

24/1/342/02

CONFIDENTIAL

1. MR HAWTIN
2. CHANCELLOR

FROM: R FELLGETT

Date: 4 January 1988

cc: PS/Chief Secretary
PS/Paymaster General
Sir Peter Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Turnbull
Mr Potter o/r
Mr Tyrie

COMMUNITY CHARGE: CRITICISMS ETC

You asked (Miss Wallace's minute of 22 December) for a note on our view that we should oppose the proposal that the safety net element of individual community charges should be shown on the demand note sent out by local authorities.

2. One aspect of the community charge system will be that the community charge in each local area will be the same throughout England, if every council spends exactly in line with its assessed need (ie GRE). Mr Ridley has mentioned this in public on a number of occasions. It is equivalent to the fact that, in the present system, rate poundages (but not rate bills) would be the same everywhere if all authorities spent at their GRE.

3. Some of the difficulties with this rate-poundage equalisation in the present system will be carried over into the community charge equalisation of the new system. For example, the signal that an authority is overspending if its community charge exceeds the English community charge norm will only be believed if GREs are widely accepted as a fair and reasonable spending norm for all authorities. And the definition of spending which is currently used to make this comparison carries little credibility,

because it ignores spending financed by specific grants, but includes some purely book-keeping transfers between different local authority accounts. We aim to moderate some of these defects in work with DOE officials following the remits from E(LF) last July on the format of community charge demand notes and on GREs.

4. A further problem applies only during the transitional period before April 1994, when the safety net will be in operation. The safety net phases-in the full re-distribution of grant which is needed to provide for equalisation of community charge bills rather than equalisation of rate poundages. Until this is complete, the community charge in a high rateable value area will be greater than the community charge in a low rateable value area, even if they both spend at GRE. (This manifests itself in the "hump".) From the draft background briefing that Mr Tyrie and I obtained, it seems that DOE's latest thinking is therefore to show on each community charge demand both the actual community charge, and what the community charge would be without a safety net. Their intention might be simply to improve accountability by allowing residents to compare the unsafety netted figure with the national norm; some DOE officials seem actually to believe that voters will change the way they approach local elections once information about local authority revenue and expenditure is laid out differently on the papers accompanying local tax demands.

5. However, the effect would be to tell adults throughout, roughly, the southern half of England (outside inner London) towards the end of the present Parliament that their community charge is, say, £250, whereas but for the safety net it would be around £200. This seems bound to generate political pressure for the safety net to be withdrawn, either at the expense of northern and inner city areas which should benefit from its transitional protection, or at the expense of the Exchequer, notwithstanding the agreement that you secured at the Prime Minister's meeting that extra money would not be made available. Indeed such pressures are likely to arise well before 1990 and

quite separately from the format of the demand note, although this latest DOE suggestion would probably make them worse. Up to £1 billion is involved.

6. We have long been aware of this sort of danger. It is reflected in earlier advice to you and the Chief Secretary about the format of community charge demand notes, especially during the transitional period. We have also raised this point about unsafety netted charges with DOE officials, and expect to discuss it alongside the other details before anything is finalised. If these discussions with officials prove unsatisfactory we will, of course, advise you and the Chief Secretary.

Robin Fellgett

R FELLGETT



FROM: MOIRA WALLACE

DATE: 6 January 1988

MR FELLGETT

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Potter
Mr Tyrie

COMMUNITY CHARGE: CRITICISMS ETC

The Chancellor has seen and was grateful for your minute of 4 January. He agrees that the proposal to show the safety net element of individual community charges on the demand note should be resisted.

MOIRA WALLACE