

ANCELLOR

FROM: B H POTTER

Date: 16 November 1987

cc: Chief Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Mr Hawtin  
Mr Scholar  
Mr Turnbull  
Mr Fellgett  
Mr Tyrle

### TRANSITION TO THE COMMUNITY CHARGE

At the Prime Minister's meeting tomorrow, the aim will be to convince colleagues that they should stick with the decision to have dual-running throughout England as announced in July. The attached speaking note and further briefing, prepared by Mr Fellgett, presents the case for dual-running. The briefing attached to my minute of 10 November is also relevant.

2. The outcome of the meeting is likely to turn on the line taken by those 'neutral' Ministers attending - in particular, the Lord Privy Seal. But if the balance of view is against dual-running, we need a satisfactory fall-back position.

#### Fall-back position

3. In earlier discussion with us, you indicated that you might be prepared to accept dual-running in London only - if, as a condition, it was accepted that there would be no Exchequer subsidy. Mr Ridley can probably be persuaded to give such an assurance now to secure agreement on no dual-running outside London. But it would be difficult to make such an agreement to stick. The real danger lies in the inevitable pressures for extra grant to keep down community charge bills in 1990-91. These pressures will be very much greater (and less politically resistible) if there is no dual running.

There may, however, be a more satisfactory fall-back, which could keep open the option of a much wider application of dual-running. If the meeting favours dual-running in London only, we suggest you argue:-

- i) that the Rates Reform Bill should provide in main legislation for dual-running in certain local authorities in England;
- ii) that the Government would lay down by Order which authorities should have dual-running.

5. The Bill could provide enabling power for universal or selective dual running, rather like the present rate capping system. We are aware of no legislative arguments against this course. But, for tactical reasons, this idea has not been discussed with DOE officials.

*I very much doubt PM would wear it*

Fall-back: line to take

6. The line of argument would run as follows:-

- i) appreciate view of meeting, strength of backbench feeling and need for an agreement now so legislation can be drafted;
- ii) but remain very concerned about political and financial implications; convinced that political perception of backbenchers will change, once the scale of the impact on local tax bills particularly in the South (even with the modified safety net) becomes clear;
- iii) alarmed at the implications for the Exchequer; in September DOE published a booklet indicating a £100 Community Charge (CC) throughout England; last week newspapers published figures for the full CC in 1994/95; a decision now against dual-running outside London would mean even higher CC figures for 1990-91 becoming public for LAs in the South and outer London; as the (ever-rising) projected CC figures for 1990-91 sink in, huge pressures will continue to build up for more Exchequer grant to keep CC bills down;

SECRET

✓ iv) also by no means convinced that the line now proposed for those with and without dual-running will prove credible or sustainable; why include Waltham Forest only of the outer London boroughs; how credible by 1990-91 (let alone 1993-94) will be a line based on 1987-88 budgets to decide who has dual-running (several authorities could have changed political control and some may have higher excess spending p.c than Waltham Forest by then); this is DOE's third attempt to draw the line in the last 10 days (the lower threshold, of £80 proposed last week would at least have included other major inner cities); do not believe that the line can be drawn now; must retain the ability to determine who does and does not have dual-running nearer April 1990;

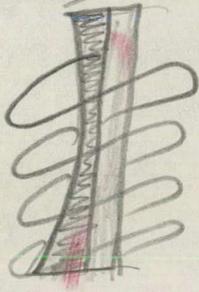
v) you accept an announcement is needed now (the Prime Minister will resist any further delay) but you strongly urge a flexible approach; propose Government should say there will be dual-running in inner London and that the possibility of extending it to other parts of England has not been ruled out: the Government will decide later precisely where the line will be drawn - but it will be set in good time for LAs to plan for introduction of the CC; on this basis, you suggest revised form of legislation.

7. We consider that the fall-back proposal makes good political and financial sense. The drawback is in defining an appropriate public stance: the Government cannot say it is waiting to see whether excessive LA spending means that dual-running will have to be pursued more widely (even though that is the reality). Rather, if pressed on the criteria to be applied, the line to take might be to refer to areas like inner cities as needing more time to reduce their spending and for individuals to adjust to the high CC in prospect.

