

CONFIDENTIAL

PCP

FROM: G H PHILLIPS  
DATE: 7 SEPTEMBER 1989  
Ext: 4390

CHANCELLOR

cc: Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr A J C Edwards  
Mrs Lomax  
Miss Peirson  
Mr Potter  
Mr McIntyre  
Mrs Chaplin

*Thanks. I have done a few things. 2. When the jobs should be done, no point.*

*mark @ X?*

PHILLIPS  
→  
CHEX  
7/9

**COMMUNITY CHARGE: MINUTE TO THE PRIME MINISTER**

1. In the light of your discussion with Mr Patten this evening I attach a draft minute for you to consider sending to the Prime Minister.

2. I think I need make only two comments on its content. First, the draft does not explicitly identify the arrangements planned for ILEA as the means by which we would move from 42% to 50% of gains coming through in the first year. Obviously this will come out in your discussion with the Prime Minister, and we will provide you with the note Mr Gieve has requested about the impact of the proposed change on certain London boroughs. But for this particular minute it may be best not to expose the point.

3. Second, there is a choice in relation to the timing of any announcement between the Conference and a Parliamentary occasion. You prefer the latter. I understand that the consultation document on the RSG settlement is made public on 31 October, when the Secretary of State for the Environment would make a statement about it. However, the Vote on the RSG report will not be until January unless Parliamentary pressure forces an earlier debate. January would be much too late to take the Parliamentary trick and so the attached draft includes a square bracketed paragraph about announcing the package in the statement on 31 October. This would leave Mr Patten without anything new to say at the Party Conference which he will no doubt strenuously resist. Obviously an announcement at the Conference of bringing through all the

CONFIDENTIAL

CONFIDENTIAL

gains in the second year while providing transitional relief for losers over the four year period and reserving the additional 8% of gains coming through in 1990-91 for 31 October would be more acceptable to him. But this may be too complex to put forward in the context of this minute and you may prefer that result to emerge, if at all, from discussion with the Prime Minister.

HP

HAYDEN PHILLIPS

CONFIDENTIAL

CONFIDENTIAL

## PRIME MINISTER

## LOCAL AUTHORITY GRANT SETTLEMENT

I have seen Chris Patten's minute to you of 6 September setting out his concerns about the local authority settlement announced by Nick Ridley on 19 July and putting forward proposals for meeting the problems he identifies. Norman Lamont and I subsequently discussed these proposals with Chris on 7 September.

We are all well-aware of the vociferous, if ill-informed and misguided campaign, against the safety net. It is mischievous that such a campaign should have been generated by representatives of the very local authorities that stand to gain most from the introduction of the community charge. For the complaint does not come from local councils facing a new financial burden - quite the reverse. Under the present Rate Support Grant system, these authorities contribute around £10 <sup>billion a year</sup> ~~per annum~~ to other councils through 'resource equalisation'. The new system will sweep away that burden. In reality, what ~~these backbenchers~~ <sup>is being asked for</sup> are seeking is all of that huge gain straightaway - irrespective of the cost to the losing authorities or, as Chris now proposes, the taxpayer.

CONFIDENTIAL

CONFIDENTIAL

I therefore made it clear to Chris that there could be no question of accepting the solution he canvasses in his minute to you - an extra £660m grant. That is a huge new bid when the public expenditure position is ~~well-known to be extremely tight.~~ *already, as you know, acutely difficult.* I do not imagine we could persuade colleagues that priority should be given to extra grant for local councils (the bulk of whom, as the map in the DOE paper indicates are the richest local authorities in England) *in different to own* ~~against~~ their ~~other~~ high priority bids in the Survey.

Moreover there can be no guarantee that the grant would be used to reduce community charges: on the contrary, there is bound to be leakage into extra public spending. And giving extra grant to local authorities now would be quite the wrong signal: it would be interpreted as helping bail out councils from the cost of the recent NALGO pay award which they agreed for non-manuals. Such a step would be disastrous in advance of both the teachers and LA manuals negotiations.

Nor would some smaller addition to Exchequer grant in order to reduce ~~safety net contributions~~ next year be effective. It would indicate a willingness to accommodate the backbench pressure; far from assuaging backbencher ~~concern~~ it would merely intensify the pressure for further ~~transfer~~ *tranches* of extra grant. We did not provide Exchequer support for the safety net in

CONFIDENTIAL

Scotland; there is no case for such support in England in 1990.

