

Mr. Staggitt

Mr. Call

24/6/88



Mr. Potter

Mr. S. Peter Middleton

Mr. Anson Mr. H. Phillips

Mr. Edwards Mr. Turnbull

Carlier papers please to Alex

Prime Minister

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

You will recall that for 9 inner London boroughs and the City of London, an element of domestic rating is to be retained until 1994 as part of our proposals for phasing in the community charge.

This is very much a residual proposal. We have moved successively from our intention of applying dual running to all local authorities to a position where it was to apply only to the inner London boroughs and Waltham Forest. Then at Commons Report Stage, we announced that Wandsworth, Westminster and Kensington together with Waltham Forest would also be excluded. Very late in the day the London Boroughs Association, the City of London and the Association of London Authorities have made unanimous recommendations to us that we should now decide to move direct to the community charge everywhere and do away with domestic rates completely on 1 April 1990.

All 3 associations made common cause and put Simon Glenarthur under considerable pressure in defending the Government's case when this matter was considered in the Committee Stage in the House of Lords. Although we won the vote on that occasion, I am sure we lost the argument and we know that the matter will be returned to at the Report Stage.

Dual running has never been an end in itself but a means to an end. We have argued throughout that its purpose is to protect community charge payers from excessive levels of community charge in the early years of the system. But dual running is only a subsidiary part of the transitional arrangements. By far the more significant is the safety net which will ensure that in 1990 the level of the community charge is broadly the same as the previous year's rates bill per adult in real terms. The result of this is



that far from the dual running boroughs being those who would otherwise have the highest community charges, many authorities not affected by dual running will have higher ones. For example, 84 authorities outside dual running will have a higher first year community charge than Hammersmith and Fulham, 74 would be higher than Southwark and 66 higher than Lambeth, all of which are in dual running.

The fact is that while the criteria for selection for dual running identifies those authorities with the greatest degree of overspending, which will ultimately lead to the highest community charges, those charges will only come through fully in 1994 when both dual running and the safety net arrangements have been phased out (providing spending has not been reduced in the meantime).

Dual running therefore offers little practical protection to charge payers.

Michael Howard has had a number of discussions with colleagues from the boroughs concerned about how they view dual running. While there is not unanimity on this matter, I believe there is now a sufficient consensus which would support making a clean break with domestic rates. The argument which has been most persuasive with them has been the damage to accountability which is done by dual running. They are particularly concerned by the way dual running will operate in practice. The authorities concerned will be sending out both community charge and rate bills. Householders, will of course receive both. Now that all ratepayers are having to make at least some contribution towards their rate bill the numbers affected by rates are greatly increased and they will receive two bills under dual running.

I think there had previously been some confusion about what was intended. Some at least of our colleagues believed that it would be possible for householders to reconcile their 2 new bills with



their one previous rates bill. This will not be the case. In practice, the domestic rate poundage will be reduced in the first year by a proportion equivalent to the proceeds of £100 per head of population, say 30% typically. The rates bill of each individual household will then be reduced by 30%. The amount of the reduction will therefore depend on the rateable value of the house and will generally bear no relationship to the amount of community charge being paid by that household.

I should perhaps mention the risk that the boroughs concerned could contrive to send out only one of the 2 bills before the borough elections in May of 1990 on grounds which they will argue plausibly are to do with administrative difficulties of implementing the 2 separate charges. They will thus be able to hide the impact of their spending decisions from the electorate.

It is on the grounds of obscured accountability, I think, that a majority of our colleagues now see a balance of advantage in going for a simpler system in 1990.

I should also say, however, that there are strong grounds for believing that the particular boroughs concerned - with the exception of the City of London - are among the least well qualified to operate such a complex dual system satisfactorily.

There is no doubt that running an additional charge at the same time as introducing the community charge will impose considerable extra burdens. It was the concerns of Wandsworth, Westminster and Kensington on this score which prompted us to agree to remove them from the scope of the provisions. My officials have explored in some detail with the local authorities concerned the seriousness of these difficulties. Their advice to me is that while dual running could have been made to work on a national basis, its restriction to a very few authorities makes its application there even more difficult.



Because there is such a small market, there is evidence that the boroughs concerned will not be able to get the computer software suppliers to write the special applications they will need for billing and collection with 2 taxes, nor would they easily get them to write the programmes for the special rebate system which will have to apply in these areas only. There is also considerable evidence that the boroughs concerned are already having difficulty in recruiting and retaining the key staff they will need to run the community charge. The fact that they will be expected to run a more complex system which has a life of only 4 years will make it less likely that these authorities will be able to compete for their staff against either the private sector or the local authorities in outer London and the home counties.

