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CHIEF SECRETARY

FROM : A J C EDWARDS (LG)
 x4480
 10 July 1989

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

Ch/ To be taken at E(LF) in the morning. Note Mr Ridley's latest position (see para 8); the only new development since you saw these papers last.

E(LF), 11 JULY :STANDARD COMMUNITY CHARGE

At the Prime Minister's suggestion (Paul Gray's letter of 3 July), E(LF) is to consider the issues surrounding the standard community charge raised in the recent correspondence between Mr Rifkind and Mr Ridley, to which you, Mr Walker and Mr Moore have contributed.

Treasury and wider interests

2. As noted in my minute of 19 June, which also summarised the past history, DOE, the Scottish Office and the Welsh Office have the leading interest in this subject. The key issue is equity between chargepayers. The Treasury does, however, have a considerable interest in:

- i. maintaining the take from the standard community charge:
 the less revenue local authorities raise from the standard charge, the higher the personal community charge will be and the higher will be the level of expenditure on community charge rebates (available on personal community charges only); and
- ii. encouraging efficient use of the housing stock:
 exempting unoccupied and unfurnished properties from the standard charge would encourage inefficient use and exacerbate housing shortage.

3. From a wider point of view, across-the-board reductions in the standard charge would make the community charge system more regressive and be criticised as a concession to the wealthy. On the other hand, the standard charge will continue to be a fertile

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source for anomalies and complaint unless local authorities have some discretion in its application. Since authorities will have an incentive to protect their personal community chargepayers, they are likely to exercise such discretion responsibly.

The debate so far

4. Mr Rifkind's original proposals (8 June letter) were:
 - i. He should take powers to prescribe a standard community charge multiplier of up to two personal community charge units in Scotland (and probably use the power to prescribe a maximum multiplier of one unit).
 - ii. Existing powers should be used to prescribe as exempt from the standard charge any domestic property which is unoccupied and unfurnished.
 - iii. Self-catering accommodation genuinely available on the market for holiday lets should be rated as business, not domestic, property.
 - iv. Local authorities should have discretion to waive the standard community charge on properties which are unoccupied but furnished for three months in the first instance, with discretionary extensions thereafter.
5. Mr Ridley (23 June) argued that a better approach would be to put the onus on local authorities to deal with hard cases. The legislation, primary and secondary, should, he suggested, be adapted to give local authorities in all three countries more discretion to allow deduction or remission of the standard community charge in cases where its effects appeared unduly hard. Mr Walker had earlier (20 June) taken a similar line.
6. Mr Rifkind's reply (29 June) reaffirmed his earlier demand for additional powers in line with Mr Ridley's and Mr Walker's; underlined the difficulties which would arise from trying to define in legislation or regulations the very many categories of hard case which might arise; and argued that such an approach would have disagreeable repercussions for the personal community charge. His proposed solution remains to reduce the standard charge multiplier in Scotland to one unit and give local authorities discretion to allow more than the statutory three months period of grace for unoccupied but furnished properties.

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7. Your own letter (3 July) sympathised with Mr Rifkind's wish to have the same powers as Mr Ridley and Mr Walker while expressing the hope that a solution might be found along the lines suggested by Mr Ridley. You stressed the political difficulties and community charge rebate consequences of any imposed general reduction in the standard community charge multiplier and argued against exemption for unoccupied and unfurnished properties on the grounds that this would encourage wasteful use of the housing stock.

8. Mr Ridley has now written again (6 July) saying that he has no objection to Mr Rifkind taking the same powers as he and Mr Walker already have but standing by his earlier proposal of putting the onus on local authorities to deal with hard cases. He explains that what he has in mind is, not to prescribe in detail what concessions local authorities should and should not give, but rather to take "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". He adds that under his proposal "an authority would be free to set a standard charge multiplier of two, but would be able to set a lower multiplier for certain categories of property within the various classes".

9. Mr Ridley sees his approach of giving discretion to local authorities as providing a much better solution than that proposed by Mr Rifkind to the problems of unoccupied and unfurnished and unoccupied but furnished properties. For holiday homes, he confirms that he too proposes to rate these as non-domestic property except where they are available for letting for less than 140 days in the year.

General assessment

10. We suggest that you should continue to support a way ahead on the lines indicated, and now clarified, by Mr Ridley. Our impression is that the opposition to Mr Rifkind's approach comes more from Mr Rifkind himself than his officials. Putting the onus on local authorities, within certain broad guidelines, seems a much better targeted solution than imposing a lower standard community charge multiplier across-the-board and exempting unoccupied and unfurnished property from any form of tax charge.

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11. There are points of which you should be aware on the number of standard community charge properties in Scotland and the financial implications of setting a lower standard charge multiplier.

12. Standard charge properties. Scottish Office officials have told us that in practice only some 30,000 out of 80,000 properties in Scotland registered for the standard community charge are at present paying the charge. The rest are unfurnished and unoccupied. Many of them are local authority properties. Local authorities would like to lose the chore of having to review these properties every three months. From the point of view of encouraging efficient use of the housing stock, however, it seems highly desirable that this chore should continue.

13. Financial implications of lower multiplier. According to calculations by Scottish Office, Welsh Office and DOE respectively, a reduction from two to one in the standard charge multiplier would increase the average personal community charge by about £3 in Scotland and Wales and by about £5 in England: the increases in individual areas would vary considerably, depending on the number of second homes in the area. Such increases would, on DSS's estimates, increase the cost of community charge rebates by some £2 million in Scotland, £1 million in Wales and £25 million in England. In addition, people on income support would have to pay slightly more than otherwise.

Suggested line to take

14. - Agree that Mr Rifkind's powers to set maximum standard community charge multipliers should be brought into line with those of Mr Ridley and Mr Walker.
- On the suggestion of a maximum multiplier for standard community charge, do hope that solution may be found along lines Mr Ridley has suggested and clarified.

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- Three main problems with Mr Rifkind's approach of prescribing a maximum multiplier of one unit:
 - i. looks like concession to wealthy which would be damaging in present circumstances;
 - ii. would add significant amount, if generalised, to national bill for community charge rebate (£25-30 million);
 - iii. not well-targeted: even a multiplier of one will be excessive in certain hard cases.

- Much attracted by Mr Ridley's approach of giving local authorities substantial measure of discretion, while avoiding the excessive level of specification and prescription which Mr Rifkind earlier thought Mr Ridley was suggesting. Discretion would probably need to extend to personal circumstances as well as categories of property.

- Opposed to permanent exemption for unoccupied and unfurnished properties. Dangers of a new window tax. Would encourage dereliction and militate against efficient use of housing stock. Prefer fettered discretion for local authorities in this area, as envisaged by Mr Ridley.

- Content with Mr Rifkind's proposals on unoccupied but furnished property and holiday letting accommodation, subject to glosses noted by Mr Ridley.

- [IF MR WALKER RAISES HIS SUGGESTION of equalising Government grant in Scotland next year on assumption of a lower standard community charge multiplier.] Content that officials should explore this.

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