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P.01515

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PRIME MINISTER

HOUSING BENEFIT AND SUPPLEMENTARY BENEFIT
(MISC 111(85)7, 8 and 9; and MISC 111(85)1
Appendices 2 and 3) SEE YELLOW FLAGS

BACKGROUND

FLAG A

1. At its last meeting on 25 February (MISC 111(85) 3rd Meeting) the Group asked the Secretary of State for Social Services to consider his proposals further in the light of the Group's wish (i) to obtain greater savings from change than were then proposed and (ii) that housing benefit should no longer be based on the principle of 100% reimbursement for rent and rates. The Secretary of State subsequently had a discussion with you about how best to carry matters forward. You asked him to offer the greatest savings he could and to develop further proposals on child support. On the latter, I understand the Secretary of State for Social Services intends to write to you in the next day or so as a basis for discussion at the MISC 111 meeting on 25 March. He has, however, circulated modified proposals on housing benefit and supplementary benefit in MISC 111(85)7 and the Chief Secretary and the Secretary of State for the Environment have commented in MISC 111(85)8 and 9 respectively. _____

FLAG B

FLAG C

FLAG D

Housing Benefit

2. The essentials of the housing benefit (HB) system now proposed are -

- the same income and capital tests as for the reformed supplementary benefit (SB) scheme;
- equal assistance to those on SB levels of income whether in or out of work (at present those in work receive only 60% assistance, those out of work 100%);

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- for those above the SB income level, benefit will be withdrawn on a combined (rent and rates) taper of 70%.

Mr Fowler illustrates (in MISC 111(85)7, Annex A) the effect on expenditure, caseload, gainers and losers, of various combinations of percentage support for rent and rates. Thus, compared with expenditure under the present scheme -

	Maximum support (%)		
	rent	rates	
(a)	100	90	will save £410m and produce 7 million losers
(b)	100	80	will save £560m and produce 7.2 million losers
(c)	90	90	will save £780m and produce 7.5 million losers

The Chief Secretary (MISC 111(85)8) points out that:

(d) 95 75 also produces savings of the order of £780 million.

The Secretary of State for the Environment argues for retaining 100% assistance with rents at the SB level (with the Exchequer bearing 80% of the cost, and local authorities the other 20%), but favours a maximum 80% support with rates. This is (b) and would save £560 million. If rent support is held at 100%, rate support needs to be reduced to 65% to make the same savings as in (c) or (d). Throughout the savings assume that there is no reimbursement to households on SB of their contributions to housing costs, ie they have to find the money themselves.

Supplementary Benefit

3. Mr Fowler argues that the likely changes in HB will have a significant effect on SB recipients. Furthermore there will in any case be about 2 million losers from his proposals for simplifying SB without seeking any savings over and above those he already foresees (something over £150 million per annum from 1988/89). In effect he is proposing that any further savings required in the HB/SB area should be found from HB (where the better case for them can be made) leaving the

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SB simplification, a prize he is very keen to achieve, relatively untainted by any controversy over cuts.

4. There was very little discussion of the substance of the SB proposals at the last meeting. The main elements are -

i. Replacing supplementary benefit by an 'income support scheme' on a simpler basis without entitlement to any extra payments related to detailed assessment of individual circumstances.

ii. Mortgage interest to be payable for those on supplementary benefit - but only after the first 6 months on benefit.

iii. Better income and capital disregard rules to increase incentives to save and, for long-term unemployed couples, to help resume contact with the labour market.

iv. A discretionary fall-back ('social aid') scheme for real emergencies and special needs. Operated by DHSS local offices against cash limits, with no legal entitlements or detailed rules.

MAIN ISSUES

5. The main issues are:

a. the quantum of savings to be secured from housing benefit and supplementary benefit;

b. what level of assistance should be given with (i) rates and (ii) rent;

c. whether the structural proposals for housing benefit and supplementary benefit are acceptable.

The quantum of savings

6. Leaving aside retirement pensions, expenditure on social security



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in 1984/85 was about £22 billion. Supplementary benefit (£6.3 billion) and housing benefit (£4.2 billion) accounted for nearly half of this. If substantial savings are to be secured from the social security reviews, a major contribution - say about £1 billion - must come from this area. If the savings from supplementary benefit are to be no greater than those proposed by Mr Fowler (£160-170 million after 1987-88), then savings of around £800 million must come from housing benefit. This appears to be the Chief Secretary's objective.

Rent and rates percentage support

7. If a target saving of around £800 million is accepted it is then a question of settling the appropriate percentages for rent and rates which would deliver that saving. Three options would each deliver around £780 million:

rent	rates
100	65
95	75
90	90
80	20

8. In choosing among the options the considerations are:

- i. the need for a rates percentage no greater than 80 per cent to foster local authority accountability;
- ii. the high level of rents in some areas (particularly London) leading to hardship if re-imburement is less than 100 per cent;
- iii. the administrative problem for local authorities in collecting small percentages of rent, aggravating the existing problem of rent arrears;
- iv. the argument of principle that tenants should not be totally insulated from rent levels, and the danger of abuse by landlords if they are.



