

cc: [unclear]

TRANSITIONAL ARRANGEMENTS FOR THE COMMUNITY CHARGE

Nicholas Ridley has circulated revised proposals for the transitional arrangements for the Community Charge to take account of points made at the last E(LF) meeting, and discussions with backbench MPs.

Problems with earlier proposals

Following pressure at the Party Conference, Nicholas Ridley proposed at the last E(LF) meeting that local authorities should be able to opt introduce the Community Charge in a single step in 1990, or otherwise more rapidly than the four-year transitional period with dual running announced last July.

The main difficulties with that approach were:

- it would allow high spending local authorities to embarrass the Government by introducing very large Community Charges in a single step;
- because of the safety net, chargepayers in some low-spending authorities would be paying a substantial proportion of their charge in 1990 not to pay for services in their area but to keep down bills in high spending authorities;
- consequently those areas would not reap the full benefit of introducing the Community Charge in full in 1990. The charge would have to be introduced at a high level, falling thereafter.

Latest Proposals

Mr Ridley's latest proposals are designed to deal with these problems. He has also talked to backbench MPs who do not

want the decision on dual running to rest with the local authorities, as would have happened with the opting out proposal.

The main features of these latest proposals are:

- the Community Charge would be introduced in a single step in 1990, except that dual running would be retained in those local authorities budgeting to spend £80 per head of population or more than GRE in 1988/89.
- there would be a safety net to phase changes in grant and non-domestic rate income over four years but the contribution per chargepayer from any area would be limited to a maximum of £75. The cost of this would be spread evenly over authorities gaining from the Community Charge - adding about £5 a head there.

Comment

The decision about the appropriate transitional arrangements is largely a political one. Mr Ridley's latest proposals would deal with the problems identified at the last E(LF) meeting and the concern of backbench MPs that the decision on dual running should not rest with the local authorities, provided there is one modification as follows.

Mr Ridley proposes that the determining factor on dual running should be 1988/89 budgets. Yet we shall not know which authorities will be selected on this basis until 1988/89 budgets are fixed in March next year. Furthermore, it will give some local authorities flexibility to choose for themselves whether or not to have dual running by manipulating their budgets.

We suggest that the determining factor should instead be 1987/88 budgets - the criterion for the illustrative figures

set out in Annex D to Mr Ridley's paper. The disadvantage of this approach is that it requires dual running in Brentwood, who are strong supporters of the Community Charge, and are only caught because they manipulated their 1987/88 budget to gain extra grant. But we believe that this disadvantage is outweighed by the clarity and certainty of working on 1987/88 budgets.

Chancellor's Comments

The Chancellor's minute argues forcefully for returning to the earlier proposals for dual running on the grounds that this is needed to allow individuals time to adjust to changes in local taxation within areas. It is certainly true that non-ratepayers (except in areas where dual running is retained) will face higher bills under Mr Ridley's latest proposals than with dual running - on average some £200 in 1990 compared with £100 - and as much as £300 in some areas. But the exemplifications in Annex E show that the effects on households including a ratepayer will be more modest - an extra bill of at most 10% or 30p a week each in a 3-adult household in Craven. And the Chancellor's example of a couple with an elderly relative in Cambridge is misleading because they would not be liable for that relative's charge - he or she would and could receive housing benefit if entitled.

Conclusion

We support Mr Ridley's revised proposals provided the local authorities to retain dual running are selected on the basis of 1987/88 budgets and not 1988/89 budgets, which have yet to be set, cannot be forecast with certainty and are open to manipulation.

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