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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

SOCIAL SECURITY AND THE COMMUNITY CHARGE

Memorandum from the Secretary of State for Social Services

Introduction

1. At the meeting on Thursday 19th June (E(LF)86 1st Meeting), the Committee invited me to circulate a further paper, in conjunction with colleagues, summarising the issues and making recommendations on the way forward. I think it is helpful to deal with these under three broad headings: the main options available for assisting low income families with a community charge; the administrative consequences of the timetable for change; and how my recommendations can assist us with a positive public presentation of the Government's policies.

The Main Options

2. Our starting position is the current structure of help with domestic rates under the housing benefit scheme. The details are set out in paragraphs 11 and 12 of the report from officials (circulated as an attachment to E(LF)(86)2 for the last meeting). About 6 $\frac{3}{4}$ million households in Great Britain benefited from a rate rebate in 1985/86 at a cost of almost £1 $\frac{1}{2}$ billion. About 3 million of these households paid no domestic rates because they were receiving supplementary benefit. The rest received some rebate, the proportion depending on the amount of their domestic rates bill and their income.

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3. The reforms set out in the White Paper on Social Security (and 9691) seek to rationalise and simplify the housing benefit scheme. The aim is to reduce overall expenditure and caseload whilst providing more equal treatment to those in work compared to those not in work. In addition it was decided, in advance of wider proposals to reform local government, to require all householders to pay at least 20% of their domestic rates bill. The cumulative effect of these changes, taking account of the other reforms to the social security system, is expected to reduce the number of households in Great Britain receiving assistance with rates through housing benefit to about 5½ million. The annual cost of help with rates is expected to fall by £350 million.

4. The Green Paper on Paying for Local Government assumed that help with housing benefit, as modified by the reforms, would be available to assist low-income householders with the community charge as it is now available to help with domestic rates. This approach is illustrated as Option 1 in the report from officials.

5. Basically this means that:

5.1 When the community charge has replaced domestic rates anyone liable to the charge, non-householders as well as householders, may be eligible for assistance if their income is low. But all will be expected to pay at least 20% of the charge.

5.2 In the transitional period help is available through housing benefit to low income households with both domestic rates and the community charge. But again this is subject to 20 per cent domestic rates as well as the community charge being met by the households.

6. Assuming that the Community charge has fully replaced domestic rates, officials estimate that the effect would be to make another 1½ million people eligible for housing benefit at a cost of about £140 million. Table 1 in the official's paper - reproduced here for ease of reference - summarises for Great Britain current expenditure and caseload, and estimated expenditure and caseload following reform of social security and then local government finance.

	(A) 1985-86	(B) with social security reforms	(C) with full community charge
Caseload	6.8m	5.6m	7.1m
Expenditure	£1.45b	£1.1b	£1.24b
Proportion of all income from domestic rates met by rebates	22%	16%	19%*

Note: *assumes total income remains constant

7. The main alternative option is shown as Option 3 in the report from officials. The principle of this approach is to move away from an automatic, universal rebating system extending up the income scale to a system which protects those on the lowest incomes. This would increase the pressure on local authorities to moderate the levels of the local community charge. Basically this means that:

7.1 Help for those on income support, and related benefits such as rent rebates and family credit, would be provided through a flat-rate addition to the main benefit rates (illustrated as 80% of the national average community charge).

7.2 Those whose incomes do not entitle them to means tested benefits would receive no assistance from social security with the charge.

The Timetable for Change and the Administrative Consequences

Before judging the relative merit of these options it is important to recognise the complications inherent in the timetable of administrative and political action if we introduce a new rebating system for the community charge.

8.1 In 1988 all rating authorities in the United Kingdom will have to collect at least 20% of domestic rates from every householder. That will mean local authorities collecting rates from over 3 million more households than at present.

8.2 Also in 1988 local authorities in Scotland will have to set up a register of those liable to the community charge and plan the new arrangements for collecting and rebating the charge.

8.3 For the following three years in Scotland starting in 1989 there would be a domestic rate collection system, a community charge collection system and rebate arrangements for both.

8.4 In 1989 local authorities in the rest of the United Kingdom would set up a register of those liable to the community charge and plan the new arrangements for collecting and rebating the charge.

8.5 From 1990, and in some authorities for the following 10 years, there would be a domestic rate collection system, a community charge collection system and rebate arrangements for both.

This build-up in activity is illustrated in Table 2.

9. I understand the reasons why local government colleagues have favoured **Option 1**: a full rebate system, by giving help with the community charge to all those on low incomes, would reduce the regressive impact of flat-rate charges. But it has the effect of increasing rebate expenditure by £140 million and the caseload by 1½ million mainly by bringing in new claimants, particularly young single people. This in itself increases the administrative task for local authorities and the timetable for administrative change shown above looks beyond the reach of even the most efficient authorities. Moreover, in setting levels of community charge local authorities would be influenced by the provision of rebates to all those with low incomes.

