

CHANCELLOR 

FROM: B H POTTER (LG1)
X4790
Date: 12 September 1989

cc: Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Edwards (LG)
Mrs Lomax (GEP)
Miss Peirson (ST)
Mr McIntyre (ST)
Mr Rutnam (LG1)
Mrs Chaplin

LOCAL AUTHORITY CURRENT: MEETING WITH THE PRIME MINISTER

You and the chief Secretary are meeting the Prime Minister on Thursday 14 September to consider the Environment Secretary's minute of 6 September and your minute of 8 September on the local authority current settlement. The only substantive issues are the safety net and community charge rebates.

2. You already have briefing on the main arguments on the safety net (my brief of 6 September attached) and community charge rebates (Mr McIntyre's minute of 7 September). But I attach further briefs which may also be helpful:

- on the safety net;

- (A) a note on the implications of paying the ILEA grant within the safety net (as you requested);
- (B) a note and tables on resource equalisation, the total benefit of the new system and safety net contributions;
- (C) a note on what happened in Scotland this year; and
- (D) a note on specific grants towards transitional protection and AEF; and

- on community charge rebates

(E) a further note on rebates.

DOE line

3. I fear DOE officials latest appreciation of Mr Patten's views may only be marginally useful. They are genuinely unsure of his latest perception. He seems to be a little ambivalent on what the real problem is: but he may be gradually moving to the view it is more the issue of individual liability (and hence rebates) than the esoteric issue of the area safety net. The safety net is a Parliamentary problem - albeit a significant one; but he suspects it is really symptomatic of wider concerns about the community charge.

4. We have also established that he is considering your proposal very carefully. DOE officials perceive Mr Patten can argue that the first year settlement is effectively fixed, subject to minor tinkering; but that he can show some flexibility for the later years. You may recall (and indeed like to remind the Prime Minister) that, shortly after 19 July, the Prime Minister herself indicated that there could be some flexibility in the later years.

5. Moreover DOE officials have pressed us to explain exactly what you have in mind on the specific grants for losing authorities from year 2, with the cost to be contained in the overall AEF settlement. They are effectively probing whether a compromise solution - your scheme but with an addition to AEF for the later years - is acceptable. A tough line to take on this is included in brief D attached.

Conclusion

6. Clearly your main aim will be to see off the £660m bid put forward by Mr Patten on the safety net. Secondly, at a minimum, it would be useful to have broad endorsement of your proposed approach. If possible it would be desirable to go further and get agreement on the following:

(i) that the specific grant for transitional protection should be time limited and that its cost should be met within the AEF figure for years 2 and 3; and

(ii) that the AEF figure for years 2 and 3 (which must be published in the Autumn Statement) should be held broadly constant in real terms.

7. If you believe some compromise may be necessary, you may like to consider not pressing for the ILEA change, however logical it would be. This would of course be a nil cost concession on your part. You will wish to avoid conceding even a small additional margin on AEF to meet a part of the costs of the proposed specific grant.

Community charge rebates

8. Mr McIntyre's brief assumes you will wish to resist any further concessions on the rebates side. But it also provides a "fallback position" as I understand you have requested.

9. This is that officials should assess the extent of significant losses among those on low incomes in the "vulnerable groups". This stops short of agreeing that work should start on options for a scheme. The point would be to establish what the nature of the problem is. Such an approach is not purely tactical; we cannot at this stage put forward sensible costed options without the help of DSS and DOE. Because of the way the benefit system is designed, a significant number of large losers among benefit recipients is unlikely. The problem, as Mr Patten's minute suggests, will be much more among people above benefit levels. But you will want to resist spreading assistance even further up the income scale.

Barry H. Potter

BARRY H POTTER

with 15 (and 14) (and 13) (and 12) (and 11) (and 10) (and 9) (and 8) (and 7) (and 6) (and 5) (and 4) (and 3) (and 2) (and 1) (and 0)

with 15 (and 14) (and 13) (and 12) (and 11) (and 10) (and 9) (and 8) (and 7) (and 6) (and 5) (and 4) (and 3) (and 2) (and 1) (and 0)

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*What happens
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~~W -> sure n?~~*

A ILEA GRANT

Background

1. If the ILEA grant were paid within the safety net, and not outside as DOE/DES propose, the main effects would be as follows:

(a) Losing boroughs in Inner London would be worse off. But they would receive exactly the same level of protection as in the rest of the country. (Under the present proposals they are, perversely, much better off than either other losers or their existing position.)

