

PRIME MINISTER

19 March 1985

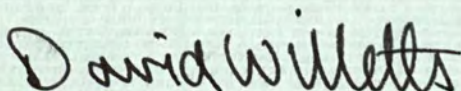
- MISC 111

Norman Fowler's Benefit Review is limping behind the rest of this spring's policy announcements. To avoid further delay, tomorrow's meeting of MISC 111 must reach decisions on Housing Benefit and Supplementary Benefit.

Both the Policy Unit and the Treasury want to save about £800 million on HB. If we cannot cut this unpopular, unpledged benefit, what scope is there for significant reductions in the booming DHSS budget? The best tactic is to start by getting the big savings here, which will fall on people getting SB.

We can then decide on SB reforms that will save a further £200 million by sealing up specific leaks in the system.

Reductions of this order cannot be achieved by tinkering. If you merely refuse to uprate HB and SB, you will save only £350 million. Moreover, this sort of policy leads to continuous political rows and smaller and smaller expenditure savings. To achieve your spending targets, and to make headway against the disastrous social effects of the present system, you will have to adopt fundamental reforms.

DAVID WILLETTS

HOUSING BENEFIT

19 March 1985

Norman Fowler's original proposals for using the SB means test with a simple 70% taper should be warmly endorsed: they save £260 million from HB. But they do not go far enough.

To achieve the target of £800 million savings and to increase accountability in local government, you need to eliminate the 100% subsidy of housing costs given through HB to SB claimants. There are different ways of achieving this:

		<u>Savings</u>	<u>Numbers</u>
		<u>£m</u>	<u>£2+</u>
-	<u>Peter Rees</u> → 75% rates & 95% rents	810	3.0m
-	90% rates & 90% rents	780	2.9m
-	Policy Unit 65% rates & 100% rents	780	3.3m

And for the more cautious:

Patrick Jenkin & Norman Fowler	80% rates & 100% rents	560	1.5m
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The balance between rates and rents

The arguments for cutting rate rebates in particular are:

- we need to get to the heart of the local authority problem: those who pay don't vote and those who vote don't pay. Since the average rate is just £6 per week, people have to make a contribution of at least 25% to notice the difference between extravagant and prudent councils.

- Reductions in rate rebates have more effect than reductions in rent rebates because it is easier to change one's voting behaviour than to move house.
- We have never wanted rates to rise. But we have over the past few years tried to push up rents to 'economic' levels. So it is better to encourage resistance to high rates than to encourage resistance to high rents.

The arguments for a more balanced (rates and rents) approach are:

- Acting just on rates hits owner-occupiers particularly hard. Tenants must bear a higher proportion of the savings.
- We do not want extravagant Labour Councillors pushing up rents to compensate for the loss of income from rates.
- Deregulating the private rented sector costs more if there are 100% rent rebates.

I recommend going for rates much more heavily than for rents. My preferred option would be 65% relief for rates and 100% for rents. Paying one third of their rate bill should concentrate voters' minds. But if you want to move some way on rents we would back the Treasury's 75/95 formula.

Losers: the Politics

The politics of all this will not be easy. As soon as you abandon 100% support, every one of the 7 million households getting HB loses. And over one and a half million people - the little old ladies getting small rate rebates - will be taken out of housing benefit altogether. That, of course, is evidence of how malign HB has become.

Average losses to SB claimants under the various options would be as follows:

100% rents	80% rates	85p
90% rents	90% rates	£1.50
100% rents	65% rates	£1.56

But weaning people off a rich diet of public subsidies is never an easy process. And we will have two great advantages compared with past rows on HB cuts:

- there will be a good, clear argument about local authority accountability which our supporters will be able to understand and use;
- the new structure of HB will be a clear improvement on the old nightmarish arrangements.

Supplementary Benefit

There may be pressure to increase the basic rate of SB to compensate for the HB losers. But that would be mad. We don't want to bring more people into SB. And it would increase the benefit for being out of work. The important thing is not to be so greedy that such pressures become irresistible. That is why total savings from HB of around £800 million seem to us to be the most we can achieve. But once we have achieved this we can take further bites of the cherry in future.

SUPPLEMENTARY BENEFIT

19 March 1985

The £6 billion of Supplementary Benefit is about one sixth of the total benefit budget of £37 billion. But it represents almost one half of the administrative costs of the system, and employs 39,000 staff out of a total of around 80,000. So if we want to cut manpower and administrative costs, we need to simplify Supplementary Benefit.

Simplification will also bring savings in the budget and get people back to work.

Savings

The HB changes get big savings out of SB claimants. The SB restructuring needs to plug the specific leaks which have appeared in the past few years, and save about £150 million.

There are three areas for savings:

- i. Replace one-off special payments by discretionary cash-limited budget of £100 million, largely using loans instead of grants. This would save £100 million from a budget that has risen from £50 million in 1980 to £200 million now. It would also cut away most of the 3,000 staff who now

administer the complicated rules. There is a risk that this scheme will slowly expand until it reaches the sorry state we are in at the moment. But pruning back now is better than doing nothing.

ii. Refuse to meet the first 6 months of mortgage payments. They totalled £70 million in 1980, and had risen to £175 million in 1984, despite a fall in interest rates over the same period. The miners' strike showed that building societies will defer payments - so there is no need for the state to step in at once. The change will save about £60 million.

iii. Stop foreigners claiming benefits in the UK. This is not costing us much at the moment, but it is a blatant abuse and is increasing rapidly. The DHSS and the Home Office have failed to come up with an effective way of dealing with the problem within the current SB scheme. But we could now set a residence test for eligibility to the new SB scheme, restrict foreigners to the discretionary Social Aid Scheme, and run it very tightly. This is close to the local discretionary schemes on the continent, and should keep the EEC happy.

Getting people back to work

There are two ways of changing SB to get people out of the unemployment trap:

- i. Bring all benefit rates for the under 25s to £22 per week. This is the harsh side of the policy: a 25 year old householder will lose £6 per week. But the change will save money and push large numbers of able-bodied young people into work.

- ii. Increase the "earnings disregard" from £4 per week to £15 per week for people who are unemployed for over a year. This is the soft side of the policy: it costs £20 million, but it helps the long-term unemployed to stay in contact with the labour market.

	<u>£ million</u>				
	1979/80	1980/81	1981/82	1982/83	1983/84
Assistance to supplementary benefit recipients: (1)					
Rents	500	700	1,000	1,100	1,700
Rates	250	300	400	500	700
Mortgage interest	50	50	100	150	150
Rent rebates and allowances (2)	300	350	550	700	900
Rate rebates (2)	200	300	400	500	550
Mortgage interest relief (3)	1,640	2,190	2,310	2,460	2,830
Improvement & thermal insulation grants (4)	189	208	298	592	1,266
Central government subsidies to LA & new town housing (5)	1,828	2,029	1,437	940	656
Rate fund contributions to LA housing	404	523	539	569	636

NOTES:

- (1) Before introduction of the Housing Benefit Scheme, based on amount of rents, rates and interest taken into account in assessing supplementary benefit entitlement. Subsequently, certificated rent rebates and allowances, rate rebates and mortgage interest; including housing benefit supplements.
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