



CONFIDENTIAL

P 02903

PRIME MINISTER

THE COMMUNITY CHARGE: SOCIAL SECURITY COMPENSATION ARRANGEMENTS  
[E(LF)(87)43]

DECISIONS

The Sub-Committee needs to decide the basis on which income-related benefits should be uprated in the period of transition from domestic rates to the community charge. The Government is committed to helping the worst off by adding an amount to their income support equal to the average of the 20 per cent contribution which they will have to pay.

2. The main issues are as follows.

i. Whether benefit rates should continue to be set on a common basis for the whole of Great Britain, or whether they should be set at different levels in England, Wales and Scotland during the transition period because of the different transition arrangements which will apply in each area. Mr Moore recommends sticking with common GB rates.

ii. Whether there should be a once and for all shift to new benefit rates appropriate to the community charge, probably in 1989/90 when the charge is introduced in Scotland, or a gradual change in rates matching the staged introduction of the charge. Mr Moore recommends a once and for all solution.

iii. Whether it is acceptable to reduce the level of compensation for any class of claimant during the transition to the community charge. The main debate centres on single people whose average liability will be less under the

CONFIDENTIAL



community charge than under rates. Mr Moore believes that some cut can be justified.

In line with these recommendations, Mr Moore seeks agreement to set the compensation for couples at £1.70, for single people over 25 at £1.10 and for single people under 25 at £1 in 1989/90, and then to maintain these rates, subject of course to the annual uprating of benefits for inflation.

#### BACKGROUND

3. The reformed housing benefit system will require all claimants to meet a minimum 20 per cent contribution to their rates or community charge from 1988-89. Originally no uprating of income-related benefits was planned in consequence of this increased liability. But on 13 May E(LF) agreed that income-related benefits should be increased to put all recipients who face the new 20 per cent minimum contribution to domestic rates in a position to meet their average liability in 1988/89 [E(LF)(87) 10th). Subsequently, you have told Parliament:

"For the less well off, there will be an up to 80 per cent rebate of the community charge. For the worst off who are on supplementary benefit and income support, there will be an amount added to that income support or supplementary benefit equal to the average of the 20 per cent that they would have to pay. So they will not be adversely affected."

4. Mr Moore agreed with the Chief Secretary in PES that benefit rates for 1988/89 should be increased by £1.30 per week for couples, lone parents and single people over 25 years of age to compensate for their domestic rates liability. A lower addition of £1 was agreed for single people aged 18 to 24. The cost of these allowances will be £399 million, but the net cost has been reduced to £372 million by increasing non-dependant deductions in the rate rebate systems. Mr Ridley was not consulted when these rates were agreed, and subsequently insisted on a meeting of E(LF) under the





chairmanship of the Lord President on 12 October (E(LF)(87)21st). He was concerned that the decisions would make the transition to the community charge more difficult, in particular because the average liability of single claimants would drop to 85p (the figure for couples would be £1.70) Mr Ridley argued that to reduce the compensation for single people would undermine the Government's claim that single people, and particularly single pensioners and single parents, would benefit from the introduction of the charge. He sought agreement to say that the level of compensation for single people would not be reduced when the charge was introduced. But E(LF) were not prepared to agree to this: they simply agreed that Mr Moore should announce a decision for 1988-89 as settled in his discussions with the Chief Secretary, and that a further meeting should be held as soon as possible under your chairmanship to decide the basis on which benefits should be uprated in later years, during the transition to the community charge. Mr Ridley is particularly concerned to know what he may say on the subject during the passage of the Rates Reform Bill.

5. The issues are complicated by the different arrangements which have been agreed for Scotland, Wales and England:

- i. In Scotland the community charge will be introduced in full in 1989/90.
- ii. In Wales the charge will be introduced in full in 1990/91.
- iii. In England the present agreement is that there will be four-year phased transition from rates to the community charge starting in 1990/91.

These transitional arrangements mean that the average liability of single people and couples in Great Britain will be different in each of the transitional years, and different between countries.



6. A further complication is the possibility that a possible change in the transition to the community charge in England is under consideration. Mr Ridley has proposed that individual local authorities should be free to opt out of the dual running of both rates and the community charge, and make the transition at once.

7. You will wish to note that all the figures in Mr Moore's paper are in constant 1987-88 prices. In practice the final cash figures are almost certain to be different, and the actual numbers will need to be decided closer to the time in future PES rounds.

#### THE SOCIAL SERVICES SECRETARY'S PAPER

8. Mr Moore identifies four main options.

*Primary Legislation*

i. Option 1 is based on separate and variable rates of benefit for England, Wales and Scotland. Throughout the transition period, each country would have separate income-support rates based on the average charge in that country for that year. The gross cost in 1989/90 would be £396 million, falling to £354 million in 1994/95, when common GB rates could be re-established.

ii. Option 2 is based on common rates for the whole of Great Britain, reflecting the average combined rates and/or community charge bill for claimants in all three countries. The gross cost in 1989/90 would again be £396 million, falling to £354 million in 1994/95.

iii. Option 3 would be a once-and-for-all solution, setting compensation in 1989-90 for couples of £1.70, for single people over 25 of £1.10 and for single people under 25 of £1 in 1989/90 and uprating them in the normal way in subsequent years. The gross cost would be £404 million in each year.





iv. Option 4 is identical with option 3 except that the rate for single people over 25 would be maintained at £1.30, avoiding a cut for this group. The gross cost would be £439 million in each year.

(In each case, these gross costs would be reduced in 1989/90 alone by retaining the non-dependent deductions from rate rebates).

