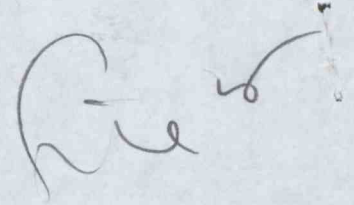


PRIME MINISTER



MEETING WITH JOHN MARSHALL AND SYDNEY CHAPMAN

You are seeing John Marshall and Sydney Chapman at 1700 tomorrow. David Hunt will also be present.

You expressed some concerns about the briefing you saw over the weekend. I now enclose a revised briefing pack, which includes two new detailed annexes at Flags H and I addressing the points you raised this morning.

Paul Gray

15 January 1990

PRIME MINISTER

COMMUNITY CHARGE BARNET

I attach DOE's briefing note for your meetings on 16 January with John Marshall and Sydney Chapman, and on 19 January with the Barnet councillors on the Community Charge and the RSG. This note has been approved by David Hunt, and although not yet seen by Chris Patten I thought you would want it in the weekend box.

One general point not covered in the note is that on average local authority expenditure has risen by 10 per cent in real terms since 1984 whereas general Government expenditure has fallen.

DM

(DOMINIC MORRIS)

12 January 1990

Dated for Panel

	1988-89	1989-90	1990-91
Estimated local exp.			
Out-turn			
Difference - why			
Estimated Revenue source			
Outturn or why			
Ratio - how many paise in fl.			

~~Also what estimated expenditure is~~

Also How much did Panel contribute to resource expenditure in each of the 2 years above

Average rate-bill per charge payer for each of 3 years adjusted for inflation

(375 for 90-91)

DRAFT LETTER TO SEND TO PS/Prime Minister

The Prime Minister is to meet Barnet MPs on January 16th and a delegation representing Barnet Council on 19th January. They wish to discuss the community charge and the implications of the 1990/91 local authority grant settlement.

There is no doubt that Barnet residents stand to gain from the move to the community charge. Only 15 areas are expected to gain more per chargepayer. This is because of the removal of resource equalisation and Barnet's relatively low spending at present. Indeed Barnet will be receiving over £115 million in external support (business rates and revenue support grant) in 1990/91 which is a 34 per cent increase on 1989/90.

The main concern expressed repeatedly to DOE Ministers is the existence of the safety net, through which Barnet charges in 1990/91 are increased by £70 per adult. But concern has also been expressed about the potential level of the community charge and the number of households which will lose as a result of this.

The attached briefing contains:

- FLAG A Key Points
- FLAG B Detailed question and answer briefing on the Safety Net.
- FLAG C Briefing on the level of the community charge and the DOE spending assumption.
- FLAG D Briefing on the impact in Barnet - numbers gaining and losing.
- FLAG E The impact of the business rate in Barnet.
- FLAG F General Briefing on Community Charge Transitional Relief scheme.
- FLAG G Statistical Summary

*But has
does this
compare with
the other
they used
to be
because of
revenue
equalisation*

KEY POINTS BRIEFING

FLAG A

Barnet does very well from the settlement. If Barnet spends in line with our spending assumptions, their 1990/91 community charge can be £60 lower than the 1989/90 average rate bill per chargepayer adjusted for inflation.

incl. £70?

Barnet chargepayers will see the rest of their gains in 1991/92 - a further £70.

Barnet will contribute £70 per chargepayer to the safety net.

Barnet is the 16th highest contributor to the net and therefore the 16th biggest gainer from the move to the community charge.

The average rate bill per chargepayer uprated by 4% for inflation is £375 in Barnet.

If Barnet spends in line with the Government's assumption (a 4.7% increase on budgeted income in 1989/90) then their charge could be £315 including the £70 safety net contribution.

Why not 4.7% - budgeted expenditure? Does budgeted income rise?

Some Barnet councillors have been suggesting a charge of about £350. This implies a spending increase of about 10% - *ie. on budgeted expenditure* well above inflation.

Barnet's SSA (standard spending assessment) is 8.5% higher than its equivalent GRE for 1989/90 - an increase greater than the rate of inflation.

Barnet will get £115.64 million in external support (business rates and revenue support grant) in 1990/91 a 34% increase on 1989/90.

FLAG B

QUESTION AND ANSWER BRIEFING ON SAFETY NET

Why should there be a safety net?

