



Thank. shift
 I have shift
 of ~~the~~ CSI letter
 quick thoughts.

Don't care to shift
 Accommodate, but

Physically
 sensitive

→ Current on
 answer + answers
 types to think in

The number go
 ABAP.
 will then
 have some paper
 that would
 who I had like
 to see for
 CST system

Thanks.

I have slightly amended. If CST [*Chief Secretary, John Major*] has any quick thoughts, these can & shd be accommodated, but this must go out ASAP.

2. We will then add some tables to hand round, wh. I would like to see today. CST shd be consulted on politically sensitive areas & household types to choose

10/11/87. par

DRAFT MINUTE TO THE PRIME MINISTER

COMMUNITY CHARGE: TRANSITION

I have seen Nick Ridley's latest proposals in E(LF) (87)45 for the transition to the community charge.

I am glad to see that he now rules out allowing authorities the choice of whether to have dual running or not; and that he ~~now~~ accepts that there are some areas, in inner London in particular, where we cannot introduce the community charge immediately. And I accept his proposal that contributions to the safety net could be capped at £75 per head, so as to bring forward some of the gains in parts of the South.

But I believe his new proposals still leave us exposed to unacceptable political risks. I do not see how we could justify the capricious changes in local taxation which would follow.

I can understand why many boroughs and districts would prefer not to have the complication of dual running; and they have persuaded many of our backbenchers of this. But that is not a good enough reason for us to overturn the decisions we took and announced in July, that people in all areas of England need time to adjust. People, not councils, have votes. The community charge involves the redistribution of some £6 billion in local taxes between individuals in England. More people will pay; and there will be more losers than gainers. Such changes must therefore be introduced gradually and carefully if we are to avoid major problems.

As Nick Ridley says, the safety net handles the phasing of the changes in the burden of domestic taxation between areas. But dual running is essential to ease the transition to the community charge within each local authority. This is not just a London problem; it is also crucial for other politically ~~sensitive~~ ^{critical} areas, ~~such as~~ ^{notably} the North West.

The proposal to switch to the community charge immediately in most of the country would ^{also} ~~increase~~ ^{guarantee} the size of ~~losses~~ ^{individual} in 1990-91. And it would ~~introduce~~ ^{also} ~~new~~ ^{additional} losers among people who, once the phasing out of the safety net ~~is~~ ^{was} complete, ~~will~~ see their local tax bills little changed. For example, a couple with one of their parents living with them, who occupy an average house in Cambridge would face an immediate increase in local tax bills of about ~~£250~~ ^{£250} (nearly 50 per cent), even though by 1994-95 their tax bill would have fallen back to its present level. It would be impossible to present this, ^{as acceptable,} or indeed to convince such people that they would not be losers in the longer term.

We are in grave danger of repeating the mistakes of the Scottish revaluation. Then - as with the community charge - there was no change in the overall burden of local taxation, but there were some very large ^{overnight} shifts between individuals. The outcry from the losers forced us to provide extra cash. Even so, the subsequent political fall-out in Scotland was ~~severe~~ ^{clear.} ~~clear.~~ ^{I have to make it absolutely clear that there could be no question of} ~~we could not possibly afford~~ a similar cushioning exercise in England. That would impose a quite intolerable burden on the national taxpayer.

There are also considerable difficulties over the ^{demarcation} ~~dividing~~ line which Nick Ridley proposes to use to ^{split} ~~split~~ councils between those who would have dual running and those who would introduce the community charge immediately. Under his proposal, this would be based on next year's local authority

~~What is this for?~~
~~(£250)~~

In that year would

1985

no question of

demarcation split

budgets. That leaves it ^{write} open to manipulation. ~~A council could deliberately spend up next year, so as to ensure that it did not have to introduce the community charge immediately; or a 'high spender' could manipulate its accounts to avoid any transition and then be in a position to impose a very high community charge in 1990-91.~~

Our discussion of these vital issues is still hampered by the lack of the full exemplifications I have several times request^{ed}. When we were first discussing the introduction of the community charge, we were much influenced by the very useful tables of gainers and losers by area and by household type. I believe we must have this information when we consider these issues now.

In summary, I believe that Nick Ridley's proposals will make it ^{very much} harder for us to achieve the ^{successful} smooth introduction of the community charge which we all seek. ^{inst. we should} ~~We must~~ stick to the policy we agreed and announced in July. It is a complex area, but we shall do ourselves no good in 1990 if we change our minds now on the basis of what is, I have to say, generally ⁽¹⁾ ill-informed pressure. We must instead explain our policy fully, and justify it properly to our backbenchers and ~~to~~ others.

I am copying this minute to Willie Whitelaw, Nicholas Ridley and to other colleagues in E(LF).

N.L.

10 November 1987

Transition
Part 1
1
1

Swinging

Understandable

POTTER
DRAFT

DRAFT MINUTE TO THE PRIME MINISTER

COMMUNITY CHARGE: TRANSITION

I have seen Nicholas Ridley's latest proposals in E(LF)(87)45 for the transition to Community Charge.

2. I am glad Nicholas now agrees that inner London and certain other areas need time to complete the change to the Community Charge. I also accept that the safety net could be capped to moderate local tax bills in parts of the South in 1990.

3. But Nicholas' new proposals still leave us exposed to unacceptable political risks. The dividing line now proposed between councils with a transition and those without can be manipulated. A council could deliberately plan to overspend next year so as to have a transition. A high spender could avoid the transition and impose a very high Community Charge in 1990-91.

