lg.ph/AE/220

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CHIEF SECRETARY

FROM : A J C EDWARDS (LG)
x4480
19 June 1989

cc PPS
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr A M White
Mr Hudson
Mr G C White
Mrs Chaplin

STANDARD COMMUNITY CHARGE

Mr Rifkind's letter of 8 June seeks colleagues' agreement to soften in Scotland the impact of the standard community charge levied in respect of domestic property, basically second homes, at which no-one is solely or mainly resident.

Treasury interest

2. DOE, the Scottish Office and the Welsh Office have the major interest in this subject, rather than the Treasury. The key issue is equity as between chargepayers. There are however significant economic as well as political implications, not least for private rented housing and efficient use of the housing stock.

Past history

3. The 1986 Green Paper "Paying for Local Government" proposed that second homes should be subject to a standard community charge equivalent to two units of the personal community charge. The argument was that this would tend to produce charges similar to existing domestic rates.

4. Mr Rifkind has always been concerned that a standard charge of two units is too high. He argued in E(LF)'s 1986 discussions that second homes usually had below average rateable values so that a standard charge of one unit would be more appropriate.

5. Mr Walker on the other hand has always taken the view that the charge should be not less than two units so as to discourage people from buying second homes in Wales.

6. Mainly as a result of Mr Walker's advocacy, Ministers decided that the Local Government Finance Act 1988 should provide for local authorities to set standard community charges at up to two units of the personal community charge while leaving them with discretion to set the charge at less than two units. The Act does however empower Mr Ridley and Mr Walker to prescribe a limit below two units. Mr Rifkind's legislation, the Abolition of Domestic Rates (Scotland) Act 1987, gives him no such power.

7. By February of this year, it had become clear that most Scottish local authorities would set the standard community charge at two units. Mr Rifkind therefore sought colleagues' agreement to amend the Scottish legislation so as to limit the standard community charge to one unit. The Prime Minister, Mr Ridley and Mr Walker all resisted such a change.

Mr Rifkind's latest proposals

8. Mr Rifkind's latest proposal revives his earlier one in substance. He suggests that power should be taken in the Local Government and Housing Bill now before Parliament to enable him to prescribe a limit below two units for the standard community charge in Scotland. He clearly wishes to use the proposed power to prescribe a limit of one unit with effect from next year. Local authorities in Scotland have as foreseen mostly set the standard community charge at two units. Mr Rifkind is concerned that many owners of second homes in Scotland will be paying a great deal more than under the domestic rates system. He feels that the standard charge of two units has led to difficult cases and unreasonable burdens.

9. Mr Rifkind has taken the opportunity to propose softening the impact of the standard charge in three other respects as well. He proposes that:

i. he should prescribe as exempt from the standard community charge any property which is unoccupied and unfurnished. This important change could be made under existing powers;

ii. holiday self-catering accommodation which is genuinely available on the market should be subject to non-domestic rating rather than the community charge; and

iii. "period of grace" temporary exemptions from the standard charge should be available on properties which are unoccupied even if they remain furnished.

General assessment

10. The "second homes" provisions are among the most tortured elements of the community charge, along with the provisions for hostels and the distinction between business and domestic premises.

11. The underlying problem, as you will recall from earlier discussions, is that the community charge is neither a fully-fledged poll tax, despite the nickname, nor a property tax, but an uneasy compromise between the two. Although every adult, with limited exceptions, will be expected to pay the community charge, the legislation also provides that all domestic properties should have community charges attached to them - a standard or a collective charge if not the personal charge.

12. The standard charge provides a progressive element in the community charge, though obviously a very rough and ready one. The higher the level of the charge, the rougher the roughnesses become.

Two units or less for the standard charge

13. There are two separate but related issues here. First, what powers should Mr Rifkind have? Second, what use should he make of them?

14. On the first point Mr Rifkind is (as noted above) asking no more than that his own powers in Scotland be brought into line with those which Mr Ridley and Mr Walker already have in England and Wales. Under the Local Government Finance Act 1988 Section 40(4) Mr Ridley and Mr Walker can prescribe maximum standard charges for specified classes of property of 0, ½, 1, 1½ or 2 units of the personal community charge. It is not particularly easy to deny Mr Rifkind similar powers.