My conclusion is that the basic principle - gainers should compensate losers - should stand for the introduction of the community charge, just as it will for the new uniform business rate. That said, I do recognise we are faced with a <sup>potentially difficult</sup> well-orchestrated <sup>parliamentary</sup> campaign, <sup>situation. I would suggest that</sup> from backbenchers. ~~I accept that there is a political need to do more for gainers, while sustaining the protection for losers. I believe that can be achieved by the package outlined below.~~

we meet it in the following way

First, the presentation needs to be radically improved. We must avoid the term safety net contributions and talk instead of phasing in gains on the one hand and transitional protection for losers on the other.

Second, we should add a little to the gains coming through in 1990-91, outside inner London. By adjusting the distribution, we can allow <sup>half - rather than as</sup> ~~more or less~~ exactly 50% <sup>at present shift less than half -</sup> (rather than 42%) of gains to all gainers in the first year, <sup>at no extra cost.</sup>

<sup>And most important,</sup> ~~Thirdly, I think we must accept now, albeit reluctantly, that the gainers need to get all their gains quickly: there is a strength of feeling amongst our supporters that their full gains cannot be delayed for up to four years as we originally intended. Accordingly I propose~~

that all gains should come through in full from the second year onwards. For gainers, we would then have a most attractive package: half the gains immediately next year, all the gains from April 1991 onwards.

~~Finally, we need to sustain the protection for losers in the first year already announced and meet the expectations of losing authorities, including those in sensitive areas in the North and Midlands, that there will be transitional protection thereafter. Since that cost cannot be met from gainers if they are to have their gains in full from next year, the burden must fall on the Exchequer. I am ready to discuss the mechanics with Chris: but my provisional view is that a time-limited specific grant within the Aggregate External Finance limit offers the best way forward. And the precise timing, pattern and form of such support will need to be discussed further.~~

*Clearly, we would still*  
*public in general. This would have to be done by some system of front-loaded specific grants, without - for public expenditure reasons - any increase in what we would be paying by way of Aggregate External Finance.*  
*External Finance*

*Do you wish to tighten this? ie explicitly atleast before ASK.*

~~I believe the above package represents a balance between the interests of gainers and losers that can be successfully presented as fair and generous.~~

In his minute, Chris also raises the issue of community charge capping. I very much endorse his view that capping has an important role to play, particularly in 1990-91, and welcome his intention to pursue the policy vigorously. The precise number to be capped can be considered when the LA budgets emerge next March.

CONFIDENTIAL

Chris Patten's minute also proposes that we examine ways of providing further help for individuals who lose from introduction of the charge. I am not at all persuaded that we should go further. The community charge benefit scheme will already be more generous than the rate rebate scheme, following our decision last year to cut the income taper from 20% to 15%. Although this has already been announced, I am sure we can take further credit for it. The extra cost will be £100 million a year, and one million additional chargepayers will be helped as a result. <sup>P</sup> In all, we are likely to spend up to £2 billion next year on community charge benefit, ~~helping~~ 11 million chargepayers (1 in 4 of the total), over half of them with incomes above income support level. <sup>Some</sup> (4½ million <sup>pensions</sup>) will be helped. A further £½ billion or so will be spent on income support, helping people with their 20% minimum payment. We have also taken action to soften the impact of the benefit rules on people with savings. Last year, the amount of free capital allowed before claimants are disqualified from housing benefit and community charge benefit was raised from £6,000 to £8,000.

So a very substantial commitment of public expenditure has already been made to helping a large minority of chargepayers. Against the extremely difficult background of this year's Survey, I would be most reluctant to see further concessions. I am sure we

CONFIDENTIAL

compared with less than  
£1½ billion on rate  
rebates (and community charge)

£1.5 billion?  
4  
You: 12.5%

benefit in Scotland) in the  
current year. This will help  
~~help 11 million chargepayers.~~



CONFIDENTIAL

should also try to avoid measures which would add still further to the number of people claiming social security benefit.

When we meet to discuss this on Thursday 14 September we shall <sup>also</sup> need to consider carefully the timing of any announcements. ~~I do not believe we should rush this forward because our primary objective must be to secure a turn-round in backbench opinion. In my view this is best done in a Parliamentary context and Chris Patten's statement on 31 October introducing the consultative paper on the RSG settlement provides the opportunity.~~ *In my opinion an early conclusion, quite apart from the damage effect it will have on the conduct of the public debate now and on market stability, will be desirable. It will be to keep it up our sleeve for use when the situation it can have the maximum parliamentary effect.*

I am copying this minute to Chris Patten and Norman Lamont.

CONFIDENTIAL

CONFIDENTIAL

FROM: J P McINTYRE  
Ext: 4799  
DATE: 7 September 1989

CHANCELLOR

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr AJC Edwards  
Mrs Lomax  
Miss Peirson  
Mr Potter  
Mr Francis  
Mrs Chaplin

*Handwritten notes in red ink:*  
A large scribble at the top left.  
A vertical line of text: "I will see".  
A diagonal line of text: "AS for the PM, but will not be in the minute".  
Other scattered initials and marks.

