



Prime Minister

LOCAL GOVERNMENT FINANCE BILL: LORDS AMENDMENTS

with PG.
I minuted you on 4 July about concessions I would like to make to respond to Lords amendments on student nurses and hostels. This minute takes stock of later developments and sets out how I propose to handle the remaining stages of the Bill.

We did of course suffer one other narrow defeat, by 5 votes, on an amendment moved by Lord Allen of Abbeydale which would have the effect of giving 100% community charge rebates to disabled people. It would achieve this in a particularly cumbersome way. Disabled people would be eligible for the normal 80% maximum rebate; plus the increase in income support we have agreed for 20% of the average level of community charge; plus a further payment from the local authority sufficient to make up the difference between 20% of the average and 20% of the actual charge. This cumbersome procedure has been chosen because a straightforward amendment for 100% rebates for the disabled was defeated in Committee by 20 votes.

Whatever the route by which the effect is achieved, however, it is a central feature of the new system that everyone should make some contribution to local services and be exposed to the accountability pressures in areas where the charge is above the average. Indeed, disabled householders are already paying 20% of their rate bills in this way. Malcolm Caithness has already indicated that we will not be able to accept this amendment and that we will seek to overturn it on CCLA. I am sure this is right.

Malcolm Caithness also came under pressure during the Report Stage from the charity lobby. This time they were seeking a 100% mandatory relief from rates for all charities. In the face of certain - and in the view of John Belstead heavy - defeat, we agreed to take away the whole question for further consideration before Third Reading.



The arguments which were being used by Lord Sandford - as mover of the amendment - and which drew the strongest support from the House were:

- that it was not appropriate for local authorities to exercise a discretion over who should get relief from a national non-domestic rate. He quoted the AMA and claimed the support of the ADC for the proposition that they would not wish to have a discretion of that sort;

- a recent report by the National Council for Voluntary Organisations purports to show that charities - and in particular charity shops, which are an important part of their fund raising activities - stand to lose heavily from the revaluation. We have no way of checking this assertion but we do expect the largest increases to arise in the retail sector;

- the present system of discretionary reliefs was uncertain and treated charities differently from area to area for no discernable reason;

- the recent EEC ruling on VAT would lead to charities being considerably out of pocket on their activities and a rating exemption was an easy way for the Government to compensate them without upsetting the EEC.

None of these arguments is especially convincing but they do indicate the basis of a compromise which might be sufficient to reach agreement.

Under the present arrangements, charities receive 50% mandatory rate relief and are eligible for a further 50% relief at the discretion of the local authority. The cost of any discretionary relief is met by local ratepayers and so on average half is paid for by businesses and half by domestic ratepayers. Our best



estimate is that the existing mandatory relief costs some £90 million a year and a further £20 million is given in discretionary reliefs - not all to charities. We have earlier agreed that 70% of the cost of any discretionary relief would in future be met from the national non-domestic rate pool leaving only 30% to be met from local community charge payers. That might have increased the cost of discretionary reliefs by £20m.

I think, therefore, that it should be possible to reach agreement on a package which involves increasing the percentage of mandatory relief from 50% to 75%. This would be equivalent to consolidating the existing mandatory relief and adding in the maximum amount of contribution from the non-domestic sector if discretionary relief were given in full. This would meet the concerns about increases in rate bills, the uncertainty of relief, and the disparity of treatment between areas. It would add a further £25m to the cost of the concession already offered.

I would propose to leave available to local authorities the discretion to continue a contribution from local domestic chargepayers to make up the remaining 25% of the rate bill. This will leave local authorities in broadly the same position they are now of being able to decide whether to raise money from their local electors to support local charities if they wish.

If we were to adopt this approach, my inclination would be to argue that none of the cost of the remaining 25% of local discretion should be funded from the national non-domestic rate pool.

I have spoken to Lord Sandford, without disclosing my thinking. He was very clear that he wished to press for full relief and was not interested in a compromise. Many of his supporters, of course, will be more realistic but this means we must be careful when we offer our concession. Malcolm Caithness is honour bound to improve on our previous offer. I therefore propose that at



Third Reading, he should confine himself to maintaining the Government's case for 50% discretionary relief but offer a further increase - to 80% - in the proportion of the cost which would be absorbed by the NNDR pool. We must expect to be defeated on that offer. We would then bring forward our concession at CCLA.

In summary, therefore, we should:

- i. tidy up the Lords amendment on student nurses at Third Reading (as proposed in my minute of 4 July);
- ii. bring forward a further amendment at Third Reading to exempt all those resident in very short stay hostels or night shelters (again, as in my minute of 4 July);
- iii. reverse on CCLA the amendment on rebates for the disabled;
- iv. offer at CCLA, in response to an anticipated defeat at Third Reading, an increase to 75% in the level of mandatory relief for charities.

If we are to table Government amendments at i. and ii. for Third Reading, we must instruct the draftsman quickly. I should, therefore, be glad to know whether colleagues are content with these proposals by close of business on Friday 8 July.

I am copying this minute to the members of E(LF), the Lord Privy Seal, the Chief Whips in Commons and Lords, and to Sir Robin Butler.

R Butler

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7 July 1988

(approved by the Secretary of State and signed in his absence)

LOCAL GOV. RATES

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