

CCB/imp.

PRIME MINISTER

12 May 1987

MINIMUM CONTRIBUTION TO DOMESTIC RATES

You are meeting to discuss Norman Fowler's proposal that social security rates should be increased by £1.30 a week in April 1988 to enable benefit claimants to meet their 20% contribution to Rates under the new housing benefit system to be introduced then.

Effect on Accountability

£1.30 is 20% of the average Rates bill faced by supplementary benefit claimants. The effect of this proposal would be to ensure that on average claimants were no worse off but those in areas where Rates were high would face increased costs whilst others would receive a windfall gain. Because claimants will still benefit from lower rates, this proposal will not damage the increased accountability that arises from the new housing benefit system.

Effect on Incentives to Work

Under the new social security system the 'needs allowance' for housing benefit will be equal to income support rates. An increase in income support rates will therefore increase the housing benefit entitlement of people in work. Typically, housing benefit claimants will receive additional housing benefit equal to 80% of the addition to income support benefit. So these proposals will reduce the gap between income from working and income from not working for housing benefit claimants by 20% of the increase ie 26p per week. This is insignificant and will have little effect on incentives to work.

Public Expenditure

The main issue is therefore the public expenditure cost of the proposal. The Chief Secretary suggests two ways of reducing the cost:

- a. confining the increase to pensioners and the sick and disabled;
- b. reducing the compensation to £1 per head, the amount needed to fully compensate those in authorities that spend and rate in line with Government plans.

Given that the effect on incentives to work is so small, we think it will be difficult to defend limiting compensation to pensioners and the sick and disabled. Families with children also command public sympathy. The single unemployed command less public sympathy but have already lost out in the social security reviews. It would be easiest to defend not increasing benefit rates for the under 25s since more than half of them are non-householders and therefore do not pay rates. But the remainder do pay rates.

There is something to be said for limiting the compensation to £1 a week. Part of the reason why expenditure is so high in some local authorities is the high proportion of voters who have been protected from the effects of rate increases. But the £1.30 is an average - in the high spending areas this will be far from adequate compensation (the extra costs in Camden will be around £3 a week). So even at £1.30 a week there is an incentive to vote for lower expenditure.

Conclusion

Unless Mr Fowler's proposal is agreed the Government will have to defend reducing the living standards of some, or all, benefit recipients. There is no argument for doing so in order to improve the accountability of local authorities and very little to improve incentives to work. The main argument against Mr Fowler's proposal is the public expenditure cost and we see little prospect of convincingly using this in public to defend a decision not to give full protection. Although this proposal is not a high priority in public expenditure terms we nevertheless reluctantly support it.

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