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9. When these percentages have been settled, the Group will need to address two consequential points:

i. whether there should be any offsetting compensation for SB recipients: (Mr Jenkin favours this but it would work against accountability and reduce the public expenditure savings;

ii. whether, as the Rowe Committee recommended, the Exchequer contribution to housing benefit should be limited to 80 per cent (Mr Jenkin and Mr Fowler both favour this; it ~~would not~~ reduce public expenditure and would mean that part of the cost of housing benefit would have to be met from the rates; it might however help to limit abuse).

Structural Proposals - Housing Benefit

10. 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. Earlier Mr Fowler suggested two possibilities for the taper; separate assessment (taper of 50 per cent on rents, 21 per cent on rates) or combined assessment (at 70 per cent). He now advocates combined assessment. This provides the greater savings and should be acceptable.

Structural Proposals - Supplementary Benefit

11. The new Income Support scheme will aim to give people a reasonable level of help for them to manage as they wish. It will not seek to provide in detail for every variation in individual circumstances. Help will be set by three elements:

- a personal allowance based on age and marital status.



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(There will be a lower rate for people under 25)

- Those with children will get extra help, through a flat-rate addition for all those with family responsibilities and, as now, amounts for each child depending on age. The new system
- there will be extra allowances for special groups (ie. pensioners, the long-term sick and disabled, and lone parents) to reflect their higher needs.

The supplementary system of Social Aid will provide for exceptional circumstances and emergencies. It will be operated on a discretionary basis rather than be set by complex regulations and instructions. It will be controlled by a cash limit.

12. On the face of it these proposals will effect a considerable simplification in the arrangements in this area. The danger must be that as consultation and further work goes forward, complexity will be reintroduced to deal with this or that special case. Furthermore, the approach to social aid will be affected by the level of income support. If the latter is set too low, the burden on social aid will be increased.

13. Mr Fowler also proposes to change the "capital rule" so that instead of a cut-off at £3,000 there will be a taper between £3,000 and £6,000. The intention is to reduce the incentive for claimants to spend their capital. Because the new rule would apply to HB as well as SB it would produce savings as compared with present arrangements (but there would be greater savings if the existing rule were extended to HB recipients).

HANDLING

14. You will wish to invite the Secretary of State for Social Services to introduce his memorandum. I suggest that the discussion might then fall into two parts: the quantum of savings and percentage of assistance with rates and rent; and the other



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proposed structural changes in the two schemes. On the quantum and levels of assistance the Chief Secretary, Treasury and the Secretary of State for the Environment will wish to introduce their memoranda. The Chancellor of the Exchequer may also wish to comment.

CONCLUSIONS

15. You will wish to reach conclusions on:

- i. the quantum of savings to be secured from housing benefit and supplementary benefit;
- ii. the percentage of assistance to be provided with rates and with rent through housing benefit;
- iii. whether reduction in housing benefit should be compensated by any increase in supplementary benefit;
- iv. whether local authorities should be reimbursed for only a proportion (80 per cent) of their costs of housing benefit;
- v. whether the Group endorse Mr Fowler's structural proposals in the HB and SB area, and in particular:
 - a. for housing benefit an income taper of 70 per cent for rates and rents combined;
 - b. for supplementary benefit a general income support scheme with benefit related to age, marital status, family size, disablement etc plus a discretionary cash limited Social Aid Scheme;
 - c. an easing of the earnings rule for the long-term unemployed;
 - d. new capital disregard rules involving extra cost in supplementary benefit but more than offsetting savings in housing benefit.

PLG
P L GREGSON

19 March 1985

File

The OECD report reinforces the need for Governments to examine closely the scale and effectiveness of social welfare spending.

As the report says:

"To endow the system with the necessary efficiency and flexibility, while maintaining effectiveness, requires a careful estimate of needs and costs which has so far been lacking, and some consideration of alternative forms of welfare delivery."

That is exactly what my RHF's review of social security is intended to do.

Other Useful Quotations

- i) "Reform of existing programmes and their better management can provide room for financing new developments..... There may be scope for major social programmes [eg health, pensions] to offer considerably better value for money and to be more responsive to the needs of recipients. If reforms, however difficult politically, are not put in place during the 1990s, governments and their electorates risk finding that they do not have the capacity or the willingness to provide social programmes adequate to longer term demands."

- ii) The OECD Press Release says that:

"The principal conclusion of the report is that through the end of the 1980s there will be little or no room for increasing the scope and coverage of the Welfare State. It says, though some improvements in benefits may be possible

in some countries, an increase in the share of social spending in gross national product could conflict with the aim of sustained economic growth."

6 March 1985