lg.ph/AE/250

EDWARDS TO CST 30/6

CONFIDENTIAL

CHIEF SECRETARY

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

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr McIntyre
Mr A N White
Mr Hudson
Mr G C White
Mrs Chaplin

Ch/ To note that CST sympathises with Mr Rifkind's desire for a power - which Messrs Ridley and Walker already have - to prescribe a standard CC of less than 2 units. But, unlike Messrs Ridley + Walker, Mr Rifkind proposes to exercise this power. DIS

STANDARD COMMUNITY CHARGE

In response to my earlier submission, you said you would like to defer contributing to the Ministerial exchanges on this subject until you had seen Mr Rifkind's response to Mr Ridley's letter of 23 June. Mr Rifkind has now written (letter of 29 June received today) reaffirming his earlier position that he must have a power, like Mr Ridley and Mr Walker, to set the standard community charge multiplier at a level below two units. He would then use the power to set the multiplier at one unit in Scotland.

2. In accordance with your reaction to my earlier submission, the attached draft letter to Mr Rifkind combines sympathy for his problems over the standard community charge with support for Mr Ridley's preference for giving local authorities a discretion of clemency in defined categories of hard case.

3. One is bound to have sympathy with what Mr Rifkind has to say about hard cases. In one well-publicised recent Scottish case, a widow who has left her home to look after her terminally ill daughter has been ordered to pay a standard charge of two units on her own home as well as a personal charge at her daughter's home. The question at issue is whether Mr Ridley's solution of giving local authorities discretion to be merciful in defined categories of hard case will solve the problem or whether the only solution, as Mr Rifkind argues, is to reduce the standard charge multiplier. We understand that Mr Rifkind personally decided to take a harder line against Mr Ridley's suggestions than his officials had recommended.

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4. From a Treasury point of view, setting the standard charge multiplier at one would have the disadvantage of raising personal community charges by about £3 on average and increasing community charge rebate expenditure by approaching £30 million a year if applied throughout Great Britain. The extra personal community charge payable by people on income support could also generate unwelcome pressures for additional expenditure.

5. From a wider point of view, a Government decision to prescribe a standard community charge multiplier of one would be severely criticised as being an unjustified concession to wealthy people with second homes, including Ministers themselves.

6. The draft letter attached would be intended to encourage Mr Rifkind to explore more sympathetically a solution along the lines sketched by Mr Ridley.

7. The draft letter also expresses concern about Mr Rifkind's 'window tax' proposal to exempt unoccupied and unfurnished dwellings from the standard charge altogether.

8. I understand that No 10 will advise the Prime Minster to arrange for this matter to be discussed and resolved at E(LF) on 11 July. This seems to offer the best way ahead in the circumstances.

AJCE

A J C EDWARDS

lg.ph/AE/249

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DRAFT LETTER FROM THE CHIEF SECRETARY TO:

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

STANDARD COMMUNITY CHARGE

I have seen the recent correspondence on this subject beginning with your letter of 8 June and resting with your letter of 29 June.

I sympathise with the point that your powers in Scotland differ from Nick Ridley's in England and Peter Walker's in Wales. I also share your concern about the potential damage to the community charge policy from "hard" cases on second homes.

That said, I share Nick Ridley's anxieties about prescribing a maximum multiplier of one for the standard community charge, even in Scotland. While it might be possible for this to co-exist with a maximum multiplier of two in England and Wales, there seems little doubt that Nick Ridley and Peter Walker would come under pressure to follow your lead. We would therefore risk ending end up with a standard charge multiplier of one throughout the country.

My specific concerns about this are as follows:

- First, setting the standard charge multiplier at one would have the political difficulty that it would be seen as a substantial concession to the wealthy, including many Ministers.

- Second, a standard charge multiplier of one would increase the average personal community charge by an average of some £3 a head (and by substantially more in areas with a large number of second homes), with additional community charge rebate costs of some £2.5 million a year in Scotland and £25 million in England. In addition, people on income support would have to pay slightly more.

