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PRIME MINISTER

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E(LG): COMMUNITY CHARGE TRANSITIONAL RELIEF

Having looked in more detail at how a scheme based on the last meeting's 'Option V' would work, I am very concerned indeed that it will not meet the defined objective of protecting former ratepayers, especially those just above the benefit cut-off, from unacceptably high increases.

The attached figures illustrate the point. They cover Barnet, Blaby, Kingston, Oldham and Pendle. The pattern seems to be repeated nationwide for households now paying below-average rates bills. Even with a relief scheme, increases of 40% + are clearly going to be commonplace, even where there is no question of excessive spending by the local authority. The biggest percentage increase will fall on those in modest properties.

There are two reasons:

- (i) a £2.50 threshold (£130 per annum) itself represents a very high per cent increase over existing rates bills. It is 24% of this year's average bill for a 2-adult household in England. This proportion obviously increases as rates bills go below the average. (And even a £2 threshold, as Chris Patten now proposes, equates to 19%).

So people would be facing high increases before any relief would apply.

- (ii) Relief must be linked to the July settlement figures to maintain credibility. That is agreed. But the reality is that most local authorities will spend

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a good way above the July 'standard spending' figure. 7% above this year's budgets (compared with 3.8% assumed in July) is the bottom end of the likely outturn. So ratepayers will have to cover this excess on top of the £130.

It will hardly be possible to present this as 'excessive spending' except at the margin. Much simply reflects police and teachers' pay.

So there is real danger of setting up a relief scheme which is ostensibly quite generous, but which will still leave many existing ratepayers on fairly modest incomes with a lot extra to pay. In absolute terms some of the figures may not seem large given increases in earnings etc, but it is the comparison with existing bills which will be made. The Community Charge will be judged against that benchmark.

WHAT TO DO?

The only easy way to reduce the scale of the problem is to reduce the threshold. £2 instead of £2.50 would reduce any household's annual loss by £25 and reduce some of the more unpalatable percentages in the annex. This is Chris Patten's proposal. But it would still represent 19% of this year's average rates bill and 38% of a bill at half this year's average.

By the same token, moving to a £4 threshold with £2.50 only for pensioners and the disabled (the Treasury proposal) would intensify the problem to such a degree that the value of any relief scheme at all would be questioned.

An alternative is to try to target help more specifically through different thresholds for different groups. The Treasury

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propose a distinction between pensioners and earners. The trouble with anything like this is administrative complexity: local authorities would not have the data and thus the scheme would have to be application-based and not automatic. This increases the risk of its not working properly in time for next year.

Targetting different income levels is out of the question for the same reasons.

But if you judge that action is needed beyond Chris Patten's £2 threshold to protect below average ratepayers, a possible option might be to taper the threshold in inverse proportion to rateable value, so that, for example, the full £2 came through only at average rates. At half the average it would be £1, and so on. This would not solve the problem, but would go further to reducing its scale and allaying political concern.

CONCLUSION

The scheme now outlined by Chris Patten, based on 'Option V', will still mean that for many households now paying below-average rates, there will be increases in charges next year at what appear to be unacceptably high percentage levels. If it is decided that this has to be tackled, the only way to deal with it seems to be either a threshold reduction across the board or a tapered threshold to ease the position at the bottom of the scale, or a combination of the two.

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BARNET : IMPACT OF COMMUNITY CHARGE

(This assumes 2-adult household, spending at 7% above this year's budgets (DOE's mid-range figure) and 'Option V' protection with £2.50 threshold.)

Average rates for a two-adult household in 1989/90 are £694. Expected CC at 7% spending will be £672. So at the average there will be a gain.

CC at 3.8% spending (July settlement) would be £626. Allowing £2.50 per week losses (£130 per annum), protection would only apply to rates bills below (£626 - £130), i e £496.

Take Elmshurst Crescent, N2. (Mainly former council houses.) Many households here have rates bills this year of £468, a fairly typical figure for the immediate area. In 1990/91 the position for a 2-adult household would thus be:

Current bill	468	
	—	
New bill	672	
(less protection	28	(626 - 468 - 130)
	—	
Net new bill	644	<u>ie an increase of £176 or 38%</u>

(At a £2 threshold the increase would be £150 or 32%. At £4 there would be no protection and the increase would be £204 or 44%).

For lower rates bills, there would be more cash protection, but the percentage increase for 1990/91 would also grow. Thus for a 2-adult household with current rates of £350 next year's increase would also be £176 but this would be a 50% increase over rates paid this year. At a £2 threshold the increase would be £150 or 43%. At £4 it would be £254 or 73%.

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OTHER EXAMPLES (all assuming spending next year
at 7% above this year's budgets and £2.50 threshold)

BLABY

Average rates per 2-adult household 1989/90 are £512. CC at 7% spending would be £554. Protection would only apply when rates are below £376.

At £300 rates, the household's increase next year would be £254 less protection of £76 = £178. This is an increase of 60%. (At £2 threshold, 51%; at £4, no protection and increase of 85%).

OLDHAM

Average rates 1989/90 = £456. CC at 7% spending would be £584. This just misses protection, but is an increase of £128 or 28%.

Protection would begin only for rates bills below £388. At £300 rates, a 2-adult household's increase next year would be £284 less protection of £88. This is an increase of £196 or 65%. (At £2, 57%; at £4, 93%).

PENDLE

Average rates are £325. CC at 7% spending would be £394. This also misses no protection, but is an increase of £69 or 21%.

Protection would only begin at rates bills below £208. At £150 rates (typical low Lancashire rates) household's increase next year at 7% would be £244 less protection of £58. This is an increase of £186 or 124%. (At £2, 105%; at £4, 163%).

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KINGSTON

Average rates are £623. CC at 7% spending would be £702.
At rates of £450 (typical terraced house) the increase for
a 2-adult household would be £252 less protection of £68.
That is £184 or 41%. (At £2, 35%; at £4, 56%).

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