(b) Labour - controlled gainers (Camden, Hackney, Islington) in Inner London would be worse off by £15-30 per head.

(c) Conservative - controlled gainers would be almost unaffected.

(d) £70m would be released to help increase the level of gains retained by gainers throughout England from 42% to 50% (or reduce the maximum contribution from £75 to £50).

2. The table attached gives details.

Departmental views

3. ~~DOE/DES~~ will oppose this change. They have had detailed discussions with local authorities on the mechanics of the settlement, on the basis that the ILEA grant is paid outside the safety net. In particular DOE have already put out exemplifications for discussion at political level between Mr Patten and local authority members at the end of this month. The local authorities would spot any change immediately.

4. DOE officials have also said that they are not sure the new powers they are taking to pay grant can be drafted widely enough for ILEA grant to be paid within the safety net. We should obviously insist that the powers must be wide enough - but Mr Patten may reserve his position on this.

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Other options

5. There are several other ways in which we could increase the level of gains retained by gainers to 50% other than by adjusting the ILEA grant:

(a) Raise the maximum contribution to more than £75 - but this would make the political problem worse not better.

(b) Allow more losses through, by increasing the £25 limit to about £32.50. But this too would attract attention and criticism.

(c) Adjust the base for calculating the safety net - at present this year's rate bill per adult plus 4% for inflation. Instead of 4% use 5.5%.

6. None of these is attractive, however. As the line to take explains, we see no reason to depart from your proposal.

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1990-91 COMMUNITY CHARGES

	Rate bill per adult plus 4%	(a) ILEA grant paid outside safety net	(b) ILEA grant paid within safety net	(b)-(a)
City	541	374	374	0
Camden	446	365	385	+20
Greenwich	285	246	310	+64
Hackney	351	299	325	+26
Hammersmith	373	348	398	+50
Islington	446	410	428	+18
Kensington	393	295	297	+2
Lambeth	309	277	334	+57
Lewisham	275	241	300	+59
Southwark	281	247	306	+59
Tower Hamlets	282	240	307	+67
Wandsworth	202	175	227	+52
Westminster	587	303	303	0

Assumes 3.8% rise in spending from 1989-90

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LINE TO TAKE

- Paying ILEA grant outside safety net always illogical;
- Means higher protection for Inner London borough than elsewhere and much lower charges than for many of our own supporters (eg Southwark £247, compare Elmbridge £367)
- Some losing boroughs would actually gain in the first year; have even further to go before they feel real impact of new system.
- Risk that the areas would spend up, faced with lower community charges.
- Paying grant within safety net means higher charges in Greenwich etc, but no effect on Westminster or Kensington. Releases £70m for reduction of contributions to safety net from gainers everywhere, from 58% of gains to exactly 50%.
- Reducing contribution to 50% will allow us to give exactly half of gains in 1990-91 and remaining half in following year.
- In practice, community charges for many problematic Inner London boroughs likely to be capped

Defensive

Change will provoke criticism from local authorities?

No doubt. But existing proposals extraordinarily indulgent towards group of high spending authorities, and have perverse effect of reversing accountability, not encouraging it.

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B RESOURCE EQUALISATION

Three sets of tables are attached:

(i) Annex A shows the effects of resources equalisation alone for 1989-90 on the domestic tax burden in each area under the present, unfair rating system.

(ii) Annex B shows the long-run gains and losses that each area should receive on the change to the new system in all respects. (This covers more than just the abolition of resource equalisation, eg also the new distribution of non-domestic rates, and the changed assessments of the amount authorities need to spend.)

(iii) Annex C shows the safety net contributions and payments for 1990-91 on the basis of the Ridley proposals.

2. You can quote from:

- Annex A, for the effects of resource equalisation alone, under the current system.
- Annex B, for the overall benefits/losses areas will receive from the whole change to the local government finance system.

lg.cc/rutnam/Annex C when discussing safety net contributions.