Barry H. Potter

B H POTTER

~~1/2~~ support  
face



**SPEAKING NOTE**

Annex D contains examples which shows how dual running would produce a smoother change from rates to Community Charge between 1989 and 1994 than Environment Secretary's proposal. It covers a range of households and a wide variety of local authority areas, of different circumstances in all parts of England. Numbers and choice of areas agreed with DOE.

Key points are:

1. Community Charge bills would be between £137 (Pendle) and £325 (Basildon) in 1990-91 under the Environment Secretary's proposal. The differences are mainly a consequence of the present RSG system and the safety net; little to do with accountability; final CC's in 1994-95 would be £212 in Pendle and £259 in Basildon. Under the July agreement to 4 year dual running everyone has a Community Charge bill of £100 in 1990-91, on the underlying assumptions of the paper, and then progress in even steps to the full CC.

2. Under Environment Secretary's proposal therefore, we are imposing higher, new and capricious burdens on the new payer.

3. The Environment Secretary's proposal also means that a couple in a smaller house and 3 adults in an average house lose more in all areas in 1990-91. On the other hand, the July agreement would still allow one adult in a smaller house and 2 adults in a larger house to gain everywhere in 1990-91.

4. The Environment Secretary's proposal means unnecessarily large increases in bills in 1990-91 for new payers, couples in small houses and 3 adults in average houses in many parts of the country, followed by decreases in 1991-92 and later - the perverse 'hump'. In Elmbridge, for example, the Environment Secretary proposes an increase of £130 for a couple in a smaller house, followed by decreases of £37.50 each year; the July agreement means small reductions of £3-£7 every year. Similar problems with humps in most high and some moderate rateable value

areas in the South and Midlands: Ealing, St Albans, Cambridge, Croydon, Eastbourne, Epsom and Ewell, Basildon, W.Oxfordshire, Wolverhampton, Birmingham, Horsham, Mole Valley, Tewksbury.

5. Conversely, Environment Secretary proposes over-large reductions in 1990-91 for single adults in smaller houses and couples in larger houses in low to moderate r.v. areas, requiring unnecessarily large increases in 1991-92 and later - the 'dip'. Examples: Darlington, Barnsley, Carlisle, Eden, Hyndburn, Pendle, York.

July agreement to dual running therefore essential to give reasonably smooth transition from rates to full CC in 1994-95. Avoids big losers in 1990-91, and avoids perverse big ups and downs in successive years.

## POINTS TO MAKE ON GAINERS AND LOSERS

2.8m  
0.8mAnnex B (Households):

1. Environment Secretary proposes an extra (cf ~~July agreement~~ <sup>dual running</sup>)  
1,954,000 households should lose over £2 pw in 1990-91. Of these:

(i) 669,000 are in the South; 628,000 in the North;  
390,000 in the Midlands; 264,000 in outer London.

(ii) 1,177,000 are couples (2 adult households);

(iii) 438,000 lose over £5 pw;

(iv) 599,000 in the South lose unnecessarily; the  
'hump' at work.

Annex C:1.3m  
0.4m

1. Environment Secretary proposes extra 928,000 households  
should face losses of over 100% (ie bills more than doubling)  
in 1990-91. Of these:

(i) largest proportion in North (532,000), followed  
by Midlands (268,000), South (434,000), and outer London  
(81,000).

Annex D:

1. Shows also how indefensible Environment Secretary's dividing  
line is:

(i) CCs in 1990-91 of up to £325 (Basildon) whereas  
Wandsworth has dual running despite a CC that would  
be £216.

(ii) CCs above £216 with no dual running among examples  
are: Ealing, Harlow, Elmbridge, St Albans, S.Bucks,  
Cambridge, Eastbourne, Epsom and Ewell, Basildon,  
Stockton, W.Oxfordshire, Wolverhampton, Birmingham,  
Mole Valley.

DOE Tables of Individuals

*Extra 900,000*

1. Environment Secretary proposes 929,000 individuals lose over £2 pw in 1990-91. July agreement means only 20,000 big losers. Of extra 909,000 individuals losing £2 pw:

(i) 336,000 in South, 255,000 in North, 180,000 in outer London, 139,000 in Midlands;

(ii) 617,000 among 3+ adult households (includes Granny) and 254,000 among couples.

2. Environment Secretary proposes 4,023,000 extra individuals lose over £1 pw:

(i) just over half are among couples and one-third in the South;

(ii) 1,224 individuals in the South lose £1 pw unnecessarily; the 'hump' at work.

