

P 02656

PRIME MINISTER

Minimum Contribution to Domestic Rates

[E(LF)(87) 9]

DECISIONS

The Committee needs to decide:

- i. whether to confirm that the maximum rate of rebates towards domestic rates, and later the community charge, should be 80 per cent, leaving all taxpayers to find 20 per cent from their own pockets;
- ii. whether to increase the levels of income-related benefits from April 1988 to help the poorest beneficiaries to meet their new rates and community charge liabilities.

BACKGROUND

2. You asked Mr Fowler to bring this paper forward at E(LF) on Thursday 23 April (E(LF)(87) 6th Meeting) when you considered exemptions from the community charge in the context of the Abolition of Domestic Rates Etc (Scotland) (ADRES) Bill. You had agreed that:

- i. the severely mentally handicapped should be exempt from the community charge;
- ii. residents of certain homes and hostels should be exempt, but that these institutions should continue to pay non-domestic rates which would be reflected in their charges;
- iii. a tightly defined group of the disabled should be eligible for rebates up to 100 per cent;
- iv. students' liability for the charge should be restricted to the same proportion as those on the maximum benefit rate.

You were concerned to reach a firm decision on the maximum general benefit rate (so far 80 per cent has been used as an indicative figure, but it has never been finally decided), and to reconsider whether some help should be given through income support to those on the very lowest incomes. So far, the Government have avoided making public commitments, either way, on whether such help should be available, on the grounds that the 80 per cent figure is illustrative only.

3. The decision to limit assistance with rates was taken in March 1985 as part of the review of social security. Its purpose was to make local authorities more accountable by requiring all ratepayers to make an explicit contribution to the cost of the policies their representatives adopt. It would also apply to the new community charge which is to replace domestic rates, with the effect that all adults (except the severely disabled whom it has been agreed to exempt) would pay at least a percentage of the charge.

Mr Fowler's proposals

4. Mr Fowler now proposes that the Government should confirm this earlier decision, and agree that the maximum general benefit rate should indeed be the 80 per cent figure which has been used widely in public. But he proposes that the levels of income support which will be brought into operation from 1 April 1988 should be increased to help people at that income level to meet the cost of their new 20 per cent liability. Of the options available, Mr Fowler recommends a blanket increase in the income support basic rate, rather than a targetted increase going only to, for example, pensioners or the disabled. I understand that Mr Fowler will be circulating today a further note which will contain estimates of the costs of this proposal and the other options he considers but rejects. I have used provisional DHSS figures in this brief.

ISSUES

Maximum rate of benefit

5. The arguments of accountability apply as much now as when the maximum rate of benefit was first agreed. If benefits continued to be paid generally at rates up to 100 per cent, there would be a substantial number of households who paid no domestic rates - 3 1/2 million households are in this position at present. From 1989 in Scotland and from 1990 in England and Wales there would be a large number of adults who paid no community charge. They would nevertheless continue to vote in local elections, and would influence the expenditure decisions of councils without bearing any part of the cost.

6. On the other hand, it has to be recognised that the poorest households have very low incomes out of which to meet rates or the community charge. Furthermore, while 20 per cent of the average community charge might amount to only £1 per week per adult, it may be much more in some areas, and particularly in central London. This problem of the variation in individual rates and charges can be addressed only through housing benefit, because it is the only benefit which is related to an individual's actual liability.

7. Mr Fowler reviews two alternatives to an 80 per cent limit on rebates:

a. an increase in benefit rates to 100 per cent in certain cases. This would be a substantial breach of the principle that everybody should pay something, would weaken accountability, and would give up the ground that was defended last year when a Lords amendment to the Social Security Bill was reversed in the Commons. I understand it might cost £350 m in a full year;

b. an increase to 90 per cent in certain cases. This would halve the burden on some individuals, and thus again weaken accountability. The administrative costs of collecting only

10 per cent of the community charge would also be disproportionate to the extra income. I understand that this option might cost £180 m in a full year.

For the reasons given above, Mr Fowler rejects both of these options. If the Committee agrees, it will have to accept that if any extra support is provided to those on the lowest incomes, it will not reflect variations in the actual rates or community charges they pay.

Increased rates of income support

8. Mr Fowler instead favours increasing income support benefit rates for the most vulnerable groups by a fixed amount which would reflect average liabilities to rates or the community charge. He considers three options:

a. a blanket approach, under which the basic rate would be raised so that everybody entitled to income support would get extra money. I understand this would cost £350m if the additional benefit was £1.30 per week, reflecting the full average liability;

b. a selective approach which would give increased benefit to the premium groups (pensioners, families with children, disabled people and lone parents) who have already been identified for higher levels of income support. I understand this might cost about £290m;

c. an even more selective approach would help only some of these groups, at proportionately lower cost.

He favours the (most expensive) blanket approach of support to all those on the lowest incomes.

9. As indicated above, the Government have so far avoided making any final commitment on helping the poorest people to pay their 20 per cent liability and in their original discussions (in March

1985) MISC 111 agreed that losers should not be assisted generally through Supplementary Benefit (which Income Support will replace). The issue would, however, have become of more public interest over the next few weeks if Mr Fowler had consulted the local authority associations, as he intended, on the final draft of the housing benefit regulations. That draft would have restated the 80 per cent maximum rebate as an illustrative figure.

10. On technical grounds, if it is decided to make some help available, Mr Fowler's approach would work reasonably well once the community charge is in place. The Government would be in a position to say that either all those on the lowest incomes or a more selective group had been given extra money to help meet the remaining 20 per cent of the average community charge. But the approach is less satisfactory while domestic rates remain in being. Recipients of income support would get extra benefit regardless of whether they actually paid rates, or of the level of those rates (which are of course affected by ratable values as well as the local authority's rate poundage). Under the streamlined social security arrangements coming into force next April, however, income support is the only system that can be used to deliver the kind of help that is in question. The choice is, therefore, between increasing income support (either on a blanket basis or selectively) or doing nothing.

11. The proposals are, however, extremely expensive and would ratchet up the social security programme under the new arrangements from April 1988. This is precisely what you have been concerned to avoid; indeed, much effort was spent in last year's Star Chamber on considering whether the starting rates in April 1988 could be reduced, not increased.

Reaction of other Ministers

12. The other Ministers principally concerned are highly unlikely to challenge the proposal to confirm 80 per cent as the maximum general rate of benefit. However, for the reasons above, the Chief Secretary will strongly resist such a large increase in the

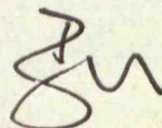
overall cost of income support, which would substantially reduce the savings associated with the new social security arrangements.

13. The Employment Secretary may argue that Mr Fowler's proposals would also act as a disincentive to find work. Mr Fowler will respond that, while that might have been true if in the case of Supplementary Benefit, it will not be true of income support, where any increase automatically feeds through into housing benefit and family credit. It is not a consequential of Mr Fowler's proposals that unemployment benefit need be increased.

HANDLING

14. You will want to ask the Secretary of State for Social Services to introduce his paper. The Environment Secretary, the Welsh Secretary the Scottish Secretary and the Employment Secretary will wish to comment on the implications for them. The Chief Secretary, Treasury will wish to speak about the implications for public expenditure. Other Ministers will also wish to contribute.

15. Finally, it is vital that you should ensure that the meeting decides the timing of any announcements of the decisions taken. You might ask Mr Fowler for his suggestions on this, once the substantive decisions are taken. If you decide in favour of increasing income support, there are obvious arguments for an early announcement. If you decide against this you may wish to postpone any statement for as long as possible.



J B UNWIN

29 April 1987
Cabinet Office