The aim of the community charge is to ensure that councils providing the same level of service are able to set the same community charge, so that the electorate will be better able to distinguish the prudent and well run councils from the profligate and high spending ones. To get to that point we need to move away from the hidden subsidy which already occurs from areas of high average domestic rateable values to those with low values. Ratepayers in high value areas at present often pay more for the same level of services than ratepayers living in similar houses in low value areas. Some councils in low rateable value areas have taken advantage of that subsidy to fuel extravagant high spending policies.

So the safety net is a way of ensuring that areas which lose from the ending of this system have the losses eased; while those which gain have the benefit phased in in two stages. Every gaining area will retain about half of its gains in the first year.

Why does the national taxpayer not fund this as they will in 1991/92?

I am, of course, concerned by the potential impact of the safety net in 1990/91, especially where local elections are due next year as in Barnet. But we face a difficult task in seeking to reconcile the many competing calls for additional funding and must decide where our priorities lie. The grant settlement allows for an 8.5 per cent increase in local authorities' external support in any case, and I do not think it would be justified to expect more money next year.

The safety net scheme allows about half of the gains in gaining areas to be seen in 1990/91 with the rest following in 1991/92. This seems to me to be an entirely reasonable way forward and hope you would agree that any funds which are available would be better used in areas other than financing the safety net.

Why is Barnet contributing so much?

Barnet's contribution of £70 per chargepayer will be the 16th highest because they are the 16th biggest gainer from the new system. The safety net offsets the changes in each area from the move to the new system. If rate bills are on average higher in real terms than the assumed community charge, then residents in the area as a whole can expect to pay less under the new system. The safety net asks that about half (53%) of this gain is deferred for a year.

Barnet is expected to see gains of £130 per adult on average. The safety net contribution of £70 allows £60 to come through immediately, giving an expected community charge of £315 (£245 plus £70). The remaining £70 per adult gain will be seen in 1991/92 when the safety net is abolished.

Why is this so much higher than figures published in July?

The July figures were 1989/90 illustrative charges and did not take into account the new standard spending assessments, effects of ring fencing the Housing Revenue Account and relevant population data supplied by Community Charge Registration Officers. The figures produced for the November 6th announcement were the first figures released which actually related to 1990/91 expected charges. Barnet's contribution of £70 per chargepayer remains the same in the final settlement.

FLAG C

LEVEL OF THE COMMUNITY CHARGE AND THE DOE SPENDING ASSUMPTION

Barnet claim that the spending assumption of £152 million for 1990/91 is too low. In correspondence their councillors have said they expect to have to set a charge of about £350, £35 above the £315 as assumed by the government including the safety net contribution. In particular Barnet argue that they used balances last year to keep down rates but will not be able to do so this year.

LINES TO TAKE

1. Assumed percentage increase in spending too low?

The spending assumption for Barnet allows for a 4.64 per cent increase on budgeted income in 1989/90, the same assumption that has been applied to all other authorities. If Barnet were to set a charge of £350 or £375 this would imply a spending increase of 10 or 14 percent, well above inflation.

In setting the level for total standard spending account was taken of local authority views about the cost of maintaining their current levels of service and the additional spending pressures they face. But consideration had to be given as to whether spending at that level could be supported. The Government is committed to reducing the proportion of the Gross Domestic Product accounted for by general government expenditure and to achieve this, local authorities must play their part in restraining expenditure.

2. Cost of reducing charges through grant?

I know that there has been speculation about charges being considerably higher than those we have exemplified. That can only be because authorities are planning to spend more than we have allowed for. Nationally, some have suggested that the average charge might be £340 rather than £278. If we were to put in sufficient extra grant to finance that higher level of spending but with the lower level of charge, £2.2 billion would be required from national taxation. Given our priorities for public expenditure and for the economy, an injection on this scale is out of the question.

High charges will not be the result of the grant settlement, nor of the switch from rates to the community charge. They will be the result of local authorities budgeting for substantial increases in spending which councils will have to justify to their chargepayers.

3. Use of Balances.

We do not want to protect chargepayers from changes which would have happened even if rates had continued hence the assumed charges show what the charges would be if behaviour were broadly constant between 1989/90 and 1990/91.

Further, in many cases the amount actually raised is a better guide to underlying expenditure than a budget figure reported at the start of a financial year. Experience has shown that the anticipated impact on balances is often reduced or reversed when outturn figures are received.

