

SECRET  
COVERING SECRET AND CMO

CHANCELLOR

*Low Pass*

FROM: B H POTTER

Date: 10 November 1987

cc: Chief Secretary  
Paymaster General  
Sir Peter Middleton  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Hawtin  
Mr Scholar  
Mr Turnbull  
Mr Fellgett  
Mr Tyrie

*Ch*  
*Talks for committee*  
*flagged below (+ covering*  
*note). OK?*  
*AA*

**E(LF): TRANSITION TO THE COMMUNITY CHARGE**

I attach a series of short briefs, prepared by Mr Fellgett, covering points to use in tomorrow's E(LF) discussion on the transition to the Community Charge (CC).

2. At A) is an overview of Mr Ridley's latest proposals with points to make on his suggested dividing line to determine which authorities would and would not have dual-running. (It also lists the six transition schemes proposed by Mr Ridley since July.) Brief B) provides supporting material on the main points in your minute to the Prime Minister. Finally brief C) contains further defensive material if colleagues challenge your proposal to stick to a 4 year transition, throughout England.

3. Also attached is a series of examples showing local tax bills (rates + CC) for different households in different size accommodation in certain key areas. Subject to further comments, we will provide copies of this material tomorrow for you to circulate to colleagues at E(LF).

4. I have spoken to Richard Wilson (Cabinet Office) about his steering brief to the Prime Minister. His view is that the best option would be to stick to the transition arrangements agreed

in July; and he will advise the Prime Minister that Mr Ridley's latest proposals for a dividing line are illogical and impractical. I understand that he will, nonetheless, take a cautious line, pointing to the advantages of the July scheme and the inadequacies of the latest proposals, but perhaps suggesting that Mr Ridley be given the opportunity to come back with yet another scheme that will allow certain areas to introduce the full Community Change in 1990.

5. I have also spoken to Peter Stredder (No.10 Policy Unit). The Policy Unit had originally planned to advise the Prime Minister to accept the proposals as they stand. However, we seem to have persuaded them of the technical flaws in the proposal - in particular the scope for manipulating which councils have dual-running and which do not. The result is that their brief is likely to recommend broad acceptance of the proposals, with further work to be done on how the demarcation line would be drawn.

6. Mr Stredder laid particular emphasis on the strength of backbench hostility to dual-running: this is the main force driving the pressure to change the July decision. He implied the pressure was irresistible. Our main counter-arguments are as in your minute and at brief C):

- that backbenchers and others leading the pressure are ill-informed; and
- that no real attempt to explain or defend the July decision has been made - in the case of DOE junior Ministers, charged with selling the policy around the country, quite the reverse.

Barry H. Potter

BARRY H POTTER

A Brief on Mr Ridley's proposals.

- i) summary
- ii) proposed dividing line, with/without dual-running
- iii) history of DOE transition schemes.

B Brief on Chancellor's minute

- i) more losers than winners
- ii) Scottish revaluation
- iii) backbench ignorance.

C Defensive brief on Chancellor's minute

- i) costs of dual-running
- ii) why no transition in Scotland and Wales

MR RIDLEY'S PAPER: E(LF)(87)45

This note summarises and comments on Mr Ridley's paper.

### Background

2. Mr Ridley reminds readers that the safety net phases-in changes between areas. Broadly, £1 billion of Government grant and non-domestic <sup>rate</sup> income is to be transferred from the North and inner London, to the South and the suburbs. E(LF) agreed in July that this should be complete by 1994-95.

3. Dual running phases the transfer between people in each area. E(LF) also agreed in July that this should be complete by 1994-95, with the abolition of domestic rates.

4. A smooth transition for people requires consistent operation of the safety net and dual running, over the same period. Otherwise one gets **a worse** "hump" - see the Barnet, St Albans and Cambridge examples.

No dual running, no safety net, but special grant to prevent community charges above £300.

5. The Prime Minister, on Policy Unit advice, was attracted to this idea at the last meeting. Mr Ridley advises against the idea, although he supported something like it in July. Particularly because of the consequent high percentage increases in bills in the North (see Hyndburn and York), you can agree with Mr Ridley to drop this option.