Inadequate staffing will lead to further deterioration in the already unacceptable arrears position on rates. The fact that at both the beginning and the end of the dual running period large numbers of small amounts will have to be collected, first in community charges, then in domestic rates, will further exacerbate this position. The authorities concerned will be able to blame all their administrative difficulties on what they will describe as this unique burden imposed upon them by the Government.

The offer we have made of a specific grant to cover the costs of dual running is unlikely to do anything to overcome these basic administrative issues. I am sure that there are better uses for the £14 million a year which we estimate this would cost.

Finally, we have to remember that we are looking to these authorities to carry out other far more significant policy initiatives at around the same time. In 1990 I shall be looking to them to implement the community charge satisfactorily; to carry forward the reforms in the current housing bill and to be developing competitive tendering. Kenneth Baker will of course be expecting them to take on education authority responsibilities as



well as implementing the substantial reforms in the Education Reform Bill itself. All this has to take place against a background of tight financial constraints - often through rate capping - which themselves are no doubt placing considerable strains on an inadequate management base.

Taken together, these arguments make a compelling case for deciding to drop dual running altogether. The only remaining concern must be whether, in doing so we would lose any influence over the authority's spending and community charge levels. In my view we would not. By clarifying local accountability and bringing all local voters into the community charge at a realistic level, we will get the early benefits of the new accountability pressures. At the same time, we will avoid creating an artificially advantageous position for these boroughs compared to neighbouring authorities not affected by dual running and we will avoid confusing and annoying a large number of householders who would otherwise receive 2 bills which the boroughs could clearly establish were a direct result of the Government's policy.

In the final resort, if community charges were to move ahead, driven by high levels of spending in these areas, then we will have the charge capping powers which we have taken for just such an eventuality.

By way of background I attach some figures showing the community charge position in inner London with and without dual running.

I am now convinced that the dual running provisions cannot overcome the problems that are inherent in the high projected levels of community charge in some areas of London. They will not give Conservative candidates in the 1990 elections a sound platform from which to attack the Labour councils, they will create confusion rather than clarity. They will cost a considerable amount of money and they may prejudice the



successful implementation of other policies to which we must attach greater priority. On all these grounds, therefore, I invite colleagues to agree that we should agree to delete the relevant provisions from the Local Government Finance Bill. Time is now short and if we are to do so we will need to table the necessary amendments on Thursday of next week. I should be grateful for replies by close of play on Wednesday 29 June, therefore.

I am copying this to members of E(LF), to the Lord Privy Seal, to the Chief Whips in Commons and Lords and to Sir Robin Butler.

R. B. G. H.

NR
24. June 1988

*(Approved by the Secretary of State
and signed in his absence)*

ILLUSTRATIVE IMPACT OF LOCAL GOVERNMENT FINANCE BILL
(Based on 1988/89 local authority expenditure returns)

Community charge for standing at assessed level of need - £ 202
National non-domestic rate poundage - 239.5p

	DOMESTIC SECTOR			First year safety netted CC Col 4	BUSINESS RATES Change to national poundage Col 5
	Average rate bill per household Col 1	Overspending in each area Col 2	Full community charge Col 3		
GREATER LONDON					
City of London	£ 688	£ 9,009	£ 476	£ 100	47.0%
Camden	£ 790	£ 437	£ 639	£ 100	4.1%
Greenwich	£ 513	£ 337	£ 589	£ 100	-3.9%
Hackney	£ 623	£ 376	£ 578	£ 100	-3.4%
Hammersmith and Fulham	£ 457	£ 271	£ 473	£ 100	-2.6%
Islington	£ 597	£ 278	£ 480	£ 100	18.1%
Kensington and Chelsea	£ 582	£ 138	£ 340	£ 384	104.0%
Lambeth	£ 474	£ 288	£ 490	£ 100	16.6%
Leamington	£ 575	£ 375	£ 577	£ 100	-2.2%
Southwark	£ 452	£ 313	£ 515	£ 100	11.8%
Tower Hamlets	£ 558	£ 414	£ 616	£ 100	1.3%
Wandsworth	£ 370	£ 195	£ 397	£ 205	60.4%
Westminster	£ 793	£ 171	£ 373	£ 448	45.9%

Overspending by the Inner London Education Authority adds £218 to the full community charge in Inner London
Where first year community charge = £100, residual domestic rates also payable: see table below

