017/3649

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE

DATE: 8 DECEMBER 1987

PAYMASTER GENERAL

PMG

for him to have a note on X:

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Mr Fellgett
Mr Cropper
Mr Call

COMMUNITY CHARGE: CRITICISMS AND POLITICAL BLACKSPOTS

You asked for briefing on the likely lines of attack from our own people around the country and briefing on the districts which could become political trouble spots. I attach a note which sets out the main lines of attack I think you can expect from the more informed of our supporters, together with (by no means ideal) suggested answers, based on material provided by DoE. The Annexes set out the areas which will be most badly affected, with reference to marginal seats. I have had a lot of help on this from Robin Fellgett and some suggestions from Alex Allan.

Not sure it's at all wise to record this (I'll speak to Andrew) (Did & on reflection he agrees).

Quite right.

I expect that the brighter among our supporters in local government will eventually realize that our decisions on implementation give local authorities time to adjust to the new tax, but not individuals. That straightforward charge will be very difficult to answer. I have not covered several lesser criticisms such as that of evasion and the increased administrative cost. Nor have I dealt with non-domestic rates.

I have no doubt that a lot of pressure will also come in public meetings from individuals describing their particular circumstances: pensioner couples living in low rateable value accommodation whose bills go up, new council house purchasers under the 'right to buy', newly weds in low rateable value accommodation, people with resident granny problems etc.

I think that the Research Department could usefully publish a small pocket-sized pamphlet with, say, twenty questions and answers on the community charge and on non-domestic rates, in language which our people knocking on doors in local elections could understand. You may want to commission this from Peter Davis, before he leaves CRD at the end of the year, in collaboration with DoE advisers.

On the pretext that the Treasury needed briefing for the TWEB Mr Fellgett asked DOE to provide the answers to the five questions in my paper. My suggested answers are amended (I hope improved!) versions of these. I also append DoE's original suggestions because I think they reveal how ill-prepared the Government is.

Incidentally, one of their answers, the last sentence of paragraph two, is potentially pernicious. It has not been agreed (as DoE allege) that the safety net element of everyone's community charge should be shown on their individual bills. I think the Treasury should oppose this. It would be an invitation to demand cash from the Treasury to compensate charge payers for that element of their bills.

X

RJ.

pp A G TYRIE

PERSONAL AND CONFIDENTIAL

COMMUNITY CHARGE: POLITICAL PROBLEMS BY AREA

The main lines of attack from the more informed of our own people on the ELF decision will be:

i. NEW PAYERS. Around 17 million people will pay local taxation for the first time. Most will have no time to adjust.

Answer. The aim of the changes is to ensure that virtually all adults make a direct contribution to the cost of local services, which nearly everyone uses. That means bringing into the charge a large number of people who pay nothing now, including wives. The amounts involved for individuals will depend on what their LA decides to spend. Rebates will be available for those on low incomes. The community charge will be introduced gradually in parts of London, where charges on current levels of spending would otherwise be highest.

ii. EXISTING PAYERS in many Conservative areas face higher initial bills, the 'hump'. For example, in St Albans two adults in a smaller (lower than average rateable value) house will see their bill rise from £439 to £558 before falling to £408 over four years. In Cambridge the bill for three people in an average house will rise from £541 to £789 (almost 50%) before dropping to £570. This pattern is similar throughout Southern England. See Annex 1.

Answer. This results from the operation of the safety net, which we believe is needed to phase the shifts in the burden of local taxation between areas. With the safety net average household bills do not change much between 1989 and 1990, provided authorities maintain spending unchanged in real terms, and the eventual (fairer) distribution of average bills is phased in, to give local authority areas time to adjust.

iii. UNFAIRNESS OF DUAL RUNNING. Some areas have it, other not. See Annex 2. The full CC in Wandsworth would be only £213 in 1990-91 but a new payer will only pay £100. In nearby Ealing, without dual running, the CC will be £303, three times greater for a new payer.

The criterion for dual running (a borough must spend at least £130 per capita above GRE in 1987-88) is unfair and will be out of date by 1990.

Answer. The £130 cut off for dual running was chosen to ensure that areas where final, (unsafety netted) figures would be highest were given additional time to adjust before domestic rates disappeared. To prevent authorities from 'planning' for dual running by artificially manipulating their spending the decision has to be taken on the basis of 1987-88 budgeted spending.

iv. ACCOUNTABILITY is lost. The complex nature of a safety net which is capped to £75 per capita obscures a LA's spending. Its spending will not be clear to electors until 1995-96.

Answer. Inevitably any transitional arrangements reduce accountability. But this should not be exaggerated: marginal changes in spending will still feed through, £ for £, into the bills that are paid in each area.

v. DISTANCE FROM ORIGINAL GREEN PAPER PROPOSALS. These were:

- a community charge of £50 in the first year, and rising no faster than £50 in later years;

- a transition period of up to 10 years;

- an indefinite full safety net.

We are a very long way from that. The withdrawal of the safety net will cause difficulties in many northern areas. See Annex 3.

Answer. Green Papers are, by definition, consultative documents. The Government has responded to calls to abolish domestic rates more quickly, and to phase out the safety net (and the inequities embodied in the present system).

ANNEX 1: THE HUMP: EFFECTS ON MARGINALS AND OTHER AUTHORITIES

Many authorities will see a significant rise in the local tax bills of many households in 1990-91 even though they are ultimate beneficiaries of the community charge and enjoy a subsequent gradual fall in bills on 'the hump'.

