



The Rt Hon Nigel Lawson Esq MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
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7 April 1988

Dear Nigel

COMMUNITY CHARGE REBATES

When we met before Easter we discussed the impact of the community charge on the less well off. We confirmed that, although Michael Mates' New Clause is nonsense in a large number of respects, nevertheless it has attracted a lot of sympathy from our supporters, probably on two counts: first, that it seemed to provide extra assistance to the less well off; and secondly, that it appeared to "clobber the rich" - at least a little.

On the impact on the less well off, there are a large number of our supporters both in and out of Parliament who share a vague perception that it is "unfair". I think they misdirect their criticism - it is not the community charge which causes this, but the combined effect of all the imposts which occur in moving from benefit to taxpayer levels of income. Nevertheless, our community charge proposals are a focus of this unease which presents itself to our supporters immediately. Also, it is one way of contributing to alleviating this unease to work on this part of the front, as well as facilitating the passage of the Bill.

The right answer to the Mates New Clause is to improve the rebate arrangements, so that they are seen to be "fairer" as well as taking out most of the beneficiaries of Michael's New Clause to the greatest extent possible.

In the wider employment trap context, a DHSS-chaired group of officials is, as you know, already looking at a number of options for improving the housing benefit arrangements. These include less steep tapers and increased earnings disregards, which would raise the level at which the taper starts for people in low-paid employment. The solution to the Mates problem lies, I believe, in making such adjustments to the community charge rebate scheme as well. But we cannot await the outcome of the DHSS Committee because Report on the Local Government Finance Bill is on 18 April; so I think we must proceed on community charge rebates in advance of whatever we decide to do on housing benefit generally.



I therefore propose that I should announce on Report a reduction in the slope of the community charge rebate taper from 20p to 15p, and a £10 increase in the earnings disregard (from £5 to £15 for single people and £10 to £20 for couples).

The cost of these two proposals together would be about £200 million (at 1988/89 prices) in 1990/91. They would mean that about 1½ million individuals and couples received rebates who would not otherwise do so. Of these about ¼ million would be single people under retirement age, and about 300,000 would be single pensioners or pensioner couples. (The number of pensioners benefiting is limited because we are operating on earnings disregards - which do not disregard incomes from occupational pensions.)

I would like to have your reaction to these proposals as soon as possible - time is very short if we are to have something to announce at Report. Only a very small number of officials here are involved. If it would help for one of your officials to discuss the contents of this letter the person to contact here is John Adams (212 0961).

John Adams
Adams

NICHOLAS RIDLEY