Barking and Dagenham	£ 429	£ 35	£ 237	£ 228	13.0%
Barnet	£ 673	£ 28	£ 230	£ 305	15.1%
Bexley	£ 384	£-12	£ 190	£ 191	20.4%
Brent	£ 720	£ 105	£ 307	£ 348	-14.3%
Bromley	£ 438	£-23	£ 179	£ 222	39.7%
Croydon	£ 513	£-5	£ 197	£ 258	43.0%
Ealing	£ 528	£ 32	£ 234	£ 249	21.2%
Enfield	£ 566	£ 51	£ 253	£ 278	10.6%
Haringey	£ 541	£ 89	£ 291	£ 302	-2.4%
Harrow	£ 575	£ 23	£ 225	£ 292	17.4%
Havering	£ 474	£ 3	£ 205	£ 223	27.4%
Hillingdon	£ 529	£ 40	£ 242	£ 261	8.2%
Hounslow	£ 522	£ 41	£ 243	£ 277	-4.8%
Kingston-Upon-Thames	£ 522	£ 26	£ 228	£ 267	19.8%
Merton	£ 411	£-35	£ 167	£ 218	31.9%
Newham	£ 490	£ 82	£ 284	£ 269	-17.5%
Redbridge	£ 407	£-41	£ 161	£ 200	48.4%
Richmond-Upon-Thames	£ 604	£ 57	£ 259	£ 325	13.7%
Sutton	£ 531	£ 30	£ 231	£ 270	14.3%
Waltham Forest	£ 485	£ 67	£ 269	£ 260	4.2%

DATE: 11-JUN-88

WITHOUT DUAL RUNNING

ILLUSTRATIVE IMPACT OF LOCAL GOVERNMENT FINANCE BILL
(Based on 1988/89 local authority expenditure returns)

	DOMESTIC SECTOR				NON-DOMESTIC SECTOR	
	Average rate bill per hhold Col 1	Overspending attributable to each area Col 2	Full community charge Col 3	First yr community charge Col 4	1988/89 rate poundage Col 5	Change to national poundage Col 6
GREATER LONDON						
City of London	£ 688	£ 9,009	£ 476	£ 488	163.0p	47%
Camden	£ 790	£ 437	£ 639	£ 438	230.2p	4%
Greenwich	£ 513	£ 386	£ 586	£ 277	249.2p	-4%
Hackney	£ 624	£ 377	£ 579	£ 347	247.9p	-3%
Hammersmith and Fulham	£ 457	£ 271	£ 473	£ 267	246.5p	-3%
Islington	£ 597	£ 278	£ 480	£ 326	202.3p	18%
Kensington and Chelsea	£ 582	£ 138	£ 340	£ 384	117.4p	104%
Lambeth	£ 474	£ 288	£ 490	£ 277	205.5p	17%
Lewisham	£ 575	£ 375	£ 577	£ 320	244.9p	-2%
Southwark	£ 452	£ 313	£ 515	£ 269	214.2p	12%
Tower Hamlets	£ 558	£ 414	£ 616	£ 312	236.4p	1%
Wandsworth	£ 370	£ 195	£ 397	£ 205	149.3p	60%
Westminster	£ 793	£ 171	£ 373	£ 448	164.2p	46%

Overspending by the Inner London Education Authority adds £218 to the full community charge in Inner London
This table assumes that there is no dual running of rates and the community charge in any area

Barking and Dagenham	£ 429	£ 35	£ 237	£ 228	212.0p	13%
Barnet	£ 673	£ 28	£ 230	£ 305	208.2p	15%
Bexley	£ 384	£-12	£ 190	£ 191	198.9p	30%
Brent	£ 720	£ 105	£ 307	£ 348	279.3p	-14%
Bromley	£ 455	£-23	£ 179	£ 222	171.5p	40%
Croydon	£ 513	£-5	£ 197	£ 258	167.5p	43%
Ealing	£ 513	£ 32	£ 284	£ 249	197.3p	21%
Enfield	£ 566	£ 51	£ 253	£ 273	216.5p	11%
Haringey	£ 516	£ 77	£ 279	£ 288	245.3p	-3%
Harrow	£ 575	£ 23	£ 225	£ 282	204.0p	17%
Havering	£ 474	£ 3	£ 205	£ 228	188.0p	27%
Hillingdon	£ 519	£ 40	£ 242	£ 261	221.3p	5%
Hounslow	£ 522	£ 41	£ 243	£ 277	251.7p	-5%
Kingston-upon-Thames	£ 522	£ 26	£ 228	£ 267	200.0p	20%
Merton	£ 411	£-35	£ 167	£ 213	181.7p	33%
Newham	£ 450	£ 82	£ 284	£ 269	290.2p	-17%
Redbridge	£ 407	£-41	£ 161	£ 200	161.4p	42%
Richmond-upon-Thames	£ 604	£ 57	£ 259	£ 325	210.6p	14%
Sutton	£ 531	£ 30	£ 231	£ 270	209.5p	14%
Waltham Forest	£ 465	£ 67	£ 269	£ 260	229.8p	4%



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	28 JUN 1988 ✓/c
ACTION	CST
COPIES TO	

27 June 1988

From the Private Secretary

Dear Roger,

DUAL RUNNING OF DOMESTIC RATES AND
THE COMMUNITY CHARGE IN LONDON

The Prime Minister was grateful for your Secretary of State's minute of 24 June.