3. Environment Secretary proposes 2,257,000 extra individuals see bills doubled: 1,201,000 among large households and 988,000 among couples but even 16,000 single pensioners.

*Specimen districts - see table*

*The hump - Many LA's will see spend up to it.*

*No extra money to mitigate inequality. We have a better way to take a bit of it.*

*3 1/4 m of ~~extra~~ < 1 m - Extra 2 1/4 m*

## COMMUNITY CHARGE AND GRANNIES

You drew attention to the high bills facing 3 adult households, eg couple with granny. The Prime Minister argued that in poorer households 80% of granny's contribution would be met by rebates.

No data are available on the income distribution of elderly parents living in three adult households. But, if their income is distributed in the same proportions as for single pensioners in general, about 36% would get full rebate and a further 23% in partial CC rebate. But you can make the following points:

- rebates are public money (although not classified as public expenditure), and you have no wish to fund the transition through this or any other means;
- about 1.6 million single pensioners would get no CC rebate; for the bulk of these, the CC bills under Mr Ridley's proposals in 1990-91 must be a major new financial burden.

**COMMUNITY CHARGE REBATES**

*NA over 65 is  
partially used.*

Income (£ per week) at which various categories are eligible for rebate, and numbers (thousands of tax units) for each category:

	80% rebate	partial rebate	no rebate
Single pensioner	<£42.25	£42.25-£64.00	>£64.00
Number	1400	900	1600
Pensioner couple	<£65.00	£65.00-£108.50	>£108.50
Number	150	800	1400
Couple (2 children under 11)	<£85.50	£85.50-£129.00	>£129.00
Number of couples with children	250	300	8350
Couple (no children)	<£59.00	£59.00-£102.50	>£102.50
Number	100	150	4750
Single 18-24	<£23.40	£23.40-£45.15	>£45.15
Single 25+	<£29.80	£29.80-£51.55	>£51.55
Number of singles	1700	150	6650
Single parent (1 child under 11)	<£65.00	£65.00-£86.75	>£86.75
Number of single parents	600	200	200

**HEALTH WARNING:** The numbers of claimants in table are Treasury best guess, based on Social Security Green Paper Technical Annex, adjusted for change in caseload associated with community charge introduction. They are highly approximate at best.

Assumes (i) community charge of £225 per year

(ii) taper of 20% on income above Income Support levels  
(as from April 1988 for rate rebate)

(iii) earnings disregard for benefit purposes of £5 for  
singles and £10 for couples.

(iv) pensioners income is state and other pension (i.e. no  
disregard).

(v) Capital of up to £3000 is disregarded. For each extra  
£250 of capital £1 per week of income is assumed up to a  
limit of £6000 above which no benefit is payable.

(vi) income is net of tax, NICs, income-related benefits,  
and child benefit.



Prime Minister

TRANSITION TO THE COMMUNITY CHARGE

We are meeting on Tuesday to discuss transitional arrangements for the community charge again. I would like to alert you to two points in advance.

1. I have attended two meetings of the backbench Committee and a conference of Tory Councillors, and Ministers have had numerous meetings in the country. I have to emphasise that there has been near unanimity that there should be no dual-running (except in London). All the letters we have had from local authorities outside London have been against dual-running. You heard the view of the Party Conference. I do not myself believe it would be possible to get our supporters in the House to accept dual-running, (except in London). Having consulted them twice, it would be provocative in the extreme if we did the reverse of what they so clearly want.
2. In any area where "dual-running" is in place, it is necessary to add £5 extra to the community charge, which represents the extra cost of keeping the rates going as well as bringing in the community charge. The community charge figures for 1 person households should be increased by £5, 2 person households by £10, and 3 person households by £15. The total cost of dual-running throughout England over 4 years would be £7-800 million.

I am copying this to Willie Whitelaw, Nigel Lawson, John Wakeham, John Major, Michael Howard, David Waddington and Sir Robert Armstrong.

CMO  
RIDLEY  
TO  
PM  
16/11

Alex



A revised  
version of  
the hand  
out is <sup>now</sup>  
enclosed.

Robin

Robin

Chancellor feels  
letters will be easier  
to follow if we omit  
July package & just  
have what Ch & Budget  
we are proposing.

