Prime Minister ②
A circular letter to Members.
MEA 11/8

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From: **MICHAEL HOWARD QC MP**

8th August 1987

Dear Prime Minister

COMMUNITY CHARGE - TRANSITIONAL ARRANGEMENTS

I wrote to you in July about our proposals for reforming the present system of financing local government. Since then the local government team at the Department of the Environment have had the opportunity of discussing with colleagues how best to introduce the system. As you will have seen, the Government has now reached a decision on the transitional arrangements. I thought it would be sensible, therefore, to write to you again explaining both how they will work and why we reached the decision that we did.

In England the new system will be phased in over four years. In the first year, from 1 April 1990, all those over the age of 18 will have to pay a community charge of £100 provided councils spend the same in 1990 as they did in 1989. Over the following four years rate bills will decline steadily to zero while the community charge will increase. From 1 April 1994 the transition to the full community charge will be complete and domestic rates will no longer exist. There will be a full safety net for all areas in 1990 to limit the change in the total amount which any local authority has to raise from its domestic ratepayers and non-domestic rate and grant arrangements. The safety net will also be phased out completely by 1 April 1994.

There were, of course, arguments in favour of an even faster introduction of the new system. In the end, however, the Cabinet decided that bearing in mind existing levels of spending and of rates in England, there should be a phasing in period for two main reasons.

First, it seemed right that individuals should have time to adjust their budgets. There will therefore be a gradual shift in the burden of paying for local services in the same area between different groups of individuals - for instance from single pensioners to those living in households with several adults.

Second, we want to give local authorities time to adjust their spending. In some parts of the country the full community charge would be very high if councils spent as they are in 1987-8. As soon as the new system is in place - even during the transition - it will be quite clear to community charge payers whether their council is overspending or not. Phasing will give an extra four years for spending, and thus community charges, to be reduced.

The decision on transitional arrangements which the Government has taken represents a balance - a balance between giving individuals and local authorities time to adjust and ensuring that full implementation of the new system, with the strengthened accountability it will bring, is not delayed longer than necessary. I hope you will agree that we have got that balance right.

I am also enclosing other material on our proposals, which you might like to draw on for speeches and newsletters during the recess.

Yours ever

Michael

MICHAEL HOWARD QC MP

The Rt.Hon. Margaret Thatcher FRS MP

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MICHAEL HOWARD QC MP

Release Time: ~~13.00 hrs. Monday~~ 29 June 1987. 564/87

Extract of a speech by Michael Howard QC MP (Folkestone & Hythe), Minister for Local Government, to the Surrey Businessmen's Club at the House of Commons, on Monday 29 June 1987.

In a speech in London today, Michael Howard, Minister of Local Government, explained why the alternatives to the Community Charge were unsatisfactory, and in particular he drew attention to the disruptive effect of domestic rating revaluation which is implied in the present system. He gave three examples from the revaluation in Scotland.

"In one case - that of an ordinary house - the rateable value increased from £171 to £726. In another case the increase was from £184 to £706. And in the third - a modest flat - the rateable value increased from £405 to £1289. These are the sort of dramatic increases we could expect in England and Wales if we were foolish enough to go for a rental revaluation of domestic property."

The text of his speech is attached.

/.. "A good local tax

Printed and published by Conservative Central Office, 32 Smith Square, London SW1P 3HH

"A good local tax must be fair and accountable. How do the alternatives to the Community Charge measure up to these criteria?

The present system

What if we continued with the present rating system?

Most people acknowledge that the present system is unfair. Where is the fairness in a system which charges a single adult the same rates bill as four adults living in an identical house and making four times as much use of local services? Where is the fairness in a system which penalises people from improving the value of their homes? Where is the fairness in a system which places the whole burden of payment on less than half the adult population?

It is often argued that the value of people's homes reflects their ability to pay and that rates are therefore fair. Not so. Those with the lowest incomes are liable to much higher rates in relation to their income. Nearly 20% of those with net weekly incomes of less than £50 live in houses with above average rateable values. So for many households there is no relationship between their income and the rateable value of the property they live in.

Rates are not fair and they do not achieve accountability. There are 35 million adults in England; only 18 million of these are liable to pay rates and only 12 million pay rates directly and in full. In some local authorities - Manchester for example - fewer than one voter in four pays rates in full. Therefore one section of the Electorate - the majority - is voting to spend not its own money but the hard earned income of the minority which pays rates. It is small wonder that this leads to profligacy and irresponsibility.

/.. Capital Value Rates

Capital Value Rates

Is there perhaps a way in which the rating system can be retained but reformed? One option would be to move to capital value rates. This was the approach favoured by the Labour Party right up until the local elections on May 7th. But within a fortnight during the General Election campaign they dropped that commitment because they were clearly horrified by the implications in areas like London and the South East where capital values are very high indeed.

The fact is that capital values would be even less closely related than rental values to people's ability to pay; and a revaluation on the basis of capital values would cause massive disruption. For example detached houses in the South of England would face average increases of well over 20% and 6% of households would face increases of over 80%.

Secondly, merely changing one detail of the rating system will do nothing to solve its fundamental flaws - its lack of accountability. It would be impossible to justify turbulence of a move to capital values for the sake of a system which would continue to be unfair and unaccountable.

