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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 September 1989

Dear Sir,

COMMUNITY CHARGE TRANSITIONAL RELIEF

The Prime Minister held a meeting yesterday to discuss possible schemes of transitional relief from the community charge. Those present were the Lord President of the Council, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Social Security, your Secretary of State, the Chief Secretary, the Chief Whip, Sir Robin Butler, Richard Wilson, George Monger, Andrew Wells (Cabinet Office) and John Mills (Policy Unit).

I should be grateful if you would ensure that this letter is seen only by named individuals.

Ministers had before them a Note by the Cabinet Office of 26 September, and minutes from your Secretary of State dated 26 September and from the Chief Secretary, Treasury dated 27 September.

Your Secretary of State said that at their previous meeting Ministers had considered his proposal for Exchequer funding of the existing area safety net, at a cost of £650 million in 1990/91. They had agreed that this should be considered alongside alternative schemes which would provide transitional relief from the community charge. The Cabinet Office Note reported the work which officials had done on various options. There was a growing storm among MPs over the community charge, concentrated mainly on the issue of contributions to the safety nets. But the more he considered the issues, the more it became clear that the real problem lay not with the area safety net but with the losses which individual community charge payers and couples would face in spring 1990.

His minute showed how the Government could attempt to meet both problems, by adopting a comprehensive scheme of transitional relief and making changes to the safety net. But this would involve very great costs for the Exchequer, which he recognised might not be affordable. If colleagues agreed, they might wish to look at options in the middle of the Cabinet Office Note. For example, option V would provide relief for couples and single adults who had previously paid rates, and for all pensioners, at a cost of about £500 million in England, excluding administration costs. He believed that it would be administratively possible, but it would have to be implemented by local authorities.

The main issue was whether an initiative of this sort would be sufficient to defuse concern about the community charge. Option V would certainly be the minimum that was required. It might be advisable to go a bit further, and offer something on the safety net, along the lines of the proposal put forward by the Chancellor of the Exchequer at the previous meeting. This would involve an assurance that the safety net would be funded from within Aggregate Exchequer Finance from 1991/92 onwards. That would ensure that gaining authorities received all their gains from the second year.

In discussion the following main points were made -

- a. Any scheme of transitional relief had to meet the crucial test of affordability. A package of the sort which the Secretary of State for the Environment had set out in his minute, involving overall expenditure of nearly £2 billion, would have caused intolerable problems for the current public expenditure Survey. It could also have a disastrous effect on the financial markets, and threaten the success of the Government's economic policies. These problems remained even under the more modest proposal which he had put forward to the meeting. It had to be remembered that the Government had already made generous improvements to the community charge rebate scheme and income support which would involve the Exchequer paying about £2.5 billion in 1990/91, around a quarter of the total raised from the community charge. People in employment had been benefitting from very substantial increases in earnings in recent years, and were shortly to get a £3 per week benefit from National Insurance changes. These arguments suggested that the most that was needed was a highly selective scheme of transitional relief for those in need, targeted on people eligible for community charge rebates and some other vulnerable groups such as pensioners. With a threshold of £2.50 per week such a scheme might cost £130 million, including the costs of administration and of extending the scheme to Scotland and Wales.
- b. On the other hand, a scheme of this sort was unlikely to be sufficient to meet the real problems involved in the transition to the community charge. There was no case for giving assistance to people who had not previously paid rates. It was the objective of the community charge system to ensure that they made a contribution towards the costs of local authority services, introducing true accountability. But it had to be recognised that some couples who had previously paid rates would face intolerable increases in their bills in 1990/91. People who lived in modest houses with low rateable values and had incomes just above benefit levels were particularly likely to find themselves in this position. An acceptable scheme would need to protect them and those single adults in the same position who had formerly paid rates. There was also a strong case for extending protection to all pensioners, whether or not they had not previously paid rates. If this were not done there would be a disincentive for families to care for elderly relatives, contrary to the Government's policies on care in the community. These arguments pointed to a scheme like option V in the Cabinet Office Note.