4. We need a transition that is fair, simple to understand and not open to manipulation. No dividing line between one council and another can meet these criteria.

5. We agreed and announced in July, that people in all areas of England need time to adjust. People, not councils, have votes; and the size of the new Community Charge payments

and their timing are crucial. The Community Charge involves the redistribution of some £6 billion in local taxes among individuals within England. More people will pay; and there will be more losers than winners. Such changes must be introduced gradually and carefully.

6. The new proposal to dispense with the transition in much of the country would increase the size of many losses in 1990-91, not only in the North but in the Shires and outer London. For example:

- an immediate increase in local tax bills of about £250 (46%) for a couple with a live-in granny occupying an average house in Cambridge;
- an immediate increase of about £135 (30%) for a retired couple in a modest house in Barnet. [NB: St Albans gives similar figures.]

With the transition agreed in July these people need never face such large losses; the DOE figures show that by 1994-95 they should see little change in their bill.

7. The immediate increase in bills that Nicholas proposes would create intolerable political pressures, far worse than followed the Scottish rates revaluation in 1985. Despite extra public funds, the subsequent political fall-out in

Scotland was clear. I must emphasise that the public finances in 1990-91 could not bear the cost of a similar exercise for England - even if taxpayers' money could solve the political problem.

8. I am fully aware of feelings on the backbenches. But the interaction between the transition for councils (the safety net) and the transition for people is complex: it has never been fully explained and justified to them, or the country at large. I know that many councils in the South want all their gains from the new system in 1990. But that is not possible without excessive increases in local tax bills elsewhere or an unacceptable injection of public money.

9. We must stick to ^{the} policy agreed in July. We should explain it fully, and justify it properly to the backbenches and others. If we change our minds now, the political fall-out will hit us in 1990-91.

10. I am copying this minute to Willie Whitelaw, Nicholas Ridley and to other colleagues in E(LF).

[N.L.]

YOUR
MINUTE
→ PM

10/11/87.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

COMMUNITY CHARGE: TRANSITION

I have seen Nick Ridley's latest proposals in E(LF) (87)45 for the transition to the community charge.

I am glad to see that he now rules out allowing authorities the choice of whether to have dual running or not; and that he accepts that there are some areas, in inner London in particular, where we cannot introduce the ^{local} community charge immediately. And I accept his proposal that contributions to the safety net could be capped at £75 per head, so as to bring forward some of the gains in parts of the South.

But I believe his new proposals still leave us exposed to unacceptable political risks. I do not see how we could justify the capricious changes in local taxation which would follow.

I can understand why many boroughs and districts would prefer not to have the complication of dual running; and they have persuaded many of our backbenchers of this. But that is not a good enough reason for us to overturn the decisions we took and announced in July, that people in all areas of England need time to adjust. People, not councils, have votes. The community charge involves the redistribution of some £6 billion in local taxes between individuals in England. More people will pay; and there will be more losers than gainers. Such changes must therefore be introduced gradually and carefully if we are to avoid major problems.



As Nick Ridley says, the safety net handles the phasing of the changes in the burden of domestic taxation between areas. But dual running is essential to ease the transition to the community charge within each local authority. This is not just a London problem; it is also crucial for other politically critical areas, notably the North West.

The proposal to switch to the community charge immediately in most of the country would greatly increase the size of individual losses in 1990-91. And it would also introduce additional major losers in that year among people who, once the phasing out of the safety net was complete, would see their local tax bills little changed. For example, a couple with one of their parents living with them, who occupy an average house in Cambridge would face an immediate increase in local tax bills of about £250 (nearly 50 per cent), even though by 1994-95 their tax bill would have fallen back to its present level. It would be impossible to present this as acceptable, or indeed to convince such people that they would not be losers in the longer term.

We are in grave danger of repeating the mistakes of the 1985 Scottish revaluation. Then - as with the community charge - there was no change in the overall burden of local taxation, but there were some very large overnight shifts between individuals. The outcry from the losers forced us to provide extra cash. Even so, the subsequent political fall-out in Scotland was severe. I have to make it absolutely clear that there could be no question of a similar cushioning exercise in England. That would impose a quite intolerable burden on the national taxpayer.

There are also considerable difficulties over the demarcation line which Nick Ridley proposes to use to divide councils between those who would have dual running and those who would



introduce the community charge immediately. Under his proposal, this would be based on next year's local authority budgets. That leaves it wide open to manipulation. A high spending council could manipulate its accounts next year so as to avoid any transitional period and then be in a position to impose a swingeing community charge in 1990-91.

Our discussion of these vital issues is still hampered by the lack of the full exemplifications I have several times requested. When we were first discussing the introduction of the community charge, we were much influenced by the very useful tables of gainers and losers by area and by household type. I believe we must have this information when we consider these issues now.

In summary, I believe that Nick Ridley's proposals will make it very much harder for us to achieve the successful introduction of the community charge which we all seek. Instead, we should stick to the policy we agreed and announced in July. It is a complex area, but we shall do ourselves no good in 1990 if we change our minds now on the basis of what is, I have to say, generally (if understandably) ill-informed pressure. We must instead explain our policy fully, and justify it properly to our backbenchers and others.

I am copying this minute to Willie Whitelaw, Nicholas Ridley and to other colleagues in E(LF).

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

10 November 1987