### No dual running, full safety net

6. This is the agreed position for Wales in 1990; in Scotland, despite what Mr Ridley says, the safety net may yet be modified.

7. You can agree with Mr Ridley that it produces appallingly high CCs in some areas in 1990-91; the worst is £528 per capita in Westminster.

No dual running, maximum safety net contribution set at £75 in 1990-91.

8. This section introduces the cap of £75 on the safety net, which you accept in your minute to the Prime Minister. It benefits the forty areas from South Bucks to the Isles of Scilly listed in Annex B, at the expense of £5 on domestic tax bills in the areas that will eventually lose in the North and inner London.

9. Without dual running it still produces very large initial community charges; £471 in Westminster in 1990-91.

#### Areas required to have dual running

10. Mr Ridley first acknowledges that "opting out" would leave the Government open to manipulation. He discusses various ways of drawing a dividing line between authorities obliged to have a transition, and those required to introduce the community charge overnight. He does not find any option particularly attractive, and asks for colleagues views. His preference is for dual running to be required only in the areas overspending by at least £80 per capita in their 1988-89 budgets. On 1987-88 figures, it limits dual running to all of inner London, parts of outer London, Manchester, Liverpool and Newcastle and one or two other districts. (The list is at Annex D). Because the criterion is based on 1988-89 budgets, which have not yet been fixed and are subject to creative accounting, it opens up the possibility of manipulation again.

#### Opting, or Government imposed decisions

11. Mr Ridley now rejects the idea of "opting<sup>out</sup>" which he advocated two weeks ago; there should be no difficulty over this.

#### £100 initial CC

12. Mr Ridley does not say whether areas with dual running will have an initial CC of £100 if LAs maintain spending fixed in real terms. You will wish to establish that he is sticking to the £100 agreed in July, and is not planning to change this as well.

Proposed dividing line between councils that have transition and those that do not:

1. Unfair: Wandsworth is allowed a transition, although a full community charge would be only £213 in 1990-91. Nearby Ealing not allowed a transition despite a higher initial CC of £301.
2. Open to manipulation: A high spender could fiddle its books to plan for spending in 1988-89 below £80 per head over GRE (the proposed dividing line), and bring in an enormous CC in 1990-91. A slightly more modest overspender is given an incentive to put up its spending to over £80 above GRE in 1988-89, in order to have a transition.
3. Indefensible: By 1993 some authorities will have residual rates and others will not, depending on their budgets 5 years earlier. What if they change control or policy in the meantime?
4. No dividing line is satisfactory: the answer is a proper transition throughout England.

## History of transition proposals

### 1. A Green Paper in January 1986 proposed:-

- community charge of £50 in the first year, and rising no faster in later years; so
- up to 10 year transition period;
- indefinite full safety net, fixed in cash.

These decisions reflected Ministers concerns about the likely scale of losers, among areas in the North and inner London and among [redacted] people throughout the country.

### 2. E(LF) on 2 July considered Mr Ridley's proposal:

- introduce the community charge with no transition in 1990;
- except perhaps for a transition period only in London;
- with no general safety net, but special arrangements for London.

This is very similar to the package now on offer. But in July E(LF) rejected it decisively. The Prime Minister's summing up said:

"The Sub-Committee agreed that it was essential to retain transition arrangements broadly on the lines proposed in the Green Paper. They should include a phased transition from rates to the community charge, and a general safety net to limit changes in average domestic tax bills."

A(iii)

3. E(LF) on 14 July considered two options from Mr Ridley:

- no transition, but a three year safety net; or
- three year transition and safety net, with a CC of £100 in the first year, if authorities maintained unchanged real spending.

The meeting agreed that phasing and safety net were necessary, but wanted a four or five year period.

4. E(LF) on 27 July considered Mr Ridley's proposal for:

- first year CC of £100;
- three year transition;
- three year safety net.

It was agreed that: "a transitional period <sup>of 4</sup> years would be appropriate throughout most of England." Additional arrangements for London were to be considered.

6. E(LF) on 30 July agreed:

- initial CC of £100;
- four year transition;
- four year safety net.

This was announced by press notice.

7. E(LF) on 27 October considered Mr Ridley's proposal:

- an opting out power;
- transition for the remainder;
- no change in the four year safety net.

