

FROM: J P MCINTYRE
 DATE: 9 AUGUST 1989
 EXT : 4799

CHIEF SECRETARY

cc Chancellor
 Mr Anson
 Mr Phillips
 Mr Scholar
 Mr Edwards
 Mrs Lomax
 Miss Peirson
 Mr Potter
 Mr Francis
 Mr Hamshare
 Mrs Chaplin

COMMUNITY CHARGE BENEFIT

X Paul Gray's letter of 24 July conveyed the PM's request that DSS assess "the possibility of setting the capital limit on eligibility for community charge rebates at £16,000 i.e double the normal £8,000 limit, just for pensioner couples". The PM also wanted to know the costs and implications of this "including the impact of the introduction of independent taxation for husband and wife in April 1990". Mr Newton's minute of yesterday said the proposal had "clear attractions" and would cost £15 million a year; further work was in hand.

X 2. Predictably, Mr Newton's minute does not set out the arguments against this proposal. He only points out that, as a practical matter for Local Authorities who administer the scheme, the change could not be made in time for introduction of the community charge in England and Wales next April. He says the choice is between waiting till October 1990 and raising the capital limit for everybody in April and for housing benefit as well (a general increase to £10,000 would cost £30 million).

3. In this Survey, a concession of even £15-30 million is unwelcome, especially before negotiations have begun. Moreover:-

(i) Over 11 million (1 in 4) chargepayers are already due to get rebates, according to DSS estimates. So even as it

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stands, the scheme covers a large minority of the population, including 4½ million pensioners. This proposal would add another 90,000 or so (45,000 couples). If adopted, allowing people with up to £16,000 in the bank to get benefits, it would be pretty difficult to go on saying that help was being targeted on the poorest and that the government was concerned to limit dependence on benefits.

(ii) The rebate scheme for community charge is already more generous than for rates - the income taper is 15 per cent instead of 20 per cent (costing over £100 million). And the capital limit for housing benefit and rates/community charge rebates has already been raised from £6,000 to £8,000 in response to the outcry which greeted last April's reforms (cost £35 million).

(iii) Independent taxation will be of particular help to pensioner couples. 1.2 million taxpayers over 65 are expected to gain an average of £320 a year. This average gain is nearly 70 per cent higher than for taxpayers under 65.

(iv) Abolition of the pensioners' earnings rule and the poorer pensioners package (extra income support etc for pensioners over 75 or disabled) will have a combined cost of about £575 million in 1990-91; these measures will take effect in October this year. This will be additional money for pensioners in the social security programme, which will have to be accommodated in the Survey.

4. Nonetheless, there is a case in principle for a higher capital limit for couples than for single people. This is simply that they have to pay two community charges instead of one. And whereas the income level for entitlement to rebates is higher for couples than singles, the capital limit is the same, £8,000. The answer to this is that the capital limit for both couples and singles is already reasonably high, given that means tested benefits are intended to be targeted on those with few resources. Should either a couple or a single person with more than £8,000

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free capital, in bank deposits, unit trusts or whatever, be entitled to assistance with community charge payments?

5. The relationship with independent taxation, which the DSS work is meant to take in, is also more complicated. It is true that many pensioners will gain. But the point the PM may have in mind is that couples, including pensioner couples, will in future be taxed as individuals and also have an individual community charge liability. However, their entitlement to rebates (as for means tested benefits generally) will continue to depend on an assessment of joint incomes and capital. Thus, perhaps, the proposal for doubling the capital limit.

LG View

6. LG believe there are other considerations which you will wish to take into account. First the Prime Minister is clearly anxious about community charge benefit arrangements: she is aware of continuing backbench concern about pensioners liability for the community charge (eg Mrs Peacock MP spoke on this following the RSG announcement on 19 July). A concession now might be better than a wider easing of the community charge benefit rules later designed to facilitate the introduction of the community charge. Secondly, the new Environment Secretary will seek to reopen the LA current settlement for 1990-91 if he can: at the very least he will be seeking Exchequer support for the safety net, so that taxpayers rather than the gaining authorities pay for protecting losing authorities. Any concessions on the safety net would cost hundreds of millions. It is worth pausing to consider whether a relatively low cost concession on community charge benefits now might be better tactically for the Treasury: the Prime Minister's support for sticking close to the original AEF settlement will be absolutely vital.

Conclusions

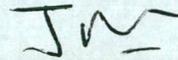
7. We are already committed to a generous community charge rebate scheme, to other measures designed specifically to help pensioners, and to independent taxation which will be of

particular help to pensioners. Against this background and the general policy of targeting help on those with few resources of their own, we can mount a strong case against raising the capital limit.

