



10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

9 July 1990

Dear Pam,

Thank you for your letter of 18 April about the community charge. I am sorry you have not had an earlier reply.

We believe that the community charge is fairer than the old domestic rating system, for a variety of reasons. It spreads the burden of payment more evenly: almost every adult will pay his share, whereas only one adult in two paid domestic rates directly. It will restore local accountability, because everyone who votes in elections will have a direct financial stake in the decisions of their local councils. In addition, it will lead to a closer match between using and paying for local services: most local government services are now people-related rather than property-related.

Your letter suggests that the community charge is inequitable and overlooks the ability to pay. The fact is, however, that help is available to people on low incomes by way of a reduction in the amount of the community charge bill. Help is available on a sliding scale with the amount of the reduction varying according to income. The amount of the reduction decreases from the maximum of 80 per cent by 15p for every £1 a week of net income above income support level. The Government is providing over £2 billion in 1990/91 for these rebates and estimates this will bring help to one chargepayer in four.

The argument about inequity ignores the central fact that the community charge contributes only 28 per cent of local government finance; some comes from the business rate but the largest share comes from central Government - that is the general taxpayer. Those who earn more pay a higher contribution towards the cost of local government. May I illustrate that with an example - take the case of a single person assuming where relevant that that person claims full tax relief on a mortgage: someone getting the full 80 per cent rebate will pay on average £73 a year to local government; a person earning £12,000 a year will pay £650; someone on £20,000 a year will pay £1,400 and the person who earns £50,000 will pay over £3,300 towards the cost of local government.

I do understand the concerns of those on low to average earnings who face significantly higher bills. I am afraid too many councils have increased their spending this year by much more than the rate of inflation. That is not justified and they will have to account to their electors for it. I am sure you will agree that no system of local government finance, however ingenious, can combine high spending with low bills.

Transitional relief, based on a comparison between domestic rates and the authority's assumed community charge, will help people facing significant increases in local taxation as a result of the structural change from rates to the community charge.

Yours ever
Rayner