

Prime Minister

This includes a new proposal in
the concluding paragraph. *DFW*
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PRIME MINISTER

30 September 1986

SOCIAL SECURITY AND THE COMMUNITY CHARGE

You are taking a meeting on Thursday 2 October to discuss the form of social security payments to help people on low incomes pay the new community charge, on the basis of Mr Ridley's paper E(LF)(86) 9. This is an important issue because of its effect on:

- a. public acceptance of the community charge, which will play an important role in securing passage of the necessary legislation;
- b. the success of the community charge, once implemented, of achieving the aim, through greater accountability, of more responsible spending decisions by local authorities;
- c. the social security system and incentives to work.

The meeting will be considering two possible ways of giving help with the community charge:

- a. Mr Ridley, Mr Rifkind and Mr Edwards favour a rebate system. This would pay housing benefit towards the community charge. Those with incomes at or below income support benefit levels would have 80% of their community charge paid for them but would have to meet the other 20% from their own resources. This is the basis on which help towards rates will be paid from 1 April 1988 under the social security reforms and which will continue to apply to rates during the transitional period, whatever method of help is decided for the community charge. Those with incomes above supplementary benefit level will have to contribute

(in addition to 20% of the charge) 20% of the difference between their income and the income support benefit level towards their community charge.

- b. Mr Fowler favours a flat rate addition to income support benefit rates equal to 80% of the average community charge. This would be about £2.70 a week.

As with rates at present any community charge payer with a low income would be entitled to help under the first option, whether or not in receipt of other social security benefits; help under the second option will be confined to social security claimants. The main category to receive help under the first option but not the second is occupational pensioners. Help will be given to working families on low incomes under both options (through family credit in the case of the second) but will be withdrawn at a much faster rate as income rises under the second option (at 70%) than the first (at 20%).

Mr Ridley's paper contains detailed estimates of the number of people who will gain and lose with the introduction of the community charge compared to rates under each of the social security alternatives. This shows more gainers under the flat rate than the rebate option but a larger number of people who will lose a large amount of money relative to their income. These estimates compare the position once the community charge is introduced in full (at the end of the transitional) with that of rates. Thus the 'gains' and 'losses' will not be experienced on this scale in practice but will gradually arise over the transitional period. The estimates also assume existing patterns of expenditure. If the community charge is successful in reducing high levels of expenditure, there will be fewer losers and more gainers.

Public Acceptability

We consider that the rebate option is more likely to secure public acceptance of the community charge because it will most effectively counter the charge that the community charge is 'unfair' in the sense that it is not related to ability to pay. Rebates would tailor help both to the size of the community charge and to peoples' ability to pay. The flat rate option would be much more difficult to present because:

- a. those on low incomes but not on social security (particularly occupational pensioners) would receive no help;
- b. those in areas where the charge is high would receive less help than they need. There would be a problem in London, particularly in boroughs where the charge is likely to be very high. In the extreme case of Hackney a pensioner couple could lose over 9% (£5.75 a week) of their net income compared to the rebate option. This could mean the difference between adequate and inadequate food and heating.

Effectiveness of Community Charge

On the other hand, the flat rate system fits more closely with the philosophy of the community charge. One element of this is the principle that marginal increases in local authority expenditure should be met entirely from the community charge. This principle is maintained under the flat rate option but under the rebate option it will be diluted as 80% of any marginal increase in the community charge payable by those in receipt of a rebate (on average 1 in 4 of all charge payers) will be met by housing benefit. The effect will be more marked in areas with a high

proportion of benefit recipients (eg Hackney with nearly 1 in 2). Moreover the rebate scheme will operate as a reduction in what is paid whereas the flat rate option will require everyone to pay their charge in full. This should be a better way of bringing home the impact of spending decisions, though it depends on proper enforcement. The flat rate option is therefore most likely to be successful in securing lower spending and, to the extent that it is, the burden of high community charges will not in practice arise. However the Government cannot demonstrate this in advance.

Effect on Social Security System and Unemployment Trap

The flat rate option is at first sight administratively the most convenient for the social security system since it simply involves an addition to existing benefit rates. It is marginally more expensive (£30m) than the rebate scheme but the caseload would be substantially reduced (by over 1 million claimants) once housing benefit was eliminated. On the other hand during the transitional period - which could be as long as ten years - Housing Benefit will continue. There is a further complication since the community charge will be introduced first in Scotland, and it will therefore be necessary to have separate benefit rates for Scotland for some time under the flat rate option. Moreover, the flat rate option will involve higher benefit rates and will therefore reduce incentives to work, particularly for the young single.

Conclusion

We are attracted in principle to the flat rate option but consider that it could damage the priority aim of successfully implementating of the community charge because it would be perceived as being 'unfair' and because it would have a severe impact on some individuals in areas with high

community charges. [These are not all high spending areas. Some, such as Kensington and Chelsea, will have high charges because their high rateable values will be locked into the new system by the proposed 'safety net']. We therefore favour the rebate option but believe that there should be a cap for each authority on the level of community charge eligible for benefit. This might, on the same basis as the safety net for the charge itself, be based initially on the community charge implied by existing levels of expenditure but uprated each year only to the extent of acceptable increases in spending. This would ensure that spending that implied a community charge higher than the cap was not eligible for benefit and so would feed through in full into a higher charge.

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