**COMMUNITY CHARGE : MEETING WITH MR PATTEN, 7 SEPTEMBER**

Mr Patten's minute of yesterday to the PM proposed that he and Mr Newton should explore ways in which individual losers might be given further help. A list of the options floated in Mr Patten's paper is attached. In discussion with Mr Patten today and in minuting the PM, there are perhaps two broad approaches you could take:

MC-INTYRE  
→  
CH/EX  
7/9

**(i) No more concessions**

The material supporting this line is in the brief we gave you on 5 September. There is a good case. And your offer on the safety-net arguably reduces the need for concessions to individuals. Mr Patten's paper gives only slight acknowledgement to the generosity of the planned rebate scheme (£1½bn to help 1 in 4 chargepayers) and the extent to which it will help people well above income support levels. He also takes no account of the Scots having had no extra help.

**(ii) Prepared to consider possibilities**

The disadvantage of this is that, once the possibility of further help is conceded, it is hard to imagine nothing being done. Mr Patten would see this as a green light. If, on the other hand, your judgement is that some extra help is inevitable, this more constructive approach could put the Treasury in a better position to influence the outcome and minimise expenditure.

CONFIDENTIAL

2. If you favour the second approach, your line with Mr Patten and the PM might be:

(a) We already plan to do a great deal through social security benefits. Let us make the most of that, especially the cut in the taper from 20 per cent to 15 per cent;

(b) Given this and the overall Survey position, any further help must be inexpensive. We are talking perhaps a few tens of millions: no more. This is bound to mean targetting on significant losers among the poor in the so-called "vulnerable groups" - pensioners, disabled, families with children. No question of helping people above means tested benefit levels. Including the better off would not only be expensive but an administrative nightmare;

(c) The help must also be transitional, running for no longer than the safety-net arrangements for loser LAs. There must be no permanent addition to the benefit system eg by a further cut in the taper or a further increase in the capital limit (though there could be advantage in running any scheme as an offshoot of the existing rebate scheme - this would be consistent with focussing on the poor and could help to contain administration costs);

(d) The Treasury must be involved in any further work. We cannot have a bilateral proposal from DOE/DSS.

3. Within the second approach, there is a further important judgement to be made. Should a concession for individuals be announced soon, perhaps alongside changes in the safety-net? Together, they might maximise impact and show the government well-prepared. And, as a practical matter, any scheme (and particularly a new transitional scheme) would probably need some months of preparation for delivery in April. That is the problem with making plans only on a contingency basis. Waiting to be pushed into a concession might also be more expensive.

CONFIDENTIAL

4. The risk in acting soon (when there has been little pressure) is that we might have to inject a double dose - one in the Autumn and another next Spring when the higher bills come in (and when any Autumn concession may have been discounted).

5. In all this, we must not forget the Scots who have had to get along without any extra help this year (beyond the cut in the taper). Could a new concession be restricted to England and Wales? If not, and we had a transitional scheme, it is not easy to see the basis on which the Scots would be helped.

Conclusions

6. The seriousness of the public expenditure position points firmly to resisting any further concessions on this front (which are not allowed for in our forecast Survey outcome on social security). A generous rebate scheme is already in place (and operating in Scotland). Only if you are persuaded there is no choice in political terms, despite the safety-net offer, should we contemplate more money and then only within the tight parameters of paragraph 2 above.

7. Subject to your views and to the outcome of your meeting with Mr Patten, we will provide a draft minute for you to send to the PM, covering this and the safety-net issues.

Jm

J P McINTYRE

COMMUNITY CHARGE : DOE OPTIONS TO HELP INDIVIDUAL LOSERS

- A. Cut income taper from 15 per cent to 10 per cent  
Cost: £250-300m. 2 million more get rebates, making 13 million in all (1 in 3 chargepayers instead of 1 in 4).
- B. Double capital limit from £8,000 to £16,000  
Cost: £80m. 700,000 more get rebates.
- C. Double earnings disregard from £5 a week to £10 for single people and from £10 to £20 a week for couples  
Cost: £70m. 600,000 more get rebates.
- D. Transitional Household Relief : general  
Cost: £1½ billion. "Not a starter", says DOE paper. Assumes households losing £2.50 or more compensated. Caseload would be 11 million.
- E. Transitional Household Relief: former ratepayers only  
Cost: £800m. 4½ million cases.
- F. Transitional Household Relief: As E, plus pensioners and other special groups who have NOT been ratepayers  
Cost: £900m. 5 million cases.
- G. Transitional Household Relief ; low incomes only  
Not costed.