



cc B G F
 (was b/f for E (LF)
 or Treasury).

PRIME MINISTER

LOCAL GOVERNMENT FINANCE

My Social Security White Paper, to be published next week, reaffirms the principle that everyone should make a 20 per cent contribution to their rates. I have been considering how this will interact with the latest proposals for reforming domestic rates set out in Ken Baker's draft Green Paper.

Chapter 3 of that paper proposes that the reformed housing benefit scheme should be adapted to apply to the new community charge. It also states that the principle of a minimum contribution to that charge by everyone liable for it should remain. What these proposals mean in practice is that the housing benefit scheme will be greatly extended - to cover about one million extra claimants. Also local authorities will have to collect very small sums initially (as little as 20p a week) from many of those getting rebates. This will entail a disproportionate administrative cost and strong protests from local authorities who are already concerned about the increased administrative cost of everyone paying something towards their rates.

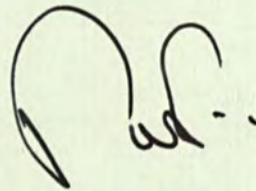
This is a highly undesirable consequence which we must try to avoid. I believe there may be a way of doing so which would eventually enable us to abolish rates rebates altogether. This could be achieved by making everyone responsible for paying the community charge without any rebate. If, as suggested, the charge were set initially at a flat-rate £50, that would be equivalent to 20 per cent of the average rates bill for a single adult on supplementary benefit. Local authorities would have to collect this from all social security recipients but it would be a sum worth collecting. A flat rate addition could be made to income support and family credit to assist low income households with more than one adult and this could be reviewed as the community charge was increased to replace more of the property charge.

E.R.

Prima Facie, this approach has some very considerable attractions. First, it would actually strengthen the accountability of local authorities, because not only would everyone have to pay the whole community charge, but also social security beneficiaries would have to pay the full extent of any increase in that charge above the average. That should act as a very effective brake on the readiness of high spending authorities to make above-average increases in their community charge. Second, instead of extending the coverage of housing benefit, it would mean that rate rebates could eventually be abolished. Housing benefit would remain as a scheme for remitting rent; but would disappear as a scheme for remitting local taxation.

I am not seeking the agreement of you or colleagues to the proposal at this stage. More work needs to be done on it and in particular we shall have to examine in more detail the effects on high spending, high rate authorities. But I believe that the proposal offers real promise. What I suggest, therefore, is that we should ask the Secretary of the Cabinet to arrange for officials to analyse the proposal in detail and report back urgently to E(LF).

I am copying this minute to members of E(LF).



N F

10 December 1985

CONDIMENT