7. The latest proposals are the seventh set of options for the transition.

*+ a bit more before Green Paper*

More losers than winners:

1. Green Paper (annex J) showed (GB figures)

13.85 million tax units would lose

0.9 million tax units unchanged

11.72 million tax units gain

2. Green Paper (annex J) also implies (GB figures)

over 21½ million people are in households that lose

about 17½ million people are in households that gain

[This is consistent with a majority of households gaining, because losing households have on average more residents.]

3. Accountability argument is that there are 35 million voters in England, but only 18 million ratepayers (6m of whom do not pay in full). So 17 million (35-18) will pay for the first time and some present ratepayers will lose, ie a majority of losers.

4. No data available on winners and losers by area or household type, year by year over the various transition options. [DOE confirm this.]

B(i)

W

Scottish revaluation

1. Cost in extra revaluation relief grant about £65 million over 3 years 1985-86 to 1987-88.
2. Scaled up to England, equivalent cost £650m. (Almost as big as total increase in AEG for 1988-89 - £750m.) But could be much greater, because:
  - many more losers, because CC covers more people than rates;
  - South and suburbs will want immediate £1 billion winnings from withdrawal of safety net;
  - already conceded about £400m for extra income support before Election.

B(ii)

Backbench ignorance

1. Backbenchers and their district/borough advisors have seen initial rate bills in 1989-90 and final CCs for 1994-95. In the South and suburbs they want the final 1994 CCs in 1990-91, representing lower average tax bills. But they ignore the facts that:

- lower average bills in the South are only possible if the North or inner cities lose their £1 billion safety net overnight (indefensible - see Hyndburn and York), or the taxpayer pays (unacceptable);
- a smooth transition from rates to CC requires consistent phasing for areas and people, ie 4 years for both (see Barnet, St Albans and Cambridge);
- overnight increases of up to £325 (in Basildon, which escapes transition under Mr Ridley's proposal) for new payers would be difficult.

B(iii)

Cost of dual running

1. DOE estimates of extra cost in July varied from £50 million to £200 million. Valuation Office estimate £180 million at most; less if the two systems are simplified and aligned.
2. Unwelcome, but on balance not as bad as political and financial risks of no transition.
3. Losses in collecting CC from people bound to be higher than in collecting rates on <sup>m</sup>imobile property.

If no transition is possible in Scotland and Wales, why not England?

[Background: the pattern of losers is no better in Scotland than in England, and only a little better in Wales. Average CC in Scotland slightly higher than England; about £235 compared to £225.]

*Not good points!!*

1. Remains to be seen whether CC will work immediately in Scotland in 1989.
2. In extremis, could fund a rescue package for Scotland if no transition means things go wrong; not possible in England as far too costly.
3. Could lose every seat in Scotland and Wales, and retain Government majority. Hardly true in England.
4. Safety net proportionately smaller in Scotland; less need for consistent transition to avoid 'hump'.
5. Average CC £90 less in Wales than in England.
6. Range of Scottish CCs only up to about £290; would be up to £530 in England in 1990-91 with no transition.

C(ii)

TABLES  
FOR  
CIRCULATION

11/11/87

Ch  
We will supply copies for  
you to hand round  
AA

EFFECTS ON HOUSEHOLDS

Very little information has been made available to the Committee about gainers and losers by area and household type, year by year, under different transition options.

2. Some examples have now been provided by the Secretary of State at Annex E to his paper. The attached tables show further examples of households in key areas for two options:-

i) The transition agreed and announced in July, as amended by the modified safety net now proposed by the Environment Secretary.

ii) The Environment Secretary's latest proposal: no transition outside inner London and certain other areas.

3. The tables show, by area, the annual household bill for each year from the last year of rates (1989-90) to the end of the safety net (1994-95) for:-

- a person paying local tax for the first time;
- a couple in a modest house;
- a couple in a larger house;
- a couple with an elderly relative living in an average house.

