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cc BW.P.

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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

COMMUNITY CHARGE: TRANSITION

I have seen Nick Ridley's latest proposals in E(LF)(87)45 attached. for the transition to the community charge.

I am glad to see that he now rules out allowing authorities the choice of whether to have dual running or not; and that he accepts that there are some areas, in inner London in particular, where we cannot introduce the full community charge immediately. And I accept his proposal that contributions to the safety net could be capped at £75 per head, so as to bring forward some of the gains in parts of the South.

But I believe his new proposals still leave us exposed to unacceptable political risks. I do not see how we could justify the capricious changes in local taxation which would follow.

I can understand why many boroughs and districts would prefer not to have the complication of dual running; and they have persuaded many of our backbenchers of this. But that is not a good enough reason for us to overturn the decisions we took and announced in July, that people in all areas of England need time to adjust. People, not councils, have votes. The community charge involves the redistribution of some £6 billion in local taxes between individuals in England. More people will pay; and there will be more losers than gainers. Such changes must therefore be introduced gradually and carefully if we are to avoid major problems.

As Nick Ridley says, the safety net handles the phasing of the changes in the burden of domestic taxation between areas. But dual running is essential to ease the transition to the community charge within each local authority. This is not just a London problem; it is also crucial for other politically critical areas, notably the North West.

The proposal to switch to the community charge immediately in most of the country would greatly increase the size of individual losses in 1990-91. And it would also introduce additional major losers in that year among people who, once the phasing out of the safety net was complete, would see their local tax bills little changed. For example, a couple with one of their parents living with them, who occupy an average house in Cambridge would face an immediate increase in local tax bills of about £250 (nearly 50 per cent), even though by 1994-95 their tax bill would have fallen back to its present level. It would be impossible to present this as acceptable, or indeed to convince such people that they would not be losers in the longer term.

We are in grave danger of repeating the mistakes of the 1985 Scottish revaluation. Then - as with the community charge - there was no change in the overall burden of local taxation, but there were some very large overnight shifts between individuals. The outcry from the losers forced us to provide extra cash. Even so, the subsequent political fall-out in Scotland was severe. I have to make it absolutely clear that there could be no question of a similar cushioning exercise in England. That would impose a quite intolerable burden on the national taxpayer.

There are also considerable difficulties over the demarcation line which Nick Ridley proposes to use to divide councils between those who would have dual running and those who would introduce the community charge immediately. Under his proposal, this would be based on next year's local authority budgets. That leaves it wide open to manipulation. A high spending council could manipulate its accounts next year so as to avoid any transitional period and then be in a position to impose a swingeing community charge in 1990-91.

Our discussion of these vital issues is still hampered by the lack of the full exemplifications I have several times requested. When we were first discussing the introduction of the community charge, we were much influenced by the very useful tables of gainers and losers by area and by household type. I believe we must have this information when we consider these issues now.

In summary, I believe that Nick Ridley's proposals will make it very much harder for us to achieve the successful introduction of the community charge which we all seek. Instead, we should stick to the policy we agreed and announced in July. It is a complex area, but we shall do ourselves no good in 1990 if we change our minds now on the basis of what is, I have to say, generally (if understandably) ill-informed pressure. We must instead explain our policy fully, and justify it properly to our backbenchers and others.

I am copying this minute to Willie Whitelaw, Nicholas Ridley and to other colleagues in E(LF).

NL

N.L.
10 November 1987

EFFECTS ON HOUSEHOLDS

Very little information has been made available to the Committee about gainers and losers by area and household type, year by year, under different transition options.

2. Some examples have now been provided by the Secretary of State at Annex E to his paper. The attached tables show further examples of households in key areas for two options:-

i) The transition agreed and announced in July, as amended by the modified safety net now proposed by the Environment Secretary.

ii) The Environment Secretary's latest proposal: no transition outside inner London and certain other areas.

3. The tables show, by area, the annual household bill for each year from the last year of rates (1989-90) to the end of the safety net (1994-95) for:-

- a person paying local tax for the first time;

- a couple in a modest house;

- a couple in a larger house;

- a couple with an elderly relative living in an average house.