NOTE
B
Resource
Equalisation

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C SCOTLAND 1989-90 KEY POINTS

1. Main points on more grant and spending in the first year of the community charge are:

- Spending in 1989-90 up 12% on 1988-89; real terms increase of 6%;
- Community charge in 1989-90 up by 14% over domestic rate bill in 1988-89; real terms increase of 8%;
- Some regions increased spending by up to 13½% in 1989-90, some districts by up to 30%;
- Increased spending not only among high spenders but moderate spenders as well: compare rich English authorities which would benefit from a change to safety net.
- Every opportunity taken by LAs to use change from one system to other to increase spending and balances. Comparisons made difficult by differences between rates and community charge, and high charges blamed on Government.

2. The main point on the safety net in Scotland is simply that it was fully self-financing.

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D. **SPECIFIC GRANT FOR LOSING AUTHORITIES AND AEF**

1. You have proposed a specific grant to provide transitional protection for losing authorities from 1991-92. The main issues on the specific grant itself are:

(i) **duration:** is it to last to 1993-94 (as might be expected) or ended earlier;

(ii) **form:** is it to be a further fx per adult or x% of residual cost;

(iii) **profile:** is it to be linear; or might it be non-linear so as to sustain support in 1991-92 at a higher level.

2. This needs to be considered further, rather than decided at the meeting. In particular it may be best to avoid being drawn on a particular amount for 1991-92 at this stage.

3. The second issue is how provision for that specific grant should be shown in the Autumn Statement - specifically how it will be reflected in Aggregate External Finance (AEF).

4. DOE will want to see some clear addition to the total for AEF in 1991-92 and 1992-93 to accommodate the cost of these specific grants. Our previous proposal (likely to have been accepted by DOE officials) had been to show AEF uprated by the GDP deflator for years 2 and 3. The danger is that, were any number to emerge on the new specific grant now, the Prime Minister may well look to you to make some concession ie addition over and above AEF on this, as a consolation prize to Mr Patten. That needs to be avoided.

Handwritten note:
Autumn
(exact GDP
uprating + Patten ??)

NOTE
D
SPECIFIC
GRANTS

Line to Take

- Duration, form and profile of specific grant for transitional protection to be discussed between DOE and Treasury officials urgently;
- Wrong to take any decision on cost to be met in 1991-92 until after that further consideration.
- Intention is that the cost of the specific grant should be met from within AEF.
- Would propose that AEF for years 2 and 3 should be broadly uprated in line with the GDP deflator for those years, including cost of the proposed specific grant; any significant addition to AEF for those years, would break the principle that the transitional measures should be broadly self-financing, as agreed for business rates.

CONFIDENTIAL**E. COMMUNITY CHARGE: HELP THROUGH THE BENEFIT SYSTEM**

Mr Patten's proposals: Minute of 6 September proposes that he and Mr Newton should explore ways in which individual losers might be given further help. A list of the options floated in Mr Patten's paper is at Annex A.

LINE TO TAKE

(i) more generous benefit system already planned for community charge than has applied for rates. Income taper will be 15 per cent instead of 20 per cent, costing over £100 million and helping an extra one million people. Although this has already been announced (in April last year, to see off Mr Mates), further credit can be taken for it. Scots have had to get along without further concessions, beyond taper cut.

(ii) because of the cut in the taper and the fact that more people will be liable for community charge, benefit expenditure is already expected to be much higher than on rate rebates: £2 billion, instead of £1½ billion. And 11 million chargepayers will be eligible, including 4½ million pensioners. Over half will be above income support levels. This compares with 5 million ratepayers. If 9 million take them up, 1 in 4 chargepayers will be helped. So a very large minority of the population will already get help, without any further concessions (and rather contrary to the Government's policy of reducing dependence on benefits).

(iii) Benefit system already designed to give extra help to special groups - pensioners, disabled, families with children. Help with community charge goes further up the income scale for these groups. [Annex B gives examples]

(iv) 80 per cent of any increase in community charge is paid by benefit, only 20 per cent by claimants. This is true for all 11 million eligible for help.

(v) In addition to the community charge benefit scheme, income support levels have already been increased to provide help towards the minimum 20 per cent payments. This costs £½ billion a year.

(vi) Substantial public expenditure commitment already made. Cannot afford more, especially given very difficult Survey position.

DEFENSIVE(i) Need to help losers above benefit levels

No. Would be very expensive. Mr Patten's paper mentions options costing £800-£1,500 million. Clearly not affordable. For those in work, important to put in context of substantial increases in earnings and cuts in taxation of recent years. For pensioners and other special groups not in employment, benefit system already gives special help which extends further up income scale eg pensioner couple could get help with net weekly income of £140 per week - and more in a high CC area.

