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Paul Gray Esq
Private Secretary to
The Prime Minister
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11 October 1989

Dear Paul

COMMUNITY CHARGE: TRANSITIONAL PROVISIONS

I now attach the final version of the statement which Lord Hesketh is to make in the House of Lords later today on the Community Charge Transitional Provisions.

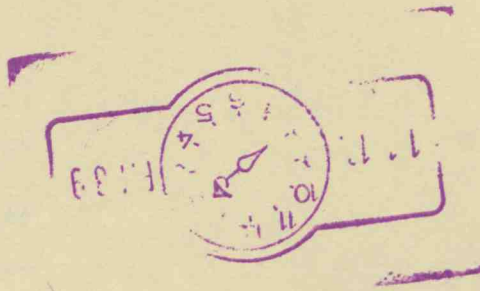
Lord Hesketh is not making his statement until about 5.10 pm and I would be grateful if you and copy addressees could ensure that its confidentiality is closely kept until that time.

I am copying this letter and enclosure to Stephen Catling (Lord President's Office), John Gieve (Treasury), Carys Evans (Chief Secretary's Office), Robert Canniff (Chancellor of the Duchy of Lancaster's Office), Jim Gallagher (Scottish Office), Stephen Williams (Welsh Office), Gillian Kirton (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Douglas Slater (Government Whips, House of Lords), Stuart Lord (Department of Social Security) and Trevor Woolley (Cabinet Office).

John

Roger

R BRIGHT
Private Secretary



11 October 1989

STATEMENT IN THE HOUSE OF LORDS by LORD HESKETH PARLIAMENTARY
UNDER SECRETARY OF STATE FOR THE DEPARTMENT OF THE ENVIRONMENT

LOCAL GOVERNMENT FINANCE (ENGLAND)

TRANSITIONAL ARRANGEMENTS FOR THE INTRODUCTION OF THE COMMUNITY
CHARGE

1. The introduction of the community charge is one of the major reforms of this Parliament. It is going to sweep away the discredited domestic rating system and establish a new, fairer and more accountable basis for paying for local government services.

2. Most local authorities in England are well advanced in preparing for implementation of the community charge, and the Government are confident that it will come successfully into operation on 1 April 1990.

3. Provisional details of the 1990/91 revenue support grant settlement for England were announced by my Rt Hon Friend the former Secretary of State for Environment on 19 July. Under these proposals the aggregate amount of support from Government grants and business rates will be £23.1bn in all. This is £1.8bn more than in the present year - an increase of 8.5%. Given this generous amount of support, the average community charge in England if authorities collectively spend in line with the Government's assumptions will be about £275; this is broadly in line with the average rate bill per adult for the country this year.

4. Nevertheless the structural change from domestic rates to the community charge will mean that some areas would face significant changes in the amount to be raised from their residents. It is

for this reason that we have proposed a transitional safety net to protect these areas. The adjustments to grant will mean that if authorities spend in line with the Government's assumptions no area will need to raise in real terms more than an extra £25 per adult from the domestic sector.

5. The Government understands the concern which some have expressed about the arrangements for the safety net whereby chargepayers in gaining areas contribute up to £75 to ease the losses for losing areas. But those contributions all come from areas that are gaining substantial amounts of additional Exchequer support from the change to the community charge. Some areas will be gaining over £200 a head from the change. I do not think it unreasonable therefore for a proportion of the overall gain to be contributed in the first year towards alleviating losses elsewhere. Every gaining area will still retain about half of its gains in the first year which should enable authorities to make significant reductions in the average burden on the domestic sector in those areas.

6. We are today announcing the arrangements for later years. The Government now proposes that the safety net should be abolished from 1 April 1991. This will mean that the remaining half of their prospective gains will flow through to gaining areas in 1991/92.

7. For losing areas the Government proposes instead to pay specific grant from 1991/92 to protect them against their losses during the transitional period. The grant will be phased out over the following three years as had previously been envisaged for the safety net. The cost to the Exchequer of this specific grant is estimated to be about £400m in 1991/92, about £200m in 1992/93 and about £85m in 1993/94.

8. In the new system community charge benefits, which will provide rebates of up to 80% of the community charge, will be available for those who are on low incomes. In 1990/91 the Government has already made available about £2 billion in Great

Britain as a whole on community charge benefits and an additional £½ billion through income related benefits - £2½ billion in all. Additionally, certain groups of people who cannot be expected to pay the charge will be exempt from liability, and I am today able to announce that we are extending the exemption for people who are severely mentally impaired so that it will include people who suffer from degenerative conditions such as Alzheimer's disease. There have been practical difficulties up to now which prevented our doing so; but we believe that we have overcome those difficulties, and the necessary regulations will be made as soon as possible.

9. Under the community charge system more than half of households will be better off than they would have been under the present system. However there will inevitably be individuals or households who will face significant increases from the changeover to the community charge.

10. In the light of this concern the Government proposes to seek enabling powers by means of amendments to the Local Government and Housing Bill to set up a transitional scheme of relief for individuals. Full details will be set out in a statutory scheme, subject to approval by Parliament, which my Rt Hon Friend the Secretary of State for the Environment intends to lay before Parliament early in the new session.

11. This scheme of transitional relief for individuals will be primarily designed to assist former ratepayers and their partners whose community charges for a defined level of spending would otherwise be substantially higher than their previous rate bills. It will also provide help to pensioners and disabled persons who have not previously paid rates.

12. I should make clear that it is not the Government's intention that this scheme of relief should apply to whatever level of community charge authorities set. It will be based on the assumption that they spend in line with the Government's proposals for total standard spending for local authorities as

announced on 19 July. This means that if an authority chooses to spend more than the Government assumptions the full amount of the excess will fall to be met by chargepayers.

13. The basis of the scheme will be to provide relief to ensure that rate payers and rate payer couples need pay in community charges no more than £3 a week extra over their 1989/90 rate bills provided that authorities spend in line with the Government's assumptions. For households with more than two adults the scheme will not normally take account of more than two community charges. But for pensioners and disabled people who are not rate payers or partners of rate payers and who have not previously paid rates the amount of relief will be the difference between their community charge bill on the same spending assumptions and the threshold of £3 per week.

14. I am depositing in the Library a document setting out full details of the proposals, copies of which are being sent to the local authority associations, individual authorities and other interested groups.

15. The Government is asking local authorities to undertake the operation of the scheme. The Government fully recognise that this will be a substantial extra task for them to undertake at a time when they are already busy preparing for the introduction of the community charge next April. We will be discussing operational aspects of the scheme with authorities urgently and making arrangements to meet in full a reasonable level of administrative costs.

16. We estimate that about £300 million in relief will be distributed in 1990/91 in England. Transitional relief will be phased out over a three year period. My Rt Hon Friends the Secretaries of State for Scotland and for Wales will make announcements separately about arrangements in Scotland and Wales.

17. My Lords, the introduction of the community charge will redistribute the burden of paying for local authority services significantly from the present class of domestic ratepayers, to the broader base of community chargepayers. The Government believes and Parliament has accepted that this uniform basis of paying for local services (with community charge benefit to help poorer people) will prove to be much fairer and more stable once the system is fully in operation. The changeover will however have a significant immediate effect on some individuals. The proposals I have announced today for abolishing the safety net in future years, replacing it with a new specific grant, and for establishing a new scheme of transitional relief for individuals will ensure that the changeover is kept to manageable proportions for those affected and that the community charge can be phased in smoothly.

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