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PRIME MINISTER

THE COMMUNITY CHARGE

1. At your meeting on Tuesday I agreed to provide a note on the introduction of the community charge with particular reference to the problems which we are likely to encounter. We need to assess their likely importance and weight, and our ability to cope with them.

2. At Annex B is a calendar relating to the new system over the next few months.

3. The great merit of the community charge is that it will enhance the accountability of local authorities to their electors. We aim by that route to constrain spending more successfully than has been possible through the elaborate mechanisms we have had to use in the past. I have no doubt that in the longer run this will work and that the community charge mechanism will bear down on spending. Immediately, however, the new arrangements present us with two general problems.

4. First, inevitably the new system entails widespread and significant shifts between both areas and individuals in the burden of local expenditure. That is the intention of the changes. There will be many gainers in the first year, but we have to recognise that the charge will be perceived as inequitable by all those others whose payments are increased. This is exacerbated by the fact that, while there are more gainers than losers if the charge is compared with the rates which would have had to be levied to fund the same

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level of expenditure in 1990/91, there are more losers if the cash bill for the present year is compared with the charge bill for 1990/91. It is this latter comparison which will inevitably weigh with individual chargepayers also faced in many cases with higher mortgage payments as well as higher inflation.

6. Second, as in Scotland in 1989/90, local authorities - anxious about sharper accountability in a year or two's time - are taking the opportunity to increase spending, and therefore charges, in the first year when they think they can blame the increases on the Government's new system. Inter alia, this will position them to restrain spending increases in subsequent years when accountability will be more effective and the consequences of high spending much more visible. CIPFA say that authorities' intentions imply an average charge of £344 compared with our assumption of £278. There has been some posturing but I should be surprised if the actual average falls much below the CIPFA estimate. An actual average charge of that order will raise questions about the credibility of our assumed average charge and the spending assumptions underlying it. More unsettling, an average charge approaching £340 will add maybe 0.5% to the RPI above our previous prediction on this point.

7. It is also worth bearing in mind that the simplicity and transparency of the new system will enable authorities and electors to see more clearly the link between the level of Aggregate External Finance and the level of the community charge. This will focus attention on the question whether the public thinks the Government's view of the appropriate level of spending is reasonable. We shall need to watch this in future settlements.

8. Generally, this means that we are in for a difficult few months, with the biggest problems in April when the bills arrive. We must deploy our defence vigorously: we shall point to the greater fairness for the gainers; we shall stress that higher than predicted charges result from high spending increases which would have meant big hikes in the rates; we shall note the help being



given through benefits and transitional relief; we shall stress the advantages of the system in the longer run. But our Parliamentary colleagues (many of whom are unused to soldiering through a period of temporary adversity) will continue to be under pressure, both before and after the local elections in May. They will no doubt press us for widespread charge-capping and more generous transitional relief this year, and in the longer run for more help from the national taxpayer through revenue support grant, for the transfer to central government of major items of expenditure like teachers' salaries, and possibly for more radical changes.

9. David Hunt and I, supported I hope by colleagues, will continue to try to persuade our supporters in Parliament and in the local authorities that it is vitaly important to the success of the policy, and indeed the political fortunes of our supporters, that there should be no unnecessary spending increases this year. But there is a good deal of disturbing evidence that many of our local government colleagues feel a greater sense of commitment to increasing their authorities' budgets than to reducing local taxpayers' bills and promoting the national economic interest.

10. We shall need to make use of charge-capping, both as a deterrent and, in practice, this year to cut spending and charges overall and to concentrate minds for the future. This will have direct benefits in the areas concerned. My minute of 5 February dealt with the timetable which we shall need to follow. There are of course limits to the number of authorities which can be capped; the process is not straightforward and it is vital to avoid defeat in the courts. We must also recognise that for legal reasons the criteria mean that we shall have to move against a class or classes of high-spending authorities rather than against individually selected authorities. We need to consider all the implications of this. I should appreciate colleagues' views on what risks we should be prepared to run, both in terms of administrative disruption and legal challenge, in considering a number of charge-capped authorities much in excess of (25).

— Mr. Patten said at the last meeting he could do 30 "at a pinch".

PRG.

ie  
decisions  
in last  
week at  
March.



11. Apart from the general problems to which I have referred, experience in Scotland suggests that there will be constant political skirmishing on a variety of detailed aspects of the charge. The main ones are summarised in Annex A. For the most part it will be a question of ensuring that we make a robust and effective defence of our position, but on one or two we may have to consider altering the arrangements in order to ease acceptance of the charge generally.

12. Then there is the issue which we discussed on Tuesday. When bills are received, people will realise for themselves that the transitional relief scheme does not secure the chargepayer against spending in excess of the level of charge assumed for the purposes of the scheme. This will obviously be most serious in those areas where spending has increased most steeply between the two years. This will be so whether or not the authorities are high or low spenders. But some of our colleagues say that this is particularly unfair where the authority has been a low spender and this year's SSA is higher than last year's GRE. The arguments for doing something to help such chargepayers are that

- it is likely that low-spending authorities are more efficient and have less room to accommodate cost increases within the permitted margin of 3.8% at a time when cost increases are running ahead more quickly than the 3.8% assumed. It is reasonable therefore to relax the assumed charges for low-spending authorities.
- More generally, we should be seen to be giving help only to the chargepayers of low-spending authorities.