FLAG D

IMPACT OF THE COMMUNITY CHARGE IN BARNET: NUMBERS GAINING AND LOSING

Barnet's Claims

Cllr Clarfelt has suggested that the average rate bill in Barnet is distorted by a few highly rated properties in Hampstead Garden Suburb which will have the effect that many 2 person households would pay more in community charge than they did in rates.

Line to take

This is not borne out by your own data (attached). Over 12 per cent of Barnet households paid rates in excess of £1000 in 1989/90 and only 1 per cent paid under £300.

Over one third had rate bills in excess of £700 therefore even with a charge of £350 most of these households would gain even in cash terms and we must remember that if rates had continued there would have been 100 per cent losers on this basis.

Allowing for a 7% rise in rates would see many more gainers.

Very few single adult household should lose in Barnet as only 1 percent of Barnet households currently pay less than £300 in rates.

Where pensioners or disabled people are facing local taxes for the first time help is available through the transitional relief scheme.

c.c. All Members of Meeting of Chairmen
Councillor Miss Olwen Evans
Councillor Brian Salinger

DFS/MAM

9th August, 1989.

Dear Councillor Perry,

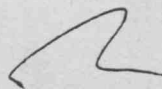
You recently requested a list of the number of domestic ratepayers over bands of rates payable in the current financial year. This I set out below:-

1989/90

No. of Domestic Ratepayers

1413	Rates Payable less than £300
5889	Rates Payable between £300 - £399
19939	Rates Payable between £400 - £499
28661	Rates Payable between £500 - £599
19221	Rates Payable between £600 - £699
13669	Rates Payable between £700 - £799
7747	Rates Payable between £800 - £899
5246	Rates Payable between £900 - £999
14157	Rates Payable over £1000
<u>115,942</u>	

Yours sincerely,



Director of Financial Services

Councillor John Perry,
138 Osidge Lane,
Southgate,
London N14 5DP.

NB: BARNET FIGURES FOR BACKGROUND ONLY AND NOT TO BE USED.

Barnet representatives have not raised this issue with DoE. But both the revaluation and the move to a national poundage affect Barnet adversely. Without transition, the amount raised from businesses in Barnet would be 45% higher in 1990/91 than in 1989/90. The transitional arrangements reduce the increase to 18%, which includes a 7.6% increase for inflation.

In common with the majority of the country, on average shops see the biggest increases in Barnet (68%) but factories face an average rise of only 5.5%, a real terms decrease.

The national average increase in rateable values (the revaluation factor) is 8 times. This compares to 8.9 in Barnet. The revaluation factors for each property type are 10.3 for shops, 7.9 for offices, 6.5 for factories, 6.8 for warehouses and 9.5 for other properties.

Line to take

A revaluation was long overdue and will put business rates on a proper footing. The national poundage ensures equal treatment for all and provides long term stability since it cannot rise by more than the rate of inflation.

There will be both gainers and losers from the changes in all areas, including Barnet. We have provided generous transitional arrangements for losing businesses whose bill cannot rise by more than 20 per cent each year in real terms. For small businesses - those with a new rateable value below £15,000 - increases are being limited to 15 per cent.

TRANSITIONAL RELIEF

Very limited scheme which has raised expectations too far?

We have always made it clear that is intended to help people who face a significant increase as a result of the changeover from domestic rates. We expect about 6 million chargepayers to benefit on the basis of a comparison between rates and assumed community charges.

Why use assumed community charges?

It would be wrong for the Government to provide relief regardless of local authorities' budgeting decisions. The aim is to provide protection against increases due to the charge from rates to the community charge. It is not the aim to insulate households against changes in their bills arising from individual authorities' decisions on spending.

Why no help for service personnel living in bases, people living in flats etc?

Relief is based on a comparison between rates and assumed community charges. The basis of the rates figure is the rateable hereditament. It is not practicable to base the scheme on hypothetical rates for properties not shown separately in the valuation list. Where a residential unit forms part of a larger hereditament, therefore, it is the larger hereditament which is used for the calculation. People living in such units may not, therefore, be eligible for relief. But to provide otherwise would have been administratively unworkable.

Why no account taken of charitable rate relief (including clergymen's residences)?

Charitable rate relief is paid on the basis that it is the charity which pays the rates. It would not be right to take account of this in a system designed to help individual chargepayers.

Scheme announced too late for authorities to cope

I accept that the introduction of the scheme will mean significant extra responsibilities for charging authorities. We have had extensive discussions about the operational aspects with authorities and software suppliers, and the full details of the scheme were with authorities last November. I believe that it will be possible for authorities to issue bills which take account of relief before 1 April.

