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10 DOWNING STREET
 LONDON SW1A 2AA

From the Private Secretary

17 November 1987

Dear Robin,

TRANSITION TO THE COMMUNITY CHARGE

The Prime Minister this morning held a meeting to discuss the transition to the community charge on the basis of a paper by the Cabinet Office of 13 November and your letter of 16 November. There were present your Secretary of State, the Lord President, the Chancellor of the Exchequer, the Chief Secretary, Treasury, the Lord Privy Seal, the Chief Whip, the Minister for Local Government, Mr. Richard Wilson and Mr. Andrew Wells (Cabinet Office), Mr. Christopher Brearley (Department of the Environment), and Mr. Peter Stredder (No. 10 Policy Unit).

Your Secretary of State said that the paper described the effects of two options for the transition to the community charge. Both incorporated a full safety net, subject to a ceiling of £75 per adult on the contribution to be made by any area. They differed in the extent of dual running of rates and the community charge. Option 1 required all local authorities in England to adopt dual running. Option 2 restricted dual running only to those authorities where spending was more than £130 per head above grant-related expenditure in 1987/88. It was clear that the vast majority of the Government's supporters, both in the Commons and elsewhere, favoured the immediate introduction of the full community charge over as wide an area as possible, as under option 2. This view was not based on ignorance, but on political considerations. Government supporters did not wish to enter the next election having to justify the existence of both rates and the community charge in parallel. The feeling among backbench MPs was so strong that it was likely that if the Government tried to stick with option 1 it would be defeated during the Committee Stage of the Rate Reform Bill. These were all strong arguments, and he sought colleagues' agreement to adopt option 2.

The Chancellor said that he accepted that backbench opinion was running strongly against dual running, partly because they did not understand its advantages. This might cause difficulty during the passage of the Bill. But that had to be set against the disadvantages of option 2 in terms of its impact on individual tax payers and on households in 1990/91 when the community charge was introduced. Losers from the change would always be more vocal than gainers, and

option 2 dramatically increased the number of households and individuals who would lose substantial amounts - over 100 per cent of their existing rate bills in many cases. Option 2 also resulted in large increases in bills in 1990/91 for some tax payers who would eventually see a reduction. This would reduce the discipline of the community charge: it was possible that local authorities in this position would increase spending after 1990/91 rather than cut their community charges. The choice of authorities to whom dual running would apply under option 2 was also arbitrary: there were many local authorities outside the chosen group who would have higher community charges in 1990/91 than some within it. All these problems with option 2 might give rise to calls for additional Government assistance to ease the transition. He had to make it clear that there was no question of additional Exchequer funds being made available in this way. For all these reasons he urged colleagues to retain dual running, as under option 1.

The Lord President, the Lord Privy Seal and the Chief Whip all emphasised the great strength of feeling among MPs against dual running. They therefore felt that the Government had to accept the greater losses for some individuals which were inherent in option 2 if they were to secure the passage of the Bill.

X | The Prime Minister, concluding a brief discussion, said that the whole intention of the community charge was to widen the local tax base, and there were great political advantages in introducing it in full in 1990/91 over the widest possible area. This would also avoid the very substantial cost of keeping rates during the four year transitional period. The Environment Secretary should therefore proceed on the basis of option 2, under which dual running would be restricted to those areas where spending in 1987/88 was more than £130 per head above grant-related expenditure. Every effort should be made to reflect this decision in the Rate Reform Bill at Introduction, and the Environment Secretary should send Instructions to Parliamentary Counsel on this today. He should also announce the Government's decision by way of a response to a Parliamentary Question later today. The greater losses implied by option 2 might lead to calls for extra Exchequer assistance either during passage of the Bill or nearer the time when the community charge would be introduced, but it should be made absolutely clear that there was no question of extra money being made available.

I am copying this letter to the Private Secretaries to other members of E(LF), to Murdo Maclean (Chief Whip's Office) to Trevor Woolley (Cabinet Office) and to First Parliamentary Counsel.

Yours,

David.

DAVID NORNGROVE

Robin Young, Esq.,
Department of the Environment.