

PWP



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CHANCELLOR

COMMUNITY CHARGE: MEETING WITH LORD PRESIDENT

The main points you will want to make are the following.

The Problem

2. People are now waking up to the inevitable political difficulties of introducing a new tax with many substantial losers. The Parliamentary pressure over the safety net is a symptom of this but does not get to the heart of the problem. Discussion on 28 September is likely to focus three separate issues:

- (a) the safety net - should the Treasury increase grants to ensure that gaining authorities get their gains immediately at a cost of £660 million in England and Wales?
- (b) Is there any action we could take to reduce RPI impact of the community charge in April 1990?
- (c) Should we do something to provide transitional relief to individual losers?



Safety Net

3. This is a ~~bold~~ Parliamentary problem; the voters do not understand the issue at all. Rhodes Boyson has been making the running and does not have the support eg of Cranley Onslow (letter attached). Very unlikely that a Government grant of £650m would feed through ~~and to~~ lower community charges on the ground; ~~and~~ most would probably ~~lead~~ ^{Feed} onto higher spending; so far as it did have an impact it would be to benefit gainers ~~would benefit~~ more. The fact is that these areas would generally be contributing less to the safety net than they do at present through resource equalisation.

RPI Effects

4. PM and No 10 are concerned about this. The introduction of community charge is likely to lead to a step increase in the 12 month RPI figure of $\frac{1}{2}$ - $\frac{3}{4}$ per cent in April 1990. Nothing to be done about this. It would cost £2-3 billion to eliminate this effect on the plausible assumption that 50 per cent of any increased grant fed through into spending. The silver lining is that there should be a similar step change downwards in April 1991.

Individual Losers

5. This is the nub of the issue. Community charge rebate scheme already much more generous than rate rebates (£2 billion in 1990-91 up £ $\frac{1}{2}$ billion on rate rebates). About £12 million charge payers will be eligible. Nonetheless there will still be big losers. In practice some transitional help - like that offered on housing benefit - is inevitable. But it is vital that it should



be targeted on vulnerable groups ie those with low incomes (eligible for community charge rebates ^{or benefit i.e} ~~which is~~ well above income support levels), and pensioners (possibly the disabled and widows). This reflects Onslow's views.

6. Indefensible and unaffordable for global schemes but these will be pressed by Baker and Patten. This would make our position on social security eg child benefit very awkward and would knock a large hole in public expenditure policy.

Timing - Any concession at conference would merely provide a new floor.
- Key requirement is to get it through House in January
⇒ last minute concessions.

Briefing offer Hayden briefing session if he wants like it
+ sight of HMT written brief

JC