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July (86) 5th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 2 OCTOBER 1986 at 11.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

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

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 Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry

The Rt Hon John Moore MP
Secretary of State for Transport

Dr Rhodes Boyson MP
Minister of State, Department
of the Environment

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary
Treasury

Mr John Major MP
Minister of State, Department
of Health and Social Security
(Minister for Social Security)

Mr Mark Robinson MP
Parliamentary Under-Secretary
of State, Welsh Office

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

SECRETARIAT

Sir Robert Armstrong
Mr J B Unwin
Mr A J Langdon
Mr J E Roberts

SUBJECT

INTRODUCING THE COMMUNITY CHARGE

INTRODUCING THE COMMUNITY CHARGE

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about the introduction of the community charge (C(LF)(86)9)

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had been considering the case for introducing the new community charge on a timescale faster than the 10 year transitional period suggested in the Green Paper 'Paying for Local Government' (Cmd 9714). He had, however, concluded that, given the very wide variation in the likely level of the charge, to do so would lead to unsustainably large changes in the bills faced by individuals. He hoped that it might still be possible to reduce the amount of variation, and the option of swifter introduction should therefore be kept open. But he recommended that for the time being the Government should continue to plan on the basis of the approach described in the Green Paper.

The key decision now was how those on low incomes should be assisted in paying the new charge. The options were either to carry across the current rates rebating system (as amended by the Social Security Review) into the new regime, or alternatively to provide a flat rate addition to income support for those on the lowest incomes while requiring all adults to pay their charge in full. If the new charge were rebated by 80 per cent, accountability would be greatly reduced, and there was therefore much to be said for abolishing rebates. But the range of the community charge across England and Wales would be too great to make flat rate support feasible: those in areas of high charge would be substantially out of pocket, whereas those in areas of low charge would be overcompensated. Over time electors would have the chance to vote for lower spending, thereby reducing the most excessive charges, and the grant system might be refined so that those authorities with genuine higher needs would receive greater support, leaving only true over-spending to be financed by high charges. There was therefore much to be said for keeping options for England and Wales open, but on the basis of the existing patterns of expenditure it would be essential to introduce the community charge with a system of rebating.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that to rebate the community charge would add 1.25 million new cases to the housing benefit system (largely because the number of local tax payers would be doubled), whereas the Government's aim had been to reduce the extent to which people depended on benefits. The broad pattern of gainers and losers would not be much affected by removing rebates, and the full effects would only emerge over a lengthy transition period. He therefore hoped that it would be possible to keep open the option of abolishing rebating.

In discussion the following points were made -

- a. If there were no rebates for those above the level of basic income support, there would be a strong disincentive for those receiving income support to take lower paid jobs. Moreover, many occupational pensioners would have incomes just above the income support level, and they would suffer substantially if rebating were abolished.
- b. Many electors who would be required to pay only 20 per cent of their community charge under a rebating scheme could stand to benefit substantially if their authority increased expenditure on free or subsidised services, and would therefore have a strong incentive to vote for higher spending. There was a case for giving further consideration to whether the minimum payment of 20 per cent was sufficient, although this had been judged to be the most that was *practically* *politically* feasible.
- c. The situation in Scotland was different from that in England and Wales, and it would be possible there to adopt an interim approach which would not necessarily be a binding precedent.

THE PRIME MINISTER, summing up the discussion, said that while the Sub-Committee saw some attraction in moving away from a rebating system, in practice the variation of the community charge was likely to be too great for a scheme based on a national average increase in income support to be acceptable. Moreover it would sharply reduce work incentives. The Sub-Committee were therefore

agreed that the Scottish legislation should include provisions to enable the community charge to be rebated. For England and Wales, however, the issue should be kept open in case it became possible in the light of further work to adopt a different course. This would require careful presentation.

Further thought would need to be given to the precise form of rebating system. In particular, thresholds might be adopted to eliminate cases which would result in only very small rebates; and the possibilities of rebating a smaller percentage than 80 per cent of the community charge, and applying rebates only up to a reasonable level of community charge, might be considered. The Sub-Committee also attached great importance to maintaining effective powers to limit the expenditure of the most extravagant authorities.

The Sub-Committee -

- 1. Took note, with approval, of the Prime Minister's summing up of their discussion.
- 2. Agreed that a provision allowing for the rebating of the community charge should be included in the Scottish legislation.
- 3. Agreed that no commitment should be given for England and Wales about the way in which those on low incomes might be helped to pay the community charge.
- 4. Invited the Secretary of State for Scotland, in conjunction with the Secretary of State for Social Services, the Secretary of State for the Environment, and the Chief Secretary, Treasury to consider further the precise form of the rebating system in Scotland.

Cabinet Office

2 October 1986

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MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

—
CORRIGENDUM
TO

E(LF) (86) 5th MEETING MINUTES

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Page 2, paragraph b, last line

Delete: "practically"

Insert: "politically"

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3 October 1986

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