1610	+2957
Salenco	2	1464	644	+820
Highcroft Cottage	1	542	322	+220
Hillsdown Court	5	4161	1610	+2551
Highcroft	1	2927	322	+2605
The White House	3	3227	966	+2261
Montebello	3	8233	966	+7267
Glenacre	2	3171	644	+2527
Roselawn	4	3299	1288	+2011
The Paddocks	4	3283	1288	+1995
Bruhams	4	3650	1288	+2362
Total gain/loss to 20 households				+42777

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23	1	468	322	+146
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25	2	468	644	-176
Total gain/loss to 26 households				<u>-2288</u>

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AVERAGE LOSS PER COUPLE: £148**

Numbers 1 to 25 selected at random. The rest of Elmshurst Crescent (26 to 149) are similar.

Effect of Community Charge on The Close, N20

The Close, N20	No of voters	1989-90 rates (£)	1990-91 community charge (£)	Gain/ Loss (£)
Brecon House	3	2675	966	+1709
El Remo	2	2268	644	+1624
Lindeth	2	2471	644	+1827
Sunridge	5	1975	1610	+365
Waverley	4	3299	1288	+2011
Whitefriars	2	2342	644	+1698
Windyridge	2	4518	644	+3874
Total gain/loss to 7 households				<u>+13108</u>

Effect of Community Charge on Totteridge Common, N20

Totteridge Common, N20	No of adults	1989-90 rates (£)	1990-91 community charge (£)	Gain/ Loss (£)
Redings	2	1488	644	+844
Manor House	1	2383	322	+2061
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Hillsdown Court	5	4161	1610	+2551
Highcroft	1	2927	322	+2605
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Montebello	3	8233	966	+7267
Glenacre	2	3171	644	+2527
Roselawn	4	3299	1288	+2011
The Paddocks	4	3283	1288	+1995
Bruhams	4	3650	1288	+2362
Total gain/loss to 20 households				+42777

Effect of Community Charge on a typical Finchley street

Addington Drive	No of voters	1989-90 rates	1990-91 community charge	Gain/ Loss
3	5	904	1610	-706
5	5	765	1610	-845
7	2	734	644	+90
9	2	765	644	+121
13	2	880	644	+236
17	4	734	1288	-554
19	2	750	644	+106
21	2	806	644	+162
23	4	734	1288	-554
25	2	765	644	+121
29	3	814	966	-152
31	1	765	322	+443
33	4	783	1288	-505
35	3	783	966	-183
37	3	742	966	-224
Total gain/loss to 15 households				-2444

44
15.
29 losses

Addington Drive is in St Pauls Ward, which is one of the two marginal wards in the Finchley constituency. It consists of 1920's semi-detached owner-occupied housing. There is much evidence of home improvement, particularly new porches, new cladding etc.

Further analysis of typical Finchley street effects (2)

Addington Drive	Effects on existing householder	Effect on non-ratepayers
3	Gains £582	4 adults lose £322 each
5	Gains £443	4 adults lose £322 each
7	Gains £412	1 adult loses £322
9	Gains £443	1 adult loses £322
13	Gains £558	1 adult loses £322
17	Gains £412	3 adults lose £322 each
19	Gains £428	1 adult loses £322
21	Gains £484	1 adult loses £322
23	Gains £412	1 adult loses £322
25	Gains £443	1 adult loses £322
29	Gains £492	2 adults lose £322 each
31	Gains £443	-
33	Gains £461	3 adults lose £322 each
35	Gains £461	2 adults lose £322 each
37	Gains £420	2 adults lose £322 each

15 adults gain £6894 (average £453) 29 adults lose £9338 (£322 each)