



Minister for Local Government

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*R2016*

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*Dear Andrew*

19 June 1989

**PRIME MINISTER'S MEETING WITH JOHN LEE ESQ MP -  
THURSDAY 22 JUNE: RATE REFORM IN PENDLE**

Thank you for your letter of 9 June. I attach briefing for the  
Prime Minister's meeting as follows:

Flag A - Rate reform in Pendle;

Flag B - General bull points on the community charge and  
uniform business rate.

*Yours sincerely*

*Trevor Beattie*

**TREVOR BEATTIE**  
Private Secretary

Andrew Turnbull Esq  
PS/Prime Minister

## RATE REFORM IN PENDLE

(based on 1988/89 local authority expenditure)

### Community Charge

- in 1988/89 the full community charge in Pendle, with no safety net, would have been £253 - just above the national average of £246 and well above the level needed to provide a standard level of services (£202).
- this figure reflects a budgeted overspend of £18 per adult by Lancashire County Council and £33 per adult by Pendle Borough Council.
- the full charge would have been higher than the average rate bill per adult in the district - £153. So the average two adult household would have been worse off; but many one adult households would have gained.
- in the early years of the new system, the residents of Pendle will be protected by a safety net. The community charge with full safety net would be £161. The safety net will give the local authorities in the area four years to reduce their spending to a more acceptable level.

### Local Income Tax

- in 1988/89, a local income tax would have led to higher bills for many people on modest incomes in the district. The local income tax rate equivalent to a community charge of £253 is 6.6p in the pound.
- at that rate, a single person earning £11,000 (about national average earnings) would have paid a local income tax bill of up to £554; and a single, newly-qualified nurse (earning about £9,000 after the pay review) would have paid up to £351.

### Business Rates

- a move to a national uniform business rate in 1988/89 would have resulted in a cut of 16.1% in business rate bills in Pendle (current poundage of 285.5p; uniform business rate poundage of 239.5p).
- in total, businesses in Pendle would have gained by £1.3 million. The uniform business rate will clearly be very good news for businesses and jobs in Pendle.
- and in future, businesses will have a guarantee that their rate poundages will rise each year by no more - possibly less - than the rate of inflation. This should be compared with the 17% increase in Pendle between 1987/88 and 1988/89.



COMMUNITY CHARGE ILLUSTRATIVE FIGURES FOR PENDLE

(Based on 1988/89 local authority expenditure)

	Expenditure per adult	Assessed level of need per adult	Overspend per adult	Overspend at taxpayer level	Community charge for spending at assessed level of need	Full un-safety netted community charge	1st year safety netted community charge	Average rate bill per adult	Local income tax rate
LANCASHIRE COUNTY COUNCIL	£647	£629	£18	-	-	-	-	-	-
PENDLE	£113	£80	£33	£51	£202	£253	£161	£153	6.6%

NON-DOMESTIC RATES AND UNIFORM BUSINESS RATE

	1987/88 poundage	1988/89 poundage	Increase 1987/88 to 1988/89	Uniform rate poundage	Increase 1988/89 to uniform rate poundage	Benefit of uniform business rate
PENDLE	244.5p	285.5p	17%	239.5p	-16.1%	£1.3m

## RATES REFORM: GENERAL BULL POINTS

The Local Government Finance Act received Royal Assent on 29 July 1988. The new system of local government finance comes into force on 1 April 1990.

### COMMUNITY CHARGE

#### Accountability

- Out of an adult population of 36 million in England, only 18 million are liable to pay domestic rates.
- The community charge will spread the burden of payment more widely, giving voters a direct financial stake in the decisions of their Councils. The community charge will act as a ready reckoner enabling voters to assess the value for money of local services.

#### Fairness

- Domestic rates are unfair: property values bear little relation to people's ability to pay and even less to the use they make of local services. More than 40% of homes with above average rateable values are occupied by households with below average incomes.
- How can it be fair for a single pensioner in the family home to pay the same rates bill as a family next door with 3 or 4 working adults?
- Many of the poorest will benefit from abolishing a property tax. 4 out of 5 single pensioner households and 9 out of 10 one-parent families will pay less with the community charge than with rates.
- The charge will relate precisely to ability to pay where it matters most. Those on low incomes will receive assistance in paying their contribution to the community charge by reductions of up to 80% in their charge according to their own circumstances, and there will be help for all those on income support to pay the minimum 20% charge.
- We estimate that 5 million adults will receive the maximum 80% rebate; and more than 4½ million will receive a rebate on a sliding scale up to 80%. Altogether 9½ million people, over one quarter of the adult population, will pay the community charge at reduced rates.
- The severely mentally handicapped; people who sleep rough and residents of short stay hostels; voluntary care workers; old people living in homes; those living in hospitals (such as the severely physically disabled) and prisons; monks and nuns, will be exempt.
- The list of exemptions was extended considerably in Parliament: that shows the Government's willingness to listen to constructive arguments and to make changes where appropriate. Altogether, approximately ½ million people will be exempt.
- Students will pay only 20% of the charge. Student nurses training under the existing arrangements will be treated in line with other salaried trainees and will not be entitled to the student relief. Nurses training in the future under the auspices of the more educationally lead Project 2000 will be granted the student relief.