X) The Prime Minister recognises the force of the arguments for deciding now to drop dual running altogether, and she agrees with that conclusion. She recognises that, if community charges in the areas affected were likely to be set at unreasonably high levels, the charge capping powers are available, and she thinks it important that your Secretary of State should stand ready to use those powers if necessary. But the Prime Minister also thinks that a further look should be taken at the detailed safety net and grant distribution arrangements with a view to seeking to limit the first year community charge in all areas to a maximum of, say, £350. She would be grateful if your Secretary of State could consider this possibility.

I am copying this letter to the Private Secretaries to members of E(LF), the Lord Privy Seal, the Chief Whips in the Commons and Lords and Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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X is potentially
v dangerous.

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CHIEF SECRETARY	
REC.	30 JUN 1988
ACTION	Mr Potter
COPIES TO	Cs, Sir & Middleton
	PMG, Mr Anson, Mr Phillips
	Mr Edwards, Miss Pearson
	Mr Tumbull

MP
 QUEEN ANNE'S GATE LONDON SW1H 9AT

29 June 1988

Mr Jellett
 Mr Tyne
 Mr Culpin
 Mr Call

Dear Secretary of State,

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Thank you for copying to me your minute of 24 June to the Prime Minister proposing the abandonment of dual running.

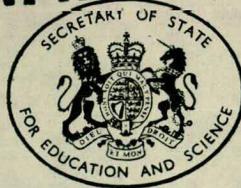
Your proposal, even taking the safety net into account, will bear hard in particular on those whose houses have low rateable value. But I am content to accept your view that the balance of advantage has now shifted towards abandoning rates altogether from 1 April 1990. I hope we can present this change of policy as a response to the wishes of the authorities themselves to be excluded from dual running.

Copies of this letter go to the recipients of your minute.

Yours sincerely
N. J. S. J. J.
 (approved by the Home Secretary and signed in his absence)

The Rt Hon Nicholas Ridley, MP

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ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon Nicholas Ridley, MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

CH/EXCHEQUER	
REC.	29 JUN 1988 ✓ 2a/6
ACTION	EST
COPIES TO	

29 June 1988

In Min,

py

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Thank you for sending me a copy of your minute of 24 June to the Prime Minister proposing that we abandon dual running.

2. I am content to go along with your proposal. However, even with the safety net, the first year community charge will be higher for the two-payer household than the average rate bill per household in each area. And those paying the community charge for the first time will have to find over £400 from the start in some of the Boroughs. There will undoubtedly be criticism particularly from poorer households who do not qualify for community charge rebate. I am uneasy about being able to rebuff this entirely by saying that it is a consequence of profligate spending by councils, especially at a time when they will be assuming responsibility for the first time for education.

ominous

3. The key factor in all this will be the precise level of the safety net, and in reaching a decision on this I think we shall need to consider very carefully the implications for community charge levels in inner London.

4. I am sending copies of this letter to the Prime Minister and members of E(LF) and to Sir Robin Butler.

[Handwritten signature]

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CH/EXCHEQUER	
REC	29 JUN 1988 ✓ 29/6
ACTION	CST
COPIES TO	

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

→ ACSA
29 June 1988

Dear Nicholas,

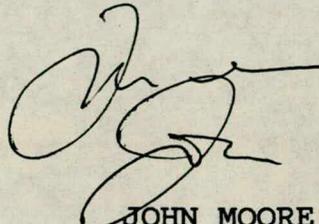
DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

I have seen a copy of your minute of 24 June to the Prime Minister on this subject.

I strongly favour your proposal that we should delete the provisions for dual running from the Local Government Finance Bill and make a clean break with domestic rates on 1 April 1990. In addition to the arguments which you raise in your minute there is also the problem of devising a satisfactory rebate scheme to cover dual running. It has always been clear that devising a rebate scheme for residual rates and the community charge would be highly complex and that it would inevitably be confusing for claimants, and difficult and expensive for local authorities to administer.

Abolishing dual running will obviously expose inner London chargepayers to realistic levels of community charge. It will as you argue ensure that the principle of accountability on which the community charge is based will apply to inner London authorities from the outset of the new system. However although I support the removal of dual running it is vital that we keep adequate protection for authorities themselves through the provisions of the safety net and that the transitional process does not lead to a detrimental effect on service provision.

I am copying this letter to the Prime Minister, to members of E(LF), to the Lord Privy Seal, to the Chief Whips in the Commons and the Lords and to Sir Robin Butler.


JOHN MOORE