

CONFIDENTIAL

1. MR EDWARDS
2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 28 June 1988

This reflects discussion with Mr Potter and me. We understand that the suggestion at X1 (in Paul Gray's letter) originated with the No CO Policy Unit rather than the Prime Minister herself.

AJCE
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Ch
[could discuss
with CST
@ Whitehall]

✓ AA

cc: Chancellor
Paymaster General
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Potter o/r
Mr Tyrie
Mr Call

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Mr Ridley minuted the Prime Minister on 24 June, and Paul Gray's response of 27 June reported her agreement with his proposal that all local authorities in England should transfer from domestic rates to Community Charge without transitional dual running in April 1990. I recommend that you accept this proposal, subject to emphasising again that the consequence must not be additional Exchequer finance to subsidise the change (although we fear that there will be intense pressure for additional subsidies).

2. DOE officials have been lobbied hard by officers of the inner London boroughs who, under previous plans, would have retained dual running of domestic rates and Community Charge for a transitional four year period. DOE seem genuinely convinced that there is no realistic prospect of the London boroughs administering both tax systems for this period. We accept this judgement, and have reluctantly concluded that there is now no realistic option but to end dual running.

3. Prospective Community Charges in some inner London boroughs in 1990-91 are, nevertheless, very high, and it will be very difficult for losers from the new system to adjust overnight.

The annex to Mr Ridley's minute quotes Community Charges of £269 (Southwark) to £438 (Camden) and even £488 (The City, although there are special circumstances that make this figure particularly prone to error) in boroughs that were previously intended to have dual running. These DOE estimates assume that authorities spend only their reported level of expenditure, not the underlying level of expenditure supported by creative accounting etc, and collect the Community Charge in full from everyone. In practice, Community Charges in 1990-91 (at today's prices) are likely to be £100-£200 higher, unless the boroughs either cut their spending in the meantime or continue to find ways of financing it from new creative accounting.

4. An individual on income support, receiving the maximum rebate, may have to find another £1.50 a week to finance their contribution to the Community Charge; and losers higher up the income scale may face substantially larger losses. We fear that there will be intense pressure to deal with losers on this scale, either directly by subsidising the individuals (eg by higher levels of income support in London or more generous rebates) or indirectly by subsidising the boroughs so that they can set lower Community Charges.

X | 5. Indeed, the Prime Minister's suggestion that the safety net should be adjusted so that no Community Charge was more than £350 in 1990 is liable to lead to just such pressure. Extra grant would be needed to finance additional safety net grant in London, unless grant was diverted from other parts of the country; we doubt if a redirection of grant is now practicable since the safety net arrangements have been announced and exemplified. You may therefore wish to comment on this proposal in your letter.

6. The Prime Minister also mentioned Community Charge capping as a method of keeping charges down in 1990-91. We agree, and indeed foresee the need for wide ranging Community Charge capping in 1990 when every local authority will know that they can blame

their charge on the Government's policy decision to change the local tax system. However, there is a limit to the extent to which pressure can be put on London boroughs. Many of them are very short of middle and senior management skills, and already have to face the change in the local finance system, the change in the capital control system, the absorption of responsibility for education expenditure from ILEA, and other changes in 1990. They may simply have no one to spare to pursue efficiency savings, although these undoubtedly should exist. Community Charge capping in London will therefore have to be nicely judged, and may not be the complete answer.

Conclusion

7. Mr Ridley's proposal therefore carries substantial risks for the Exchequer, but we believe there is no realistic alternative. A draft letter is accordingly attached, which agrees to the proposal and comments on the Prime Minister's two points about Community Charge capping and possible adjustments to the safety net.

Rob: Fellgett

R FELLGETT

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DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

TO SECRETARY OF STATE FOR THE ENVIRONMENT

**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. I have also seen the Prime Minister's response in Paul Gray's letter of 27 June.

I do not dissent from your conclusion that we should now delete the dual running provisions from the Local Government Finance Bill. I am particularly persuaded by the administrative argument that a number of inner London boroughs simply could not cope with the administrative difficulties of running both tax billing and collection systems at the same time.

The only condition attached to my agreement is that we resolve again that this change in the transitional arrangements must not lead to additional calls on the Exchequer. In considering the Prime Minister's suggestion of looking again at the safety net arrangement as it affects the London boroughs we need

to bear this important principle in mind. We must in particular ensure that the safety net as a whole continues to be self-financing.

Without dual running, there will be substantial initial Community Charge bills in inner London, which might be rather higher than the figures you quote if one allows for the expenditure which boroughs are currently financing through creative accounting and for the possibility that they will not be able to collect the charge fully from all their resident population. As the Prime Minister has noted, Community Charge capping may be an important way in which we can help chargepayers in London, and indeed elsewhere, after 1990.

I am copying this letter to the Prime Minister, members of E(LF), and to Sir Robin Butler.

[J.M]