



PRIME MINISTER

COMPENSATION FOR POOR HOUSEHOLDS PAYING THE MINIMUM CONTRIBUTION  
TOWARDS DOMESTIC RATES AND THE COMMUNITY CHARGE

I discussed the options available to us on Tuesday with Norman Tebbit, David Young, Nicholas Ridley, Michael Ancram and John MacGregor. We reached a fair measure of agreement. The only substantial reservation remaining is on the public expenditure commitment implied. John MacGregor's position is set out separately below.

We very quickly reached agreement on three main points:

- (1) Unless we are able to give assurances about compensation for the most vulnerable groups, our proposals for a minimum contribution towards domestic rates - and subsequently the community charge - will be at risk.
- (2) We cannot - nor should we - now retreat on the principle that local accountability requires more people to be making a contribution towards their local tax.
- (3) We are therefore looking for a measure of flat-rate compensation based on the average contribution and not the actual weekly bill that households will face.

We had to deal also with the urgent question of what Lord Glenarthur could say on Tuesday on amendments tabled to the Abolition of Domestic Rates Etc (Scotland) Bill on these issues.



**E.R.**

I advanced two further propositions which in my view largely determine our options and the likely costs. The first is that the only proposition which will make any significant difference politically is to reflect in the relevant social security rates 20 per cent of the average domestic rate paid by households on income support. This would be £1.30 for these households, somewhat less than the overall national average of £1.60. We would then be seen to be protecting vulnerable claimants who will have to meet this charge, in all but the very high spending authorities. Without this clear statement we would be committing extra expenditure on an uncertain level of improvement which would not sound convincing. My proposition here commanded general support at the meeting apart from the reservations on the overall costs.

The second proposition which in my view has equal political force is that we are misleading ourselves if we decide to restrict help to only some of the vulnerable groups such as pensioners and the sick and disabled. We would be challenged immediately about the position on all other groups such as widows, mothers with children separated from their husbands and unemployed families with children. Without any clear statement on the position of these groups all the attention would focus on their position rather than the compensation we had announced. This would negate the whole exercise. I found very strong support for this proposition from almost everyone present. It also provides a defensible position in relation to the severely disabled people who, as a result of earlier discussions, would otherwise require some special arrangements to maintain their current full rates rebate. This would be difficult both to define, justify and administer. It would be far better dealt with as part of a general measure of compensation, rather than by creating the precedent of a full rebate entitlement for this group, however tightly drawn.

As indicated by John MacGregor's paragraphs below, he has serious concerns about the costs which we estimate to total £380 million (£352 million in public expenditure). I would seek to reduce the gross cost - by increasing non-dependant deductions to take account



of the position of non-householders who, as non-ratepayers, gain from this proposal. This would claw back the increase from them, reducing the costs by as much as £50 million.

The Chief Secretary draws attention to the very high cost (£380 million a year) of giving all those in receipt of income-related benefits an extra £1.30 a week to compensate them for having to pay a proportion of their rates bill. There is no provision in the public expenditure plans for this expenditure and to agree it would eliminate all the savings from the minimum contribution which were agreed in the Social Security Review.

The Chief Secretary notes that this will also give further benefit to nearly a million non-householders who will not face any additional payment while the rating system continues to be in place. The proposed clawback through the non-dependent deduction will only work for those in this group who live in households receiving housing benefit. So in effect we will be giving a windfall of £1.30 a week to over 300,000 non-householders.

As the plans now stand, without the proposed additional compensation, everyone on supplementary benefit now (4.3 million people) will receive at least as much cash next year as they do now (the majority will get more). That is partly because we have already decided on expensive transitional protection for those people (£120 million in 1988/89). And only 1 million of those 4.3 million will be worse off even after taking into account the 20 per cent contribution to rates. (Among the unemployed, many without children, there will be 1.1 million gainers and only 280,000 losers.)

The Chief Secretary accepts the E(LF) recommendations that help should be given to the most vulnerable but believes that consideration should be given to ways of reducing the cost. This could be done:

- (a) by confining it to the pensioners and the sick and disabled;



- (b) by limiting the compensation to £1 a head, which would fully compensate those in authorities which spent - and rated - in line with Government plans without underwriting excessive spending.

Even a minimum proposal combining these two would cost £144 million a year and would add to the problems for the coming 1987 Public Expenditure Survey. The Chief Secretary warns that he will be obliged to seek offsetting savings during that Survey.

I obviously appreciate the Chief Secretary's position. However, we must recognise the essential weaknesses of the "cash" argument. Cash protection means no increase in benefit on 1 April 1988 and, at the same time, the people concerned will have to meet the new charge from the same frozen cash benefit.

I do have to warn colleagues that the public debate will focus sharply on almost 4 million losers in real terms. I enclose with this minute a table published by The Times last year which set out just this position. This table was extracted from the Technical Annex to the Social Security White Paper. I am afraid that we simply deceive ourselves if we believe the debate will be on any other basis. Accordingly, I would strongly urge that we announce that the rates of income support will reflect the average amount of the 20 per cent contribution.

If we make it clear that this compensation is only for those who will have to meet this charge, I am confident that we can find ways of avoiding a substantial number of the windfall gains for non-householders referred to by John MacGregor.

We do need an early decision on this. It is the obvious focal point for attack on the social security reforms and we are open to this in the House of Lords next week during the closing stages of the Domestic Rates Bill. I believe it is highly desirable to remove this issue from the wider political arena as soon as possible.

E.R.

