



SECRET

8

P.01494

PRIME MINISTER

MISC 111

Housing Benefit

(MISC 111(85)1, Appendix 3; MISC 111(85)5; MISC 111(85)3)

BACKGROUND

Under reforms in 1982 and 1983, various kinds of DHSS and local authority rents and rates assistance to low income groups were amalgamated into a theoretically uniform system of housing benefit (HB). It is wholly administered by local authorities: there are 7½ million recipients (1 in 3 households) and it is costing £4,160 million a year (in real terms three times the 1979/80 figure). HB takes two forms: certificated HB which is payable to recipients of Supplementary Benefit (SB) and standard HB which is payable to others assessed through a separate income test. 100 per cent assistance with rent and rates is available to SB recipients while those in work receive only 60 per cent. The rules are complex, attempting to relate benefits in detail to individual circumstances, necessitating major additions such as Housing Benefit Supplement and High Rent Schemes and leading to intrusive questioning of claimants; and means testing for HB differs to an unwarranted extent from means testing for SB.

2. The Secretary of State for Social Services's proposals are:
 - i. To align the HB and SB income tests, which is feasible now that the SB regime is to be simplified.
 - ii. To pay HB at 100 per cent of rent and rates to people whose income falls within SB levels, and above that level to taper HB down to nil.
 - iii. Subject to further detailed investigation, to assess benefit on rent and rates together.
 - iv. To give local authorities only 80 per cent subsidies for their HB expenditure (to discourage them from using it to inflate their rate and rent income); and to take reserve powers to withhold subsidy;

SECRET



v. To simplify administration.

3. The objectives of these changes are described as simplification (to reduce caseloads and administrative burdens on local authorities); greater equity (as between those in and out of work); better targetting on those in greatest need; and encouragement of greater local authority efficiency together with strengthening of safeguards against abuse. The expected effects are no change for 40% of recipients, a shift of help for non-SB recipients to those on the lowest incomes and withdrawal of help with rents from up to 200,000 people and with rates from up to 1 million.

4. Because 86% of current expenditure goes to the poorest households (at or below SB levels of income) the scope for financial savings is considered to be limited. About £100 million might be saved by eg. adjustments to the rate of benefit, but some of that might be taken up by transitional costs.

MAIN ISSUES

5. The main issues are:-

- (a) Whether the Group agrees that those with incomes at or below the SB level should receive assistance with rent and rates at 100% (as Mr Fowler proposes) or at a lower percentage (as Mr Jenkin proposes in MISC 111 (85)3).
- (b) Whether the Group is content in principle with the remainder of Mr Fowler's proposals.
- (c) What level of savings should be secured from reform of HB.

100% Assistance

6. Mr Jenkin argues against 100% assistance on the grounds that one of the conclusions of the review of local government finance is certain to be the need for full local accountability. This cannot exist when so many local authority electors are

completely insulated from the level of rent and rates and from any increases. As against this Mr Fowler argues that, with less than 100% assistance, recipients of SB will be substantially worse off than they are at present. How will they fund the balance? It may be possible to take a decision in principle now that the maximum rate of HB assistance should be less than 100%, leaving details to be worked out between DoE and DHSS. It would be unwise to take a decision to retain 100% assistance until Ministers have considered the initial report of the local government finance studies.

The remainder of the proposals

7. The proposals to align the SB and HB income tests, to have a single rate of taper, and to align assistance with rate and rents are likely to prove generally acceptable. Mr Fowler also proposes to limit Exchequer funding of HB to only 80% of what local authorities disburse. This would be an alternative but less direct way of discouraging local authorities from increasing rents and rates excessively, and it would not achieve Mr Jenkin's objective of making the rent and rate-payer personally concerned about local authority decisions in this area. It would also presumably have implications for rates (to raise income to finance the local authority 20%) which might sit oddly with other Government policies on rates.

Savings and overall judgment

8. Mr Fowler will table at the meeting illustrative costings. These will show potential savings of £90 -£260 million per annum from the new arrangements, depending on whether or not the taper is assessed separately for rent and rates, or at a combined rate. These savings assume 100% assistance up to SB level. With assistance limited to 90% additional savings of £150 million arise, and at 80% £300 million. The Group will wish to make a judgment about the level of savings needed, and whether this justifies the controversy that the changes will arouse.

HANDLING

9. The Secretary of State for Social Services will wish to



open the discussion, and the Secretary of State for the Environment to enlarge on his memorandum about the local government implications. The Chancellor of the Exchequer and Chief Secretary, Treasury will wish to comment on the financial implications. The Paymaster-General may be able to comment on public and parliamentary reactions.

CONCLUSIONS

10. You will wish to reach conclusions on -

- (i) the alignment of HB and SB income tests, with a single taper and of assistance with rent and rates
- (ii) whether 100% assistance should be provided
- (iii) whether local authorities only should be reimbursed for a proportion of their costs
- (iv) the level of savings to be sought provided

P L GREGSON

12 February 1985