15. The second point - how the powers should be used - is more difficult. Mr Rifkind's concerns clearly have cogency. Many second home owners will pay more under the community charge system than previously, and some of them will not be particularly well off. The problems include the following:

i. The "second home" may be no more than a hut in the highlands. It may seem rather harsh to charge the equivalent of two personal community charges on such properties.

ii. Alternatively the "second home" may be a small flat in town which is rented out to a tenant who lives there for three or four days a week. Whether the owner has to pay a standard community charge or not will depend on whether the community charge registration officer (CCRO) deems the tenant to have his "main residence" there (inevitably an arbitrary decision).

iii. A couple with two homes will pay two community charges if they can persuade the CCRO that one is the main residence of one of them and the other of the other. They will probably pay the equivalent of up to four community charges if the CCRO decides that they share one main residence. Here too, therefore, a rather arbitrary decision by the CCRO will cost (or save) the couple no less than two community charges. A single person with two homes will usually pay three community charges.

These problems would be mitigated, at least, if the standard community charge were limited to one unit rather than two.

16. On the other side of the argument the community charge, taken by itself, will generally be more regressive, the lower the standard charge on second homes. Although a significant minority of people with chargeable second homes will not be particularly well-off, many of them will be wealthy and easily able to afford the standard charge. Limiting the standard charge to one unit rather than two would be criticised as a concession to the wealthy. It would fuel complaints that the community charge does not adequately reflect ability to pay.

17. The earlier Ministerial discussion assumed that if Mr Rifkind were allowed to limit the standard community charge to one unit in Scotland, then England and Wales would have to follow suit. This is not, perhaps, self-evident. It would seem quite possible for Wales to retain a standard charge of up to two units even if

Scotland limits it to one unit. Individual local authorities will anyway have discretion to set standard community charges at different levels; and the lower expected level of communitycharges in Wales would provide some justification for a higher limit on the standard charge multiple there. The average CC figures for the three territories in the current year (notional for England and Wales) are:

	£
Scotland	281
England	274
Wales	171

Exemption of unused and unfurnished properties

18. Mr Rifkind's proposal that unoccupied and unfurnished properties should be exempt from the community charge risks repeating the errors of the "window tax" of an earlier age. DOE intend to limit the period of exemption to three months, with discretion to extend in certain defined cases. A continuing exemption would encourage people to leave second homes unoccupied and unfurnished, thus exacerbating the problems of housing shortage.

Other proposals

19. Mr Rifkind's proposals to apply "period of grace" exemptions to properties which are unoccupied but furnished and to treat holiday self-catering accommodation as subject to business rates rather than the community charge seem sensible and do not appear to raise significant issues of Treasury interest.

Conclusions

20. Since the main interest lies with DOE, the Scottish Office and the Welsh Office rather than the Treasury, we suggest you should delay commenting on Mr Rifkind's proposals until Mr Ridley has commented. That would anyway be tactful vis a vis Mr Ridley and Mr Rifkind. We understand that No 10 are pressing for early responses to Mr Rifkind's letter but DOE are having considerable difficulty in reaching a view.

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21. If you agree, we will stand ready to offer you a draft letter just as soon as Mr Ridley has commented. This should, we suggest, note the concerns discussed above about the effects on private rented accommodation and efficient use of the housing stock, together with any other points, not least on equity, which you think it right to make.

AJCE

A J C EDWARDS

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

mp

20 June 1989

CHIEF SECRETARY
REC. 21 JUN 1989
ACTION Mr Potter
COPIES TO Cx, Mr Anson, Mr Phillips, Mr Edwards, Mr AM White, Mr Hodson, Mr G White

Dear Secretary of State

STANDARD COMMUNITY CHARGE

Malcolm Rifkind copied to me his letter to you of 8 June.

I sympathise with the difficulties which Malcolm is having in this area and I certainly have no objection to proposals which would bring the operation of the standard charge in Scotland more into line with the way in which it will work in Wales and England. But the proposals in his paper go further than that. I could not agree to his simply taking a power to prescribe the multiplier up to a maximum of 2, as proposed in paragraph 8.1 of his paper. I do not see how this would do anything to ease the pressures on Malcolm (indeed, it would increase them) unless at the same time he were to give a commitment to use it to set a maximum of one and it has already been agreed in our correspondence earlier this year that this would cause unacceptable difficulties for both of us.

I suggest that it would be better for Malcolm to allow greater flexibility in the operation of the charge by introducing more classes in the way our system does. He could at the same time take a power akin to ours to prescribe maximum multipliers in each case, but it would have to be made plain that there was no intention of using this to set an across-the-board level of a maximum of one.

