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FROM: B H POTTER

Date: 22 October 1987

cc: Chief Secretary  
 Sir P Middleton  
 Mr F E R Butler  
 Mr Anson  
 Mr Turnbull  
 Mr Gilmore  
 Mr Hawtin  
 Ms Peirson  
 Mr McIntyre  
 Mr Dickson

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 15/10/87*

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**E(LF): COMMUNITY CHARGE - TRANSITIONAL ARRANGEMENTS FOR ENGLAND**

In E(LF)(87)42 Mr Ridley seeks agreement to an opting-out power, that would allow an individual local authority (LA) in England to introduce the Community Charge (CC) in full before 1994. Opting-out is presented as an addition to the transition arrangements for the CC agreed and announced in July.

2. The paper is vague on the proposal and its effects. Mr Ridley is probably only aiming to get agreement that a scheme be examined further. To defeat opting-out at this stage, you need to demonstrate that such a scheme is wrong in principle and cannot work in practice. The key arguments are set out below.

The case in principle

3. "Paying for Local Government" is a major change in the system of local government finance. Business is therefore to be allowed five years for the transition to the National Non-Domestic Rate (NNDR); and each local authority will have a four year safety net to adjust its finances to the new PLG regime. Now Mr Ridley is proposing that individual taxpayers would have no time to adjust, if their council opts out.

Allowing a local council to decide whether and when to impose a new tax burden - not directly related to its own expenditure levels - is of questionable propriety; it will be seen as iniquitous and unjust; and it will create scope for local councils to manipulate the system and embarrass the Government (see paragraph 8).

5. The CC is widely referred to as the poll tax; it involves major new tax burdens for adults paying local taxes for the first time; for middle-income local taxpayers in low-rated properties; and for most local taxpayers in inner London and some in certain parts of the North. But the effects on local taxpayers can be moderated significantly by the transition; and that was why Ministers agreed on a transition period in July. Opting out would impose larger burdens earlier - making the CC particularly unpopular in the sensitive early 1990s. Annex A gives examples of the size of the likely effects.

#### The practical objections

6. The proposed scheme will not in practice satisfy the demands from those councils, which, after transition, benefit from the CC and which wish to bring forward those benefits to 1990. As Mr Ridley notes the safety net (which phases in the new grant plus NNDR entitlement for each LA over the transition period) will have to be retained. As a result the full CC in such areas in 1990 is likely to be above the full CC in 1994, once safety net payments have been phased out. How many local councils will wish to impose high initial levels of CC in 1990, particularly on new taxpayers/electors, even if it does allow them to abolish rates? We doubt whether many sympathetic councils would in practice opt out; and their reluctance to introduce the CC would be politically awkward to explain. Annex B sets out the details.

7. There are also worrying public expenditure implications in Mr Ridley's proposed scheme. If such authorities did opt out, they would be able to disguise major increases in their spending. As safety net payments were phased out the CC ought to fall; but the council could instead maintain its CC (or moderate the reduction) in order to finance higher spending in a relatively painless way. Details are in Annex B.

8. Opting-out would lead to inequities between one area and another; invidious comparisons of local tax burdens between contiguous areas would no doubt add to the political problems of introducing the CC. And there would be scope for local councils to embarrass the Government. An authority opposed to the CC but benefiting from the safety net could introduce it early - and blame all subsequent increases (to finance the phasing out and the safety net and higher spending) on the Community Charge.

9. Opting out would also add to pressures on income support compensation. So long as E(LF) accepts shortly the principle of basing compensation initially on a national average bill, opting out in an LA will automatically penalise many single and some couple claimants relative to those in other areas. This would lead to pressure for higher compensation and hence higher public expenditure. There would be political difficulties in defending patterns of compensation (and as noted earlier local tax payments) that varied across the country for reasons unrelated to a local authority's expenditure.

10. Finally, opting-out is likely to be administratively awkward and, at a local level, a likely source of political friction. We understand that individual districts will have the right to opt out on behalf of all the authorities for which they collect revenue. Therefore, within an individual county, there could be wide variations in the amount and type of charges that people will be paying. This will obscure accountability; and it will lead to unwelcome friction between counties or Joint Boards and some of their districts. Also changes in political complexion leaving an unwilling authority to collect CC "prematurely" would also create difficulties, not least in collection. All such complexities are likely to end up in calls for higher grant.

