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E(LF) 186) 1st Meeting

COPY NO 47

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held in  
Conference Room A, Cabinet Office on  
THURSDAY 19 JUNE 1986 at 9.00 am

PRESENT

The Rt Hon Viscount Whitelaw  
Lord President of the Council  
(In the Chair)

The Rt Hon Douglas Hurd MP  
Secretary of State for the  
Home Department

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Norman Fowler MP  
Secretary of State for Social  
Services

The Rt Hon Norman Tebbit MP  
Chancellor of the Duchy of Lancaster

The Rt Hon Nicholas Ridley MP  
Secretary of State for the  
Environment

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Baker MP  
Secretary of State for Education  
and Science

The Rt Hon John MacGregor MP  
Chief Secretary, Treasury

The Rt Hon Malcolm Rifkind QC MP  
Secretary of State for Scotland

The Hon William Waldegrave MP  
Minister of State, Department of  
the Environment (Minister for the  
Environment, Countryside and  
Local Government)

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

Mr David Mitchell MP  
Minister of State, Department of  
Transport

Mr Michael Ancram MP  
Parliamentary Under-Secretary  
of State, Scottish Office

SECRETARIAT

Mr J B Unwin  
Mr A J Langdon  
Mr J E Roberts

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INTRODUCTION OF THE COMMUNITY CHARGE

The Sub-Committee considered a Memorandum by the Secretary of State for Scotland, setting out proposals on how the Community Charge would operate in practice (E(LF) (86) 1).

THE SECRETARY OF STATE FOR SCOTLAND, said that in January the Cabinet had agreed to the publication of a Green Paper setting out a new system of local government finance, and had agreed that legislation should be introduced for Scotland in the next Parliamentary Session (CC(86) 1.7). It was now necessary to agree detailed proposals so that drafting instructions could be sent to Counsel by the end of June. Proposals for the Exchequer Grant and for non-domestic rates had been agreed earlier in correspondence. The details of the administration of the community charge which was to replace the domestic rate now needed to be settled. There was a large measure of agreement between the officials of the Departments principally concerned, and their recommendations were set out in a Report attached to his Memorandum and were summarised in paragraph 7. There were, however, four issues on which the Sub-Committee would need to reach decisions.

First Registration of 18 Year Olds

THE SECRETARY OF STATE FOR SCOTLAND, said that the Green Paper had proposed that 18 year olds should not become liable for the community charge until the beginning of the financial year following their 18th birthday. The local authority associations had, however, supported the view that since the register to be maintained by them of those liable to pay the charge would be continuously updated on a rolling basis, it was clearer and more logical for adults to be liable from the date of their 18th birthday, as in the case of the electoral register. (In either case, those in full-time education and in receipt of child benefit would not be liable until they were 19.) While some administrative difficulties would be avoided by sticking to the original proposal, on balance he favoured the approach suggested by the local authority associations.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion on this item, said that while the Sub-Committee recognised that there would be some administrative advantages in having either one or perhaps two fixed dates a year on which liability would begin, it was consistent with the principle

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of the community charge that liability should start from a person's 18th birthday. Moreover, it would be helpful to meet the wishes of the local authority associations wherever possible. The legislation should therefore be drafted on that basis, although it would be possible to move to the other option during the Parliamentary passage of the Bill if there were strong pressures to do so.

The Sub-Committee -

1. Took note, with approval, of the Lord President's summing up of this part of their discussion, and invited the Secretary of State for Scotland to proceed accordingly.

#### The Framework of Duties and Offences

THE SECRETARY OF STATE FOR SCOTLAND, said that in principle it would be right to require every adult individual to register with the local authority. But such a system would be difficult to operate in practice and to enforce. Instead he proposed that there should be a duty on a responsible person, who in practice would be the head of each household, to register at the time of an annual canvass the names of all adults resident with him or her, and to notify any changes occurring during the year. This would be similar to the existing arrangements for electoral registration which were well understood, and would mean that local authorities would have to deal with a smaller number of people. For the vast majority of households it would be clear who the responsible person was. But in cases where this was not so, the local authority would have a power to designate an adult to take on this function, subject to an appeal to the court. There would need to be a sanction against heads of households for failure to register adults liable to the charge, and he had concluded that this should be criminal rather than civil, since it was inappropriate for local authorities to exercise a judicial role. Fixed penalties, which would not give rise to a criminal record, might be available to deal with the more minor cases.

In discussion the following points were made -

- a. The charge would not be universally welcome and a light enforcement system might risk widespread evasion. On the other hand, a heavy enforcement system, with criminal penalties and onerous new duties on householders, would present problems that would be especially acute in inner city areas.

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- b. It would not always be easy to identify the 'responsible person'. Many couples owned their homes in joint names. In some cases the responsible person could change during the year, and it would be hard to define where obligations lay and for individuals to be clear what their duties were.

- c. It would be unusual to introduce what amounted to a new tax without introducing an obligation on those liable to pay it to declare themselves. But any system to keep track of mobile individuals would be difficult to enforce and cumbersome to operate.