However there was a case for making certain refinements in this option. It would not be appropriate to base any scheme of transitional relief on a spending level as high as 7% above 1989/90 budgets although rounding to 4% might be considered. The appropriate level of spending was the amount proposed for Total Standard Spending, or 3.8% above 1989/90 budgets. As far as the threshold was concerned, a figure of £2.50 per week seemed most appropriate, the same level which had been adopted for the housing benefit transitional protection scheme. It might also be appropriate to extend the scheme to certain other defined categories of vulnerable non-ratepayers, such as the disabled. Attempting to administer the scheme through a central body was likely to lead to very substantial administrative problems. It would be better to require local authorities to operate transitional protection. Finally, further work was needed on the timing of relief. It seemed unlikely that relief could be paid from April 1990 when the community charge was introduced. But consideration should be given to the possibility of deferring the instalments of the charge from the first 10 months of 1990/91 to the final 10 months, beginning in June. This might help to avoid payments falling due before transitional relief was available. The effect on local authorities' cash flow could be compensated through changing the phasing of Exchequer grant.

- d. Legislation would be needed for a scheme of transitional relief. Every effort should be made to introduce this in the current Session by way of amendments to the Housing and Local Government Bill, which had its remaining Lords stages in October. To achieve this would require decisions in the next week or so.
- e. A scheme of transitional relief of the sort which had been discussed ought to be sufficient to defuse the current controversy over the area safety net. There was intense pressure for Exchequer funding of the safety net from some of the Government's supporters. The arguments for doing this were, however, without logical foundation. Two-thirds of the money involved would go to community charge payers who were already gaining compared to rates. It would be important for Ministers to do all they could to get this argument across to influential MPs who were currently supporting Exchequer funding. It might be helpful to enlist the support of some MPs representing areas which were depending on the safety net to protect them from unacceptable losses in 1990/91, for example the North and most of inner London. There was no case at present for offering concessions on the safety net, such as an undertaking of Exchequer funding from year two onwards. No decisions on this were needed yet.

The Prime Minister, summing up the discussion, said that the Government needed to introduce a scheme which provided fair and equitable protection at an affordable cost for people who were adversely affected by the transition to the community charge. It was clear that some couples who had previously paid modest rates would otherwise face intolerable losses. A scheme of transitional protection restricted mainly to those eligible for

Community charge benefits would not be sufficient to meet this problem.

The group considered that a scheme based on option V in the Cabinet Office note was the right approach, providing protection to couples and single adults who had previously paid rates and to all pensioners and the disabled. Further work was now needed. This should take option V as its starting point and work downwards. The meeting had agreed to adopt a spending assumption of 3.8% above 1989/90 budgets, consistent with proposed Total Standard Spending, rather than 7%. Consideration should be given to further reducing the cost, for example, by setting the threshold at £2.50 per week, the same level which had been adopted for the Housing Benefit Transitional Protection Scheme, together with other possible variations such as a differential threshold for pensioners and earners. It would be important to stress that the scheme was transitional, but the precise period for which it should operate would need further consideration, taking into account the interaction with the removal of housing benefit protection. It was essential that the scheme should be sufficiently generous to defuse genuine criticism of the transition to the community charge, and it should be clear that this was the final scheme, and that the Government would not make further money available for 1990/91.

Your Secretary of State and the Chancellor of the Exchequer should commission further work, taking account of the points made at the meeting and any other refinements which they believed to be appropriate. The Secretary of State should then circulate a paper setting out the proposed scheme of transitional relief for consideration by E(LG) on Wednesday 4 October, and report orally on the outcome at Cabinet on Thursday 5 October. The proposals would need to cover Scotland and Wales, and the Secretaries of State for Wales and Scotland, as well as the Secretary of State for Social Security, should be involved in the further work. As far as the area safety net was concerned, it was clear that there was no logical case for Exchequer funding. Nevertheless there was a strong campaign for this in which some influential MPs were involved. It was important that Ministers should make every effort to get the case against Exchequer funding across, to defuse the strong feelings which were being aroused. Careful briefing should be prepared for them. It might be helpful to enlist the support of MPs for areas which depended on the safety net to protect them from substantial losses in 1990/91.

I am copying this letter to the Private Secretaries to the other Ministers who attended the meeting, the Secretaries of State for Scotland and Wales, and to the others present.

*Yan
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PAUL GRAY

Roger Bright, Esq.
Department of the Environment