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The Rt Hon The Viscount Whitelaw PC CH MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON SW1

6 February 1987

Dear Lord President

**ABOLITION OF DOMESTIC RATES ETC (SCOTLAND) BILL
TRANSITIONAL PERIOD 1988-1992**

This letter seeks the agreement of E(LF) that I should bring forward amendments to the above Bill at Commons Report Stage, provisionally scheduled for the first week in March, to delete the provisions it contains for a three year transitional period beginning on 1 April 1989. Domestic rates would thus be abolished entirely on that date and all those liable to pay the community charge would be expected to pay the full amount with effect from financial year 1989-90.

The idea of a transitional period has featured in our proposal since the Green Paper 'Paying for Local Government' was published in January 1986. We envisage that domestic rates would be phased out over the three years beginning on 1 April 1989, being payable in those years at respectively 60%, 40% and 20% of their former level. The community charge would become the balancing factor and would therefore increase correspondingly during the transitional period, as well as immediately bearing the impact of any overspending by authorities, thus securing from the outset our important objective of increasing accountability. There are at present roughly 2 million ratepayers, one million of whom have spouses so that the number of strictly 'new' payers - young single adults, people living with relatives and so on - would be about 750,000. The average community charge in Scotland at today's levels would be £221 (£4.25 per week) with the range from £261 (£5 per week) to £161 (£3 per week) (leaving out of account the islands councils to which special considerations apply). We have defended our proposals for the transitional period at Second Reading, in Committee and in public discussion on the basis that, especially for those who do not have rebates, a new liability for sums of this order might be rather a lot to take on all at once.

Our proposals have, however, met with some sustained opposition. This became clear in the informal official consultations we had with Scottish local authorities last summer, in which attention was drawn to the serious administrative burden of running the rating and community charge systems in parallel for three years: local authorities would undoubtedly find it easier to throw the full weight of their staff and computer resources on to developing and running the new system,

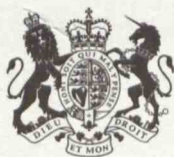


10 DOWNING STREET

Prime Minister 2

I am not sure
whether you looked at
Mr. Ryland's letter.

JHS
10/2



10 DOWNING STREET

Prime Minister²

The Lord President
believes that, all being
well, the Scottish rates
bill should be completed
by the first or second
week of May.

DWS
9/2

ms

which of itself doubles the number of transactions they will have to handle. A particular point of concern was that the introduction of the community charge will come only one year after major changes in housing benefit, including the provision for a minimum contribution to be payable by all ratepayers. Attention was also drawn to the disproportionate expense involved in calculating rebates and collecting arrears at each end of the transition, when first of all community charges and then rates would amount to relatively small sums, well below the sort of figures for general debts which the Audit or Accounts Commission, for example, would regard it as economical for local authorities to pursue.

In their formal submissions on the Green Paper and the Bill the Chartered Institute of Public Finance and Accountancy (CIPFA), the Assessors and a significant number of local authorities echoed these concerns and in a number of cases argued for a 'clean break'. The formal submission from COSLA itself sat on the fence but in public statements this year the Convention has taken a much more clear cut line, arguing that the transitional period will produce 'utter chaos'. This theme has been taken up by Opposition spokesmen who have argued that, if we think we can have the community charge system in place so that the register is ready and bills may be issued in time for 1 April 1989, there is no reason why we should not go the whole hog and abolish domestic rates on that date. Amendments to this effect were table by the Opposition in Standing Committee. Although we defeated them using the arguments about the burden on individuals mentioned above it was clear that the points made had a good deal of force, and there were signs from our own backbenchers that they do not find it altogether easy to defend the proposed transitional period.

A particular problem is that we have had to acknowledge that the transitional period will bring considerably increased costs. Running the domestic rating system in Scotland at present costs about £17 million and we have acknowledged that the new system, with twice as many people paying and some of them difficult to keep track of, will cost twice as much, or perhaps slightly more, when it is fully operational. We have not given a figure but the clear implication is that operations during the transitional period will be three times as expensive as the present system and in the face of technical opposition from local authorities and cogent arguments from Opposition politicians at local and national level it will be difficult for us to maintain that this represents value for money.

Abandonment of the transitional period would simplify the introduction of the community charge rebate scheme, since there would be no need to run it in parallel with housing benefit for rates, a process which would undoubtedly be complex given that community charge rebates will have to be assessed on individual basis while rate rebate assessments take account of household circumstances, including the presence of non-dependents. I think there will turn out to be substantial administrative savings for both local and central government in this area. Amongst the new payers will be students (at least those who do not pay rates at present) and we are committed to reimbursing them through a non means-tested addition to grants, based on the average community charge. That system can cope perfectly well with immediate introduction of the community charge, though the full financial effects on the cost of the grant system would have to be borne three years earlier.

We have already accepted that the introduction of the community charge will be handled in a substantially different way north and south of the Border; in Scotland we are starting at least a year earlier and our present proposal for the transitional period, with phasing over a given number of years rather than the introduction of the new charge at a specified annual rate, are already very clearly different from what is envisaged in England and Wales.

I hope that colleagues will agree that we should take this important step. Because of the shortage of time we are working on the necessary amendments on a contingency basis but I must nevertheless ask for responses from colleagues no later than the end of next week.

I am copying this letter to the Prime Minister, Members of E(LF) and Sir Robert Armstrong.

Yours sincerely
Andy Kinnick

10 MALCOLM RIFKIND

Approved by the
Secretary of State and signed
in his absence

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