Authorities in marginal areas with 'a hump' include North Cambridgeshire, Cambridge, Basildon, Birmingham, Cheltenham, Croydon, Slough, Richmond, W. Oxfordshire, Stockport and Nottingham. As an illustration of the size of 'the hump': for two adults (in a house of 70% average rv) the effects will be (assuming unchanged spending and cash from 1987-88):

	1989-90	1990-91	Increase	1994-95
Basildon	£440	£650	(48%)	£518
Cambridge	£379	£526	(39%)	£380
Croydon	£305	£436	(43%)	£316
W. Oxfordshire	£335	£454	(36%)	£410
Birmingham	£347	£498	(44%)	£372

There is similar effect for three adults in an average rateable value house (for example where an aged relative lives with the family). Only people occupying above average rateable value accommodation per capita will see bills fall throughout the transition.

Other (non-marginal) authorities will also be hit by 'the hump'. The greatest 'humps' will be in high rateable value, mainly southern authorities. Examples for a two adult house are (again at 1987-88 figures):

	1989-90	1990-91	1994-95
Elmbrige	£498	£628	£478
Epsom and Ewell	£435	£514	£364

Three adults in an average house in Epsom would see a similar pattern.

The authorities most hit by the 'hump' are:

Outer London: Barnet, Croydon, Harrow, Richmond.

Metropolitan districts: Stockport, Trafford, Solihull.

Districts: South Bedfordshire, Luton, Bracknell, Newbury, Slough, Windsor and Maidenhead, Wokingham, Aylesbury, Wycombe, Cambridge, South Cambridgeshire, Macclesfield, Christchurch, Poole, Wimborne, Eastbourne, Hove, Lewes, Rother, Basildon, Chelmsford, Epping Forest, Maldon, Rochford, Southend, Tendring, Uttlesford, Cheltenham, Cotswold, E. Hampshire, Fareham, Hart, Havant, Winchester, Lichfield, S. Staffordshire, Elmbridge, Guildford, Mole Valley, Reigate, Runneymede, Surreyheath, Tandridge, Woking, Waverley, Stafford and Warwick.

ANNEX 2: DUAL RUNNING

Authorities which just miss dual running include Brentwood, Haringey, Harlow, Ealing and Brent. These are close to inner London areas enjoying dual-running. Under the ELF decision an authority must spend at least £130 per head over GRE to qualify for dual-running. This just excluded Brentwood at £125 over and Harlow at £102 over. Both are close to Waltham Forest where a new payer will be charged £100 in 1990, compared to £355 in Brentwood and £321 in Harlow.

ANNEX 3: WITHDRAWAL OF THE SAFETY NET IN LOW RATEABLE VALUE (MAINLY NORTHERN) AREAS

Authorities covering marginal seats with large increases in local tax bills as the safety net is withdrawn include: Barrow, Darlington, Hyndburn, Pendle, Rossendale, York and Thamesdown.

For example, two adults in a smaller house will see eventual increases (assuming unchanged spending and cash from 1987-88) of the following in:

	1989-90	1994-95	Increase
York	£188	£364	(94%)
Hyndburn	£181	£424	(134%)
Pendle	£166	£424	(155%)
Darlington	£275	£490	(78%)

From DoE

TREASURY DEFENSIVE BRIEFING

COMMUNITY CHARGE TRANSITION

1. New payers

The aim of the changes is to ensure that virtually all adults are making a direct contribution to the cost of local services. That necessarily involves making a large number of people who pay nothing now pay something in future. The Government's judgement is that the amounts involved for individuals are not excessive, particularly bearing in mind the availability of rebates and the fact that the community charge will be involved gradually in parts of London, where charges would otherwise be highest.

2. Existing payers - perverse movements in bills

The transitional arrangements now announced mean that some households could pay more in 1990 than in 1989 or 1994. the number of such households will not be large, however. To the extent they do occur, such results stem from the safety net, which will believe is necessary to phase the shifts in the burden of local taxation between areas; the size of contributions to or from the safety net will be apparent on each community charge bill, which will also show the underlying, unsafety netted figure.

3. £130 cut - off

The £130 cut off for dual running was chosen to ensure that areas were final, unsafety netted figures would be highest were given additional time to adjust before domestic rates disappeared. If authorities were to know now whether or not to plan for dual running, the decisions had to be taken on the basis of 1987/88 budgeted spending.

4. Safety net - no accountability

Inevitably any transitional arrangements reduce to some extent to which the safety net reduces accountability should not be exaggerated: marginal changes in spending will still feed through, £ for £, into the bills that are paid in each area; and each bill will show both safety netted and unsafety netted figures during the transition.

5. Changes since Green Paper

Green Papers are, by definition, consultative documents. The Government has responded for calls to abolish rates more quickly, and to phase out the safety net (and the inequities of the present system that represents), first in the announcement on 30 July; and then after it become clear that there was pressure for further speeding up, on 17 November.

CONFIDENTIAL

FROM: MOIRA WALLACE
DATE: 22 December 1987

MR FELLGETT

cc Mr Tyrie

COMMUNITY CHARGE: CRITICISMS AND POLITICAL BLACKSPOTS

The Chancellor saw Mr Tyrie's minute of 8 December. He noted Mr Tyrie's view that the Treasury should oppose the proposal that the safety net element of individual community charges should be shown on their bills. He would be grateful for a note on this.

MOIRA WALLACE