



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

11 April 1988

The Rt Hon Nicholas Ridley, AMICE MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1

Nick

COMMUNITY CHARGE REBATES

Thank you for your letter of 7 April. As you know from our talk before Easter, I well understand the difficulties you are in as a result of Michael Mates' new clause. And I can see why you are attracted by the idea of announcing concessions at Report Stage. But the proposals in your letter do raise considerable difficulties. In particular, they are considerably more expensive than you indicated when we spoke, and they would conflict with our policies of reducing dependence on benefits; they would also weaken accountability.

They would, as you say, cost around £200 million. This would be over and above the £400 million or so we will already be providing through Income Support in compensation for those on benefit who will have to pay 20 per cent of the community charge. It would also be additional to the £1½ billion or more we are likely to spend on the rebate scheme as it stands.

Your proposals will also, as you acknowledged, bring a further 1½ million individuals and couples within the rebate scheme. This would be on top on the 7 million or so who are currently expected to be entitled to rebates. The proposal would therefore be a major reverse for our policy for reducing dependence on benefits.

A further consideration we need to keep in mind is that your proposals will be seen not only in the context of the community charge but also of the social security reforms. There is a risk

attached



that concessions here will be seen as an acknowledgement that we have been too tough on the poor in the social security reforms and have to retreat on the community charge. This will add to the pressure on us to make concessions elsewhere. And concessions on Housing Benefit will in particular add to the pressure on the capital cut-off.

The increase in the earnings disregard raises particularly difficult problems. It would remove one of the important simplifying features of the new social security system, since it would open up a gap again between the earnings disregard for different benefits. This would inevitably make it more complicated to administer, and would create strong pressures to raise the earnings disregard for the rent element of Housing Benefit and for Income Support as well.

The reduction in the community charge rebate taper also raises difficulties. But if, following our discussion with the Prime Minister and the Chief Whip later today, we are convinced that a concession is necessary, it is in this area I think a move might be least damaging. But I could only accept it on two conditions

- (i) that we stick firmly to our existing decision to raise the rent taper from 65 per cent to 70 per cent in 1989-90; and
- (ii) that we agree to recover the cost of the concession (about £130 million) from a commensurate reduction in the aggregate grant to local authorities in 1990-91. This is fully in the spirit of the Mates clause, since it means that a small amount is added to all community charge bills to finance additional rebates for the less well off.

With your agreement, I am copying this letter and yours to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written over a horizontal line.

NIGEL LAWSON