10. In contrast, **Option 3** would be administratively much simpler by giving help with the community charge only to those low income families already receiving income support and other income-related benefits. It would sharpen local accountability and increase the pressure on local authorities in setting levels of the charge to have greater regard to ability to pay. The caseload on housing benefit would be further reduced by about 1½ million offset, at the most, by an increase of an extra ¼ million on income support. Expenditure would be increased less than under **Option 1** - by about £60 million - although there would be a switch from non-public expenditure to public expenditure.

11. The report by officials draws attention also to the greater losses implied by **Option 3**. These are of a substantially lesser order than those shown in the technical annex to the White Paper on Social Security, mainly as a result of requiring everyone to pay 20 per cent towards their rates. That aspect of our proposals is given a particular focus by the House of Lords' amendment last week which would continue to give those on the lowest incomes 100% reimbursement of their rates. Clearly we cannot live with the Lords' amendment which ties our hands and removes a major plank of the Government's platform - the urgent need to increase local accountability. We will restore the position which will allow a 20% contribution towards domestic rates pending the introduction of a community charge.

12. It is difficult to see how we could then withdraw from the requirement to pay at least 20% of domestic rates in Scotland when the community charge is introduced in 1989. On the other hand, the requirement to pay 20% of domestic rates and, under my proposals, an unrebated charge would result no doubt in unacceptably high bills to some low income households. There should be scope, however, to use the additional revenue thus created to ease the transition to the community charge, particularly in Scotland, by putting some additional compensation into income support rates and reducing the rates taper - the percentage by which help with rates is withdrawn as income rises. I would like further work by officials to explore these options.

Summary and Recommendations

13. I am in no doubt that in principle we should not be proposing a further increase in means-tested benefits. It is against our whole philosophy and the direction of our social security reforms. Recent history demonstrates the difficulties we can face when the demand-led expenditure on social security benefits is driven by housing costs, in particular, local authority charges. The last few weeks have highlighted the political problems of then seeking to reduce commitments which have raised expectations such as social security assistance to students and helping the unemployed with mortgage interest payments.

14. The growth in rate rebates is a warning of the experience that may lie ahead from a full-blown community charge rebate system. The position now is that some 3 million ratepayers are wholly insulated from their local authority's spending decisions and some 3 million are partly protected. About one-third in total, therefore, do not carry the full rate cost for themselves; hence, the accountability problem. A similar situation could quickly develop again with the community charge. Some 1 million would be protected to some degree - over ¼ of the tax units exemplified. A general rebate system will offer local authorities a cushion to raise charges and will put us back on an

escalator of rising costs and caseload as experienced with rates and rate rebates. Under either **Option 1** or **Option 3** in E(LF)(86)2, very large numbers will lose overall anyway. The changeover presents a unique opportunity to target help with the community charge on low-income families who qualify for the new income-related benefits - income support, housing benefit (rent rebates/rent allowances) or family credit.

15. My recommendations are:

15.1 In moving the Lords' amendment to the current Social Security Bill we should keep to the general argument that we need to improve local accountability, we cannot have our hands tied in this way, and our plans will be developed further when considering the response to the proposals for local government finance reform and the introduction of a community charge.

15.2 There should be no amendment to Social Security legislation in the proposed local government finance Bills to extend housing benefit to cover the community charge.

15.3 Officials should examine the costs and other implications of maintaining the requirement to pay 20% of rates alongside the introduction of the community charge, and easing the transition, particularly in Scotland, through putting additional support in income support rates or reducing the rates taper in housing benefit.

15.4 This work should be completed in good time for Ministers to consider the presentation of this policy next Session on introduction of the Bill to reform local government finance in Scotland.

N F

Department of Health and Social Security
1 July 1986

Table 2

Timetable of administrative changes

1987	1988	1989
All LAs <u>plan</u> for housing benefit reforms to be introduced in April 1988	All LAs <u>implement</u> housing benefit changes from April	LAs in Scotland <u>begin phasing-out</u> rates and <u>phasing-in</u> community charge (over 3 years)
LAs also <u>plan</u> for collection of 20% contribution to rates from extra 3 million ratepayers	All LAs begin collection of 20% of rates from 3 million income support cases	LAs in Scotland <u>begin</u> collection of 20% minimum contribution to both rates and community charge
	LAs in Scotland <u>plan</u> phased introduction of community charge affecting 2 million households	LAs in Scotland <u>implement</u> new community charge rebate system alongside continuing rate rebate system
	LAs in Scotland <u>plan</u> new community charge rebate system	LAs in England and Wales <u>continue</u> rate rebate system with collection of 20% minimum contribution to rates, and <u>plan</u> phased introduction of community charge affecting 35 million households alongside phasing-out of rates
		LAs in England and Wales <u>plan</u> for new community charge rebate system from April 1990 alongside <u>continue</u> rate rebate system