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PRIME MINISTER

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SUPPLEMENTARY BENEFIT AND HOUSING BENEFIT

Norman Fowler's illustrative costings at last provide useful expenditure savings. They show how we could cut £0.5 billion from Housing Benefit and £0.25 billion from Supplementary Benefit.

Housing Benefit

A 70% combined rent and rate taper would save £260 million. 70% sounds steep, but it is calculated on income after deducting tax and national insurance: it is therefore closer to a 50% taper on gross income. It takes 1.6 million people completely out of housing benefit. They are losers but as they come out of the benefit system their effective marginal tax rate falls.

We could then save a further £300 million by limiting rate rebates to 80%. The average rate is £5 per week so this will mean that families at the supplementary benefit level pay on average £1 per week. This is a very useful first step towards phasing out rate rebates. But if we are too greedy and cut them more now there is a risk that pressure from losers will lead to offsetting increases on Supplementary Benefit and we must resist that.

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To get housing benefit savings above the £1 billion mark we would need to make everyone pay some rent as well. You could press Norman Fowler here. The problem is that some families living in high rent areas will lose significant amounts of money which might not be politically sustainable as the housing market is so gummed up that it's difficult to move to cheaper accomodation. The prize is greater political accountability in LAs.

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revised
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of 85(3)

Incidentally, Patrick Jenkin's ~~claim~~ that the existing DHSS proposals will extend 100% Housing Benefit to another million people is odd. The number is closer to zero and may even be negative!

Supplementary Benefit

Norman Fowler illustrates the set of rates which would save us £0.25 billion with no transitional protection.

You will want to focus on losers and gainers. Pensioners lose out because the evidence is that they do best from benefits at the moment. A recent survey of Supplementary Benefit claimants showed:

	<u>Pensioners</u>	<u>Unemployed couples</u>
Put money away most weeks	36%	6%
Get into financial difficulties most weeks	5%	44%

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But by focussing solely on need, Norman Fowler has not attached sufficient weight to effects on the labour market. The £22.45 rate for under-25s is probably as mean as one could get away with at the moment. But unemployed couples with and without children do too well out of his proposals at the moment and there should be more savings here.

The loss of heating additions, crucial to the simplification and administrative saving, will be at the centre of the political opposition.

David Willetts

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