#### Resource implications

11. Because of the safety net, there will be little resource gain to the economy from greater local accountability and hence lower LA spending over the transition period. Mr Ridley believes there could be resource savings over this period, if opting out reduced 'dual-running' costs. However the administrative complexities within county areas will mean that a good part of this potential saving cannot be realised. And, in our view, the pressures for higher local authority expenditure opened up by opting-out (eg in areas where the CC ought to but does not fall and on income support) could more than outweigh these.

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Timing of further review

12. Mr Ridley will make much of the Party Conference support for a rapid introduction of the CC. (It seems probable very few representatives were aware of the consequences for their CC, because of the need to retain the safety net). He will also refer to the favourable reactions to the CC around the country at meetings led by Messrs Chope and Howard. But the more recent rejection of the CC by the CBI and the National Association of Ratepayers would suggest there is some way to go in getting the message across in full.

13. If pressed to allow further investigation, you could suggest that the presumption should remain that there will be no opting out. It would be embarrassing if the right to opt out were now aired only to discover that opposition in Parliament (and the expected stronger opposition in the Lords will not be evident until next spring) means the Government has to reverse tack.

Conclusion

14. Having reluctantly accepted a four year transition from rates to the CC, Mr Ridley now wishes to give LAs the right to introduce the CC in full completely in 1990. In our view, the proposals are wrong in principle and would not work in practice.

Barry H. Potter

BARRY H POTTER

Community charge a major change to the tax system: individuals, like business and LAs must have time to adjust.

Effects of Mr Ridley's proposal:

- for two child families, a full CC bill in 1990 (£224 per capita) would exceed the benefit they have obtained from income tax cuts since 1978-79 at all earnings levels up to about average earnings.
- the immediate increase in the charge over the previous rates bill could exceed the gains from a 3 pence cut in income tax for five million tax units.
- families could be asked to pay a high CC immediately of about £500 in outer London and the home counties. For those in modest housing, (80% average rateable value) this represents an increase of over 20% in many boroughs and nearly half the English counties.
- If this increase, at least half would be due entirely to the council's decision to opt out in 1990.
- for single people, who have never before paid local taxes, opting out would entail a charge of over £200. Someone on three quarters' average earnings would face the equivalent of a 4 pence rise in income tax.

Examples are given overleaf for a selection of boroughs and districts. For instance, a married couple with two children in a modest house in Barnet would face a 21% increase in their local tax bill if Barnet opted out in 1990. Two thirds of this increase would be due to the council's decision to opt out. Single people in the borough would face a charge of £317, well over the national average of £224.

ANX  
A  
TRANS  
1990

## COMMUNITY CHARGE TRANSITION

1990

ANNEX A

This table shows the increase in local tax bills which would result for a married couple in a house worth 80% of the average rateable value of the area if the CC was introduced in full in 1990. It also shows the single CC payable

	Increase in liability from full introduction of CC in 1990.				Single CC in 1990
	Rates 1989-90	CC 1990-91	Increase on 1989-90	of which due to opt out	
	(1)	(2)	(3)	(4)	(5)
Inner London			= (2) / (1) - 1		
Kensington and Chelsea	484	778	( 61%)	45%	389
Westminster	649	1056	( 63%)	51%	528
Outer London					
Barnet	524	634	( 21%)	14%	317
Brent	541	652	( 21%)	14%	326
Bromley	344	434	( 26%)	14%	217
Croydon	348	436	( 25%)	14%	218
Enfield	370	452	( 22%)	12%	226
Kingston-upon Thames	397	504	( 27%)	16%	252
Merton	334	444	( 33%)	18%	222
Kingston-upon Thames	433	582	( 34%)	23%	291
Metropolitan districts					
Birmingham	397	498	( 26%)	15%	249
Counties (district)					
Beds (Mid Bedfordshire)	429	510	( 19%)	12%	255
Berkshire (Wokingham)	434	498	( 15%)	9%	249
Bucks (South Bucks)	660	794	( 20%)	15%	397
Cams (Huntingdon)	336	412	( 23%)	12%	206
Cheshire (Congleton)	355	428	( 20%)	11%	214
Dorset (Bournemouth)	346	428	( 24%)	13%	214
E Sussex (Hove)	342	470	( 37%)	21%	235
Essex (Basildon)	503	650	( 29%)	20%	325
Hampshire (Winchester)	387	466	( 20%)	12%	233
Hereford (Worcester)	321	412	( 28%)	15%	206
Herts (St Albans)	502	592	( 18%)	12%	296
Kent (Tunbridge Wells)	282	354	( 25%)	11%	177
Leics (Blaby)	367	444	( 21%)	11%	222
Norfolk (Norwich)	270	366	( 36%)	16%	183
Northants (Kettering)	292	384	( 32%)	15%	192
Oxford (Oxford)	449	470	( 5%)	3%	235
Somerset (S Somerset)	297	372	( 25%)	12%	186
Suffolk (Ipswich)	330	430	( 30%)	16%	215
Surrey (Elmbridge)	569	732	( 29%)	21%	366
Warwickshire (Rugby)	355	444	( 25%)	14%	222
W Sussex (Horsham)	322	416	( 29%)	15%	208