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Although I well understand your misgivings, I would hope it may be possible to solve the problem, as Nick Ridley has suggested, by giving local authorities discretion to deal appropriately with defined categories of hard cases. It seems to me that this solution merits close consideration as a matter of urgency.

I see no problem in your other proposals except that I would not favour prescribing as exempt from the standard charge any property which is unoccupied and unfurnished. I fear that a continuing exemption on these lines would encourage people to retain second homes, while leaving them unoccupied and unfurnished, thus exacerbating the problems of housing shortage. Would it not be better to limit the period of exemption to (say) three months, possibly with discretion to local authorities to extend the period in certain cases?

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

SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

RIFKIND TO RIDLEY 29/6

BF 6/7

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 JUN1989
ACTION CST
COPIES TO

29 June 1989

✓ 29/6

Dear Nicholas,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 23 June about proposals relating to the operation of the standard community charge. I have also noted the comments I have received from Peter Walker and John Moore, both writing on 20 June.

I consider that the level of multiplier set by local authorities is at the heart of the problems we are encountering. As I explained in my paper, the assumption made in the Green Paper that a multiplier of 2 would leave second home owners broadly unaffected by the removal of rates simply has not been borne out by experience in Scotland. The average rates bill on second homes in the Strathclyde Region, which contains almost 30% of standard charge properties in Scotland, was £210-£220 last year while the standard charge, based on a multiplier of 2, averages £585 in that Region. There are moreover many properties, both in Strathclyde and throughout Scotland, where the difference is extreme, involving an increase of 10 times or more on last year's domestic rates' bill.

This was not anticipated and the conclusion I would draw is that in Scotland a multiplier of 2 is not reasonable. While therefore I understand the preference to maintain the present position in practice so far as England and Wales is concerned, I feel I need additional powers. The fact is that you have these powers and can, if you so choose, adjust the level of the multiplier for particular purposes. My suggestion that I take such powers to intervene is aimed both at providing me with the same statutory powers as you have and at preserving the statutory position in all 3 countries that the maximum could be up to 2. While we would be likely to use our discretion differently in certain respects to reflect different circumstances in England, Scotland and Wales, the statutory position would therefore be the same.

I am pleased that you agree that we should take steps in any event to allow the incidence of the standard community charge to be reduced. However I am not sure that your suggestion that local authorities should be given greater discretion to allow a reduction or remission in the

standard charge in cases where its effects seem unduly hard offers us a way forward. The introduction of discretion to allow for specific categories of personal hardship would sit very uneasily alongside our policy that hardship arising from personal circumstances under the community charges relates to means and is therefore dealt with through the personal community charge rebate scheme. A major difficulty I see in this approach lies in drawing up the categories for which discretionary remission of the charge would be available. One of the points that has emerged from our detailed look at how the present arrangements are working is the number of <u>different</u> personal circumstances in which apparent hardship is occurring.

It was for these reasons that we moved away from any radical attempt to resolve the problem by reference to 'classes' of people that were affected and suggested building on our present arrangements. The main instrument I proposed for tackling the 'difficult' cases, (apart from those cases where the problem is simply a large increase of the pre-1 April rates bill) was the introduction of a flexible period of grace for unoccupied but furnished property. This seemed to me to offer authorities considerable flexibility to act on a case by case basis and in a manner in which they are already becoming familiar, in that they are already determining periods of grace for unoccupied and unfurnished properties. In other words it fits the Scottish context particularly well, and I hope it need not cause problems for colleagues. It also avoids the kind of problems I have outlined above.

I would therefore be grateful if you could consider this suggestion again. If there is continuing concern about the nature of this proposal (although I think this is misplaced) we would need to consider leaving aside the proposed statutory minimum period of 3 months and instead giving authorities the power to set any period of grace, on a case by case basis, with appropriate powers to extend or shorten the period where they thought fit.

