

CCB/UP

Prime Minister<sup>2</sup>

A useful note.

MR NORCROVE

JWS  
29/9

and

Rebating the Community Charge

E(LF) 5th Meeting

## DECISION

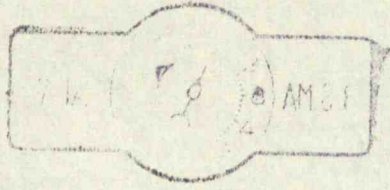
1. The Committee is meeting next Thursday to consider whether the existing system of rate rebates should be carried through into the new community charge regime. Since there is likely to be disagreement between the Environment and Social Services Secretaries, I thought it would be helpful to the Prime Minister to have this advance note on the main issues that will arise. I shall, of course, provide full briefing prior to the meeting.

## BACKGROUND

2. The Committee held a preliminary discussion of this issue under the Lord President in July but were not ready to reach a decision until further detailed work had been done. The Departments concerned were accordingly commissioned to prepare exemplifications showing the effect of abolishing rebating in order to enable the Committee to reach a final decision in the autumn. The Government must have a clear policy by the time the Scottish Secretary introduces his Bill by early December. The decision for Scotland will set a precedent for the rest of Great Britain.

The Present System

3. At present some 6.8 million households receive whole or partial rebates on their rate bills and 3 million households pay no rates at all. As a result of the social security review all rate payers will be required to meet at least 20 per cent of their bill. This will reduce the number of cases to some 5.6 million.



COMMISSION

The Issue

4. The introduction of the community charge provides the opportunity to consider alternative ways of supporting those on low incomes. Broadly there are two options:-

(i) to carry across a system of rebates related to the actual community charge bills for low income households;

(ii) to provide no specific support but instead to increase basic income support by an amount reflecting 80 per cent of the national average community charge.

Option (i) was the one used for purposes of exemplification in the Green Paper.

5. The main arguments against continuing with a rebate system are:

(i) A rebate related to the actual level of the community charge would reduce accountability: electors are not exposed to the full consequence of authorities' spending decisions;

(ii) There would be a substantial increase in caseload because of the increase in the number of people paying the local domestic tax. This would reverse some of the benefits of the social security review and reimpose an administrative burden on local authorities;

(iii) If the initial level of the community charge is small - the Green Paper suggested £50 in the first year - the amount which will be collectable from those with an 80 per cent rebate will be only 80 pence per month: the administration costs will make this uneconomic.

So introduce the rebate when it reaches an adequate amount, and at different times - the different authorities.



6. The main arguments for retaining a rebating system are:

(i) A flat-rate abolition to income support would produce very variable levels of support. In low tax areas like Wales and the North West, some would receive over 100 per cent compensation; in high tax areas such as Scotland, London and the South East there would be significant under-compensation because of the accumulated burden of high spending or high ratable values;

(ii) Those with incomes just above the income support level would be substantially worse off without a system of tapering support. Work incentives would be reduced;

(iii) To reverse the implicit presumption in the Green Paper in favour of rebating would increase opposition and endanger the whole reform.

7. E(LF) will have before it a paper by the Environment Secretary recommending rebating arrangements. In this he will be strongly supported by the Secretaries of State for Wales and Scotland; the latter has made it clear that he thinks it will be politically impossible to carry his Bill through in Scotland on any other basis. Given the high local tax bills in Scotland flat-rate income support based on the average community charge would substantially increase the number of losers in Scotland compared with either the present rates system or a rebated community charge. The Treasury on balance seem to prefer rebating too. It appears to cost slightly less than the flat-rate support alternative; but more important, the Treasury are concerned about the threat the latter could carry to the community charge reform. The Social Services Secretary, however, is likely to continue to argue against rebating, and may decide to submit a separate paper.



### Distributional Effects

8. As noted in paragraph 2 above, at their July meeting Ministers asked for exemplifications to show in greater detail the consequences of abolishing rebating in terms of the number and type of households that would be affected and the extent of their losses. The results of the work done so far will be annexed to Mr Ridley's paper. They have not so far been fully agreed with DHSS, and Mr Fowler may seek to exploit this. But I do not think this is a reason for delaying the circulation of the papers or next Thursday's meeting. It will no doubt be possible to refine the numbers further, but this is unlikely to alter materially the main conclusions that have emerged, namely that introduction of flat-rate support rather than rebating would:-

- over compensate those living in low community charge areas and under compensate those in areas of high tax bills (with Scotland particularly badly affected);
- cause substantially more large losers (though fewer losers overall) than rebates;
- adversely affect low income households - particularly pensioners - just above income support levels;
- reduce the number of cases receiving income-related benefits (by some 1.1 million) but cost slightly more (some £30 million overall).

### Presentation of Policy

9. As noted above, the immediate need for a decision stems from the position in Scotland. If rebates are to be provided, the urgency is less. The Scottish Bill, at present scheduled to be introduced in early December, will need to contain an enabling clause, the detailed scheme being prescribed by order later.

But if there are to be no rebates, this will become apparent as soon as the Bill is published, and, in view of the general expectation of rebates, the Scottish Secretary might be well advised to start signalling the change in intention before then. Since any decision on Scotland must set a precedent for England and Wales, any statement before 31 October, which is the closing date for consultation on England and Wales, could invite criticism; but it may be difficult to avoid saying something in the debate on the Queen's Speech in early November.

## CONCLUSION

10. There is still likely to be disagreement between the Environment and Territorial Secretaries on the one hand, and the Social Services Secretary on the other, next Thursday, and the detailed exemplifications will not have been fully agreed. However, time is pressing; there will be limited opportunity for further meetings of the Sub-Committee in the next few weeks; and the key issues seem to me to have emerged clearly enough. I hope, therefore, that it will be possible for the Sub-Committee at least to reach a provisional view on the main issue, even if a final decision has to await a further discussion.



J B UNWIN

Cabinet Office  
26 September 1986