NOTE
E
REBATE

CONFIDENTIAL(ii) Need to do more for pensioners (eg by doubling capital limit)

Rebate system will give special help to pensioners because of extra premiums built into income support and community charge benefit. These premiums make benefit available further up income scale. 4½ million pensioners expected to be eligible.

Other good news in pipeline: abolition of earnings rule, extra income support for over-75s and disabled (each effective from October and costing total of £575 million in full year), and independent taxation. Extra income support will feed directly into community charge benefit, by raising the threshold above which the income taper operates (by £2.50 for singles, £3.50 for couples).

Capital limit already increased last year for housing benefit and community charge benefit, from £6,000 to £8,000. Very doubtful case for extending State help to people with more than £8,000 of free capital. Would make nonsense of means-tested benefits.

(iii) Joint capital limit for couples is inconsistent with Independent Taxation

No. Important to maintain distinction between taxes and benefits. Fundamental principle of benefit system is that couples are assessed jointly. Departure from this principle would be extremely expensive.

FALLBACK

Prepared to see assessment carried out by officials of likely extent to which some poorer people may lose significant amounts, despite generosity of benefit scheme as it stands. We could then consider further whether there might be a case for some transitional relief specifically directed at the "vulnerable groups" (pensioners, disabled, and families with children) among the significant losers. Any such relief would need to be inexpensive and clearly time-limited, running for no longer than the safety-net provisions for losing Local Authorities. In order to contain the cost, it would be essential to confine such a scheme to poorer people ie those among the 11 million chargepayers likely to be eligible for benefit. We should also avoid permanent changes to the benefit system, such as a further cut in the taper mentioned in Chris Patten's paper, though it might be necessary to operate any scheme in conjunction with community charge benefit.

These are key parameters of any scheme, should we decide one is necessary. But priority is to establish how far there is likely to be a problem of significant losses among groups I have mentioned. That should be task which officials now address. I would like Treasury officials to be fully involved.

COMMUNITY CHARGE : DOE OPTIONS TO HELP INDIVIDUAL LOSERS

- A. Cut income taper from 15 per cent to 10 per cent
Cost: £250-300m. 2 million more get rebates, making 13 million in all (1 in 3 chargepayers instead of 1 in 4).
- B. Double capital limit from £8,000 to £16,000
Cost: £80m. 700,000 more get rebates.
- C. Double earnings disregard from £5 a week to £10 for single people and from £10 to £20 a week for couples
Cost: £70m. 600,000 more get rebates.
- D. Transitional Household Relief : general
Cost: £1½ billion. "Not a starter", says DOE paper. Assumes households losing £2.50 or more compensated. Caseload would be 11 million.
- E. Transitional Household Relief: former ratepayers only
Cost: £800m. 4½ million cases.
- F. Transitional Household Relief: As E, plus pensioners and other special groups who have NOT been ratepayers
Cost: £900m. 5 million cases.
- G. Transitional Household Relief ; low incomes only
Not costed.

COMMUNITY CHARGE BENEFIT**1. Comparison of community charge benefit with rate rebate scheme**

Examples show how community charge will be more generous than rate rebates without any further concessions, and even assuming above average community charge bills:

- A. Pensioner couple aged 60-74, with basic State pension of £75 per week and occupational pension of £35 per week. Net income is £100 per week. This year, they pay average rates of £510. In 1990-91, they each have to pay above average community charge bill of £350.

1989-90 rates bill (after rebate): £7.59 per week
 1990-91 CC bill (after benefit): £6.37 per week (combined bills)
GAIN: £1.22 per week.

- B. Couple with 2 children, 1 under 11 and 1 over 11. Net income of £130 per week. This year, they pay average rates of £510. In 1990-91, they have to pay well above average community charge bill of £400.

1989-90 rates bill (after rebate): £9.88 per week
 1990-91 CC bill (after benefit): £8.34 per week (combined bills)
GAIN: £1.54 per week.

- C. Couple with no children. Net income of £110 per week. This year, they pay below average rates of £450. In 1990-91, they have to pay above average community charge bill of £350 each.