8. Tactically, head-on opposition may be unwise. There are also the safety-net considerations about which LG are concerned. But a reminder of the good news for pensioners already in the pipeline (and its heavy cost) and of the scale of the rebate scheme as already planned may help to ensure that any concession we might be forced to make is small and accurately targeted. Your intervention would also help to ensure that we are brought in on DSS' further work, including on the relationship with independent taxation.

9. We understand from No 10 that the PM has already seen Mr Newton's minute and has not reacted favourably. She is apparently aware that it does not bring out the wider issues and problems.

10. I attach a draft minute agreed with LG.



J P MCINTYRE

DRAFT

PRIME MINISTER

COMMUNITY CHARGE BENEFIT

Tony Newton me sent a copy of his minute dated 8 August. I look forward to seeing the further work he has commissioned on the possibility of raising the capital limit for pensioner couples to £16,000. I would like my officials to be involved. But I would like to mention now a number of points which argue for caution in considering this.

2. Naturally, I am concerned about the potential cost, especially in the difficult circumstances of this Survey. Even additional amounts of £15-30 million, to which Tony refers, would be unwelcome from this point of view. No doubt he will want to review his Department's bids. But they currently stand at over £1 billion in Years 1 and 2 of the Survey and at nearly £3½ billion in Year 3.

3. However, I believe we should also consider this in the context of the rebate scheme as it stands and of other measures in the pipeline which will be of particular help to pensioners.

4. The rebate scheme is already generous. DSS estimate that over 11 million chargepayers (1 in 4) will be helped including 4½ million pensioners, not far short of half the pensioner population. This compares with 7 million people getting help with

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rates, including 3½ million pensioners. The cost next year is estimated at nearly £2 billion, compared with less than £1½ billion if rates had continued. One of the reasons for this is that we have cut the income taper for community charge rebates from 20 per cent (which has applied for rate rebates) to 15 per cent, at a cost of £100 million. This will help an extra 1 million people next year, including pensioners, and I am sure we can take further credit for this measure when it is implemented in England and Wales, alongside the community charge, next April.

5. You will also recall that we have already raised the capital limit, for housing benefit as well as rates/community charge rebates, from £6,000 to £8,000, as part of the concessions made in the early weeks of the reforms last year. This was principally of help to pensioners.

6. Pensioners are also due to gain from other measures announced but not yet implemented. In October, the pensioners' earnings rule will be abolished. In the same month, the extra money for some 2½ million poorer pensioners (over 75 or disabled) will begin to be paid. This will be not only through income support and housing benefit but also in higher rebates of rates and community charge. These are major changes in expenditure terms. Together, they will add some £575 million a year to the Social Security programme in this year's Survey.

7. From April, independent taxation will be especially helpful for many pensioner couples. Inland Revenue estimates are that 1.2 million taxpayers over 65 will gain an average of £320 a year.

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This average gain is nearly 70 per cent higher than for taxpayers under 65.

8. In all these ways, we are already committed to do more for pensioners, at some considerable Exchequer cost. And I am sure we can take further credit for these changes as they are implemented. Against this background and the general Survey position, we need to think very hard before we decide to provide still more help through the benefit system, which would be directed to those with over £8,000 of free capital.

9. I am copying this minute to Tony Newton, Chris Patten and to Sir Robin Butler.

NORMAN LAMONT

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10 DOWNING STREET

LONDON SW1A 2AA

CHIEF SECRETARY

9 August 1989

From the Private Secretary

REC.	10 AUG 1989
ACTION	Mr Mc Intyre
COPIES TO	Mr Mc Anson
	Mr Phillips, Mr Schwarz,
	Mr Edwards, Mrs Lewis, Miss Peters
	Mr Potter, Mrs Chan

Dear Helen,

CAPITAL LIMIT FOR COMMUNITY CHARGE BENEFIT

The Prime Minister has seen your Secretary of State's note of 8 August.

I would be grateful if you and copy recipients would ensure that this letter is seen only by those on a strict need to know basis.

The Prime Minister considers that this cannot be taken in isolation from DoE's consideration of the safety net and any other community charge proposals. She has said that any proposal of the kind set out by Mr. Newton should be considered in the Economic Committee. She has also commented that these proposals would substantially increase the numbers of people dependent on benefit.

I am copying this letter to Carys Evans (Chief Secretary's Office), Roger Bright (Department of the Environment) and Trevor Woolley (Cabinet Office).

*Yours sincerely,
Caroline Slocock*

CAROLINE SLOCOCK

Ms. Helen Dudley,
Department of Social Security