- d. Although there would be no penalty for non-registration, individuals would remain liable to make good any back payment of community charge, and interest should be charged on this.

- e. Although the electoral registration system generally worked well, there were few disadvantages to individuals in allowing their names to be included. In the case of the community charge there would be a strong financial incentive to avoid registration if possible.

- f. It might be possible to require anybody leaving their registered residence to provide the local authority with a forwarding address. This would make it easier to track down those who moved.

- g. While it was entirely appropriate to apply criminal sanctions to those who sought to evade tax, failure to declare residents was not in the same category and should be liable to lighter sanctions. A continuing duty on a responsible person to report changes between annual canvasses might be too onerous to impose on the elderly or mentally infirm.

- h. The need for a continuing duty could be avoided if liability for a whole year's charge were established according to residence at an annual registration date.

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THE LORD PRESIDENT OF THE COUNCIL, summing up this part of the discussion, said that the Sub-Committee were not yet ready to reach final decisions about where the responsibility for registration should lie and what sanctions should be used against householders and individuals who failed to register. The Secretary of State for Scotland should circulate urgently a further paper examining the issues in greater detail.

The Sub-Committee -

2. Took note, with approval, of the Lord President's summing up of this part of their discussion.
3. Invited the Secretary of State for Scotland to circulate a further paper on this issue.

#### Second Homes

THE SECRETARY OF STATE FOR SCOTLAND said that the Green Paper had proposed that second homes (ie the homes which were not the sole or main residence of any adult) should be subject to a standard charge equivalent to two community charges. This was intended to make the local charge broadly the same as existing rates. Further work had suggested, however, that the majority of second homes were of below average rateable value, and in his view it would be more equitable to set the standard charge at only one community charge. Moreover, this would avoid the incentive for married couples to register one spouse in each of the main and second home, thus paying only one community charge on the second home and avoiding the standard charge.

THE LORD PRESIDENT OF THE COUNCIL, summing up this part of the discussion, said that the issue of second homes was particularly controversial in many parts of the country. Many local authorities in rural areas depended heavily on the rates income from second homes, and any intention to move away from the proposition stated in the Green Paper would be highly controversial, particularly as those with second homes tended to be the better off. The legislation should therefore be based on the Green Paper proposition, although local authorities should be given discretion to set the standard

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charge at less than two community charges: those authorities which depended heavily on the tourist and recreational industries might wish to do this.

The Sub-Committee -

4. Took note, with approval, of the Lord President's summing up of this part of their discussion, and invited the Secretary of State for Scotland to proceed accordingly.

#### Reliefs from the Community Charge

THE SECRETARY OF STATE FOR SCOTLAND said that at present there was a complex range of reliefs from rates for charities and the disabled, and there were many anomalies. In addition, there were many people in tied houses, including clergymen, the police and prison officers, who enjoyed either partial relief from rates or a non-taxable benefit where they were paid by an employer. There would be strong pressure to introduce similar reliefs to the community charge, and he therefore sought authority to undertake informal consultations with the interested parties to establish the main areas of difficulty so that well-founded proposals could be brought forward in due course.

THE LORD PRESIDENT OF THE COUNCIL, summing up this part of the discussion, said that the logic of a community charge, levied on all adults irrespective of their use of services or financial means, argued against any comprehensive system of reliefs. In principle, the social security system should provide assistance to those without the means to meet their obligations. The Government should start from the proposition that the community charge should be a universal obligation, although in practice there would be very strong pressure, particularly in the House of Lords, to extend relief at least to charitable institutions. The Secretary of State for Scotland should discuss further with the Chief Secretary, Treasury how the Government should approach this problem.

The Sub-Committee -

5. Took note, with approval, of the Lord President's summing up of their discussion, and invited the Secretary of State for Scotland to discuss the issues with the Chief Secretary, Treasury.

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SOCIAL SECURITY AND THE COMMUNITY CHARGE

The Sub-Committee considered a Memorandum by the Secretary of State for Social Services about the interaction of the social security system and the proposed community charge (E(LF)(86) 2).

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that a number of complex issues were involved which the Group would not be able to resolve that day. It would be helpful if the Secretary of State for Social Services, in conjunction with the Secretary of State for the Environment, the Chief Secretary, Treasury, and the Secretary of State for Scotland, could prepare a paper summarising the various options and putting forward firm recommendations as to the way forward. The Sub-Committee would return to these issues at their next meeting in about two weeks. In the meantime no action should be taken which would jeopardise the passage of the Social Security Bill currently before Parliament.

The Sub-Committee -

1. Took note, with approval, of the Lord President's summing up of their discussion.
2. Invited the Secretary of State for Social Services, in conjunction with the Secretary of State for the Environment, the Chief Secretary, Treasury, and the Secretary of State for Scotland to circulate a further Memorandum summarising the issues and making recommendations on the way forward.

Cabinet Office

19 June 1986

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