1989-90 rates bill (no rebate entitlement): £8.65 per week
 1990-91 CC bill (after benefit): £7.87 per week (combined bills)
GAIN: £0.78 per week.

2. Maximum net income for eligibility (1990-91): £ per week**Annual Community Charge (£)**

	300	350
NON-PENSIONERS		
Single, aged under 25	56	61
Single, aged 25-29	64	69
Lone parent with 1 child under 11	96	101
Disabled couple, under 60	136	146
Couple: 2 children; 1 under 11, 1 11-15	153	163
Couple: 3 children; 2 11-15, 1 16-17	175	185
PENSIONERS		
Single, aged 60-74	76	81
Couple, aged 60-74	130	140
Couple, aged 75-79	137	148
Couple, 80+ or disabled	140	150

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FROM: J P McINTYRE
 Ext: 4799
 DATE: 13 September 1989

CHANCELLOR

*What is low?
 a low 400 low?*

cc Chief Secretary
 Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr AJC Edwards
 Mrs Lomax
 Miss Peirson
 Mr Francis
 Mr Hamshare
 Mrs Chaplin

COMMUNITY CHARGE: PM's MEETING

You asked for a further note, describing last year's housing benefit package and giving an indication of what a transitional scheme for community charge losers might cost.

Housing benefit package, 1988

2. The attached table shows the pattern of gains and losses DSS expected from the reform of means-tested benefits in April 1988. The table was one of a set published in October 1987. The figures include the effect of transitional protection given to people on income support. So the decreases shown on the right hand side of the table are predominantly housing benefit losers, for whom no transitional protection was planned.

3. You will see that pensioners were the majority of the losers: 570,000 out of 960,000. 150,000 of the pensioners were expected to lose over £5 per week.

4. The package announced in April 1988 (and implemented in the Summer) had two main elements:

(a) an increase in the capital limit from £6,000 to £8,000 for housing benefit and rate rebates/community charge benefit (the income support limit remained at £6,000). This was expected to help 100,000 people, many of them pensioners who had lost large amounts. To qualify, of course, claimants still had to pass the normal low income test for means-tested benefits;

REBATES
 FURTHER
 PAPER.

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(b) a transitional scheme to help people in "vulnerable groups" (pensioners, disabled, families with children, widows) - in practice, the majority of claimants) who had lost over £2.50 a week, comparing their benefit entitlement under the reformed scheme with that in the previous year, 1987-88. Compensation was to be paid for the loss in excess of £2.50. This was expected to help 300,000 people (though only about 200,000 have successfully claimed). Again, this was restricted to benefit claimants qualifying under the normal rules for income and capital. Losers of more than £2.50 who had over £8,000 of capital, for example, were not eligible.

5. The total package was estimated to cost roughly £100 million, two-thirds of it on the transitional scheme. Because it was decided to run the transitional scheme from a special DSS unit rather than through local authorities, there was also a heavy administration cost - around £20 million in the first year.

A scheme for the community charge

6. Obviously, the housing benefit reforms affected only benefit recipients. So the package of concessions was targeted on people with low incomes who had lost significant amounts. With the community charge, on the other hand, I suspect that the bulk of significant losers will be those with incomes above benefit levels. (Mr Patten's paper suggests that 12 million chargepayers may lose over £2 per week, of which only 1 million would be on community charge benefit). This raises important questions about the nature of any transitional scheme which might be adopted to help large community charge losers:

- Should it be confined to large losers among those on benefit?
- If not, how far above benefit levels would we be prepared to offer assistance?

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- Would we help certain groups above benefit levels (pensioners, disabled) but not others (people below pension age with no children)? Which side of the line would families with children be?

*1/2 hrs
1/2 hrs?*

7. A scheme helping people above benefit levels would involve some difficult choices, as well as additional expense. Assuming we did not want to help those with manifestly large incomes or capital, drawing a cut-off point for assistance might well be seen as defining the "Nearly Poor". It might be difficult to stop this being used against the Government in the wider debate about benefits and means testing.

