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Miss Jill Rutter
Private Secretary to the
Chief Secretary
HM Treasury
Parliament Street

6 May 1987

NBM.

Dear Jill

COMPENSATION FOR MINIMUM CONTRIBUTION TO RATES AND COMMUNITY CHARGE

You told me that the Chief Secretary would like the Cabinet Office to provide the note of the meeting that he took yesterday to carry forward the conclusions at last week's E(LF) meeting. I enclose the note accordingly.

I am sending copies to David Norgrove (Prime Minister's Office), to the Private Secretaries to Cabinet Ministers attending the meeting and to the Secretary of State for Scotland and to Trevor Woolley (Sir Robert Armstrong's Office).

Yours

Anthony Layton

A J LANGDON

NOTE OF A MEETING HELD AT HM TREASURY AT 2.45 PM ON TUESDAY 5 MAY 1987

Present were the Chief Secretary, Treasury (in the chair), the Secretaries of State for Social Services, Employment and the Environment, the Chancellor of the Duchy of Lancaster, the Minister of State, Department of the Environment (Dr Boyson), the Parliamentary Under-Secretary of State, Scottish Office (Mr Ancram), the Parliamentary Under-Secretary of State, Department of Health and Social Security (Mr Lyell) and officials.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Sub Committee on Local Government Finance (E(LF)) had confirmed the previous week that there should be a minimum contribution to rates and to the community charge, but had agreed that the introduction of the charge would be at risk unless it could be shown that some help was extended to the most vulnerable groups. In his view, there was no politically sustainable course short of increasing the planned income support levels across the board by the average cost of the new liability to pay 20% towards rates. That would be a clear and defensible statement: anything more limited would appear to be an illogical expedient that lacked all credibility. In the E(LF) discussion mention had been made of the exceptionally high rate bills in London. But, while there might be a case for the special treatment of London in the context of the community charge, this did not help the immediate question. The national average of the new 20% contribution to rates was £1.30, and that would only be reduced to £1.20 if London were excluded from the calculation. It would be just as illogical and presentationally difficult to refuse to compensate any of the groups qualifying for income support as it would to compensate at something lower than the full rate. It had been agreed at E(LF) that compensation should be extended to pensioners and the sick and disabled, but if the line was drawn there the Government would have no sensible explanation why other groups, such as single parents, the unemployed and families with children, were expected to find the extra money without help. In his view, it would be essential to

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provide the full rate of compensation (£1.30 a week) to everyone on income support. Unless this was done, the 3.8 million losers from the reform of social security would prove a grave liability. Even under his proposals, there would be 2.4 million such losers. The figures had been published in the technical annex to the White Paper "Reform of Social Security". He believed his proposal was the only sustainable way of tackling a very major issue on which the Government could expect intensive questioning.

The following main points were made in discussion.

- a. While the cost of compensating pensioners and the sick and disabled at the full average rate would be £188 million (of which £167 million would score as public expenditure) the cost of the Social Services Secretary's proposal for compensation across the board would be £380 million (of which £352 million scored as public expenditure). This would mean surrendering a very large part of the savings won in the social security review.
- b. Until all adults assumed a liability to pay towards local government through the community charge, flat rate compensation could create an uncovenanted windfall for non-householders. This could be avoided to a substantial extent by building clawback machinery into the arrangements. This would particularly bear on single unemployed people under 25 and could reduce the costs of the proposal by as much as £50 million. The issue would no longer arise on introduction of the community charge which would be payable by all adults.
- c. It would be important not to call into question the ground rules for income support, and it would be necessary to avoid any suggestion that the Government was making unspoken assumptions about recipients in some groups helping themselves through the black economy.

d. There was an urgent handling problem on the Abolition of Domestic Rates Etc (Scotland) Bill. In furtherance of E(LF)'s earlier decision to extend 100% rebates to a tightly defined group of the disabled the Minister of State, Scottish Office, had announced the intention to help this group. His words had, however, been carefully chosen to leave the options open so far as possible. It was now necessary to decide whether to proceed by way of rebate or through income support, but the same group should certainly not be benefitted twice. The Parliamentary handling problems were accentuated by the fact that Opposition amendments would be debated that afternoon which would have the effect of extending assistance far more widely than the Government could contemplate.

e. Although it was technically complex to apply the 20% minimum contribution regime first to rates and then to the community charge, it was essential to keep on course with these plans for increasing accountability, with which the Government was totally identified. To hesitate now would lose credibility. Full average reimbursement through income support, however, could certainly be presented as a sensible and necessary supporting arrangement. It did not conflict with the principles of accountability.

THE CHIEF SECRETARY, TREASURY, summing up the discussion, said that the meeting had agreed that the introduction of the 20% minimum contribution regime should not be deferred, that compensation should be extended to vulnerable groups by means of a flat rate average increase in planned income support, and that there should be a clawback machinery in respect of non-ratepayer recipients. The costs of the proposal did, however, represent yet another significant call on the Reserve, and he was bound to consider whether it would be practicable to reduce this either by extending compensation at a lower flat rate than the average of the 20% liability or by limiting compensation to only some groups eligible for income support. While he took note of the view widely expressed at the meeting that these devices would do too much damage to the rationale of

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the concession, the matter would clearly have to be decided outside the meeting, and a form of words had been agreed for the Minister of State, Scottish office, to use in dealing with the Opposition amendments that afternoon. In accordance with the E(LF) conclusions (E(LF)(87)7:1) the appropriate way forward now would be for the Social Services Secretary to prepare a note to the Prime Minister, rehearsing the options exposed at the meeting and making recommendations in the light of the views that had been expressed. He would either incorporate his own comments in that note or would submit a separate note to the Prime Minister. However the matter was resolved, he would need to consider how the costs of the concession might be dealt with in the longer term.

