lg.ph/AE/319

RESTRICTED

1. MR POTTER (LG1)

2. CHIEF SECRETARY

FROM : G C WHITE (LG1)
Ext 5731
25 July 1989

cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mrs Lomax
Mr Hudson (LG1)
Mrs Chaplin

Ch/ To note final position reached; Mr Rifkind will be making statement tomorrow.

STANDARD COMMUNITY CHARGE

E(LF) considered on 11 July issues surrounding the standard community charge raised in the recent correspondence between Mr Rifkind and Mr Ridley. The meeting concluded that Mr Rifkind, in consultation with Mr Ridley, Mr Walker and the Chief Secretary, should consider whether a package of measures could be agreed which would meet the problems he had identified.

2. The standard community charge is levied on domestic properties at which no-one is solely or mainly resident, basically second homes. Local authorities can set standard community charges at up to two units of the personal community charge but in Scotland most authorities set the charge at two units. Mr Rifkind has been concerned for some time that many owners of second homes 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.

3. A summary of the issues discussed at the E(LF) meeting on 11 July is contained in Mr Edwards' submission of 10 July. Mr Rifkind's latest letter of 21 July outlines proposals that have been discussed at official level. These proposals are designed to soften the impact of the standard community charge. Broadly, he is proposing the following:

a. Scottish legislation should be amended to bring his powers in relation to setting standard community charge multipliers into line with those in England and Wales. This allows the Secretary of State to specify lower multipliers for particular classes of property.

b. Legislation would be introduced in Scotland, England and Wales to allow local authorities discretion to define different specified classes of property for the purpose of levying different multipliers. In doing so, local authorities would have to take account of certain factors. These factors would exclude the physical characteristics of properties and include the personal circumstances of those subject to the standard charge. This would enable local authorities to levy a lower charge where the multiplier specified for a certain class of property would cause personal difficulties;

c. the list of classes of property for which reduced multipliers are specified would be extended to cover convalescent cases, eg where a property is left empty because the owner is absent being cared for by a friend or relative.

4. The package proposed by Mr Rifkind is very much along the lines originally suggested by Mr Ridley and supported by your predecessor in his letter of 3 July. It is designed to help alleviate some of the more difficult problems arising from the standard community charge without introducing any widespread repercussions that could affect personal community charges and hence community charge rebates.

5. Mr Ridley responded on 21 July saying that he was content with the proposals put forward by Mr Rifkind. Unfortunately, the letter was not copied to you or Mr Walker. This was presumably an oversight by DOE officials and the Scottish Office have sent us the attached copy. Although Mr Walker has not seen Mr Ridley's letter, we understand from Welsh Office officials that Mr Walker does not foresee any difficulties with Mr Rifkind's proposals.

6. If you are content with Mr Rifkind's proposals, a short draft letter is attached for you to send. Mr Rifkind will be minuting the Prime Minister outlining the package he has proposed and, providing everyone is content, would like to make a statement tomorrow. A draft of the proposed statement is attached at Annex A. This looks satisfactory and there is no strong Treasury interest but you may care to have a quick look through the statement. The Scottish Office will be clearing it at Ministerial level shortly.

G C WHITE

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DRAFT LETTER FROM THE CHIEF SECRETARY TO MR RIFKIND

STANDARD COMMUNITY CHARGE

Thank you for my copy of your letter of 21 July to Nick Ridley. I have also seen Nick's response of the same day.

I think that the proposals you have put forward represent a sensible way of dealing with the problems associated with the standard community charge. I am therefore content for you to proceed along the lines outlined in your letter.

I am copying this letter to Peter Walker and Chris Patten.

NORMAN LAMONT

cc PS/Secretary of State
PS/Ministers
PS/PUS
Solicitor
Mr Cameron
Mr Scholar
Mr Carter
Mr Baxter.

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My ref:

Your ref

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

rec'd 24/7 89.

21 July 1989

Dear Secretary of State

Thank you for your letter earlier today outlining your proposals for the standard community charge following our discussion at E(LF) last week.

We have already agreed that the Abolition of Domestic Rates Etc (Scotland) Act 1987 should be amended to give you the same powers as those available in England and Wales under Section 40 of the Local Government Finance Act 1988. It is important to ensure consistency in the treatment of empty property north and south of the border and I welcome your commitment that the two systems should be aligned wherever practicable. I am sure you will consult colleagues before seeking to use such powers.

