

BF 15/4



2 MARSHAM STREET
LONDON SW1P 3EE
01-212 3434

My ref:

Your ref:

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

13 April 1988

SECRET

COMMUNITY CHARGE REBATES

Your letter of 11 April (not copied to all) set out the conclusions of a meeting held by the Prime Minister that afternoon at which Mr Mates' amendment to the Local Government Finance Bill was discussed, and it was agreed that an appropriate response would be a reduction in the slope of the community charge rebate taper.

Since that meeting DOE and Treasury officials have discussed further the cost of such a change and the options have been considered with the Chief Secretary; and the Department of Health and Social Security, the Scottish Office and the Welsh Office have been brought into the discussions. I am now writing to confirm the proposal that my Secretary of State, with the agreement of the Chief Secretary, wishes to make orally at Cabinet tomorrow.

My Secretary of State proposes that the community charge rebate taper should be 15p in the £, as compared with the 20p rate rebate taper which is in force in 1988/89. The reduced taper would come into effect in the year of introduction of the community charge - that is 1989/90 in Scotland and 1990/91 in England and Wales. The cost, in a full year, is estimated at £115 million to £130 million (GB figures at 1988/89 prices). This estimate is sensitive to assumptions about take up and the size of the community charge.

My Secretary of State agrees that the cost of reducing the taper from 20p to 15p should in this particular case be offset in the levels of Government grant to local authorities in the three countries in the relevant years. This means that a small amount will be added to all community charge bills to finance these additional rebates for the less well-off as agreed at the meeting. Obviously, however, the details of the figuring cannot be resolved now, as the relevant grant totals have not yet been set.

SECRET - NO COPIES TO BE TAKEN

In announcing what is proposed in the debate on Monday, my Secretary of State will explain that the effect of reducing the taper will be to extend the rebate system further up the income scale, so that about an additional 1 million community charge payers receive rebates who would not have done so with a 20p taper. Many of these are individuals who would have been helped by the Mates 50% band. So the Government has secured much of what the Mates amendment was seeking to achieve, but by a simpler and more appropriate route.

My Secretary of State agrees that it is essential that no indication of a possibility of a change should be given before the meeting with backbenchers tomorrow evening; and that precise details should not be given before the debate next Monday.

I am copying this letter to Alex Allan (Chancellor of the Exchequer's Office), Jill Rutter (Chief Secretary's Office), Alison Smith (Lord President's Office), Murdo Maclean (Chief Whip's Office), Geoffrey Podger (DHSS), David Crawley (Scottish Office), and Jon Shortridge (Welsh Office).

Yours sincerely
Roger Bright

R BRIGHT
Private Secretary

1

SECRET



3 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

CHIEF SECRETARY	
REC.	14 APR 1988
TO	Mr Potter
FROM	Mr Anson, Mr Phillips
	Mr Hamilton, Mr McIntyre
	Mr Turnbull, Miss Pearson
	Mr Gibson, Mr Felgett
	Mr Call

14 April 1988

Dear Paul

COMMUNITY CHARGE REBATES

Following this morning's discussion at Cabinet, I enclose a copy of the statement which my Secretary of State will be issuing this evening and on which he will be drawing at the meeting of the Conservative Backbench Environment Committee.

The substance of the statement is also to be incorporated in an Answer, also to be given at 5.30pm this evening, pursuant to an earlier PQ from Eric Forth MP. I would be grateful if recipients of this letter could ensure that the confidentiality of the statement is observed until then.

Copies go to Alex Allen (Chancellor of the Exchequer's Office), Jill Rutter (Chief Secretary's Office), Alison Smith (Lord President's Office), Murdo Maclean (Chief Whip's Office), Geoffrey Podger (DHSS), David Crawley (Scottish Office) and Jon Shortridge (Welsh Office) and also to Trevor Woolley (Sir Robin Butler's Office).

Yours sincerely
Roger Bright

R BRIGHT
Private Secretary



COMMUNITY CHARGE - HELP FOR THOSE ON LOW INCOMES

The Government has today announced new and improved arrangements for the reduction of community charges paid by people on low incomes. These will reduce community charges for some one million people who would have paid charges in full. It will reduce further the charges paid by another 4 million people eligible for rebates of up to 80%.

Under the Government's existing proposals, all those receiving income support - the successor to supplementary benefit - will have their rates, or in future their community charge bills, reduced by 80%. So they will pay only 20% of the community charge for the area in which they live. In addition, their income support will include an amount to help meet the 20% charges that they do have to pay.

Those with incomes above the income support level will also be eligible for rebates of up to 80% according to their circumstances. In 1988/89, with domestic rates, the amount of their rebate is reduced by 20 pence for each £1 increase in their income. The Government has now decided that, when the community charge is introduced, rebates should be calculated on the basis of a lower 'taper', of 15 pence for every additional £1 of income. This means that the amount of community charges of those on low incomes will rise more slowly as their incomes increase. Their rebate will be reduced by only 15 pence for every £1 rise in their net earnings above the income support level.

This reduced taper will come into effect when the community charge is introduced - in Scotland in 1989 and in England and Wales in 1990.

Four million people will receive the maximum 80% reduction. If a 20% taper had been used for the community charge, about a further 4 million people would have received reductions of up to 80%. With a 15 pence taper, rebates will extend further up the income scale. One million additional adults will have

their community charge bill reduced. About 9 million people will pay reduced charges, and about 5 million people with incomes above the income support level will have larger reductions in community charge than they would have had with the 20 pence taper.

