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Let like the
 stop for → structure
 ASAA, so that a
 can be made on
 of M-O.

Phisner & Capital

11/7/89.

To Rep: Hon Frank Ouster MP

Thank you for your letter.

I am well aware of the concern among many of our backbench colleagues about the Community Charge safety net, despite the greatly improved prospects announced by Nick yesterday.

I do share, however, that many of them have got the wrong end of the stick. For example, the fact - to which you refer - that some relatively poor people will lose and some rich people gain is inherent in the switch from rates to the Community Charge, and the safety net does not to exacerbate this. Indeed, to ~~exacerbate~~ a ~~working~~ extent it reduces the ^{overall} number of the relatively ~~poor~~ who lose, though I cannot say that there ~~is~~ is a ~~geographic~~ ^{in charge} ~~is~~ ^{affects} ~~main~~ effect of the ~~is~~ the geographical pattern of losses.

That brings me to what seems to be the main misconception about the safety net. Under the existing rating system, throughout the resource

Equilibrium mechanism between rate, year n,
 year n+1. These three lines are high ~~rate~~
 areas where rate values are high substitution
 these lines in areas where rate values
 are low. The safety net, ~~is a net~~ so far
 from providing a low ~~substitution~~ transfer of that
 kind, is a means of planning ~~the~~ the
^{Exe04} transfer, rather than ~~eliminating~~ or ~~overrule~~
 as we occur what is to ~~introduce~~ the
 coming change with no safety net
 at all. The effect is actually to reduce
 the size of the transfers to which ~~we~~ may ~~allocate~~
 object.

~~The reason is to make it~~
~~do not consider it~~ ~~unreasonable to plan~~
~~at all~~ ~~the~~ ~~transfer~~, rather than
~~eliminate~~ ~~them~~ ~~entirely~~, especially for the
 the low rate **areas** which a fair number of
 constructive marginal states, which is to make
 list. And as for the high rate areas, they
^{will} / unequivocally ~~benefit~~ as compared with
 the status quo.

and before the 1989
public expenditure was less
than before.

Finally, you ask me not to cut income
tax in the next year's budget. I think it is
right ~~to~~ think about the budget, but it is
quite impossible to know ^{what} there will be
a ^{at all} hope for tax cuts in 1990. I would
point out that those whose incomes are below
the tax threshold are, ~~not~~ in general, most
inclined to have to pay a tax like the
full country charge, given the way the
present system works. ^{of course} how the present system
works. But ^{of course} note your views.



CHANCELLOR

SAFETY NET ETC

I have talked to Andrew Hudson about Cranley Onslow's letter. There are, unfortunately, no DOE exemplifications to show the income distribution of the community charge with and without the safety net. The only ones available (attached) show the distribution of rates and of the community charge after the transition (ie with no safety net). These show that the community charge will be (on the assumptions used) slightly lower as a proportion of net income than rates for all the lower income bands, mainly because of the impact of housing benefit.

2. This doesn't tell us anything about the impact of the safety net, which affects the distribution between areas but not within areas. The main effect of it is to slow the shift from the north and London to the rest of the south. In principle, it seems likely that this will reduce the burden on low-income families, but the effects are not self-evident. And there will certainly be individuals in Woking who are low-paid, will lose from the switch from rates to the community charge, and who will have higher bills during the transition as a result of the safety net. The only way round this sort of problem is to have dual-running, or to have individual safety nets, which would be horrendously complex and no doubt horrendously expensive; but I suspect John Gummer may have put the idea in backbenchers' minds.



3. The main points to make are

- wait for Nick Ridley's statement tomorrow (since some of the latest twiddles may be seen as welcome responses to this sort of pressure).
- safety net cannot by definition do anything about distribution within areas: that is inevitable consequence of decision to abolish rates from 1/4/90.
- no good thinking that throwing more grant at the problem will help: local authorities will just spend more.

4. Andrew has not, I'm afraid, been able to get any numbers for housing benefit and tax thresholds. But the general point must stand, that most of those who won't benefit from tax cuts will be protected by housing benefit from any significant loss. It won't of course be all - for example some will be hit by the capital cut-off.

A handwritten signature in dark ink, consisting of stylized initials 'A C S' followed by a long horizontal stroke.

A C S ALLAN



Ch/

I couldn't find a
suitable drinks slot

(Mr Onslow is a busy man!)

so I have pencilled in

tea at 3.30pm on Tuesday

12 Sept, at Noll.

Are you content?

Julie **OK.**