I am copying this minute to Willie Whitelaw, John MacGregor,  
Nicholas Ridley, Norman Tebbit, David Young and Malcolm Rifkind.



N F

7 May 1987



WINNERS AND LOSERS (in thousands)			
	Gainers	No Change	Losers
<b>Pensioners</b>			
Single	600	850	1360
Couples	200	270	860
<b>Non-pensioners with children</b>			
Single parents	270	130	260
Couples	710	70	210
<b>Non-pensioners without children</b>			
Single, over 25	310	130	490
Single, under 25	40	480	360
Couples	40	20	260
<b>Total</b>	<b>2160</b>	<b>1950</b>	<b>3800</b>
Source: DHSS			



[LORD GLENARTHUR.]

was illustrated in Great Britain in the technical annex to the social security White Paper. On the assumption of a minimum contribution of 20 per cent., it showed that the majority of people on income support will not experience any overall reduction in their disposable income after meeting the minimum contribution to their rates.

Of course there will be gainers and losers. I suggest that is bound to be the case in any wide-ranging reforms. But the fact that the overall position is as I have described it, with the majority experiencing no overall reduction in their disposable income must, I suggest, temper the force of the argument that explicit provisions need to be written in, addressing specifically the question of the minimum contribution.

The noble Lady, Lady Saltoun, referred to the press notice on how the rebate system will work.

**Lord Mackie of Benshie:** My Lords, before the noble Lord turns to that point, I think he said that paying the minimum contribution of 20 per cent. for people on income support would have no effect on their overall disposable income. Is that what he said?

**Lord Glenarthur:** My Lords, that is what I said when I quoted the technical annex to the social security White Paper. But if the noble Lord will bear with me for a minute, I shall return to the theme shortly. Before I do so, I pick up a point made by the noble Lady when she referred, for example, to a couple who are unemployed with two children under 11. They are quoted in the document, and the noble Lady asked what would be the case if the children were over 11. If they were over 11, we should have to add £5 a head, which is £10 in total, so the income support level rises from the illustrative figure in the table attached to that press notice to £83.95.

However, further than that, my noble friend Lord Campbell of Alloway, concerned as I understand him to be about the governing principles being lacking in this case, appeared to be suggesting that the additions to income support should vary region by region and not on average, as proposed by the noble Baroness, Lady Seear. A hugely complex administrative machinery would be necessary to try to do this in the way my noble friend proposes. I hope that he will accept from me that, while I can understand the point he is making, the practical feasibility would be such as to make it virtually unworkable.

I also emphasise that the figures available so far have all been illustrative and that until the rates of income support are set this autumn, it is premature to draw absolutely firm conclusions about who may or may not be worse off. Much will happen between now and then which will need to be taken into account and which will influence the factors affecting the setting of the income support rates. One of those factors will be that many people will for the first time be making a contribution towards their rates. In setting income support levels we shall take into account the impact of this on the most vulnerable groups.

I cannot make a detailed commitment now, but I hope that your Lordships will find what I have been able to say about the position of vulnerable groups to be a positive response to the concern which I think

underlies all these amendments. For the reasons I have explained, therefore, and with the assurance which I have given about vulnerable groups, which I think very much helps both my noble friend Lord Campbell and indeed the noble Lady, Lady Saltoun, I believe that a specific amendment of the kind which the noble Baroness has put down is not necessary or desirable. I hope with that explanation that she will feel able to withdraw her amendment.

**Lord Sanderson of Bowden:** My Lords, I have been most interested in hearing what my noble friend has said. Let us cut out most of his speech and concentrate, if I hear him right, on the suggestion that in setting income support levels the Government will take into account the impact on the most vulnerable groups. I had a letter today, as I expect many noble Lords did, from the Social Security Consortium, which said that the noble Baroness's amendments did not contradict the position of paying the 20 per cent., but then there should be compensation for such payment through income support levels. I think what we have heard from the Government today through my noble friend must mean just that. I should be very disappointed if the most disadvantaged people in the community, as I said at Second Reading, should be in any way put in a position where they have no money and are not able to pay. So this may well be the let-out for us on a most important part of this legislation.

**Baroness Carnegie of Lour:** My Lords, I too listened with great care to what the Minister said. It was difficult to take in precisely his phraseology and I would be glad if he could confirm that he said what the noble Lord, Lord Sanderson, suggested.

On the amendment of the noble Baroness, Lady Seear, No. 188AAA, I feel that although in principle clearly she is trying to do something very similar, this approach would not work out quite right because the level of the community charge which will be set in individual regions will be uneven—and it will not only be in individual regions but, as we know, for example, by looking at Strathclyde and Lothian regions, very different in different districts of Scotland. It will vary enormously.

So if a person was getting an amount not less than the average of the community charge over the whole of Scotland, some people would be getting considerably more than they had to pay and others considerably less. Although it would probably be impossible to be totally fair to everybody—it always is—that seems to me to be building into the Bill an unfairness and a discrepancy which are not necessary. I hope very much that the noble Baroness will not press the amendment on those grounds if on no other.

**Baroness Seear:** My Lords, I listened with very great interest to what the Minister said and also to what the noble Lord, Lord Campbell of Alloway, and the noble Lady, Lady Saltoun. This amendment is a compromise; it is not what we would wish if we could have our own way. I fully accept that it would be much more desirable if the system could be regionally based for the reasons which Baroness Carnegie gave.

As the Minister said, one was aware that that would be immensely complicated and in a very imperfect Bill