Plus some amendments  
& covering note.

Can you get it done  
urgently? (I can get  
copying done).

Please also say re one  
or two other points.

Alex

16/11/87.

has been marked  
to the Committee  
about  
grants

EFFECTS ON HOUSEHOLDS

Very early

There is no information available on winners and losers by area and household type, year by year, under different transition options.

2. Some examples have been provided by DOE. The attached tables show further examples of households in key areas for two options:-

the Secretary of State in Annex B

i) The transition agreed and announced in July, as announced by

ii) This transition with the modified safety net now proposed by the Environment Secretary.

iii) 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.

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) *gaines* a couple in a larger house benefit from the absence of a transition - even though they are not eventual ~~winners~~ 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) the modification to the safety net helps all categories in St Albans and Barnet (apart from the new payer), at the expense of households in Hyndburn and York; ←  
Cambridge is unaffected;
- vii) 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 OF TRANSITION ON HOUSEHOLDS

*St. Albans*  
*Wt spent in*  
*table:*

District: **St. Albans**

**JULY AGREEMENT : FULL SAFETY NET AND 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	491	470	449	429	408
2 adults						
130%average r.v.	815	740	657	574	491	408
3 adults						
100%average r.v.	627	715	689	664	638	612

**MODIFIED SAFETY NET (£75 CAP) AND 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

**ENVIRONMENT SECRETARY'S PROPOSAL: MODIFIED SAFETY NET, 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 OF TRANSITION ON HOUSEHOLDS

Barnet.

District: Barnet

~~JULY AGREEMENT : FULL SAFETY NET AND 4 YEAR TRANSITION.~~~~Initial charge:£ 100~~

<del>Household</del>	<del>1989-90</del>	<del>1990-91</del>	<del>1991-92</del>	<del>1992-93</del>	<del>1993-94</del>	<del>1994-95</del>
<del>New Payer</del>						
<del>1 adult</del>	<del>0</del>	<del>100</del>	<del>131</del>	<del>161</del>	<del>192</del>	<del>222</del>
<del>2 adults</del>						
<del>70%average r.v.</del>	<del>459</del>	<del>514</del>	<del>496</del>	<del>479</del>	<del>461</del>	<del>444</del>
<del>2 adults</del>						
<del>130%average r.v.</del>	<del>852</del>	<del>783</del>	<del>698</del>	<del>613</del>	<del>529</del>	<del>444</del>
<del>3 adults</del>						
<del>100%average r.v.</del>	<del>655</del>	<del>748</del>	<del>728</del>	<del>707</del>	<del>687</del>	<del>666</del>

## MODIFIED SAFETY NET (£75 CAP) AND 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

## ENVIRONMENT SECRETARY'S PROPOSAL: MODIFIED SAFETY NET, 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 OF TRANSITION ON HOUSEHOLDS

Cambridge

District: Cambridge

~~SOPLY AGREEMENT : FULL SAFETY NET AND 4 YEAR TRANSITION.~~

~~Initial charge:£ 100~~

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

MODIFIED SAFETY NET (£75 CAP) AND 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	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

ENVIRONMENT SECRETARY'S PROPOSAL: MODIFIED SAFETY NET, 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 OF TRANSITION ON HOUSEHOLDS

York

District: York

JULY AGREEMENT : FULL SAFETY NET AND 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	118	137	155	173
2 adults						
70%average r.v.	188	250	274	298	322	346
2 adults						
130%average r.v.	350	293	306	319	333	346
3 adults						
100%average r.v.	269	371	408	445	482	519

MODIFIED SAFETY NET (£75 CAP) AND 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	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

ENVIRONMENT SECRETARY'S PROPOSAL: MODIFIED SAFETY NET, NO TRANSITION.

Initial charge:£ 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

ILLUSTRATIVE EFFECTS OF TRANSITION ON HOUSEHOLDS

Hyndburn

District: Hyndburn

JULY AGREEMENT : FULL SAFETY NET AND 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	249	293	336	380	424
2 adults 130%average r.v.	337	291	324	357	391	424
3 adults 100%average r.v.	259	370	436	503	569	636

MODIFIED SAFETY NET (£75 CAP) AND 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

ENVIRONMENT SECRETARY'S PROPOSAL: MODIFIED SAFETY NET, 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.