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LOCAL AUTHORITY GRANT SETTLEMENT

TRANSITIONAL RELIEF FOR THE COMMUNITY CHARGE

Note by the Cabinet Office

1. We were asked to consider the scope and extent of individual losses from the introduction of the community charge and to analyse possible options for transitional relief.

INTRODUCTION

2. We have concentrated first, on establishing the extent of the losses; second, on devising and costing a variety of options; and third, on taking a preliminary look at their administration. We have not addressed affordability but it is an important aspect which Ministers will wish to consider. If Ministers decide that further action and therefore expenditure is necessary, this will need to be taken into account in the Survey.

3. Practical considerations will also be important. In an ideal world any scheme of relief should take the form of lower community charge bills for selected groups next April. In practice, however, local authorities do not have the legal power to set different community charges for different categories of people, and have been prevented by data protection legislation from putting on computer the information which would enable them to identify, say, couples and pensioners.

4. This means that legislation will be needed, at the very least to give local authorities the necessary powers; that any scheme for individuals as opposed to households will have to be based on their applying for relief rather than automatically being given it; and that it may have to take the form of full

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community charges being sent out next April, with relief following later. It will be important to cut down as much as possible the expense and bureaucracy, and to minimise the risk of disrupting local authority arrangements for introducing the community charge and the rebate system. Administrative simplicity may also point to calculating relief before community charge rebates are deducted, not after. These points are considered further below.

SCOPE AND EXTENT OF LOSSES

Losers

5. There will be approximately 36 million individuals in England liable to the community charge of whom about 19 million formerly paid rates. Over 11 million are partners of someone who previously paid rates and can be considered to have made a contribution. Roughly 6 million are first-time payers.

6. The Government has already put in place arrangements for community charge benefit which will be available to 11 million chargepayers and will finance nearly £1.6 billion of the £9.7 billion of expenditure expected to be raised by community charges: see Annex A attached. This is in addition to Government funding through income support - around £0.5 billion.

7. We have considered how many losers there will be after payment of community charge benefit. This analysis concentrates primarily on losses at the level of the 'charge unit': that is, single people and couples (who are jointly and severally responsible for each others' community charges). But we have also made some assessment of the impact on households: see Annex C.

8. The number of losers and size of losses also depend on the basis of comparison between rates and community charges. For the

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purposes of illustration we have selected two out of the many possible bases:

i. a "cash basis". Actual rate bills in 1989-90 have been compared with community charge bills for 1990-91, on the assumption that spending is 7% above 1989-90 budgets;

ii. a "real terms" basis". 1989-90 rate bills have been uprated by 7% and compared with community charge bills, again on the assumption that spending is 7% above 1989-90 budgets.

The results are summarised in table 1, overleaf.

9. On the "cash" basis about 14.5 million single adults or couples (charge units) would lose from the introduction of the charge after taking account of their entitlement to community charge benefit. Roughly half would be single people and half couples. About 8.5 million single adults or couples would lose more than £2 a week. About 2.3 million of them would be single pensioners or pensioner couples, but most of them would lose less than £2 a week because they are entitled to community charge benefit.

10. On the "real terms" basis about 13.5 million single adults or couples would be losers, of whom 7.7 million would lose more than £2 a week. Just over half the losers on this basis would be single people. 1.7 million pensioner single adults or couples would lose.

11. Both distributions show a bunching of losers in the £5-£7 a week region. These are mainly single people who have not previously paid rates and with incomes above benefit levels.

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Proportion of expenditure met by chargepayers (annex B)

12. Ministers asked whether there had been an increase in the 25 per cent of local authority expenditure to be financed from the community charge. Annex B sets out the position. It concludes that if authorities' expenditure is at the level assumed in the settlement for 1990-91, 24.7% will have to be met by chargepayers. If authorities spend above the settlement level assumed in the settlement, the proportion will be higher: for example, at 7 per cent it would be 26.6%. (For comparison the proportion of expenditure met by domestic rates in 1989-90 was 23.1% for spending at settlement, and 25.0% under the actual budgets set by authorities.)

13. All these figures are based on community charges net of rebates, consistent with previous calculations. Including the £1.6bn of charges met by rebates would increase the proportion of expenditure met by gross charges to about 30%.

TRANSITIONAL RELIEF

Illustrative costings (annex C)

14. We have prepared illustrative costings of a number of possible schemes of transitional relief. They all involve a comparison between the 1989-90 rate bill on a property and the 1990-91 community charge liability of some or all of the occupants (irrespective of how long they have lived there).

15. Basing relief on actual community charges in 1990-91 would be more readily understandable by the public. But the pressures of local accountability would be much weakened. Local authorities could increase their spending in the knowledge that some charge payers would be protected by transitional relief. The Government would have underwritten local authority spending with a blank cheque.

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16. We have therefore assumed that the Government would want to pay relief on the basis of the community charge for a defined level of spending. Charge payers not on rebate would have to meet in full the costs of spending above this level, even if they were eligible for transitional relief. We have based the illustrative costings on the "cash" and "real terms" bases described above.

