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Treasury Chambers, Parliament Street, SW1P 3AG

Nicholas Scott MBE JP MP  
Minister of State for Social Security and the Disabled  
Department of Health and Social Security  
Richmond House  
79 Whitehall  
London  
SW1A 2NS

24 July 1989

Dear Minister,

**NEW FINANCIAL REGIME FOR LOCAL AUTHORITIES: RENT REBATE SUBSIDY**

*WILL REQUEST IF REQUIRED*

Thank you for your letter of 13 June.

I share your objective of preserving the effect of the current subsidy arrangements in providing an incentive to authorities to limit expenditure in those areas where they are most able to control costs. In fact, as you know from previous correspondence, I have been concerned to increase this incentive by reducing the demand-led subsidy from its current level of 97 per cent.

I recognise that the introduction of ring-fenced housing revenue accounts next year means that a new way will have to be found of providing this incentive in the case of rent rebates. However, I am not persuaded that moving to a system of 100 per cent demand-led subsidy, as you propose, will be an effective means of doing so. Nor do I accept that the HRAs themselves will necessarily act as a deterrent to excessive expenditure, as a large minority of authorities will still be making no contribution to rent rebate expenditure from their own rental income for some time to come. Partly for this reason, I am concerned that a move to 100 per cent demand-led subsidy could be dangerous from the point of view of effective control of housing benefit expenditure. It would leave authorities with no incentive to operate the guidelines tautly and efficiently; they would be reimbursed £ for £ of expenditure. I find it hard to accept that this would give an adequate incentive for control.





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As you acknowledge in your letter, moving to a 100 per cent demand-led subsidy is not the only option. In principle, I can see two other options. One would be to provide less than 100 per cent subsidy, as now, leaving authorities to make up the difference from higher rents levied on non housing benefit tenants or cuts in maintenance expenditure below that seen as reasonable by DOE. But I can, see real difficulties in sustaining this proposal, which Nick Ridley's letter of 20 June pointed out.

However, I think your letter may overstate the difficulties associated with the other option, namely to provide a demand-led subsidy for less than 100 per cent of expenditure, with a cash limited grant making up the remainder. Of course, there would be a risk of some authorities inflating their initial estimates. But this risk exists under the present system. And your Department should be able to spot at least the most flagrant examples of this and settle on a more appropriate, lower figure, while any excess payments should be recoverable. Authorities persistently presenting estimates which turn out too high for no good reason would have to be shown that this was counter-productive. The auditors might also have a role in checking abuse here.

In view of the serious problems I see with your proposal to move to 100 per cent demand-led subsidy, I would like you to reconsider the possibility of a cash-limited element. I would like to see this fixed at 5 per cent, leaving 95 per cent to be contributed in demand-led subsidy.

Another relevant consideration here is the subsidy regime for rent rebates in Scotland, rent allowances, and community charge rebates. As you know, I suggested last year (my letter of 2 September) that the subsidies for these benefits be reduced from 97 per cent to 95 per cent in the interests of giving authorities a greater incentive to control expenditure. I still believe this should be done. Such a change might be more difficult to achieve if we were to move in the opposite direction on rent rebates in England and Wales.

I would not wish to press changes in these arrangements (ie those not affected by the new financial regime) in April 1990. But I would like to propose that they be considered in this year's Survey with a view to implementation in April 1991.

As for the incentive areas, it is with some reluctance that I accept your proposal for a cash limited grant of 100 per cent to cover what your Department regards as reasonable expenditure by each authority. I fear that the removal of subsidy penalties will lead to additional expenditure in these areas. It is therefore crucial that the cash limits are tightly set. I assume, subject to Malcolm Rifkind's views, that this system will apply in Scotland from April next year, as well as in England and Wales.

I am copying this letter to Nicholas Ridley, Peter Walker, and Malcolm Rifkind, and to No. 10

*Yours sincerely,*

*P. Walker*

PP JOHN MAJOR

*[Approved by the Chief Secretary  
and signed in his absence.]*