8. Mr Patten may say that the scale of the individual losses likely to arise from the community charge will be greater than those experienced as a result of the housing benefit reforms. One answer is that the losses need to be seen not just in absolute terms but as a proportion of net income. The pressure on housing benefit arose partly because losses of a few pounds a week often represented a relatively high proportion of claimants' net income. It is not clear whether this is also the case for community charge, particularly if large losers are mainly among those above benefit levels.

discuss

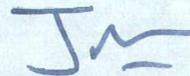
9. If we were to confine assistance to the large losers among "vulnerable groups" already entitled to the community charge benefit, the extra cost might be roughly £50-100 million in the first year (declining thereafter as losses were phased in). This is based on Mr Patten's estimate that 1 million people on community charge benefit may lose over £2 per week, that the average loss of this group is £3-4 per week, and that we would not compensate for the first £2. I should stress that these assumptions have not been discussed with DOE or DSS and that the costing is therefore something of a guess.

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10. For the PM's meeting, therefore, it may be best, as your brief recommends, to emphasise the need for work by officials to establish the nature of the losers problem and to indicate the main parameters of any scheme should it be judged necessary to have one (transitional, vulnerable groups, inexpensive).

Legislation

11. Payments under the housing benefit transitional scheme were made initially on the authority of the Appropriation Act, in the absence of enabling legislation. Legislative cover for the payments was then taken in the following session's (1989) Social Security Act. A transitional scheme for community charge losers might be added to the Social Security Bill already planned for the coming session, if the scheme was aimed essentially at loser) on benefit. It might be more appropriate for DOE to take the necessary powers (and be responsible for the payments) if the scheme were to go much wider.



J P McINTYRE

TABLE 7A: ALL INCOME-RELATED BENEFITS: CHANGES IN DISPOSABLE INCOME AFTER MEETING HOUSING COSTS: BY CLIENT GROUP

Cash position at point of change

(Thousands)

CLIENT GROUP	INCREASES						TOTAL INCREASED	NO CHANGE	TOTAL DECREASED	DECREASES					
	£5+	£4-5	£3-4	£2-3	£1-2	<£1				<£1	£1-2	£2-3	£3-4	£4-5	£5+
PENSIONERS AGE 80+	50	60	120	90	110	40	460	290	70	10	30	10	*	*	20
PENSIONERS AGE 60-79	130	90	230	580	850	270	2150	770	500	100	150	70	30	30	130
SICK OR DISABLED	180	20	50	40	20	10	320	80	10	*	*	*	*	*	10
LONE PARENTS	270	20	30	50	60	30	470	250	90	10	20	10	20	20	20
COUPLES WITH CHILDREN - IN FULL-TIME WORK	170	20	20	40	20	10	290	20	70	10	10	10	*	10	30
- OTHERS	160	60	160	40	60	20	480	50	10	*	*	*	*	*	10
OTHERS - IN FULL-TIME WORK	*	*	*	*	*	*	10	10	110	10	30	20	10	*	30
- OTHERS	20	190	*	20	450	210	900	770	100	10	20	*	10	*	50
TOTAL	980	460	610	850	1570	600	5070	2250	960	160	270	130	70	50	280

PWP



* ~~But~~ ^{also} See ^{AJ's} ~~at table at~~
Ax B of
Mr Potter's note
(blue flag) behind.

The folder now includes:

1. K Baker's note on marginal seats.

B. Potter has commented that it

- ① compares next year's charge with this year's rates,
- ② takes no account of rebates,
- ③ includes some odd numbers eg a charge of £428 for Westminster where our figure is £350,*
- ④ is not really about the safety net but about individual voters.

2. Note on the RPI effect of the charge.

The table shows our estimate that the introduction of the charge will add some 0.9% to the RPI increase [ie 0.73% because the average charge will be 17.3% higher than the average rate + 0.15% because of the index lowering effect.] Against that

the 0.4% effect of last April's rate rise will fall out giving a net increase of 1/2% in the RPI figure.

The Policy Unit have calculated that an 11% increase in spending will produce a 23% increase in average charges so that the gross impact will be 1.1% & the net 0.7%. We can't reproduce these figures. We were assuming a charge of some £320; they apparently assumed £331. On that basis their RPI figures are too high by at least 0.1%. But the main points are

— the net impact should be nearer 1/2%

— we can't buy off this increase; any grant increase will simply feed into higher spending.

3. The papers on independent taxation are at the back.

In England the charge should
average £270 (allowing for ILTA)
for spending at need.

Each 1% above that raises charge
by £9

7% increase over 1989-90 budget £305

~~81/4%~~ £3
11% £341

[c

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14/9/89.