You indicate that you intend to use your new power to prescribe a class of property that is empty because an individual is required to live with friends or relatives as a result of illness or infirmity. I agree with this. It is right that empty property owned or leased by people receiving care in the community should be distinguished from the genreal class of second homes. Furthermore it seems entirely appropriate that this distinction should be achieved by a centrally prescribed class - or classes. I therefore propose to mirror your extra class by prescribing two further classes under Section 40 of the Local Government Finance Act. The first would set a zero multiplier for property vacant for up to 12 months, the second would be an extension allowing authorities to set their own multipliers for such property, vacant in excess of 12 months. This approach takes account of the possible housing implications of the charge and is consistent with our treatment of property owned by long stay patients in hospital and residential care homes. I suggest that we provide the same relief regardless of whether it is the convalescent or the carer who owns the vacated property. As you say, officials will need to draw up the precise details of the new class.

I am grateful for your support in principle to give local authorities greater flexibility in administering the standard charge. We will need to consider the parameters for their discretion, balancing freedom to respond to local circumstances against possible abuse of the sort you describe.

Your view that the parameters exclude the ability to define a class by reference to physical characteristics of the property accords with mine. I think this closes the door on classes whose only distinguishable feature is low rateable value and I think this must be right. There would instead need to be some circumstance relating to the individual to justify the disabled.

Finally I note your decision to redraw the boundary between domestic and non-domestic property so that single dwellings available for holiday letting will be taken into non-domestic rating, with which I agree.

I am grateful for yout constructive package of proposals which pave the way for significant improvements in the standard community charge. In view of the agreement between us I wonder whether a meeting is necesary at this stage. Perhaps it would be more productive to discuss these issues when officials have marshalled more detailed information on the possible parameters for local discretion. In the meantime you will no doubt wish to consider the scope for a public statement on all of this.

Yours sincerely

NICHOLAS RIDLEY

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

ANNEX A

STANDARD COMMUNITY CHARGE: STATEMENT ON PROPOSED CHANGES BY THE SECRETARY OF STATE

I wish to announce a number of changes which I am proposing to make to the arrangements for administering the standard community charge in Scotland.

I have received a significant number of representations about the standard community charge and recently received a paper from the Convention of Scottish Local Authorities outlining their major concerns. I am quite clear that many of the problems which have arisen can be attributed directly to local authorities' decisions in almost every case to set their standard community charge multipliers at the maximum of 2 when we had given them the discretion to set the multiplier anywhere between one and 2.

Against this background and in the light of the real problems that have as a result arisen, I have decided to make the following changes to the present arrangements.

First I am proposing to take powers to prescribe certain classes of premises for which I will have the power to prescribe a maximum multiplier. I will be considering carefully what classes of premises I ought to prescribe under this proposal but it will certainly include those premises which are unoccupied because the owner is an old person who is convalescing with relatives and who would, but for the care provided for those relatives, be in a home or hospital and thus exempt from the standard charge. This is one of the particularly difficult cases where I am clear that something must be done.

I am aware also that different circumstances apply in different local authority areas which might not necessarily be covered by classes which I prescribed and I am therefore proposing to allow authorities to determine, within certain limits, their own classes of premises for which they could set different multipliers. Authorities might, for example, wish to extend the class for old people living with relatives beyond what I prescribed or, by way of another example, they might wish to create a class of premises owned by people obliged to live in tied accommodation. These

arrangements would also allow a Regional Council to set different maximum multipliers for its classes in different District Council areas, something specifically requested by COSLA in the proposals which they put to me. [Last, I will be reviewing the possibility of defining the boundary within which self-catering accommodation is included within non-domestic rating with the intention of prescribing conditions under which single units would be subject to rating rather than the standard community charge.]

These arrangements will give local authorities considerably greater flexibility in their operation of the standard community charge arrangements and this is precisely what COSLA have asked me for. I hope, therefore, that the new arrangements will be welcomed. I am proposing that the necessary amendments to the Abolition of Domestic Rates Etc (Scotland) Act 1987 to allow for the introduction of these changes should be made in the context of the Local Government and Housing Bill and amendments to that Bill are being tabled today. On this timetable, I would envisage the changes coming into effect for the financial year 1990-91.

These proposals tackle the main problems that have emerged in relation to the incidence of the standard charge and are a direct response to the concerns expressed by COSLA and others. I hope that local authorities will reciprocate by giving careful consideration to the burden on standard charge payers in setting standard community charge multipliers for 1990-91.