Councils that would wish to opt out in 1990 will set high community charges in that year because of the safety net. The charge in these areas should drop until 1994. Examples are shown overleaf of a number of representative areas.

The examples demonstrate:

- the unfair burden placed on many individuals in these areas if there is no transition period.
- that in the intended decrease in the CC there is considerable potential for overspending using part or all of the annual decrease.
- that over most of Southern England there is little incentive for councils to opt out unless they wish to conceal overspending.
- many charge payers in these LAs will not benefit financially from opting-out early.

ANX  
B  
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1990-  
1994

## TRANSITION 1990-94

## ANNEX B

This table shows the fall in household bills for a married couple if council spending did not change in real terms.

	Community charge 1990-91	Community charge 1994-95	Difference from 1990-91
Inner London			
Kensington and Chelsea	778	740	-5%
Westminster	1056	792	-25%
Outer London	(16 out of 20 boroughs would have higher CC in 1990 than in 1994.)		
Examples:			
Barnet	634	444	-30%
Brent	652	566	-13%
Bromley	434	346	-20%
Croydon	436	316	-28%
Enfield	452	398	-12%
Kingston-upon Thames	504	424	-16%
Merton	444	346	-22%
Richmond-upon -Thames	582	466	-20%
Metropolitan districts (West Midlands is the only metropolitan area where a majority of districts end up with a lower CC in 1994.)			
Birmingham	498	372	-25%
Counties (district)	(In 21 counties, all or all but one district will have a higher CC in 1990 than in 1994.)		
Beds (Mid Bedfordshire)	510	466	-9%
Berkshire (Wokingham)	498	298	-40%
Bucks (South Bucks)	794	412	-48%
Cambs (Huntingdon)	412	362	-12%
Cheshire (Congleton)	428	374	-13%
Dorset (Bournemouth)	428	330	-23%
E Sussex (Hove)	470	348	-26%
Essex (Basildon)	650	518	-20%
Hampshire (Winchester)	466	360	-23%
Hereford (Worcester)	412	300	-27%
Herts (St Albans)	592	408	-31%
Kent (Tunbridge Wells)	354	304	-14%
Leics (Blaby)	444	378	-15%
Norfolk (Norwich)	366	344	-6%
Northants (Kettering)	384	372	-3%
Oxford (Oxford)	470	440	-6%
Somerset (S Somerset)	372	356	-4%
Suffolk (Ipswich)	430	384	-11%
Surrey (Elmbridge)	732	478	-35%
Warwickshire (Rugby)	444	360	-19%
W Sussex (Horsham)	416	298	-28%



CC TRANSITION

The following is a summary of previous briefing lines on transition and the safety net for England:-

For phasing in of CC

- Absolute levels lower in 1990 followed by gradual rise.
- Rates bills will be seen to fall.
- Smoother pattern of charges - fewer ups and downs.
- Changes in total tax liability less in absolute terms.
- Gives individuals time to adjust.

Against full introduction in 1990

- Eventual gainers in South would face higher initial charge.
- Some would face bills which rise one year and fall the next.
- Some households would have considerable increases in total tax burden.
- Eventual losers in North would be shielded but then face very high absolute increases.
- CC would be at its most unpopular in early 1990s.
- May face grant pressures to curb size of CC in South.
- Adults making first contribution to LA face high starting levels.

ANX  
C  
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SUMMARY

### Defensive on dual running

- Time to improve collection procedures.
- Calculated on per capita basis.
- Scope for cost reductions.
- Smaller net additions to income support.
- Less chance of CC evasion.

### Retention of the safety net

- Necessary to moderate losses and gains in areas because of distribution changes in grant and NDR.
- Provides considerable support to London by cushioning its loss of NDR income.
- Gives high spending LAs time to adjust.