FROM: J P McINTYRE
 Ext: 4799
 DATE: 14 September 1989

CHANCELLOR

cc Chief Secretary
 Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr AJC Edwards
 Mrs Lomax
 Miss Peirson
 Mr Potter
 Mr Francis
 Mr Morgan
 Mrs Chaplin

COMMUNITY CHARGE: PM's MEETING

You asked for a note about the 5th, 6th and 7th deciles of the income distribution, to which Mr Patten had referred in his meeting with you last week.

2. **The estimated earnings of people at these deciles are:**

<u>Decile</u>	<u>Gross</u>	<u>Earnings (£ per week, 1990-91)</u>	
		<u>Net</u> (single person)	<u>Net</u> (married man)
5th	234	190	172
6th	208	171	155
7th	184	152	139

NOTE: Source is new earnings survey, April 1988, for full-time employees. Figures have been updated to give estimates for 1990-91. Net earnings figures assume personal tax allowances updated by the RPI to 1990-91 levels but no other tax relief such as for mortgage interest.

Comparison with benefit cut-off points

3. The comparison has to be made with net income figures, because entitlement to the means-tested benefits, including community charge benefit, is assessed on net incomes. **The cut-off points vary according to individual circumstances.** They are higher for couples than for single people and **higher for pensioners, disabled and families with children than for others.** The cut-off points also vary with different community charge levels: **the higher the community charge, the higher the cut-off point.**

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4. In these ways the benefit system already provides additional help to the "vulnerable groups" and to people living in high community charge areas.

5. The table at Annex A shows the cut-off points for different groups using two assumptions for the community charge - £300 and £350. These figures are in some cases a little higher than those we gave you in Annex B ^{of Mr Potter's} ~~for Mr Patten's~~ brief of 12 September, because we have included the effect of the earnings disregard.

6. The key results for non-pensioners are:

(i) Single people in these deciles earn considerably more than the benefit cut-off points;

(ii) Some couples with children in the 6th and 7th deciles are likely to be eligible - and some in the 5th, if their families are large or their community charges are above average (£350 in the example);

(iii) Some couples in the 6th and 7th deciles where one of the partners is disabled are also likely to be eligible.

7. In assessing these results, it is important to bear in mind that average earnings (male and female) for 1991-92 could be £265 per week (gross). So anyone at the 5th decile will be earning the equivalent of nearly 90 per cent of average earnings. The 6th decile will be 80 per cent and the 5th 70 per cent. Although Mr Patten has expressed concern about people on these levels of income, it is not obvious that the Government should be in the business of extending means-tested benefits to people on 70-90 per cent of average earnings. And the system does that already for certain groups - eg large families and disabled, especially in high charge areas.

Pensioners

8. We have no data for pensioners' incomes beyond FES 1986. But we know that the average occupational pension for a couple is about £62 per week and £35 for a single person. For the married couple, assuming a full State pension and an average occupational pension, net income will be about £130 per week. This is slightly below the cut-off point for benefit if their community charge is £300 or more.

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9. For the single person, assuming a full State pension and an average occupational pension, net income will be about £78 per week. On this basis, he could be eligible in a high charge area or if he is over 75, where benefit goes further up the income scale.

10. Given the skewed distribution of occupational pensions, with a substantial majority earning below the average, this points to many people with occupational pensions being eligible for benefit.

Comparison with tax thresholds

11. See Annex B for projected thresholds in 1990-91. For single people under pension age, the thresholds are a little below the benefit cut-off points. For married people with children, the thresholds are substantially below. There is a similar pattern for pensioners.

JM

J P MCINTYRE

ESTIMATE OF INCOMES AT WHICH TAX STARTS TO BE PAID IN 1990-91

(£ per week):

Up to age 65:

SINGLE 57.20

MARRIED 89.90

Aged 65-74:

SINGLE 69.80

MARRIED 110.60

Aged 75+

SINGLE 72.70

MARRIED 114.30

Notes: (i) (a) assumes 6.75 per cent uprating of personal allowances from current levels, and no additional tax relief such as for mortgage interest.

(ii) Figures for married couples assume income is all husband's. Any income attributable to wives, including wives' portion of retirement pensions, could be set against their separate allowance under independent taxation. In those circumstances, their combined incomes could be higher before either of them started to be taxed.

for Kinnock's mtg.

