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P 02810

PRIME MINISTER

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

[Minute of 29 July from Mr Ridley]

DECISIONS

Unless the preparation of the Bill is seriously to be delayed, the Sub-Committee must reach final decisions this week on the key arrangements for transition to the community charge in England. Outstanding issues are -

- a. whether the initial community charge in 1990/91 should be £75 or £100;
- b. whether there should be special transitional arrangements for inner London, lasting longer than those elsewhere.

Mr Ridley also seeks to reopen E(LF)'s decision on Monday that there should be no dual operation of rates and the community charge in Wales.

2. You will also want to decide on the form and timing of an announcement of your decisions.

BACKGROUND

3. You provisionally agreed on Monday (E(LF)(87)17th Meeting) that in England the best approach would be a transitional period of four years during which both rates and a safety net would be phased out, with an initial level of community charge of either £75 or £100. But you also saw a need for special transitional arrangements for inner London, because of the high spending levels of both the ILEA and some boroughs. You envisaged that such arrangements

might involve retaining part of the capital's very high non-domestic rateable resources for a period of five years after 1990/91. You asked Mr Ridley to bring forward a further paper, illustrating the two options for the initial community charge, and containing detailed proposals for such special London arrangements.

4. You also agreed on Monday to Mr Walker's proposal to move straight to the full community charge in Wales in 1990/91, with no period of dual operation with domestic rates. But you did ask Mr Walker to circulate revised proposals on the safety net for Wales, with a significantly shorter transitional period than the 10 years he had proposed.

MR RIDLEY'S PROPOSALS

5. Annex A to the paper shows the effect of a 4 year transition on each of the 5 sample authorities you looked at on Monday, with both a £75 and a £100 initial charge. Mr Ridley suggests that the difference between the two options is too small to sway the decision one way or the other. He favours £100 as being a more memorable figure and therefore facilitating presentation in 1990/91.

6. Mr Ridley points out that the general safety net will already give inner London extra grant of £410m in 1990/91. This will ensure that the burden of domestic taxation neither rises nor falls compared to 1989/90 (on the assumption of no change in spending levels). He suggests that there is no justification for extra protection in 1990/91, because that would actually cut the level of domestic taxes in inner London compared to the previous year and raise it elsewhere. But he does consider whether this original safety net grant should be phased out more slowly in London than elsewhere: over five years rather than four. That would give London an additional benefit of £82m in 1994/95. The scheme's effect on all inner boroughs is illustrated in Annex C to the paper. However, Mr Ridley recommends against adopting such a scheme.



7. Mr Ridley also returns to his concern about the undesirability of different transitional arrangements for England and Wales. He presses E(LF) to reconsider its earlier decision, but as a concession to Mr Walker's concerns suggests that it might be appropriate to have an initial charge of £50 in Wales to reduce the problem of unacceptably low rate bills in many parts of Wales towards the end of a four year transitional period.

8. Finally, Mr Ridley proposes an immediate announcement of E(LF)'s decisions.

VIEWS OF OTHER MINISTERS

9. The Chancellor of the Exchequer may still favour a £75 initial charge on the grounds that it will reduce the burden of the new tax and reduce the severity of changes in individual tax bills in 1990/91. The proposed London arrangements are broadly consistent with what members of E(LF) had in mind at the last meeting, but the Education Secretary in particular may feel that they do not give as much extra benefit as he had envisaged (he proposed transitional help of at least £500 Million - rather than the £410 Million already built into the arrangements under the general safety net - on Monday). The Secretary of State for Wales is bound to resist Mr Ridley's proposals to reopen decisions on Wales.

MAIN ISSUES

Initial Community Charge

10. Mr Ridley's figures illustrate that the choice of £75 or £100 for the initial community charge makes very little difference for typical households. The effects on individuals will be more marked: an adult paying no rates in 1989/90 will face the full initial charge. But even in this case there is only £25 per annum or 50p per week at stake. Mr Ridley is probably right to say that a round £100 could be easier to present. On balance, you will probably want to confirm your earlier preference for an initial

charge of £100.

Special Arrangements for Inner London

11. There are a number of issues here -

a. whether you agree with Mr Ridley that in 1990/91 London should simply get its entitlement under the general safety net (£410m). Some members of E(LF) mentioned higher figures on Monday. But the £410 Million will largely continue the subsidy currently enjoyed by inner London from non-domestic rating and there seems no justification for reducing domestic tax bills in London in 1990/91, especially since most of the money will still come from rates, and the community charge will be at the national starting level (e.g. £100);

b. whether this benefit should be phased out over four years (as in most of England), five years (so that in practice the special transitional help for London begins in 1991/92 and continues until 1994(95) or a longer period. Extending the transition to five years costs £82m in the last year. The benefit to adults in Camden is to reduce the annual rate at which the community charge rises from about £170 to about £155: in 1994/95 the charge will be £717 compared to £782 under a four year transition. A yet longer transition would of course slow the transition further, but at yet higher cost;

c. how the cost of the special arrangement should be met. Mr Ridley envisages that it would fall on all chargepayers outside London, at a cost of about £2.40 per adult in 1994/95. That can be justified as simply deferring the full redistribution of London's high non-domestic rates by a year. Another approach would be for the Exchequer to meet the cost through extra grant, but the Chancellor can be expected to resist that.

12. The issue you need to decide is whether the additional reductions in community charges in inner London during the extended transitional period are sufficient to justify the extra cost and complexity of the special arrangement. If you decide that they do, then the scheme Mr Ridley illustrates is relatively simple and comprehensible, and fits in with the general transitional arrangements you have agreed.

13. By definition, however, a 5-year transition of the kind Mr Ridley was asked to exemplify cannot change the rules of the London game very much. At the end of the period, there is still the prospect of very high charges in places like Camden unless they rein in their expenditure quite massively. If you think this is too great a political risk, then some much larger amount and/or longer period of protection for London would need to be contemplated.

Wales

14. E(LF) on Monday rejected Mr Ridley's arguments for requiring Mr Walker to adopt the English arrangements for a phased transition from rates to the community charge. It is difficult to see any case for allowing him to reopen the argument at tomorrow's meeting, and you will probably want to stick to what you agreed earlier - although hopefully on the basis that Mr Walker will be willing to reduce the length of his transitional period well below 10 years.

PROPOSED ANNOUNCEMENT

15. Mr Ridley (paragraph 16 (iii)) promises to reveal all at the meeting. He wishes to announce the decisions tomorrow afternoon, and you will no doubt want to try hard to facilitate this both to put a stop to the appearance of dissension and indecisiveness and to allow the drafting of the Rates Reform Bill to go forward without further delay. It would, of course, be most desirable to include the proposals for inner London in the statement. But if you cannot agree on these, it might still be possible to go ahead

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with the rest of the statement and leave this open for the present. You will in any case want Mr Ridley to clear any statement with you and colleagues mainly concerned before it is issued.

HANDLING

16. You will want to ask the Environment Secretary to introduce his paper. The Education Secretary, the Chancellor of the Exchequer and other Ministers will wish to comment generally. The Secretary of State for Wales will want to speak about Mr Ridley's proposals on transitional arrangements for Wales.



J B UNWIN

29 July 1987