Will authorities be reimbursed for the cost of all this?

100% of the amount paid out in relief will be reimbursed through a new specific grant. The Government will also meet 100% of reasonable preparation and administration costs. We will be discussing these with local authorities shortly in the light of a report which we have commissioned from Peat Marwick McLintock.

What about authorities' cash flow?

Authorities should be able to issue bills in good time for the start of the financial year. If, however, authorities experience any delay in issuing bills as a result of transitional relief their cash flow will not be disadvantaged, since we have announced that advance RSG payments of about £800 million will be made to authorities in April and May.

The rules about partners will lead to snooping into pensioners' sex lives

The rules for partners are exactly the same as those for the community charge. The scheme requires no snooping of any sort. Elderly and disabled people who apply for extra help will be asked to declare that they are not a former ratepayer or the partner of a former ratepayer. If a local authority has doubts about the validity of the declaration then it may wish to investigate; but the investigation should centre on the financial arrangements of the couple.

1990/91 RSG SETTLEMENT BRIEFING SHEET FOR BARNET

Comparison of 1990/91 Standard Spending Assessment (SSA) with 1989/90 Grant Related Expenditure Assessment (GRE). The GRE has been rescaled to give the same national total as 1990/91 SSAs (£32.8bn) so the change column below shows the real distributional effect.

	1990/91 SSA (£m)	1990/91 SSA (£/adult)	Change from rescaled 1989/90 GRE (£/adult)
Education	88.054	389	26
PSS	23.237	103	2
Highway Maintenance	7.946	35	3
Other Services	28.904	128	-29
Capital Financing	11.859	52	-5
TOTAL	160.000	707	-3

OVERSPEND IF SPENDING AT LEVEL ASSUMED BY GOVERNMENT

	SSA (£m)	Assumed expenditure figure (£m)	Implied overspend vs SSA (£m)	Implied overspend vs SSA (£/adult)
Barnet	160.000	152.099	-7.901	-35
Metropolitan Police	632.132	632.132	-	-
London Fire & CD Authority	191.728	200.261	8.532	2
Barking and Dagenham	89.080	100.613	11.533	106
Bexley	116.350	117.701	1.352	8
Brent	214.782	250.386	35.604	184
Bromley	141.615	139.202	-2.412	-10
Croydon	190.140	161.781	-28.359	-119
Ealing	202.545	207.121	4.576	22
Enfield	159.669	157.864	-1.805	-9
Haringey	166.872	208.351	41.479	294
Harrow	115.750	111.479	-4.271	-28
Havering	117.305	120.221	2.916	16
Hillingdon	125.868	147.109	21.241	121
Hounslow	124.945	135.379	10.434	68
Kingston-upon-Thames	72.908	76.756	3.848	38
Merton	97.577	98.552	0.975	7
Newham	195.344	199.703	4.359	27
Redbridge	129.131	121.954	-7.177	-42
Richmond-upon-Thames	76.039	78.218	2.179	18
Sutton	88.245	89.757	1.512	12
Waltham Forest	160.660	156.720	-3.940	-25

COMMUNITY CHARGESS IF SPENDING IN LINE WITH GOVERNMENT ASSUMPTIONS

	1989/90 average rate bill per adult (£)	1990/91 CC without safety net (£)	1990/91 safety net receipt (£/adult)	1990/91 CC with safety net etc (£)
Barnet	361	245	-70	315
Barking and Dagenham	244	385	107	278
Bexley	246	288	7	281
Brent	477	463	-18	481
Bromley	247	269	-	269
Croydon	265	160	-62	222
Ealing	338	302	-27	328
Enfield	313	270	-30	300
Haringey	540	573	-	573
Harrow	320	251	-44	295
Havering	256	296	5	291
Hillingdon	321	401	42	359
Hounslow	342	347	-4	352
Kingston-upon-Thames	320	317	-8	326
Merton	266	287	-	287
Newham	329	307	-19	326
Redbridge	230	238	-1	239
Richmond-upon-Thames	365	297	-44	341
Sutton	305	291	-14	305
Waltham Forest	320	255	-42	297

BARNET'S TOTAL EXTERNAL SUPPORT FOR 1990/91

	fm	£/adult
Income from NNDR pool	66.182	293
RSG before safety net	65.287	289
Safety net contribution	15.825	70
Grant after safety net	49.462	219
Total External Support	115.644	511