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PRIME MINISTER   5 December 1985

HOUSING BENEFIT AND RATES REFORM

Norman Fowler is likely to argue that we can dispense with the 20% contribution to the rates, and instead require everybody to pay all their poll tax. This avoids the one million extra Housing Benefit claimants arising from the current E(LF) proposals. As rates are cut further and poll tax increases, the nationwide income support rates would need to be increased.

This idea has its attractions, but also three big drawbacks:

i. Timetable. Norman Fowler is supposed to be implementing his Housing Benefit reforms in April 1988. It is very unlikely that Kenneth Baker's will start before 1990. So how can we achieve the promised savings for 1988?

ii. The politics. Norman Fowler wants the bad news of Housing Benefit cuts to be submerged in the local authority reforms. Kenneth Baker wants the bad news out of the way so that his reforms look more attractive. The benefit reforms are going to cause a row anyway: why spoil the rates reform as well?

iii. Poll tax rates will vary a lot as rates and safety net grants wither away - maybe from £60 in Gillingham to £600 in Camden. I doubt if this discrepancy can be accommodated within fixed Supplementary Benefit rates. Moreover, higher basic SB rates bring more people into benefit. So we might end up reinventing Housing Benefit anyway.

Recommendations

Your main objective should be to nail down the £0.5 billion saving on HB in 1988-89 and beyond. We can only achieve that by implementing the 20% cut in 1988. It has to be set out in Norman Fowler's White Paper. But he can by all means go on to say that the local authority finance reforms may raise new options, which should be explored.

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