4. The main points are:

i) for a new payer, no transition means a bill in 1990-91 ranging from £141 in York to £297 in Barnet; with a transition, the bill would be £100 throughout England;

- ii) for a couple in a modest house no transition means a bigger increase in 1990-91 than with transition, although in the South they are not eventual losers;
- iii) a couple in a larger house benefit from the absence of a transition - even though they are not eventual gainers in the North;
- iv) a couple with an elderly relative would pay more in 1990-91 without a transition; in the North, they are eventually big losers, while in the South they see little change in their bills in the long-term;
- v) with a transition all categories face a smoother progression to their full community charge, without major rises and falls in successive years.

H M Treasury

11 November 1987

## ILLUSTRATIVE EFFECTS ON HOUSEHOLDS:

St. ALBANS

## 4 YEAR TRANSITION.

		Initial charge:£ 100					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	100	126	152	178	204
2 adults							
70%average r.v.	439	465	451	437	422	408	
2 adults							
130%average r.v.	815	693	622	550	479	408	
3 adults							
100%average r.v.	627	679	662	646	629	612	

## NO TRANSITION.

		Initial charge:£ 279					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	279	260	242	223	204
2 adults							
70%average r.v.	439	558	521	483	446	408	
2 adults							
130%average r.v.	815	558	521	483	446	408	
3 adults							
100%average r.v.	627	837	781	725	668	612	

Note: all figures assume unchanged cash spending and income from 1987-88.

ILLUSTRATIVE EFFECTS ON HOUSEHOLDS:

BARNET

4 YEAR TRANSITION.

		Initial charge:£ 100					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	100	131	161	192	222
2 adults							
70%average r.v.	459	485	475	464	454	444	
2 adults							
130%average r.v.	852	729	658	587	515	444	
3 adults							
100%average r.v.	655	707	697	687	676	666	

NO TRANSITION.

		Initial charge:£ 297					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	297	278	260	241	222
2 adults							
70%average r.v.	459	594	557	519	482	444	
2 adults							
130%average r.v.	852	594	557	519	482	444	
3 adults							
100%average r.v.	655	891	835	779	722	666	

Note: all figures assume unchanged cash spending and income from 1987-88.

## ILLUSTRATIVE EFFECTS ON HOUSEHOLDS:

CAMBRIDGE4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer						
1 adult	0	100	123	145	168	190
2 adults						
70%average r.v.	379	435	421	407	394	380
2 adults						
130%average r.v.	703	636	572	508	444	380
3 adults						
100%average r.v.	541	635	619	603	586	570

NO TRANSITION.

Initial charge:£ 263

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer						
1 adult	0	263	245	227	208	190
2 adults						
70%average r.v.	379	526	490	453	417	380
2 adults						
130%average r.v.	703	526	490	453	417	380
3 adults						
100%average r.v.	541	789	734	680	625	570

Note: all figures assume unchanged cash spending and income from 1987-88.

## ILLUSTRATIVE EFFECTS ON HOUSEHOLDS:

HYNDBURN

## 4 YEAR TRANSITION.

		Initial charge:£ 100					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	100	128	156	184	212
2 adults							
70%average r.v.	181	256	298	340	382	424	
2 adults							
130%average r.v.	337	303	333	364	394	424	
3 adults							
100%average r.v.	259	379	444	508	572	636	

## NO TRANSITION.

		Initial charge:£ 142					
Household		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer							
1 adult		0	142	160	177	195	212
2 adults							
70%average r.v.	181	284	319	354	389	424	
2 adults							
130%average r.v.	337	284	319	354	389	424	
3 adults							
100%average r.v.	259	426	479	531	584	636	

Note: all figures assume unchanged cash spending and income from 1987-88.

## ILLUSTRATIVE EFFECTS ON HOUSEHOLDS:

YORK

## 4 YEAR TRANSITION.

	Initial charge:f 100					
Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer						
1 adult	0	100	118	137	155	173
2 adults						
70%average r.v.	188	257	279	301	324	346
2 adults						
130%average r.v.	350	305	316	326	336	346
3 adults						
100%average r.v.	269	381	416	450	485	519

## NO TRANSITION.

	Initial charge:f 141					
Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer						
1 adult	0	141	149	157	165	173
2 adults						
70%average r.v.	188	282	298	314	330	346
2 adults						
130%average r.v.	350	282	298	314	330	346
3 adults						
100%average r.v.	269	423	447	471	495	519

Note: all figures assume unchanged cash spending and income from 1987-88.