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P 03064

PRIME MINISTER

DUAL RUNNING: THE COMMUNITY CHARGE AND DOMESTIC RATES

[E(LF)(88)8]

DECISIONS

Mr Ridley seeks agreement to two changes in the arrangements for "dual running" of rates and the community charge in London during the four year transitional period after 1990. He wishes:

i. to change the criteria for selecting authorities for dual running so as to exempt Kensington and Chelsea, Wandsworth, Westminster and Waltham Forest;

ii. to take new powers to pay specific grant to compensate authorities which remain selected for the additional costs of dual running. This would now apply only to the remaining nine inner London boroughs and to the City.

2. The three Conservative inner boroughs and Waltham Forest all now want to be exempted from dual running, and Conservative MPs for these areas are supporting them. The authorities take the view that dual running would be an extra burden in 1990, and is unnecessary given their own low spending and the opportunities for savings on education after the abolition of the ILEA (though this point does not apply to Waltham Forest). Exempting them can be achieved simply, by raising the present criterion based on spending above assessed needs in 1987/88 from £130 per head of population to £200 per head. E(LF) will probably want to agree to this change.

See
detailed
figures
in Annex
A to the
paper.
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3. The case for a specific grant for the costs of dual running where it still applies is less clear cut. Such a grant would prevent community charge payers in the boroughs concerned having to find the full costs of operating the domestic rating system from 1990/91 to 1993/94. But the money would come out of the total of Exchequer grants, and the costs would therefore fall on community charge payers throughout England (although at £15m over four years the effects would not be substantial). E(LF) will want to consider whether a specific grant is justified.

BACKGROUND

4. E(LF) had a series of meetings on the transitional arrangements for the community charge in October and November. You took final decisions at a small meeting on 17 November (Mr Norgrove's letter of that date to Mr Ridley's Private Secretary). The agreed scheme had the following main elements:

i. a full safety net to prevent any changes in the overall domestic tax burden in each local authority area in 1990/91, except that contributions to the safety net are to be subject to a ceiling of £75 per adult to protect areas like South Buckinghamshire which would otherwise have to make an excessive contribution;

ii. the immediate introduction of the full community charge in most of England (dropping the earlier proposal for universal dual running); but

iii. the retention of dual running in inner London and Waltham Forest where spending in 1987/88 exceeds needs assessments by more than £130 per head. In these areas the initial community charge in 1990/91 would be £100 for constant spending, and rates would bear the balance of the domestic tax burden;

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iv. all these transitional arrangements to be phased out over four years, so that the full community charge regime would be in place by 1994/95.

5. One of the arguments for dispensing with general dual running was the cost of operating domestic rates alongside the community charge. But no proposal was made in any of the earlier discussions that boroughs retaining dual running should receive special assistance with the costs.

MAIN ISSUES

Reducing the scope of dual running

6. Kensington and Chelsea, Wandsworth and Westminster in inner London, and Waltham Forest in outer London, all now want to be taken out of the scope of dual running. They argue that retaining domestic rates will add to the burdens they face in 1990/91 (when the inner boroughs are to take on education functions from the ILEA); and that it is unnecessary given the level of their own spending and the savings they believe can be achieved on ILEA's expenditure. They have the support of the Conservative MPs for their areas.

7. Dropping dual running in these areas will mean that their community charges in 1990/91 will be higher than the £100 which would have applied if dual running had remained. Given current levels of spending, they would also be well above the national average in 1990/91. But Mr Ridley's figures indicate that overspending in these areas is generally lower in 1988/89 than in 1987/88, and there may be further reductions before 1990/91. Their community charges may therefore be no higher than in some areas outside London.

8. In the light of these considerations, E(LF) will probably want to agree that the four boroughs should be exempted from dual running.

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Specific grant for dual running

in these boroughs

9. If E(LF) agree to Mr Ridley's first proposal, nine inner boroughs and the City will remain in dual running. They will face the extra costs of running domestic rates during the four year transition. If no special arrangements are made, these costs will fall on community charge payers, over and above the initial £100 charge in 1990/91. Neither the existing safety net nor a simple addition to needs assessments would properly meet the costs, for the technical reasons given in the paper. Mr Ridley therefore proposes to take powers to pay a new specific grant to meet a large proportion of the cost. The details would remain to be worked out with the Treasury, but Mr Ridley estimates that the cost might be £15m over four years.

10. Such a specific grant would protect community charge payers in the boroughs subject to dual running. This might help to defuse criticism on the grounds that the Government's decision to retain domestic rates in these areas had actually added to the domestic tax burden. On the other hand, because the new specific grant would have to be found within the total of Exchequer grant, the costs would fall on community charge payers throughout England (although at £15m over four years the effect would not be particularly substantial). E(LF) will want to consider whether, in view of these considerations, a new specific grant should be offered.

VIEWS OF OTHER MINISTERS

11. Only the Chief Secretary, Treasury has a real Departmental interest. He is likely to accept the proposal to exempt the four boroughs from dual running. He may also accept a specific grant for the remaining boroughs, provided the detailed arrangements and particularly the grant rate are subject to agreement with the Treasury, and the money is found from within the agreed level of Exchequer grants.

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HANDLING

12. You will want to ask the Environment Secretary to introduce his paper. The Chief Secretary, Treasury and other Ministers will wish to comment.

RJW.

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Cabinet Office

12 April 1988

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