The arguments against the change are that:-

- we should for the first time be using the transitional arrangements to underwrite spending increases rather than



simply changes in burden on chargepayers resulting from structural changes in the system.

- we should be either implicitly accepting spending increases which have already been decided upon, or encouraging extra spending; the latter would lead to still higher community charges which would feed through into the RPI.
- to the extent that the authorities concerned were encouraged to spend more, charges would be higher for those chargepayers who would not benefit from the extra transitional relief.
- even the scheme suggested by Terence Higgins would validate or encourage extra spending to the extent of £370 million, and would increase public expenditure by £70 million.

13. On further reflection, David Hunt and I doubt whether changes on these lines would greatly help us in dealing with our problems in the medium term. We would satisfy the amour propre of some local authorities and give a bit of help to over a million chargepayers (though in most cases not much). On the other hand, in the short term there may be Parliamentary advantages. The transitional relief regulations have been prayed against though the Opposition have not yet pressed hard for a debate. If there were to be one, the "Higgins" change would certainly help to reassure some of our supporters and ease the vote.

14. Ideally, the report setting the assumed charges and the debate might be left until local authorities have completed their budgetting, so that if we were to accept the Higgins formula, they would not be encouraged to increase spending. But authorities need the information which will be provided in the assumed charges report in order to complete their preparations for billing, and if we do not provide it soon the issue of bills is likely to be seriously delayed in some places at least. Also, a challenge to the old RSG



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system is to be heard in the High Court on 23-24 February and if the decision goes against us (as is possible), we may then have great difficulty in making any report setting assumed charges. (The claim is that the use made in successive settlements of information from authorities may be invalid; if the court accepts that claim there could be knock-on effects on the assumed charges report; if, however, the report had been made by the time of the judgement it would stand until it was itself overturned.) So we really do need to reach a decision soon so that the necessary report can if possible be laid before the House next week, ie beginning 12 February.

I am sending copies of this minute of John Major, Norman Lamont, Tim Renton, and Sir Robin Butler.



C P

9 February 1990

(Approved by the Secretary of State  
and signed in his absence)



## ANNEX A

## LIKELY CRITICISMS OF THE COMMUNITY CHARGE ARRANGEMENTS AFTER 1 APRIL

1. Based on experience in Scotland in 1989/90 and on press comment and correspondence which we are already receiving, the following are the main issues which are likely to be pressed once chargepayers receive their first bills.

2. The standard charge. There will be representations from boarding-school teachers, clergymen, junior doctors, service people, mature students, and others about the unfairness and level of the standard charge they have to pay on their second homes. We have given authorities discretion to deal with this problem, but we might have to take action centrally later on if it is not used effectively.

3. Tenants. Many private rented tenants should be able to ensure that their landlord cannot simply confiscate their former rate payments as extra rent on 1 April. But some will not. Our opponents will be very noisy about them. There is nothing we can do except to inform people of the position and their rights. The explanatory notes with every community charge bill will refer to a leaflet which we are publishing on this.

4. Community charge benefits. We are providing generous assistance through these benefits. But there will be further criticism of the rule that couples with £8,000 of savings, are excluded from benefit. You raised this with Tony Newton last July, but it is expensive to do anything about it since it applies to social security benefits across the board. There will also be concern about the low level of income at which single people under 25 fall out of benefit, with the result that the community charge can take up a large proportion of their income. Some of these are people in training, and people doing socially useful work on very low incomes



with churches and charities, who will be liable for the full charge. If their incomes are low, they will be entitled to community charge benefit, but there may well be hard cases which catch the public eye.

5. Student nurses. Student nurses, except those under Project 2000, have to pay the full community charge. Their incomes will generally be high enough to make them ineligible for benefit. Those under Project 2000, whose income is not a lot less than other student nurses, will pay only 20%. Eventually all nurses will be trained under Project 2000. There will be a great deal of public sympathy for them and our opponents are bound to use the issue aggressively as demonstrating our alleged attitude to the NHS and the unfairness of the community charge. It may be that we shall have to look at bringing forward the date on which all student nurses pay only 20% of the charge at the expense of about 30p on the charge for other chargepayers, though that would fuel demands for similar treatment of other groups in analogous circumstances and incomes.

6. Administrative complexity and cost. We can expect individual stories which emphasise the complexity and/or harshness of the system: for example, about late bills, about failure to serve rebated bills, about the delivery of bills to people who have died a day or two after the charge was introduced, and about Registration Officers' insistence on registering people for only a few days' residence in an area. There will be references to the difficulty of maintaining the community charge register, and unexpected levels of turnover of the register; it will be said that the system cannot cope with all the paper involved. Much of this will be exaggerated, or no different from the rates system, or teething problems which will settle down in due course. But it will add temporarily to the background political noise.