### Transition

- The community charge will mean the end of the unfair system whereby all ratepayers in areas of high rateable values subsidise all those in areas of low rateable values. Abrupt changes resulting between authorities in 1990 will be limited by a safety net. This will be phased out by 1994.

### Labour Party accusation: no representation without taxation

- Right to vote will not depend on registration for, or payment of, the community charge.
- It will not be possible to avoid registration for the community charge by failing to register to vote.
- There will be separate registers compiled on a different basis for community charge and for electoral purposes.
- Sale of the register for commercial purposes will be prohibited.

### Rich will pay same as poor

- Those on low incomes will be eligible for rebates and will have to pay only part of the charge down to a minimum 20%. Increases in income support, which will come into effect in April 1989, have been announced and include a once and for all adjustment to meet the minimum 20% contribution. The adjustment made is well in excess of the national average community charge based on the level of community charge which would have been sufficient to replace domestic rates in the year 1989/90.
- Half of local services are funded from national taxation. The highest paid 10% of households will pay around 15 times as much towards the cost of local services as the lowest paid 10%.
- National redistribution of income is a job for the Chancellor.

### Alternatives

- Labour Party policy is apparently the retention of rates, based on home prices, together with a Local Income Tax. Two taxes in place of one.
- The Labour Party has not produced figures to show the effects of its proposal, and has not given sufficient details to allow others to calculate the likely results. But the value of a house is often poorly related to the income of the owner or tenant. So such a system would frequently not reflect ability to pay.
- The SLD favour replacing domestic rates entirely with a Local Income Tax. LIT would mean higher and higher taxes on income, in direct opposition to the Government's efforts to reduce income tax. High spending areas would soon find those on higher incomes moving elsewhere to avoid the high local income tax, creating a brain drain that would only exacerbate the problems of inner city areas.
- And LIT is bad for accountability. Out of 36 million adults in England, only 20 million pay income tax (compared with 18 million who pay rates). Only the community charge can restore local accountability.



## IMPLEMENTATION

### Cost of Implementation

- Disparity between estimates led to commissioning of Price Waterhouse to study both preparation and collection costs. Cost of collection will double reflecting two fold increase in people liable to pay. PW's estimate of cost of preparation (£99-£120m) not far from Government's initial estimate (£70m-£90m).
- It will cost more to collect the community charge but that is not surprising as there will be more than twice as many chargepayers as ratepayers. Costs per payer should not be any higher on the PW estimates.
- The Secretary of State announced on 7 July 1988 proposals for including £110m for preparation costs in the provision for the 1989/90 RSG Settlement, a figure in line with the Price Waterhouse findings and with the local authority association own figure. The Secretary of State subsequently announced on 21 October 1988 that half this provision will be met through specific grant. Individual charging authorities have been advised of their share of that £55m specific grant. The remaining half of the expenditure will be supported in the normal way through RSG.
- An initial capital allocation totalling £25 million has been made 1988/89 to all charging authorities in England pro rata to adult population. The Secretary of State also announced on 21 October 1988 that a more substantial allocation of £135m for 1989/90 when the bulk of capital expenditure will be incurred. Charging authorities were notified on 16 December 1988 of their share of the £135m.
- The cost of collecting the community charge will be taken account of in grant settlements for 1990/91 onwards, the level at which this support needs to be given will be considered in the light of the figures provided by Price Waterhouse.

### Guidance to Local Authorities

- The Department is aware of the need for guidance to local authorities on the implementation of the community charge. DOE is working with the local authority associations to prepare a series of Practice Notes on key implementation issues.

### Registration

- The Register will be compiled by 1 December 1989 by the community charges registration officer (CCRO) in each charging authority.
- CCROs will be able to impose civil penalties where individuals refuse to provide the information needed for registration or deliberately give false information. The initial penalty will be £50. Repeated refusal to supply information or correct information will attract a penalty of £200.
- The register itself will not be available for public inspection but an extract showing only names and addresses will.
- People who are in danger of physical violence will have the opportunity to have their names and addresses excluded from the extract.
- CCROs will not have access to national data sources such as Inland Revenue. They will have access to a great deal of existing information held by local authorities, eg, rating lists, council house tenants' lists, but not sensitive information such as police files.