Of these 5 million, about three quarters are people who do not pay income tax.

This improvement in the rebate proposals achieves a better targetted result than the New Clause I proposal for a 50% community charge for those who do not pay income tax. But it does so by a simpler and much less bureaucratic route, with no anomalies, and one that avoids the earnings trap which New Clause I would produce. It does not require an amendment to the Local Government Finance Bill.

mp

BF 1574



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CHIEF SECRETARY	
REC.	14 APR 1988
Mr Potter	
Mr Hansen	Mr Phillips
Mr Hawton	Mr McIntyre
Mr Tomball	Miss Pearson
Mr Carlson	Mr Felgett

Ch/minutes of No 10 meeting behind. See X over for Mr Moore's next bid. mpw 15/4

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

14 April 1988

Mr Call

Dear Mr Ridley

COMMUNITY CHARGE REBATES

I have seen Roger Bright's letter of 13 April to Paul Gray. I do recognise the political problem presented by the Michael Mates amendment, and the need for a quick response attractive to our supporters. Equally, colleagues should be aware of the implications of your proposals.

First, it will do nothing for those on low incomes with capital over £6,000 - precisely the group causing so much concern to our supporters at the present because of their losses under the new social security scheme. We are bound to be asked why we can move on the taper but not on the capital limit.

Second, a major plank of our defence of the reforms has been the need to reduce dependency. Your proposal - with a substantial increase in the number receiving means tested benefits - runs directly counter to this.

I must also point out that the proposal would have indirect consequences for public expenditure - both administration and benefit - as well as the direct cost in additional rebates. It is, I hope, understood that I would not be expected to meet any of these costs from within my own programme.

Subject to these points, I would be willing to go along with your proposal. It is worth adding one further point. If we can kill the Mates amendment in this way, it will be politically vital to be able to demonstrate that the poorest have been adequately protected

E.R.

against the costs of the community charge. This means that the level of compensation built into the income support rates for the 20 per cent contribution to the charge will be closely scrutinised, and that we will face serious political problems if it is not at a realistic level. I will write to you further on this point in due course.

X

Copies to the Prime Minister, the Chancellor, the Chief Secretary, the Lord President, the Chief Whip, and the Secretaries of State for Scotland and Wales.

Yours sincerely

RD Clark

PP

JOHN MOORE
(approved by the Secretary of State and signed in his absence)



Paul Gray Esq
 Private Secretary to
 The Prime Minister
 10 Downing Street
 LONDON
 SW1A 2AA

CH/EXCHEQUER	
REC.	14 APR 1988 ✓ 14/4
ACTION	CST
COPIES TO	

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:
 Your ref:

14 April 1988

Dear Paul

COMMUNITY CHARGE REBATES

Following this morning's discussion at Cabinet, I enclose a copy of the statement which my Secretary of State will be issuing this evening and on which he will be drawing at the meeting of the Conservative Backbench Environment Committee.

The substance of the statement is also to be incorporated in an Answer, also to be given at 5.30pm this evening, pursuant to an earlier PQ from Eric Forth MP. I would be grateful if recipients of this letter could ensure that the confidentiality of the statement is observed until then.

Copies go to Alex Allen (Chancellor of the Exchequer's Office), Jill Rutter (Chief Secretary's Office), Alison Smith (Lord President's Office), Murdo Maclean (Chief Whip's Office), Geoffrey Podger (DHSS), David Crawley (Scottish Office) and Jon Shortridge (Welsh Office) and also to Trevor Woolley (Sir Robin Butler's Office).

Yours sincerely
Roger Bright

R BRIGHT
 Private Secretary

COMMUNITY CHARGE - HELP FOR THOSE ON LOW INCOMES

The Government has today announced new and improved arrangements for the reduction of community charges paid by people on low incomes. These will reduce community charges for some one million people who would have paid charges in full. It will reduce further the charges paid by another 4 million people eligible for rebates of up to 80%.

Under the Government's existing proposals, all those receiving income support - the successor to supplementary benefit - will have their rates, or in future their community charge bills, reduced by 80%. So they will pay only 20% of the community charge for the area in which they live. In addition, their income support will include an amount to help meet the 20% charges that they do have to pay.

Those with incomes above the income support level will also be eligible for rebates of up to 80% according to their circumstances. In 1988/89, with domestic rates, the amount of their rebate is reduced by 20 pence for each £1 increase in their income. The Government has now decided that, when the community charge is introduced, rebates should be calculated on the basis of a lower 'taper', of 15 pence for every additional £1 of income. This means that the amount of community charges of those on low incomes will rise more slowly as their incomes increase. Their rebate will be reduced by only 15 pence for every £1 rise in their net earnings above the income support level.

This reduced taper will come into effect when the community charge is introduced - in Scotland in 1989 and in England and Wales in 1990.

Four million people will receive the maximum 80% reduction. If a 20% taper had been used for the community charge, about a further 4 million people would have received reductions of up to 80%. With a 15 pence taper, rebates will extend further up the income scale. One million additional adults will have

their community charge bill reduced. About 9 million people will pay reduced charges, and about 5 million people with incomes above the income support level will have larger reductions in community charge than they would have had with the 20 pence taper.

Of these 5 million, about three quarters are people who do not pay income tax.

This improvement in the rebate proposals achieves a better targetted result than the New Clause I proposal for a 50% community charge for those who do not pay income tax. But it does so by a simpler and much less bureaucratic route, with no anomalies, and one that avoids the earnings trap which New Clause I would produce. It does not require an amendment to the Local Government Finance Bill.