17. The illustrative costings cover:

Option I. All adults in a household would be eligible, on the assumption that they had previously shared the cost of rates on their dwelling equally between them. A threshold would allow losses of £2 per week for each adult in the household, with full protection above that level up to the notional community charge. The relief would be calculated before community charge rebates: this would increase the cost, but would be offset partially by a saving in rebate costs (and caseload). (Example: six adults in a house where the rates for 1989-90 had been £450 and the community charge based on spending 7 per cent above budgets was £300 would each have to pay one-sixth of £450 plus £2 per week, or £179 each. They would receive relief of £121 each. If the actual community charge turned out to be £320, each adult would have to pay a further £20 as well.)

Option II. This is identical to option I, except that relief would be calculated after community charge rebates. The cost would be lower, but there would be no saving in rebate costs or caseload. (All the remaining options are also calculated after rebates.)

Option III. All couples and single adults would be eligible. In each household, one adult or couple would be assumed to have paid the rates previously. Other couples or

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adults would be assumed to be paying for the first time. The threshold would allow losses of £2 per week for each couple or single adult, with full protection above that level. (Example: in the same household the main couple who had previously been paying rates would be liable for two community charges totalling £600 and would have to contribute £450 (the previous level of rates) plus £2 per week, or £277 each, the balance of £23 being covered by relief. The other householders would each only have to pay £2 per week, the balance of £196 being covered by relief.)

Option IV. Only the first couple or single adult in a household would be eligible. They would be assumed to have paid the rates in the past, and the threshold would allow losses of £2 per week per couple or adult. Subsequent couples or adults living in the same household would receive no help. (Example: in the same household, the couple who had previously paid the rates would still receive relief of £23 each, as before. The other householders would pay the full community charge each.)

Option V. This is identical to scheme IV, except that all pensioners would also be eligible for help, whether or not they were classed as the first couple or adult in the household. (Example: in the same household the main couple (not pensioners) would continue to receive relief of £23 each. Any of the other adults who was a pensioner would have to contribute £2 per week to their community charge but would get relief of £196. All non-pensioner adults would pay the full community charge without relief.)

Option VI. This is identical to scheme V, but the threshold allows losses of £4 for couples, double the rate for single adults. (Example: the main couple would between

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them be liable for up £450 plus £4 per week and would get no relief. The pensioner would still get relief of £196.)

Option VII. All couples and single adults would be eligible on the same basis as under Option III, but only if they were entitled to community charge benefit. The threshold would allow losses of £2 per couple or adult after benefit payments.

Option VIII. This is identical to option VII, except that eligibility would be further restricted to people in certain vulnerable groups who are also eligible for rebates (for example, pensioners, widows, families with children, and the disabled).

18. Table 2 shows the illustrative costings of these schemes, and the caseload, on each of the two alternative bases for measuring losses. More detail, including the effects on numbers of losers in different categories, is in Annex C. The figures relate to 1990-91, and would fall as the transitional protection was phased out in later years.

19. The cost of administering a scheme could be substantial (see below) and would need to be added to the figures in the table. The cost would differ considerably between the options and would not be proportionate to caseload.

20. The £2 per week threshold has been adopted in each of these options solely to illustrate the overall cost but is in no way the only possibility. If the threshold were lower there would be a corresponding increase in the illustrative costings. A higher threshold would reduce the costings. Table 3 in Annex C shows the effect of adopting thresholds of £3, £4 and £5 respectively under each option (the threshold for the DSS housing benefit transitional protection was £2.50 per week). Another approach

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would be to meet only, say, 50% of losses above the threshold. This would halve the cost of any scheme, but leave some community charge payers with substantial losses even after transitional relief.

21. Option I differs from the other illustrative costings because relief is calculated before rebates. Under this option the threshold is in effect income-related, rising from 20 per cent of the nominal figure (eg 40p with a £2 threshold) for those on income support, to the full amount (eg £2) for people not entitled to rebates. This approach could be applied to any other option, except those restricted to benefit recipients.

22. Much further work would be needed if any of these schemes were to be adopted. Ministers will wish to decide what further work they want done, bearing in mind the issues of operational feasibility, discussed below, as well as:

i. public expenditure implications. The cost would fall on the Exchequer and add to the Planning Total. It seems unrealistic to expect that any part of the cost of the transitional relief could be found within the existing total of Aggregate Exchequer Finance (AEF). In any case any such offset within AEF would result in higher community charges everywhere adding to the costs of transitional relief and to the RPI. The size of any addition to General Government Expenditure (GGE) would depend upon how local authorities responded to the availability of a transitional relief scheme. If local authorities set the same expenditure plans as they would have done otherwise, there would be no impact on GGE. But if, as could happen, some councils were encouraged by the existence of the scheme to set higher spending plans in the expectation that vulnerable chargepayers would be protected from the results, then GGE would be higher. In short there would be a risk of higher

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GGE with any scheme of transitional relief. In what is already a very difficult Public Expenditure Survey, this would require yet more difficult decisions in order to achieve the remit set by Cabinet.

ii. effectiveness in reducing losses for key groups. Schemes I, II and III would give protection to all losers, whether or not they were previously ratepayers. Scheme III would be more generous overall, but those who had previously not paid rates would do better than former ratepayers. Scheme IV would confine help to ratepayers only: first time payers would have to pay the full charge immediately. Scheme V is similar but also helps all pensioners, whether or not they were previously ratepayers. Scheme VI is the same except that couples are expected to bear twice the loss of a single adult. Finally schemes VII and VIII provide protection for those eligible for community charge benefit or for vulnerable groups eligible for benefit.