- There is no conflict between the Local Government Finance Act 1988 and the Data Protection Act 1984. DOE have issued a set of guidelines on the data protection implications of community charge in conjunction with the Data Protection Registrar and local authority associations. (Practice Note No.4)

#### Billing and Collection

- Liability to pay the community charge will be on a daily basis: individuals are more prone to changes in circumstances than property, not only do they move house but their liability may change during the year - eg because they become or cease to be exempt from the personal charge.
- Each individual will have their own community charge bill showing the cost of local services. This includes couples who are joint and severally liable. The person completing the registration form will not however otherwise be responsible for seeing that eligible people who are included in the form pay their charges.
- Everyone will be entitled to make payment by 10 equal instalments. It will be open to authorities to make alternative arrangements and they will be able to offer incentives to chargepayers to meeting liability in a single lump sum.

#### Recovery

- Arrears will be dealt with in much the same way as under the existing rate system. In most cases, the authority will be able to come to an arrangement with someone who has fallen behind with their instalments.
- Where they are unable to do so, the authority will be able to take recovery action through the courts and recover the debt through distress (as at present) or by attachment of earnings or deductions from benefit (a new provision).
- Imprisonment will be retained for the small number of cases (around 400 a year at present) where the courts are satisfied that the person could have paid but refused, that is where there is "wilful refusal or culpable neglect".



## THE UNIFORM BUSINESS RATE AND NON-DOMESTIC REVALUATION

- The UBR is a key element in the new local government finance system, enabling authorities to be made properly accountable to their electors through the community charge. There will also be major benefits for businesses: cuts in excessive rates in high-spending areas, and stability in rate bills everywhere.
- Business rates are a bad locally variable tax, since authorities are not accountable to business: they encourage high spending, and distort business decisions on where to locate.
- The UBR will be set in 1990 to raise broadly the same revenue from private sector businesses and the nationalised industries in real terms as in 1989/90. Thereafter, increases will be limited to no more than the rate of inflation and possibly less.
- On 1988/89 figures, introduction of the UBR alone would cause business rates to fall in most parts of the North: by 31% in Sheffield, 28% in Bradford, 27% in Manchester and 26% in Liverpool. Every met district but one (Solihull) and every district in the North but one, gain.
- Businesses in the 57 designated Inner Urban Areas would enjoy a £350m (12%) drop in rates from the UBR with further gains from revaluation. Business rates in shire counties would also fall by about 5%.
- Taken together, the UBR and revaluation will reduce rate bills in the North and Midlands by some £850 million a year. Factories will tend to gain, more buoyant sectors of the economy, especially shops are likely to face increases. But these have already benefitted from the delay in revaluation since 1973.
- Revaluation is essential to reflect changes in relative values since 1973. But there will be no increases in the overall rate burden: on business. What matters to an individual firm is not the increase in its rateable value but how it has changed relative to the average for all firms.
- Transitional arrangements will help smooth the changes resulting from UBR and revaluation combined. Proposed that there will be a ceiling of 20% in real terms on the percentage increase in rates properties generally can face in one year, with a lower ceiling of 15% for small businesses with new rateable values below £7,500 in London and £5,000 elsewhere. Reductions will, similarly, be phased.
- The system of local consultation between authorities and businesses will be retained, and reconstructed to focus on levels of service to business.
- Charities will benefit from 80% mandatory relief, and local authorities will have discretion to give relief for the remaining 20%.



Labour's Alternative

- Labour's proposals amount to going ahead with revaluation but keeping the present business rating system.
- Under Labour's proposals businesses in the North and Midlands would be over £400m a year worse off than under the Government's proposals.
- Labour's rate rebate scheme for small businesses would have local authorities carrying out a means test on all small businesses. It would be an attack on commercial confidentiality, and difficult and expensive to administer.

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PAUL GRAY

19 June 1989

cc: Richard Wilson

COMMUNITY CHARGE AND LOCAL AUTHORITY GRANT SETTLEMENT

Each one percentage point on the RPI between September '89 and September '90 will increase public expenditure on social security benefits by £485 million in 1991/2. (PE White Paper, Table 15.17). A £10 change in Community Charge would cost/save about £45 million in rebates.

Thus:

- the offsetting public expenditure cost of average charge at 320 instead of 300 would be £284 million. Plus the problem of an extra 0.4 on the RPI;
- the offsetting public expenditure saving of average charge at 280 instead of 300 would be £235 million. Plus the benefit of 0.3 less on the RPI.

The Treasury's rule of thumb (for John Major's briefing) seems to be a public expenditure saving of 100 for every 200 of extra grant aimed at keeping down average CC. But I imagine there are other, unquantifiable benefits of keeping the RPI lower than it would otherwise be.

This arithmetic seems not without significance in the light of this morning's discussion with the Prime Minister, and I hope it can be reflected in her E(LF) brief.

*John Mills*

JOHN MILLS

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