THE TIMES

Poll tax to be higher in England than Wales

By David Walker, Public Administration Correspondent

Poll-tax payers in Wales will be £113 better off on average each year than people in similar properties in comparable parts of England.

They will get the bonus even though Welsh councils are likely to continue spending more per head than English councils because the Government is immensely more generous to Welsh councils, according to the Chartered Institute of Public Finance and Accountancy.

During the current financial year, the government subsidy is £483 per adult in Wales against £259 per adult in England.

The higher levels of government assistance also mean that property rates that will continue to be levied on offices and factories will also be lower - about three-quarters of the English level. Councils in Wales are currently spending about £852 for every adult compared with £811 in England, but that higher spending is more than compensated for by differences in the level of government subsidy.

One result of the discrepancy is that people living in English counties on the Welsh border will be paying considerably higher poll tax

than their neighbours in the principality.

In Clwyd, the average poll tax (based on this year's spending by councils) will be £192 per adult compared with £286 per adult in neighbouring Cheshire and £246 in Shropshire.

Poll-tax payers in the rural county of Hereford and Worcester will, on present figures, face bills of £219. Just across the border in Powys, the figure is £140.

The difference is as marked between more urban counties. Poll tax will be £240 in Gloucestershire, which contains Gloucester and Cheltenham, but only £176 in Gwent, which includes Newport and Ebbw Vale.

The institute notes that preliminary figures for next year, 1990-91, announced by the Secretary of State for the Environment and by the Secretary of State for Wales, suggest that the gap between England and Wales is unlikely to be narrowed when poll tax is introduced on April 1.

The study predicts that those disparities may lead to an increase in people moving across the border.

Paying for Local Government (CIPFA, 3 Robert Street, London WC2N 6BH; £20).

THE TIMES

Kinnock to boost Labour credibility on spending plans

By Nicholas Wood, Political Correspondent

Mr John Smith, the shadow Chancellor, has been put in charge of a revamped team responsible for refining Opposition policy on the economy.

The move by Mr Neil Kinnock, the Labour leader, cuts from three to one the number of policy review groups dealing with the economy and will be seen by left-wingers as a further sign that he is determined to adopt a rigorous approach to public spending.

Mr Bryan Gould and Mr Michael Meacher, who led the two other policy review groups dealing with industry and the trade unions, will contribute to the new group, Labour sources said yesterday.

They denied that the role of members of the national executive committee was being downgraded and said that the aim was for it and the shadow cabinet to mesh together in the next phase of the review.

Before the last election, the Conservatives criticized Labour for producing a shopping list of pledges running into billions of pounds.

Mr Smith's chief task will be to head off such attacks by enhancing Labour's credibility on the economy and by

producing detailed costings of its policies, which can be disclosed nearer polling day.

The seven areas covered by the policy review have been combed by Mr Smith to remove any commitments on which the Tories could put a price tag. However, Conservative Central Office is again working on such an exercise.

Meanwhile, Labour appears little closer to resolving the problems thrown up by the Trades Union Congress vote on employment law. It has been interpreted by some left-wing union leaders as amounting to backing for a restoration of all the legal immunities taken away by the Government since 1979.

Mr Neil Kinnock's office is said to be in the "driving seat" in efforts to clarify Labour's exact position.

A report that Mr Meacher intended that a future Labour government should issue guidelines to judges to stop them always siding with employers was denied yesterday by sources close to the employment spokesman.

A restatement of Labour's position might not be ready for debate at the Brighton conference next month.

THE TIMES

Report says NHS neglects homeless

By Jenny Knight

Homeless people are neglected by the National Health Service, a report by the Association of Community Health Councils for England and Wales claims today.

The report says that although 100,000 households are homeless, with another 11,000 people living rough in London alone, many general practitioners are unwilling to put the homeless on their lists.

In one case, a man aged 57 was twice turned away from Hackney Hospital because casually staff thought he was drunk. A post-mortem examination showed he had a fractured skull and died of a brain haemorrhage.

The paper recommends that homeless people should not be discharged from hospital unless accommodation and after-care has been arranged, that steps should be taken to ensure GPs accept the homeless on their lists, and that health authorities should research health needs of the homeless in their areas.

According to the report, homeless people have a high risk of suffering from mental ill-health and drug dependency.

They are also prone to illnesses such as tuberculosis, malnutrition and influenza.

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