I am disappointed that more consideration does not appear to have been given to my other suggestions. The proposal to exempt unoccupied and unfurnished properties would resolve what is a serious, real and unavoidable bureaucratic tangle for local authorities and, as I indicated, the revenue foregone would be small, particularly since most authorities have set periods of grace at more than the minimum. In this connection, while I understand John Moore's concerns, I think that the revenue effects of our proposals have to be seen in perspective. A reduction of the multiplier to 1 would add, at the very most, £2-£3 to everybody's annual community charge bill. Our other proposals would add considerably less.

I would be grateful finally for an indication of how the proposal that holiday homes which are available for letting should move into rating is developing. This was, as you know, part of the package in my paper to colleagues and I understand that you are considering something similar.

While welcome in themselves I feel strongly that these more detailed changes, if we can agree them, would still be inadequate to deal with the discontent on the standard community charge arising not least from our own supporters in Scotland which will continue unless colleagues can agree that I tackle the multiplier issue. My proposal on that is framed with the precise object of bringing the primary legislation in the three

countries into line and I really do not see why either you or Peter Walker should be prejudiced if I do that.

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

Yours ever,

Malcolm

MALCOLM RIFKIND

3/7

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~~8F 5/6/7~~

This string on EF folder pls

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 July 1989

Dear David,

STANDARD COMMUNITY CHARGE

The Prime Minister has seen the recent exchanges on the Standard Community Charge, culminating in your Secretary of State's letter of 29 June to the Secretary of State for the Environment. She suggests that this issue might be added to the agenda of the E(LF) meeting on 6 July.

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

Yours,
Paul

PAUL GRAY

David Crawley, Esq.
Scottish Office

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2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

pmp
(Ch is not attending E(LF) next Tuesday)

CH/EXCHEQUER
REC. 07 JUL 1989
ACTION CST
COPIES TO

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

6 July 1989

Dear Secretary of State,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 29 June in response to mine of 23 June.

I certainly could not object to your having the same powers as are available to Peter Walker and me to prescribe maximum multipliers for certain classes of property. I would, however, still find great difficulties with any proposal to use this discretion to set a maximum multiplier of 1 in respect of any significant proportion of community charge properties. This would lead to great pressure on Peter and me to do the same in England and Wales, but there would be severe difficulties in our being seen to soften the effects of the charge in the case of people who would be represented by our opponents as a privileged class. While, therefore, I should be perfectly content for you to take the power to prescribe maximum multipliers, any specific proposals to exercise it in a way which differs form the situation in England and Wales should be the subject of consultation with E(LF) colleagues in the normal way.

From your letter it appears that there may be some misunderstanding of the nature of the proposal set out in my letter of 23 June. I was not suggesting that local authorities should have a discretion to remit or reduce the charge in individual cases. What I have in mind is a power by regulation to allow local authorities to make schemes under which people who fall within the terms of the scheme would be entitled to a reduction or remission of the charge. The regulations themselves could contain provisions on the fair and equitable application of such schemes, and I imagine that we should give general advice on how we see the power being used. Although it would be important to provide safeguards to ensure the power was not abused. I do not think we would want to be as prescriptive as to the

classes of circumstance which would qualify people for a reduction or remission as you are suggesting. This is something which would be for individual local authorities to decide in the light of the criteria they had decided to adopt.

While I accept, of course, that local authorities have discretion now, the point is that if they exercise it they benefit all second home owners. Under my proposal an authority would be free to set a standard charge multiplier of 2, but would be able to set a lower multiplier for certain categories of property within the various classes. At the moment authorities can claim that the system is not flexible enough to enable them to be generous, and can blame the Government. Making the standard charge more "fine-tunable" would enable us to say quite genuinely that the remedy in particular sorts of cases lies in the hands of the local authority.

