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FROM: R FELLGETT
 DATE: 23 November 1987

1. MR POTTER *HP 24/11*
 2. CHIEF SECRETARY

cc Chancellor
 Sir P Middleton
 Mr Anson
 Mr Kemp
 Mr Hawtin
 Mr Turnbull
 Mr Scholar
 Mr Robson
 Miss Pierson
 Mr C D Butler
 Mr L Watts
 Mr B Fox
 Mr Call
 Mr Tyrie
 Mr Olney (RGPD)

THE COMMUNITY CHARGE AND SERVICE PERSONNEL : E(LF) ON 26 NOVEMBER

E(LF) will consider a disagreement between Mr Ridley and Mr Younger about the application of the Community Charge (CC) to service personnel living in Crown property. I recommend that you support Mr Ridley's view that the CC should apply to servicemen on broadly the same terms as to civilians. But you should reserve most of your comments for the expenditure issues which are likely to arise; the MOD objection to Mr Ridley's proposals may be little more than a tactic to try and secure additional provision for public expenditure.

2. You wrote on 15 September giving agreement to Mr Ridley's proposals; the Prime Minister, Mr Hurd, Mr Rifkind, Mr Walker and Mr Newton all wrote in agreement before Mr Younger objected to the proposal affecting service personnel. The Community Charge issues are set out in Mr Ridley's Memorandum of 19 November and the attached note by officials.

3. Mr Ridley and Mr Younger agree that:

- (i) servicemen living off-base should pay a personal CC to their local district or borough like anyone else; and

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- (ii) special arrangements are needed for very mobile people (eg in short-stay barracks) and where security considerations mean that individuals names and addresses should not be recorded on the public CC register.

4. However, they disagree about:

- (i) servicemen living in MOD property. Mr Ridley wants them to pay a personal CC to their local district or borough, whereas Mr Younger wants them to pay the same charge, irrespective of their location, to the MOD who will somehow pass it on to local authorities;
- (ii) whether mobile servicemen or those particularly affected by security considerations should contribute, through a form of collective Community Charge, towards the CC set by their local council (Mr Ridley's view) or at a universal rate (Mr Younger).

5. Mr Younger's main argument for his case is that servicemen are required to be mobile, at the direction of their employer, and therefore have little opportunity to influence the level of Community Charge in different areas through voting in local elections. It would therefore be unfair for them to pay different CCs, depending on where they were posted. In addition he believes that there would be an undue administrative burden on local authorities in registering them.

6. There is some force in these arguments since the coverage length of a UK tour of duty is 3 years in the RAF and only 2 years in the Army. However, they apply equally to mobile people in the private sector. Indeed, the problem of enforcing the Community Charge is likely to be much worse for other groups; most servicemen are well-paid and law-abiding. It would be indefensible to have special arrangements for government employees, while saying that the full rigour of the Community Charge policy should apply throughout the private sector. I therefore recommend that you support Mr Ridley on this general issue.

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7. However, you could agree that MOD, with their superior knowledge of who lives in their property, could help local authorities register and enforce the CC. This could be more efficient than LAs dealing direct with all individuals. Such arrangements would probably be essential, in any case, for those to whom security considerations apply. Officials would need to consider the details, including charging by MOD for any such service to LAs.

Public Expenditure Implications

8. At present, the MOD collect rent and rates from people living in service accommodation. However, the rates are not paid on to local authorities but retained by MOD to increase their gross expenditure within the net Defence Budget. Contributions in lieu of rates are paid by RGPD, out of Treasury public expenditure provision. The rationale for, these arrangements is not clear; payments by RGPD in lieu of rates on the PSA civil estate are now recovered from the Departments concerned and the NHS and other non-Exchequer bodies make payments directly themselves.

9. No immediate change is proposed for non-domestic rates, but MOD will lose about £25 million a year of their income from domestic rates. Mr Younger wants a PES transfer for 1990-91 (and presumably a smaller sum for 1989-90 to cover Scotland) from RGPD, who will have a saving of a broadly similar amount as domestic rates are abolished.

10. I recommend that you oppose Mr Younger's wish. Mr Younger might argue that the net Defence Budget was set in the knowledge of this income and should be correspondingly higher when it disappears. However, MOD have long benefitted from the ability to charge "rates" in service personnel's rents, and spend the proceeds on military equipment or whatever. It is an anomaly at present and there is no reason why they should continue to obtain this benefit by other means after domestic rates have been abolished.

