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From the Secretary of State for Social Security

BUDGET CONFIDENTIAL

The Rt Hon John Major MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
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14 March 1990

Dear John,

INCOME-RELATED BENEFITS: CAPITAL LIMITS

We have discussed further the proposal to raise the capital limits to £12,000 for Community Charge Benefit and Housing Benefit and £9,000 for Income Support and Family Credit, and I have been considering how the change might be backdated to April, at least for Community Charge Benefit. You share my concern about the anomalies backdating will create and, following repeated representations about the Community Charge Benefit limit in the House, we discussed both the level of the limits and how the changes might all be implemented from April.

Turning to implementation first, I am satisfied that we can put in place regulations which would increase the limits from 1 April, without significant risk of legal challenge.

As you know, such changes are normally subject to consultation, which can be avoided only by the use of the urgency procedures and to invoke urgency carries a risk of challenge. In this instance, we shall need regulations both to raise the limits and to extend to these cases in the other benefits the provision which already exists in Community Charge Benefit to allow backdating of claims for 56 days. This will be essential since otherwise people would not be entitled until they claimed, which - given the lateness of the change - could be well into April or May. My lawyers have found a way in which we could regulate to raise the Community Charge Benefit and Housing Benefit limits without having to consult the Local Authority Associations, thus avoiding the risk of challenge. We would have to invoke urgency to avoid consulting them on the 56 days' backdating for Housing Benefit, and to avoid consulting the Social Security Advisory Committee on both the rise in the limits and the 56 day rule. I would not anticipate challenge from the Social Security Advisory Committee: nor the Local Authority Associations, since the 56 days' backdating will be helpful to them. Eventual criticism from the Public Accounts Committee for such a last-minute change will of course be inevitable.

E.R.

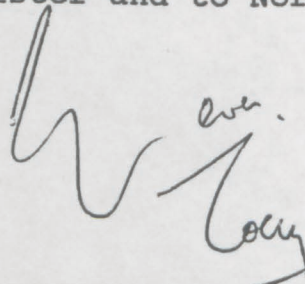
You are well aware of the severe difficulties local authorities are labouring under in implementing the Community Charge Benefit scheme, particularly since the Transitional Relief arrangements have greatly complicated the situation. It will be difficult for them to implement anything new in April, so it is vital that we keep the change as simple as possible. The programming difficulties associated with different capital rules for Community Charge Benefit and Housing Benefit make it likely that such a change could not be made before October, so an early change in one necessarily entails a change in the other.

We agreed today that our backbenchers' concern that the capital limit for couples in Community Charge Benefit should be double that for singles is now such that we do not believe we can satisfy demand for a change with less than an increase to £16,000 (across the board, since separating couples and singles would be operationally extremely difficult for Local Authorities and probably not achievable until next year). This increases the cost by £30 million on top of the £95 million full year cost of £12,000 for HB/CCB and £9,000 for IS/FC.

It seems to me that there are two ways of dealing with this. Either we simply meet the cost - and I can offer to contribute the £40 million a year saving which will be realised as a result of my proposals to improve the recovery of maintenance from liable relatives - or we leave the capital limit for Income Support and Family Credit at £6,000 instead of raising it as planned to £9,000.

I have to say I am most reluctant to make no change for IS and FC. The undesirable disalignment between the income-related benefits would be exacerbated and if we make no move now on IS/FC there would certainly be pressure for a substantial increase, if not to £16,000 then perhaps to £12,000 to match the doubling of the HB/CCB limit. It has never been easy to find a justification for different capital limits, especially as between Income Support and Housing Benefit; and the more they differ, the harder it will be to explain why people should not be expected to use their savings to pay rent, but should be expected to use them to pay other basic living costs. And you yourself may feel that the presentational advantages of the change will be considerably less if we announce an increase for Community Charge Benefit and Housing Benefit but not for Income Support and Family Credit.

I am copying this letter to the Prime Minister and to Norman Lamont.


TONY NEWTON