AREA SAFETY NET (Annex D)

23. An additional question is what should happen to the safety net if any of the schemes were to be adopted. The Prime Minister's meeting on 14 September considered a proposal that additional Exchequer grant should be made available to finance the proposed area safety net, at a cost of about £650m. The implications for the numbers of losers from the community charge in 1990/91 are shown in Annex D. It shows that funding the area safety net reduces the number of losers by about one million, with about two-thirds of the money increasing the gains of people who are already gaining.

24. The area safety net is designed to limit increases in the average rate bill per adult in each local authority area. A sufficiently comprehensive scheme of transitional relief - for

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example scheme I, II or III - might remove the rationale for such a safety net. It could then be dispensed with, a change which would respond to the strong representations of gaining authorities who would be contributors to the safety net: for example, Westminster's community charge for spending at the settlement level might drop from £303 to £228. At the same time there would be a substantial increase in the highest community charges in 1990-91: for example, Tower Hamlet's charge might rise from £240 to £513.

OPERATION OF SCHEMES (Annex E)

25. Administering a scheme of transitional relief would be a major administrative operation, particularly if one of the more comprehensive options were chosen. It would also involve risks, in terms of administrative costs per case and operational failure. Officials have considered two approaches: administration by central government or by local authorities.

26. A central government unit could be administered by a department with operational experience (eg. the Department of Social Security) on behalf of the Department of the Environment. The main points are:

i. responsibilities. The scheme would be seen to originate from central government and implementation would be under direct government control. Ministers would be answerable in Parliament and elsewhere for it. Local authorities would have to provide much of the information, and would be involved even in a centrally run scheme. It would probably be necessary to compel some authorities to give this help.

ii. logistics. A scheme involving 2-3 million claims could be expected to require a mainframe computer, a staff

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around 2000 (mainly new recruits) and appropriate accommodation (difficult to secure quickly on this scale), training and other inputs.

iii. timetable. It would probably not now be possible to have a scheme in operation earlier than about July 1990, 3 months after the introduction of the community charge. Even that would require some short cuts, for instance the suspension of normal rules on competitive tendering.

iv. administration costs. As a result of the short timetable, costs would be high. For a scheme with 2-3 million claims they are estimated at £60 to 85 million (and possibly as much as £100m) in 1990-91, and perhaps 30% and 50% less in years 2 and 3 respectively. All costings are uncertain at this stage.

27. The main points on administration by local authorities are:

i. responsibilities. The implementation of the scheme would depend on each individual local charging authority. Some might do a competent job, others might not. It would be less clear that the scheme was a Government initiative. Those authorities which are falling behind with their arrangements for introducing the community charge would use the new scheme as an excuse to shift the blame to the Government. But other authorities might prefer to do the job themselves, just as they would have preferred to have administered transitional protection for housing benefit themselves.

ii. logistics. The situation would vary between authorities. Some might manage with their existing computers, while some would need new facilities. Extra staff and accommodation would almost certainly be needed.

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iii. timetable. The most competent authorities might get a scheme in operation earlier than July 1990. Others would be slower than a central body, and some might not have an effective scheme even within the first year of the community charge;

iv. costs. We are not able to cost these at present. Consultation with people in local authorities would be needed for an accurate costing. The costs would almost certainly need to be met through Exchequer grant.

28. Ministers would need to decide whether a scheme of transitional relief should be administered by a central government body or by local authorities.

LEGISLATION

29. Any scheme of transitional relief is almost certain to require new primary legislation, whether it is to be administered by a central agency or by local authorities.

30. The best solution, if it were practicable, would be to add the necessary provisions to the Local Government and Housing Bill in the Report Stage on that Bill which is due to begin in the House of Lords on 19 October. The provisions would take the form of broad enabling provisions, leaving the detail of the scheme to be spelled out in the subordinate legislation at a later date.

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IMPLICATIONS FOR THE RPI (annex F)

31. Annex F discusses the implications of a scheme of transitional relief for the RPI. It concludes that under existing groundrules set down by the RPI advisory committee any rebate or subsidy available only to a restricted group should be

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regarded as an income subvention and not be scored as a reduction in price.

WALES AND SCOTLAND

32. The figures in this note are for England only. But we assume that Ministers would want any scheme to apply in Wales as well. Consideration would also need to be given to its extension to Scotland. There would be an expectation in Scotland that there would be a corresponding addition to public spending resources in Scotland. The legislative position would also need to be checked.

CABINET OFFICE

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