9. Option 3 is Mr Moore's preferred option, reflecting his preference for common GB rates of benefit and a once-and-for-all solution, and his view that it is acceptable to reduce benefit rates for single people over 25 in 1989/90.

#### VIEWS OF OTHER MINISTERS

10. The Chief Secretary, Treasury will be concerned about the Public Expenditure Costs of the various options. He is likely to oppose any action which over-compensates benefit claimants for their liability to the community charge once it is fully in place. This points to either options 1 or 2 because those options have a maximum cost after 1994/95 of £354, or perhaps to a cheaper variant of option 3. The Chief Secretary is likely to prefer option 2 because it retains common GB rates and therefore minimises administrative costs. The Environment Secretary will be most concerned about steering the Rates Reform Bill through Parliament and introducing the community charge. He believes that any cut in the rate of compensation for single people would make that task more difficult, particularly in view of the things which Government has said publicly. He will therefore favour leaving compensation for single people aged 25 and over at £1.30, as under option 4, at a cost of £439 million.

11. The Secretary of State for Scotland will be concerned by the fact that the average liability to the community charge in Scotland is likely to be higher than that in England and Wales (£1.80 for couples and 90p for single people). He will want benefit rates in 1989/90 which meet these higher figures rather than the GB averages



of £1.70 and 85p. Option 1 - involving separate benefit rates for Scotland - is the only one which meets this concern. He might however argue for a more expensive version of option 3, with compensation of £1.80 for couples.

## MAIN ISSUES

### Separate Benefit Rates for England, Wales and Scotland or Common GB Rates

12. The different transitional arrangements for introducing the community charge in England, Wales and Scotland mean that common GB benefit rates are unlikely to be an accurate way of compensating claimants in the three countries for their actual average liabilities during the period 1989/90 to 1994/95. If the separate commitments which the Government has given about compensation for domestic rates and for the community charge are interpreted literally, they point in the direction of separate national rates. However, there has always been a strong presumption, by successive Governments, against different national rates of benefits, not least because they would create a precedent which various groups would try to exploit, for instance over heating costs and the cost of living. Furthermore the complexity of separate rates might well cloud the issues, and blunt the presentational message that the Government is compensating benefit recipients for their average liability to the community charge. You will therefore probably want to agree with Mr Moore that it is better to retain common GB rates of benefit, and put a broad brush interpretation on the commitments which the Government has given.

### A Phased and once and for all Change in Benefits

13. A phased change in benefits, as under option 2, has advantages, particularly for England. Actual liabilities to rates and the community charge in England will be changing over the transitional period, and there is a good argument that benefits should change to match that. Option 2 also has the advantage that





the eventual cost to the Exchequer is only £354 million, the minimum cost of meeting the Government's commitments once the community charge is fully in place. But this approach looks less reasonable for Wales and Scotland: in both countries the community charge will be introduced in full in year one, making it hard to defend annual changes in benefit rates. Successive adjustments to benefits are also likely to keep this issue in the public eye. On the other hand, a system based on a once-and-for-all change in benefits is likely to cost more than the minimum needed to meet the Government's commitments, unless the common benefit rates are set very low. Both options 3 and 4 in the paper assume that it would not be acceptable to cut compensation to 85p in 1989/90 (when rates will still apply in England and Wales) and are therefore more expensive. You will want to consider whether the advantages of setting benefit rates on a once and for all basis justify their additional cost.

#### Acceptability of a cut in Benefit Rates for Single People

14. Mr Ridley will argue that cutting the compensation in benefit rates for single people over 25 from £1.30 in 1988/89 to either £1.10 (as under option 3) or eventually to 85p (as under options 1 and 2) would cause unacceptable problems for him in steering the Rates Reform Bill through Parliament and in introducing the community charge. Against this, the Chief Secretary will no doubt argue that when individuals' argue to pay local taxes falls there should be a corresponding drop in their benefit rates. He will argue that Mr Ridley's arguments do not justify additional public expenditure of £85 million per annum on benefits as under option 4. Mr Moore's position is somewhere between these two extremes. You will want to decide whether Mr Ridley's arguments about the benefits for the passage of the Rates Reform Bill and the introduction of the community charge justify the additional public expenditure involved in option 4.



15. Mr Ridley can be expected to express concern about the number of "gainers" and losers" from the introduction of the community charge. This is a complex area. His comparisons are essentially about the position in 1990/91 compared to that in 1989/90. The Green Paper said that 69% of single pensioners and 83% of single parents would be better off with the community charge. Mr Ridley will claim that if the compensation in benefits is reduced for single people when the community charge is introduced, only 44% of single pensioners and 63% of single parents will be net gainers. This does not however appear to be the whole story.

i. When the Green Paper was produced, there was no proposal to provide any compensation in income support for the minimum 20% contribution to the community charge. All claimants will soon be better off than under the Green Paper proposals.

ii. The number of gainers in 1990/91 compared with 1989/90 will only decline because those on income support will be receiving exactly enough on average to meet their rate or community charge liability, not more than enough. They will have moved from being gainers to being unaffected by the introduction of the charge.

These points might suggest that, while there is some validity in Mr Ridley's concern, there are good arguments which can be deployed to counter the sort of criticism he anticipates.

#### HANDLING

16. You will want to ask the Social Services Secretary to introduce his paper. The Environment Secretary the Secretary of State for Wales and the Secretary of State for Scotland will wish to speak about the position as regards their responsibilities. The Chief Secretary, Treasury will wish to speak about the public expenditure implications. Other members of the Sub-Committee will also wish to contribute.

*RJW*  
30/10.