

PRIME MINISTER

1 July 1987

TRANSITION TO THE COMMUNITY CHARGE

You are to discuss Mr Ridley's paper on the arrangements for transition to a Community Charge.

Doing without a transitional period

Mr Ridley proposes that instead of the long transitional period proposed in the Green Paper, the Community Charge should be introduced in full on 1 April 1990. We agree with this since:

- a. it ensures that the improved accountability of the Community Charge will operate in full from an early date;
- b. it avoids the annual wrangling that will arise with a long transitional period.

But you should note that 1 April 1990 is perilously close to the date of the next General Election which will almost certainly be held sometime between June 1991 and 1992. It is practically impossible to introduce the Charge any earlier than proposed whilst to delay introduction until after the election would enable the Opposition to fuel fears about its impact. The worst of all worlds would be if later developments force a delay 1 April 1991. So you need to ensure that Mr Ridley is fully confident that 1 April 1990 can be achieved.

Other transitional measures

Mr Ridley lists a number of measures to keep down expenditure before 1990. The only ones that require decisions are the operative date for opting out of ILEA and the financing arrangements for schools that opt out. These will already have been discussed earlier on the agenda.

Mr Ridley identifies two groups of Charge payers who will be particularly hard hit by the introduction of the Charge without phasing:

- i. Those living in areas with low rateable values who at present have low rate bills. They will face large percentage increases but not high absolute Charge bills.
- ii. Those living in areas, mostly high spending boroughs in inner London, which face high absolute Charge bills.

He recommends against introducing a general safety net to deal with this problem since it would blunt accountability. We agree with this. He also proposes no special help for those facing large percentage increases but a special transitional grant which would limit the maximum charge to £350 a head in the first year increasing in equal amounts to the full charge by the third year (ie by 1992-93).

We agree that some transitional help is needed but think that Mr Ridley has not yet got it right. What matters for most people is how many pounds extra they will have to find to pay the Charge. But Mr Ridley's proposal would:

- a. Reduce the amount paid per head in Camden by £90 a year in 1990-91 compared to Rates;

- b. But increase it by, for example, £106 a year in Barnsley.

Instead, the special transitional grant should be based on limiting the absolute increase in the Community Charge compared to the average Rate bill to a maximum sum per head. We suggest something in the range £50 to £100 a year (equivalent to £1-£2 a week per head or £2-£4 a week for the typical household).

Some Fallacies

During the discussion some Ministers may argue that no decision should be taken until Mr Ridley has introduced detailed exemplifications of the impact of the Charge in each area on each type of household. Little would be gained by this although such exemplifications will eventually have to be produced during the passage of the Bill. The Community Charge, because it involves a radical change from the rates, inevitably involves many gainers and losers. Its impact could be softened by phasing it in but we reject this for the reasons stated above. Ministers can explain the advantages of the Charge. But this will not stop those who lose disliking higher bills. The important thing is for the Government to maintain its purpose in the expectation that once people are used to the charge and see its benefits they will support it.

Another fallacy that may be raised is the adverse impact of the charge on large households. The charge is a personal charge and the most that an existing ratepayer will be responsible for is the charge for two people. Other members of larger households will be responsible for their own charges helped, if necessary, by housing benefit. The point can be illustrated by the example of a four person household (two adults, two children) in, say, Dartford:

False Analysis

Correct Analysis

Rate bill	£293		£293
Charge bill	£568	(4x£142)	£284 - householder & spouse £142 - each child
No. of gainers	Nil		2
No. of losers	4		2

Capping

Mr Ridley recommends against taking permanent powers to cap the Community Charge but is prepared to consider interim powers. We think this is unwise since we cannot be sure that even the enhanced accountability of the new system will prevent very high levels of Community Charge. We therefore recommend a permanent charge capping power.

Annual Elections in London

Mr Ridley recommends moving to system of annual elections by thirds in London as a way of further improving accountability. We think the arguments in favour of this are unproven. On the one hand:

- i. It will deter large increases in the Community Charge. Waltham Forest, now facing a Ratepayers revolt after a 66% Rate increase, would almost certainly not have imposed such an increase had it faced elections next April.
- ii. On the other hand it will make it more difficult for councils to reduce expenditure where necessary. Mr Ridley is fond of quoting Humberside where councillors never put up the council house rents because they face annual elections. The Treasurer in my own Borough, Bromley, told me that a long

period of political stability has made it much easier to keep expenditure under control. And how would Wandsworth have fared in its early years with annual elections?

Capping can deal with the problem of large increases. We would therefore stick with the present electoral arrangements.

Conclusions

We recommend:

- i. introducing Community Charge in full from 1 April 1990
- ii. providing for special transitional grant not on the basis Mr Ridley proposes but to limit the cash increase in the first two years
- iii. providing for permanent Community Charge capping
- iv. against annual elections by thirds in Greater London.

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