11. In addition, the Defence Block Budget is set in broad terms; it should not be subject to relatively small adjustments in the

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light of new information. This is the price MOD pay for their (unparalleled) freedom to switch freely within a block of £20 billion. In any case, the RGPD "savings" do not represent an overall reduction in public expenditure as a result of the Community Charge policy; the aggregate effect will be a significant increase, mainly as a result of local authorities' increased administrative costs. ?

12. If Mr Younger presses his case, you could agree to discuss it with him in the 1988 Survey. But you will not wish to agree to extra net defence provision for 1990-91 now, outside the Survey round.

CC on Empty Married Quarters

13. Mr Younger may raise the issue of community charges on empty married quarters (MQs). Briefly, at the moment there is no standard practice amongst local authorities as regards levying rates on empty quarters. Where they do, RGPD pay them a contribution in respect of those quarters surplus and for sale but not where quarters are held for re-occupation or where security reasons prevent sale. RGPD cannot put a figure on their payments to LA's in this respect, but say it is not significant. Under the new regime the proposal is that there will be a charge on all empty residential property at twice the standard community charge. With total MQ vacancies of 15,000 some £6.75 million is at stake, most of it "new" money. We would see this as a useful incentive on MOD to take swifter action on disposal of surplus MQs. If they were to do so, the additional receipts would more than compensate for any loss incurred to the Defence Budget on this account.

14. As background, you should be aware that the Palace are pressing a similar case to MOD's, for an increase in the Queen's Civil List, "paid for" by RGPD savings. The circumstances are different - Palace servants do not currently pay rates to the Queen or anyone else - but serving and former officers on the Palace staff may be in touch with colleagues in MOD.

Conclusion

15. A suggested line to take on the main issues, and supporting points, are summarised on the attached sheet.

16. DM agree.



RF R FELLGETT

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SUMMARY LINE TO TAKE**Servicemen in MOD property**

Agree with Environment Secretary that servicemen should normally pay a personal Community Charge direct to their district or borough. Only rarely, when people are very mobile or engaged in very sensitive work, should a collective charge be paid on their behalf, at the local council's rate.

Supporting points

- indefensible to make government employees subject to special treatment, when no similar arrangement available for private sector;
- many professional and managerial staff in private sector may be required to move by employers - servicemen not unique;
- LA's problems over registration and enforcement of CC much more for other groups - most servicemen well paid and law-abiding.
- [If raised] may be more efficient for MOD to help local authorities register, collect and enforce the personal CC on servicemen. Officials could look at this further.

PES transfer from RGPD

Cannot accept an automatic increase in net defence budget just agreed for 1990-91. [If pressed], happy to discuss with Defence Secretary any bid he may make on this account in the 1988 Survey.

Supporting Points

- Fact that MOD have been charging "rates" without passing them on to local authorities is an anomaly which should stop, not a reason for perpetuating the same arrangement in another guise;

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- Defence Budget is a net block budget, set in broad terms.
- Accept RGPD will see a reduction in expenditure following abolition of domestic rates. But many people and organisations in public and private sectors will face changes. Overall, no public expenditure savings; net increase in public expenditure in prospect from the reform;
- [If raised] RGPD should not collect and pay CC on behalf of service personnel. Their expertise is property valuation. MOD know best how many people live in each of their properties.

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FROM: A C S ALLAN

DATE: 26 November 1987

PS/CHIEF SECRETARY

cc Mr B Fox
Mr Potter
Mr Revolta
Mr Fellgett
Mr Tyrie

THE COMMUNITY CHARGE AND SERVICE PERSONNEL: E(LF) ON 26 NOVEMBER

The Chancellor has seen Mr Fellgett's minute of 23 November. He noted the bizarre arrangements described in paragraph 8, whereby at present MOD collect rates from people living in service accommodation but retain them to increase their gross expenditure. He wondered whether we should not be seeking to change this now, regardless of what happens when the community charge is introduced.

2. He would also be grateful to know what the position is for policemen living in police houses etc.

A handwritten signature in black ink that reads 'ACSA' with a long horizontal stroke extending to the right.

A C S ALLAN