WALKER TO RIDLEY 20/6

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

/The experience

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The experience with local authorities in Wales in relation to the standard charge suggests that a large factor in their decisions on the levels of the multipliers will be the assumptions which I will build into the Revenue Support Grant settlement. Malcolm assumed the maximum multiplier in his Settlement. Of course this is a matter for his judgement, but I wonder if he would find it helpful in dealing with criticism if he were to announce that he will equalise on the basis of a lower assumed multiplier next year.

/ I am copying this letter to other members of E(LF).

Yours sincerely

Keith Davies

Approved by the Secretary of State
and signed in his absence

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~~ Security

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The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

mwp

20 June 1989

Dear Malcolm.

THE STANDARD COMMUNITY CHARGE

I have seen a copy of your letter of 8 June to Nicholas Ridley about problems being caused by the standard community charge in Scotland and proposing action to tackle them.

I mentioned in my letter of 2 March that if any reduction in authorities' revenue from the standard community charge were to be compensated for by increases in the level of personal community charge, this would have an impact on community charge rebate expenditure. About a quarter of any additional revenue raised through increased personal community charges would effectively be raised through additional benefit expenditure, and this has not been budgeted for. Furthermore, as 20% of the national average community charge has been added to the Income Support benefit rates on a "once-off" basis, any increase in the level of community charges would almost certainly lend to pressure for similar increases to Income Support rates.

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

✓ 20/6

Yours ever

JOHN MOORE

MOORE TO RIFKIND 20/6

SECRETARY OF STATE FOR THE ENVIRONMENT

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pm p

CHIEF SECRETARY
REC. 2 JUN 89
ACTION Mr Edwards
COPIES TO Chx, Sec PM Middleton, Mr Anson, Mr Phillips, Mr Culpin, Miss Peirson, Mr Potter, Mr A M White, Mr Hudson, Mr G C White, Mrs Chaplin.

My ref:
Your ref:

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The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
LONDON
SW1

June 1989

RIDLEY TO RIFKIND 23/6

Dear Secretary of State,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 8 June. I have also seen the letters from Peter Walker and John Moore dated 20 June.

I understand the difficulties which the operation of the standard community charge is causing, but I do not believe that the solutions you propose are necessarily the best way of tackling them. I think that the way forward lies in allowing charging and levying authorities in all three countries more discretion than is currently available to them to allow a reduction or remission in the standrad charge in cases where its effects appear unduly hard. (There would need to be some general criteria here to ensure that local authorities exercised their discretion fairly as between different individuals in similar circumstances.)

This approach would not involve a radical restructuring of the standard charge, with the concomitant danger of our being seen to be over-generous to second home owners, and would enable us to say quite genuinely that local authorities have it in their power to provide relief in the sorts of cases you mention. It would also, by targeting the relief on the cases where it is needed, minimise the effect on rebates expenditure, about which John Moore is concerned.

Any such provision would require an amendment both to our community charge legislation and yours, in the Local Government and Housing Bill which enters Lords Committee in mid-July. We will therefore need to agree the details quickly if you and colleagues are content with the approach I am suggesting.

We should need to handle any announcement carefully: I think that a PQ answer in advance of Lords Committee would be best, with simultaneous press releases in the three countries. If you are content, my officials can prepare drafts in consultation with your officials and Peter Walker's.

I am sending a copy of this letter to members of E(LF).

Yours sincerely

PP NICHOLAS RIDLEY

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

cst.ps/3ce26.6/mins

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PS/CST TO EDWARDS 26/6

FROM: **MISS C EVANS**
DATE: **26 June 1989**

MR A J C EDWARDS

cc: PPS
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr A M White
Mr Hudson
Mr G C White
Mrs Chaplin

STANDARD COMMUNITY CHARGE

The Chief Secretary was grateful for your submission of 19 June. He has also seen Mr Ridley's letter of 23 June. In principle he dislikes the standard community charge quite a lot. He does not see how we could, or why we should, deny Mr Rifkind the powers that Mr Ridley and Mr Walker already have. He would be quite happy to see the charge limited to one unit in view of its many anomalies, but he believes that an exemption for unused or unfurnished property would be unwise.

2 The Chief Secretary notes that Mr Ridley wishes to extend local authority discretion and, subject to the qualifications in his letter, the Chief Secretary thinks he could live with that.

3 The the Chief Secretary is therfore sympathetic to Mr Rifkind, but would prefer to see his response to Mr Ridley before commenting.

CE

MISS C EVANS
Private Secretary