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My ref:

Your ref:

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Dear Andy,

COMMUNITY CHARGE: HELP FOR THOSE ON LOW INCOMES

I wrote to you on 30 January about Councillor Layden's letter to the Prime Minister on this subject on 23 December, and on 3 February I asked you to send the material back to me so that my Secretary of State could have second thoughts. He has now considered the matter further.

The leaders of the local authority associations met the Prime Minister on 25 November to discuss the Green Paper "Paying for Local Government". The Prime Minister was accompanied by my Secretary of State and the Secretaries of State for Scotland and Wales. Councillor Layden's recollection is that the Prime Minister said during the meeting that help towards the community charge for those on low incomes would be through a rebate system. David Norgrove's note of the meeting bears that out, saying "Rebates would be provided for the community charge, working in a similar way to the present system of rate rebates, though the percentages might be different".

On 2 October, however, E(LF) had concluded that, while provision allowing for the rebating of the community charge should be included in the Scottish legislation, no commitment should be given for England and Wales about the way in which those on low incomes might be helped to pay the community charge. Consequently, the Abolition of Domestic Rates Etc (Scotland) Bill includes a power to give community charge rebates, but the DOE/Welsh Office document on the operation of the community charge in England and Wales, published on 15 December, says merely that "those on low incomes will continue to get help through the social security system. Detailed arrangements will be settled later."

Councillor Layden's letter draws attention to this apparent discrepancy, and asks whether there will in fact be community charge rebates in England and Wales.

My Secretary of State has always been concerned to avoid the need for a rebate system if possible. Rebates are costly to administer, and shield those receiving them from the full impact of changes in local spending - the very pressures that the Green Paper system is designed to impose. The alternative would be to provide assistance through the Income Support arrangements.

However, after considering the matter very carefully, he has reached the view that Government policy should be to provide

community charge rebates in England and Wales. There are three reasons for taking that line.

(i) Without a tapered rebate system, anyone who had been unemployed and took a low paid job could well go from receiving substantial help towards his community charge bill, to receiving no help at all. That would damage work incentives, and suggests that any decision not to have rebates should be taken in the wider context of the benefit and tax system as a whole.

(ii) The main concern being expressed about the community charge is the fairness of a flat-rate payment. It will be much easier to win this argument if the Government can say that there will be rebates for those on low incomes, which will introduce a limited element of progressivity into the community charge at that end. In defending the proposals in their Bill, the Scottish Office have relied heavily on the fact that there will be rebates.

(iii) Although my Secretary of State is keen to reduce the range of community charges if possible, public debate about the new system will take place against the background of the very wide range of charges that is implied by the present pattern of local spending. If the Government were to provide help only through Income Support, it would be seen as overcompensating those in low charge areas while placing very heavy burdens on those where bills were high.

My Secretary of State therefore believes that the only sensible course is to use the opportunity of the reply to Councillor Layden to announce that the English and Welsh legislation will provide for community charge rebates to be extended throughout Great Britain. This would not, however, rule out the possibility of putting pressure on high spending councils by, for example, imposing a ceiling on the maximum amount of community charge that would attract a rebate. Nor would it preclude a decision to revert to a system of help through Income Support alone if circumstances changed.

Following my earlier letter, the Secretaries of State for Scotland and Wales indicated support for such an announcement; the Chief Secretary was also content. Subject to the views of the Secretary of State for Social Services in particular, and the Prime Minister's own views, I enclose a draft letter to send to Councillor Layden accordingly.

I am copying this letter and the draft reply to Joan MacNaughton (Lord President's Office), Stephen Boys Smith (Home Office), Jill Rutter (Chief Secretary's Office), Geoffrey Podger (DHSS), Robert Gordon (Scottish Office), and Colin Williams (Welsh Office), and to Trevor Woolley in Sir Robert Armstrong's Office. Perhaps Geoffrey Podger and others could let you know by close on 19 February if they see any problems with the policy or the terms of the letter to Councillor Layden.

Yours sincerely,
R U Young

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Private Secretary