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The Rt Hon Sir Geoffrey Howe QC MP
Lord President of the Council
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27 March 1990

Dear Lord President

HOLIDAY CARAVANS: STANDARD COMMUNITY CHARGE AND BUSINESS RATES

I am writing to seek colleagues' agreement to a short Bill in this session to put right a problem which has arisen over the treatment of holiday caravans for the purposes of the community charge and business rates.

During the passage of the Local Government Finance Bill in 1988, we amended the Bill so that holiday caravans not capable of use all the year round would be subject to non-domestic rating rather than the standard community charge. The Act makes those caravans which are on a "protected site" (within the meaning of the Caravan Sites Act 1968) and which are not used as someone's sole or main residence liable to the standard charge; caravans not on protected sites are subject to rating. In making this distinction we had understood that "protected sites" were generally only used for residential caravans, and that any other caravans on those sites would be akin to second homes and therefore properly liable to the standard charge.

It has now become clear however that there are substantial numbers of holiday caravan sites which contain one or two caravans licensed for year-round use; and our legal advice is that these are "protected sites". The Attorney General, whom we have consulted on this issue, agrees with this interpretation of the term. The result is in the caravan industry's view that around 250,000 holiday caravans - about 80% of the total - will be liable to the standard charge. The effects on the individual caravan owner are serious. Where a holiday caravan is within rating, the average rates bill (which is charged to the site operator but passed on to the individual owner) is expected to be around £70; whereas the average standard charge - there is a prescribed maximum multiplier of one - will be around £360. In aggregate terms, there will be a loss of about £17.5 million a year to the national non-domestic rate pool, while local authorities will receive an unexpected and unconvenanted benefit of about £90 million a year.

Although I could overcome this problem by prescribing a zero multiplier for holiday caravans, my power to do this has to be exercised by 1 January preceding the financial year concerned, so it is now too late to adopt this approach for 1990/91. The Attorney General has confirmed that there are no subordinate powers which I could use to restore the position for 1990/91 to what we intended it should be. And we have not been able to find any other satisfactory solution short of primary legislation.

The caravan industry, led by Eldon Griffiths who is their advisor, is pressing hard for legislation to deal with the problem. They have accused us of going back on the public commitment which we gave in 1988. The Prime Minister, who has discussed the issue with David Hunt, has said that she is concerned to ensure that the assurance previously given by the Government is honoured. I believe that if we do not act we shall be faced with a major political problem once caravan owners begin to receive standard charge bills and are faced with substantially higher costs than they had been led to expect.

I am clear that the only course open to us is to introduce primary legislation to amend the 1988 Act. I would expect the scope of such a Bill to be very narrow indeed and that it would be very short, probably not more than a clause or two. I believe that we can defend legislating on this issue and not on, for instance, other standard charge matters because in this case the 1988 Act has not achieved what we, and Parliament, intended. My immediate concern is that the legislation would need to have effect from 1 April 1990, and so would be retrospective by the time it receives Royal Assent. To mitigate this, I would need to announce our intention to legislate, probably by means of an arranged written question, by the end of this week. Agreed nt

I enclose a copy of the terms of my proposed announcement. My officials have already sent this and draft instructions to Counsel to the Attorney General's office for his consideration in view of the retrospective nature of the proposal. So far as my Department is aware, this problem arises only in England and Wales, not in Scotland where the legislation is different and where holiday caravans are already subject to non-domestic rating.

In view of the need to make an announcement by the end of the week I should be grateful to have colleagues' agreement to these proposals by close of play on 28 March.

I am copying this letter to the Prime Minister, to other members of QL, to Norman Lamont, Michael Howard, Malcolm Rifkind, Peter Walker and Sir Robin Butler.

Yours sincerely,

RB

CHRIS PATTEN

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

C O N F I D E N T I A L

RAFT TEXT OF ARRANGED WRITTEN QUESTION AND ANSWER TO ANNOUNCE
EGISLATION ON CARAVANS

QUESTION

To ask the Secretary of State for the Environment what steps the Government propose to take to ensure that holiday caravans remain within the non-domestic rating system in England and Wales.

ANSWER

During the consideration of the Local Government Finance Bill in 1988 the Government, in response to representations made by the caravan industry, introduced an amendment intended to provide that holiday caravans should remain within rating, while the owners of caravans not occupied as sole or main residences but used as second homes should be subject to the standard community charge. The distinction was drawn according to whether or not the caravan was on a protected site, within the meaning of the Caravan Sites Act 1968: no holiday caravans were understood to be on such sites.

It has now become apparent however that many sites primarily occupied by holiday caravans are protected sites. A high proportion of holiday caravans may therefore attract the standard community charge. This was not the Government's intention and, even though we have prescribed a maximum standard community charge multiplier of one for caravans and drawn to local authorities' attention their discretion to set a lower multiplier still, it is likely that many holiday caravan owners in England and Wales would face a burden considerably greater than if their caravans had been rated.

After discussion with the caravan industry, therefore the Government has decided to introduce shortly legislation to amend the Local Government Finance Act 1988 to provide for all caravans other than those occupied as a sole or main residence to be treated as non-domestic and subject to rating rather than attacting the standard community charge, whether or not they are stationed on a protected site. The legislation will provide for this amendment to the 1988 Act to take effect from 1 April this year. It will further provide that any standard community charge which may have been paid on a caravan before the legislation comes into force will be repayable. Once the legislation is in force valuation officers will alter local non-domestic rating lists in respect of the affected sites to reflect the contribution that the caravans make to the assessment of the site as a whole.

My Department and the Welsh Office are today writing to all charging authorities in England and Wales to inform them of the Government's intentions.

N28/90