Nor should anyone imagine that this kind of turbulence and disruption can be avoided by sticking to rental values. Either way, a revaluation would be essential; and a revaluation based on rental values would be almost as disruptive to household finances as one based on capital values. You only need to look at the experience in Scotland in 1985 to work that out. Just to give three examples.

In one case - that of an ordinary house - the rateable value increased from £171 to £726. In another case the increase was from £184 to £706. And in the third - a modest flat - the rateable value increased from £405 to £1289. These are the sort

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of dramatic increases we could expect in England and Wales if we were foolish enough to go for a rental revaluation of domestic property.

Local Income Tax

Another alternative is to move to some form of local income tax - the form of local taxation favoured by the Alliance. While at face value LIT appears to be a fair tax, it totally fails on the test of accountability. Income tax in England is paid by only 20 million people - a mere 2 million more than the number who pay rates. So if we were to introduce a local income tax there would be 15 million adults who would make no contribution towards the cost of local services.

A local income tax also runs directly counter to the Government's policy of reducing the burden of taxation on incomes. In some areas in our cities an LIT rate of 11p in the £ would be needed to replace rate incomes. Such tax levels with no accountability will just accelerate the spiral of inner city decline. Is it acceptable that the Government's economic achievements over the past 8 years should be threatened by a few unrepresentative councils bent on jacking up tax rates and destroying jobs?

And of course the move to a local income tax would be horrendously costly.

For example, if LIT were grafted on to the present PAYE system, employers - and especially small firms - would face intolerable new burdens. Instead of calculating their employees' tax liability by reference to a simple set of tables, they would have to grapple with a different set of tables for each local authority. In London especially, where each company is likely to have employees living in many different local authority areas, this would be a nightmare for employers.

/.. It is only the

It is only the Community charge which measures up to the criteria of fairness and accountability. It is fairer than rates because it will spread the burden of payment more evenly, bringing relief to the hard pressed ratepayer and it will restore accountability by ensuring that all adults with a few exceptions have a direct financial stake in the spending decisions of their local councils.

The result will be fairer local government, more moderate local government, and above all more democratic local government."

ENDS

COMMUNITY CHARGE

Bull Points.

* **Rates are totally unfair.** An elderly widow living alone in the house where she raised her family can pay the same rates as a family next door with four wage earners. Rates relate payment neither to the use of service nor to the ability to pay.

* **20 million adults pay nothing at all in rates** or have rates rebated in full yet benefit from services. Only 12 million adults out of 35 million pay full rates. In some areas - Manchester for example - only one in four adults pays full local rates.

* **Doing nothing is not an option. If the present system were to remain, a revaluation would be necessary** leading to disruptive and large increases in rateable values for many households which would not be related to ability to pay. Some examples of rate revaluation in Scotland include: one case - that of an ordinary house - where the rateable value increased from £171 to £726. Another case where the increase was from £184 to £706. Another - a modest flat - where the rateable value increased from £405 to £1289. These are the sort of dramatic increases many households could expect in England and Wales if there were a rental revaluation of domestic property. And, of course, the effects would be very uneven; some increases would be very much smaller.

* **These variations would be difficult to explain** and would be aggravated by the arrangements within the existing system for equalizing rateable values between different parts of the country. Local authorities which are "rich" in rateable values already subsidize authorities with lower rateable values. If the variation in rateable values increased, so too would the extent of the subsidy. That would inevitably mean much higher bills in areas with high rateable values and a further break with accountability.

* **Alternatives to domestic rates other than the Community Charge would do nothing to improve accountability.** A local income tax would only widen payment by two million adults. It would be administratively complicated and costly and take many years to introduce. Rates based on capital values would worsen the present unfairness. There is greater variety between capital values than rateable values between regions.

* **A Community Charge will be fairer.** It will ensure that those who benefit from local services pay something towards them.

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* **A Community Charge will be fairer.** It will ensure that those who benefit from local services pay something towards them.

* **The Community Charge will provide accountability.** It will give people a good indication of how their local authority's spending and services compare with other areas. They will be aware of the costs and benefits of local government spending and will vote for more sensible and prudent councils.

* **Over 80 per cent of single households will be better off** under the Community Charge; 83 per cent of one-parent families and 85 per cent of single pensioners living alone will be better off.

* **51% of households will benefit from the move to a Community Charge.**

* **Elderly people in homes and hospitals and the severely mentally handicapped will be exempted.**

* **Students will only pay 20 per cent** of the Charge.

* **The least well-off will only pay 20 per cent** with a tapering scale of rebates for others on low incomes. Benefits for income support recipients are being uprated to help the least well-off to pay the 20 per cent of Community Charge for their areas. This will help everyone to pay and preserve the vital principle of accountability.

* **The better off will continue to pay more for the costs of local services,** through their taxes which feed into Government grant to local authorities - which provide almost half local government income. Those with an income of £25,000 a year are likely to be paying almost 20 times more for local services than those with an income of £2,500 a year.

* **The Government plans to introduce Community Charge in England in 1990, and to phase it in over four years.** During the transitional period there will be a full safety net, phased out over four years to limit the initial effects of the new reforms.

* **Business will benefit** from the move to a Unified Business Rate linked to inflation. Businesses in the North and Midlands will benefit from a massive £700 million annual rate bill reduction. In Newcastle for example, rates will fall by 40 per cent. One in five businesses will have a reduction of 15 per cent or more. This is good for jobs.