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18 B.

P.01501

PRIME MINISTER

Housing Benefit

(MISC 111(85)1, Appendix 3; MISC 111(85)4; MISC 111(85)3 Revise)

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 (one in three 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;



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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 per cent 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 per cent 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 £100-250 million per annum might be saved by, for example, adjustments to the rate of taper, 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 per cent (as Mr Fowler proposes) or at a lower percentage (as Mr Jenkin proposes in MISC 111(85)3 Revise).

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 per cent assistance

6. Mr Jenkin argues against 100 per cent assistance on the grounds that one of the conclusions of the review of local government finance



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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. Furthermore Mr Fowler's proposals will give 100 per cent assistance for the first time to people not on SB but with incomes at that level and 100 per cent assistance with increases in rent or rates will extend above that level because of the way the taper works. As against this Mr Fowler argues there is no logic in treating SB recipients differently from non-SB recipients at the same income level and that, with less than 100 per cent 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 per cent, leaving details to be worked out between DoE and DHSS. It would be unwise to take a decision to retain 100 per cent assistance until Ministers have considered the initial report of the local government finance studies. (On the face of it, an alternative approach is to provide support related to need rather than to rents or rates actually paid. A major difficulty with this approach is the variation in rent levels around the country which it would require complex arrangements to allow for.)

The remainder of the proposals

7. The proposals to align the SB and HB income tests to have a simplified rate of taper and to align assistance with rate and rents are likely to prove generally acceptable. There are two possibilities to choose between for the taper; separate assessment (taper of 50 per cent on rents, 21 per cent on rates) or combined assessment (at 70 per cent). The latter provides the greater savings.

8. Mr Fowler also proposes to limit Exchequer funding of HB to only 80 per cent 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



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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 per cent) which might sit oddly with other Government policies on rates.

Savings and overall judgement

9. 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 from rent and rates, or at a combined rate. These savings assume 100 per cent assistance up to SB Level. With assistance limited to 90 per cent additional savings of £150 million arise, and at 80 per cent £300 million. The Group will wish to make a judgement about the level of savings needed, and whether this justifies the controversy that the changes will arouse.

HANDLING

10. 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

11. You will wish to reach conclusions on:

- i. whether 100 per cent assistance should be provided;
- ii. the alignment of HB and SB income tests and of assistance with rent and rates; — — —
- iii. the proposal for a single taper and whether there should be separate percentages for rent and rates;



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- iv. whether local authorities should be reimbursed for only a proportion of their costs;
- v. the level of savings to be sought.

PLG

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