



Prime Minister

DUAL RUNNING: RATES AND THE COMMUNITY CHARGE

I have been considering how best to give effect to our decision to have a period of dual running of domestic rates and the community charge in a way which minimises the difficulties for the structure of the Bill and the costs of implementation. This minute sets out my conclusions.

In formulating these proposals, I have taken it that our objective is to continue to secure the distributional effect of rates for a period and that we have no interest in retaining the full panoply of the present arrangements for domestic rates as such.

For billing, collection and enforcement procedures, I intend to apply the slightly changed arrangements which we have agreed for the community charge. It would be extremely confusing for local authorities to have to pursue two separate procedures for the recovery of money from domestic taxpayers.

Nor do we need to provide for every individual authority in an area to split its costs between rates and the community charge. I propose that only the rating authority should collect the rate and that the income should be treated in the same way as non domestic rates and grant on the community charge demand. An example is shown in the Annex. An advantage of this approach is that we do not need to lose the important accountability of messages about the comparison of each authority's expenditure with its needs assessment. Any small distributional effects arising from the changeover to precepting on a per adult basis will be picked up by the safety net grant.

This approach to the treatment of domestic rate income offers another benefit. As the Annex shows, the community charge demand will contain a statement of the average rate payment per adult.

Prime Minister!
Content, subject
to colleagues?

Yes me

DRS
30/7.



Building on this, I propose to avoid having to continue to assign values to new properties after 1 April 1990. Rather the occupier of a new property will be required to pay in lieu of domestic rates an amount based on the average domestic rate payment for the area (community charges from those living there will be due in the usual way).

The lack of valuations for new properties, of course, removes the need for appeals against those values. I propose to go further, however, and also withdraw the arrangement whereby the valuation officer has to propose increases in rateable value where improvements or extensions are made to existing properties. This proposal will anticipate one of the features of the new arrangements and give an early boost to the building trade. I also propose to cut off from 1 April 1990 the arrangements which permit any householder to challenge their rateable value at any time on the grounds mainly that they believe it to be too highly assessed relative to similar properties. Householders have had since 1973 to take these general points. Most cases concern very small proposals for a reduction. Yet the cost to the taxpayer of providing the appeal machinery is substantial. At a time when rate bills will be dropping each year, there is no case for maintaining this procedure for routine cases. I intend, however, to continue to allow those affected by a material change of circumstances a chance to seek a reduced valuation and I propose to provide a limited right of appeal for these circumstances only.

This is what you asked for.

I propose to retain the present system of mandatory and discretionary reliefs from domestic rates during the transitional period.

Finally, of course, I shall be taking powers to preserve the 1973 valuation lists in force for the duration of the transition and to specify by order the basis on which the rate poundage is to be set to fit in with the phasing arrangements we finally agree.



Overall these arrangements preserve all the distributional features about which colleagues have been concerned without preserving the rating system itself as a system capable of resuscitation at some future date. They will also help to contain the cost of running two systems for a period and limit the effect of our decision on dual running on the legislative provisions.

I am copying this to the other members of E(LF) and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "NR", is located below the text.

N R

30 July 1987

ANNEX

Example of Community Charge Bill for West Somerset with dual running of community charge and domestic rates.

	Actual (1989/90 in brackets)	For standard level of service £ per head
	£ per head	
Somerset C.C.	530 (530)	524
West Somerset D.C.	66 (66)	69
Total income required	596 (596)	593
<u>less</u> contribution from business	- 233 (-409)	- 233
Government grants	- 171	- 171
income from domestic rates*	- 92 (-192)	- 92
Community charge	100 (0)	97

* this figure used to set domestic rate payment for new houses.

Income from domestic rates in later years will reduce in line with the agreed phasing out arrangements.

The community charge will increase correspondingly.