F CCB/UP.

Prime Minister

COMMUNITY CARE

Ken Clarke's paper of 17 April takes us a good way forward, particularly in recognising that it will not be enough simply to limit access to social security and that a care test must be balanced with better help for those able to stay at home.

There is, however, one important respect in which his proposals do not go far enough. A care test cannot achieve the desired objectives if those administering it have a financial stake in one particular outcome. The intrinsic imbalance between demand led expenditure on social security and cash limited budgets for domiciliary care will always skew the balance toward the former. As the official paper recognises DHAs would have incentives to maximise the numbers of people who pass the test for residential care: this would be easiest to arrange in practice and would ensure that costs did not fall on their budgets (domiciliary or hospital). We do not want to replace a perverse incentive for the individual by a perverse incentive for the DHA.

The only effective way to avoid this problem is for the assessing authority to hold a single budget for both types of care, with income support meeting only the "normal" cost of living and accommodation. Ken envisages this as happening only in the longer term, if at all. But the present bias towards residential care will remain unless this is a feature of our new arrangements from the beginning: by the time the longer term arrived the system would be even more skewed than at present. I am sure the transfer of the care element of income support to a joint budget is the right way forward.

Copies to Ken Clarke, John Major, Nicholas Ridley, Malcolm Rifkind, Peter Walker, David Mellor, Sir Robin Butler, Sir Brian Griffiths and Richard Wilson.

JM.

17 April 1989 JM