4. The main points are:

i) for a new payer, no transition means a bill in 1990-91 ranging from £141 in York to £297 in Barnet; with a transition, the bill would be £100 throughout England;

ii) for a couple in a modest house no transition means a bigger increase in 1990-91 than with transition, although in the South they are not eventual losers;

iii) a couple in a larger house benefit from the absence of a transition - even though they are not eventual gainers in the North;

iv) a couple with an elderly relative would pay more in 1990-91 without a transition; in the North, they are eventually big losers, while in the South they see little change in their bills in the long-term;

v) with a transition all categories face a smoother progression to their full community charge, without major rises and falls in successive years.

H M Treasury
11 November 1987

ILLUSTRATIVE EFFECTS ON HOUSEHOLDS: **St.ALBANS**

4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	100	126	152	178	204
2 adults 70%average r.v.	439	465	451	437	422	408
2 adults 130%average r.v.	815	693	622	550	479	408
3 adults 100%average r.v.	627	679	662	646	629	612

NO TRANSITION.

Initial charge:£ 279

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	279	260	242	223	204
2 adults 70%average r.v.	439	558	521	483	446	408
2 adults 130%average r.v.	815	558	521	483	446	408
3 adults 100%average r.v.	627	837	781	725	668	612

Note: all figures assume unchanged cash spending and income from 1987-88.

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ILLUSTRATIVE EFFECTS ON HOUSEHOLDS: BARNET

4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	100	131	161	192	222
2 adults 70%average r.v.	459	485	475	464	454	444
2 adults 130%average r.v.	852	729	658	587	515	444
3 adults 100%average r.v.	655	707	697	687	676	666

NO TRANSITION.

Initial charge:£ 297

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	297	278	260	241	222
2 adults 70%average r.v.	459	594	557	519	482	444
2 adults 130%average r.v.	852	594	557	519	482	444
100%	655	594				
3 adults 100%average r.v.	655	891	835	779	722	666

Note: all figures assume unchanged cash spending and income from 1987-88

£200m £180m

ILLUSTRATIVE EFFECTS ON HOUSEHOLDS: **CAMBRIDGE**

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4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	100	123	145	168	190
2 adults 70%average r.v.	379	$\boxed{435}$	421	407	394	380
2 adults 130%average r.v.	703	636	572	508	444	380
3 adults 100%average r.v.	541	635	619	603	586	570

NO TRANSITION.

Initial charge:£ 263

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	263	245	227	208	190
2 adults 70%average r.v.	379	$\boxed{526}$	490	453	417	380
2 adults 130%average r.v.	703	526	490	453	417	380
3 adults 100%average r.v.	541	789	734	680	625	570

Note: all figures assume unchanged cash spending and income from 1987-88.

ILLUSTRATIVE EFFECTS ON HOUSEHOLDS: **HYNDBURN**

4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	100	128	156	184	212
2 adults 70%average r.v.	181	256	298	340	382	424
2 adults 130%average r.v.	337	303	333	364	394	424
3 adults 100%average r.v.	259	379	444	508	572	636

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NO TRANSITION.

Initial charge:£ 142

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	142	160	177	195	212
2 adults 70%average r.v.	181	284	319	354	389	424
2 adults 130%average r.v.	337	284	319	354	389	424
3 adults 100%average r.v.	259	426	479	531	584	636

Note: all figures assume unchanged cash spending and income from 1987-88.

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ILLUSTRATIVE EFFECTS ON HOUSEHOLDS: **YORK**

4 YEAR TRANSITION.

Initial charge:£ 100

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	100	118	137	155	173
2 adults 70%average r.v.	188	257	279	301	324	346
2 adults 130%average r.v.	350	305	316	326	336	346
3 adults 100%average r.v.	269	381	416	450	485	519

NO TRANSITION.

Initial charge:£ 141

Household	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
New Payer 1 adult	0	141	149	157	165	173
2 adults 70%average r.v.	188	282	298	314	330	346
2 adults 130%average r.v.	350	282	298	314	330	346
3 adults 100%average r.v.	269	423	447	471	495	519

Note: all figures assume unchanged cash spending and income from 1987-88.