7. Non-payment. As in Scotland, a few months into the year, the focus of attention will switch to the extent of non-payment and arrears, and whether this is attributable to politically motivated



non-payment campaigns. There may well be reluctance on the part of some authorities to make early and sensible use of their enforcement powers. This is for them. We have already given general help for cash flow problems associated with the introduction of the charge, but we may have to be seen to be encouraging timely use of powers to safeguard cash-flow subsequently and to avoid injustice to those who are paying. There will be stories about attachment of earnings, etc, as demonstrating the harshness of the system and the burden on employers, but we shall have to ride these out.

8. Transitional relief. Many chargepayers may think that the effect of transitional relief is that they will not have to pay more than £156 (£3 a week) more than their rates bill last year. This is only so if the charge for their area does not exceed the assumed charge for the purposes of the scheme. If it is higher they have to meet the whole of the difference. In such cases the effective threshold for relief may be £4.50 or even £5 a week in some areas. There is likely to be extensive protest when chargepayers realise this.



DATE	ACTION BY THE DEPARTMENT	ACTION BY LOCAL AUTHORITIES	ACTION BY OTHERS
----- FEBRUARY 1990			
W/B 5	Consult publicly on special arrangements for the <b>City of London</b>	Local authorities continue <b>budgetting</b> until 1 March for counties and 11 March for districts	
W/B 5 or 12 February	Lay regulations on <b>severe mental impairment, 19-year olds at school etc</b>		
	Lay amending regs. on <b>transitional relief</b>		
W/B 12	?Lay report on assumed charges and assumed rate poundages for <b>transitional relief</b>		
	Consult on grant proposals for <b>transitional relief</b> admin. and preparation costs		
Mid-month?			?Debate on <b>transitional relief and NNDR transition</b> regulations if prayed against; and on payments into the NNDR pool (already prayed against).
			? Appeal Court judgment on <b>Hammersmith and Fulham</b> swaps



DATE	ACTION BY THE DEPARTMENT	ACTION BY LOCAL AUTHORITIES	ACTION BY OTHERS
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FEBRUARY(cont'd)			
W/B 19	Lay order on special arrangements for the <b>City of London</b>		
W/B 25	Announce final decision grant for <b>transitional relief</b> admin. and preparation costs		
23/24			Merton and Gillingham <b>challenges</b> to the old RSG system to be heard in the High Court
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MARCH			
1	Lay remaining negative resolution regulations on the new system as necessary through the month	Counties to <b>fix precepts</b> on collection fund by 1 March	?Possible prayer against negative resolution regulations
	Lay <b>capital finance</b> regulations		Debate on <b>formula-rating</b> affirmative resolution orders
	Lay remaining affirmative resolution orders on <b>formula rating</b>		
11		Districts to <b>fix budgets</b> by 11 March	



DATE	ACTION BY THE DEPARTMENT	ACTION BY LOCAL AUTHORITIES	ACTION BY OTHERS
<hr/> MARCH (cont'd)			
15 onwards		Charging authorities begin to <b>issue bills</b> to chargepayers (but mainly in early April) and rate bills (possibly a little earlier in some areas)	
18		Deadline for authorities to send DoE information to assist <b>charge-capping</b> proposals	
<hr/> APRIL 1990			
1		Latest date for <b>fixing of charges</b> by charging authorities	First <b>business rates appeals</b> lodged
			Increased level of public concern about detailed aspects of the <b>community charge</b> following receipt of bills
3 APRIL	Latest date for announce- of <b>capping</b> criteria, list of capped authorities, and proposed caps if 28-day representations period is to end before the May elections		



DATE	ACTION BY THE DEPARTMENT	ACTION BY LOCAL AUTHORITIES	ACTION BY OTHERS
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APRIL(cont'd) Mid-month			<b>First payments</b> of community charges and rates due (depending on date of issue of bills and agreed payment arrangements)
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MAY 1990			
1		L.a. representations against <b>capping</b> to be made by 1 May (if announcement made on 3 April)	
3		L.a. <b>elections</b> (Lomboroughs, and districts)	
W/B 6 (or later)	<b>Capping orders</b> made (if announcement made on 3 April)		
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JUNE 1990		? Issue of <b>informal reminder letters</b> for non-payment of early instalments of the community charge (or possibly slightly earlier)	? Issue of <b>revised bills</b> where it has not been possible to include benefit and transitional relief in initial bills
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DATE	ACTION BY THE DEPARTMENT	ACTION BY LOCAL AUTHORITIES	ACTION BY OTHERS
JULY 1990		? First formal <b>enforce- ment steps against non- payment</b> of early instal- ments of the community charge	
SEPT 1990		Intensification of form- <b>al enforcement action against non-payment</b> (or later in some areas)	Unfettered right to <b>appeal against business rateable values</b> ends on 30 Sept.