It follows that since I am not proposing a "hardship" relief to be operated in individual cases, the point you make about rebates does not really arise. It is worth making the point, however, that there are, of course, no rebates for the standard charge.

I think it would be undesirable to exempt all unoccupied and unfurnished property from the standard charge. We could, I think, be criticised if we adopt a policy which encouraged people to leave domestic property lying idle. The advantage of my proposal is that it would allow authorities to provide relief, if they wished, for property owned by people living in accommodation which went with their job, or property subject to a standard charge while an elderly person was being cared for by relatives or any of the other kinds of case which currently give rise to difficulties.

My proposal would also cover your suggestion that the existing period of grace provisions should apply to properties which are unoccupied and furnished. An authority would be able to provide any relief which seemed appropriate, without necessarily providing a windfall gain to every owner of such property.

So far as holiday homes are concerned, I am proposing that commercially available holiday accommodation should in general be rateable as non-domestic property, except in cases where self-contained units of property are available for commercial letting for less than 140 days in the year. But I would see no difficulty in your making provisions which differed slightly in the details if you were so minded.

I short, I believe, that my proposals would provide a solution to the difficulties you identify, provided authorities made sensible use of the discretion available to them. It would be for the authorities themselves to justify any decision not to grant relief to people in circumstances which gave rise to controversy. It would, in my view, be better to take this approach than to involve Ministers directly in making decisions on which reliefs should or should not be offered. If, in the longer term, it becomes apparent that the standard charge is still giving rise to difficulties then we could consider a more direct use of powers to prescribe maximum

multipliers (which, as I have said, I should be quite content for you to take). But I do not think we should go down the road until we have tried the alternative approach I have suggested.

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

Yours sincerely

pp NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

cst.ps/4jm3.7/drfts

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Treasury Chambers, Parliament Street, SW1P

Chancellor
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr A J C EDWARDS
Mr Culpin
Miss Peirson
Mr Potter
Mr McIntyre
Mr A N White
Mr Hudson
Mr G C White
Mrs Chaplin

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London SW1

3rd July 1989

Dear Malcolm,

STANDARD COMMUNITY CHARGE

I have seen the recent correspondence on this subject beginning with your letter of 8 June and resting with your letter of 29 June.

I sympathise with the point that your powers in Scotland differ from Nick Ridley's in England and Peter Walker's in Wales. I also share your concern about the potential damage to the community charge policy from "hard" cases on second homes.

That said, I share Nick Ridley's anxieties about prescribing a maximum multiplier of one for the standard community charge, even in Scotland. While it might be possible for this to co-exist with a maximum multiplier of two in England and Wales, there seems little doubt that Nick Ridley and Peter Walker would come under pressure to follow your lead. We would therefore risk ending end up with a standard charge multiplier of one throughout the country.

My specific concerns about this are as follows:

- First, setting the standard charge multiplier at one would have the political difficulty that it would be seen as a substantial concession to the wealthy, and also to many Ministers.

- Second, a standard charge multiplier of one would increase the average personal community charge by an average of some £3 a head (and by substantially more in areas with a large number of second homes), with additional community charge rebate costs of some £2.5 million a year in Scotland and £25 million in England. In addition, people on income support would have to pay slightly more.

Although I well understand your misgivings, I would hope it may be possible to solve the problem, as Nick Ridley has suggested, by giving local authorities discretion to deal appropriately with defined categories of hard cases. It seems to me that this solution merits close consideration as a matter of urgency.

I see no problem in your other proposals except that I would not favour prescribing as exempt from the standard charge any property which is unoccupied and unfurnished. I fear that a continuing exemption on these lines would encourage people to retain second homes, while leaving them unoccupied and unfurnished, thus exacerbating the problems of housing shortage. Would it not be better to limit the period of exemption to (say) three months, possibly with discretion to local authorities to extend the period in certain cases?

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

Yours Ever,
John

JOHN MAJOR