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22 March 1990

Martin Stanley Esq
 PS/Secretary of State for
 Trade and Industry
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
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Dear Martin,

INCREASED CAPITAL LIMITS FOR MEANS-TESTED BENEFITS

Your Secretary of State, who is opening the Budget Debate this afternoon, may find it helpful to have the attached copy of the Treasury's general briefing on the increases in the capital limits for means-tested benefits announced by the Chancellor in his Budget Statement on Tuesday.

There appears to particular confusion about the number of people who will gain from this measure. This arises from the distinction between the DSS figures, which refer to benefit units (ie treat couples as single units), and those quoted by the Chancellor in his Budget Statement for individuals. The respective figures are as follows:

	Gainers (Benefit Units)	Gainers (Individuals)
CCB	130,000	195,000
HB	50,000	75,000
IS	27,000	33,000
FC	negligible	negligible
TOTAL*	185,000	260,000

* Totals are less than sum of components due to overlap of benefit entitlement



On a separate matter, David Blunkett MP claimed yesterday that community charge payers with savings of £10,000 or more will not gain from the new £16,000 limit for community charge benefit due to the operation of the tariff income rule. I attach a lobby note prepared by DSS in response to this point.

As for the Scottish angle, I hope to be in touch later in the day about this.

I am copying this letter to Clive Norris, Department of Employment, whose Secretary of State is opening Monday's debate, and also to Paul Gray (No.10), Stuart Lord (DSS), Roger Bright (DOE), Stephen Leach (Northern Ireland Office), Jim Gallagher (Scottish Office) and Stephen Williams (Welsh Office).

Yours sincerely.

Duncan Sparkes

DUNCAN SPARKES
Assistant Private Secretary

TREASURY
BRIEFING

7 CAPITAL LIMITS FOR INCOME-RELATED BENEFITS

Other relevant briefs: B7 Local Authority Issues
D1 Effects of Budget on Savings
CC4 Effects on Incentives and Traps

Factual

(i) Until 1988 social security reforms, people were not eligible for Supplementary Benefit (SuppB) or Family Income Supplement (FIS) when their capital (savings and investments) exceeded £3,000. There was no capital limit on Housing Benefit (HB) (which provided help with both rent and rates), but actual income from capital was taken into account.

(ii) In the April 1988 reforms, the rules on resources for each of the three main income related benefits (Income Support (IS) replacing SuppB; Family Credit (FC) replacing FIS; and HB), were aligned as part of the simplification of the benefit system. A new upper capital limit of £6,000 was introduced for all three benefits. Capital of £3,000 or below is disregarded in assessing benefit. Between £3,000 and upper limit benefit is reduced to reflect assumed income from savings and investment. Following public concern about losers amongst HB claimants, the upper limit for this benefit was increased to £8,000 w.e.f. 30 May 1988. From April 1990, Community Charge Benefit (CCB) will be a separate benefit, replacing rate rebates in HB, and will share the HB capital limit.

(iii) Capital rules are:

- the first £3,000 of capital is disregarded;
- Actual income from capital is ignored. For every £250 (or part thereof) of capital above £3,000, an income of £1 a week is assumed and taken into account in calculating benefit entitlement. This is called the tariff income;
- claimants with capital above relevant upper limit are not entitled to IS, FC, HB or CCB;
- capital of a married or co-habiting couple counted as being held in common. Capital held by a child is subject to a separate child's limit of £3,000, and no personal allowances or premiums are payable for a child with capital over £3,000.

(iv) Budget changes (from 1 April 1990) Increase in upper capital limits as follows:

	Now	From 1.4.90*
Income Support	£6,000	£8,000
Family Credit	£6,000	£8,000
Housing Benefit	£8,000	£16,000
Community Charge Benefit	£8,000	£16,000

* From 9 April for income support and family credit

Thus, depending on their income (including tariff income), people with savings between £6,000 and £8,000 may become eligible for income support or family credit; and people with savings between £8,000 and £16,000 may become eligible for housing benefit or community charge benefit. Those with savings below the current limits will be unaffected.

(v) Implementation By DSS regulations, enabling limits to be raised from 1 April for CCB and HB, 9 April for IS and FC. DSS and local authorities (LAs) will need time to put changes into effect but arrangements already exist to backdate benefit where there is any delay in dealing with a claim. DSS are laying regulations to ensure that these new claims can be backdated in HB, CCB and IS, to the uprating date (or to the earliest date when the claimant met all the conditions of entitlement, if later) provided a claim is made by 27 May. The backdating regulations do not apply to Family Credit because, unlike other income-related benefits, Family Credit is awarded for a fixed amount for a period of six months. Backdating would lead to some claimants receiving less benefit than they would otherwise have been entitled to or indeed not being entitled to any benefit at all.

(vi) NHS charges: People on low incomes can get help with NHS prescriptions; dental treatment; glasses and sight tests; wigs and fabric supports; and travel to hospital for NHS treatment. Women over 60 and men over 65 automatically get free prescriptions, but not other help. Capital limits for help with NHS charges are carried through from income support and will thus be increased automatically to £8,000.

(vii) Cost: Around £120 million a year from 1990-91. Will be met from the Reserve, and not add to total planned public expenditure.

Positive

(i) Fairer to savers on low incomes. Strikes better balance between objective of targeting limited resources on those in most need and recognising efforts of those with low incomes who have built up savings.

(ii) 185,000 gainers (singles and couples) including 75,000 couples, making ~~260,000~~ individual gainers (over 60 per cent will be pensioners). 190,000 individuals will come into CCB, gaining an average of £3.50. In benefit units (ie singles and couples), 25,000 will come onto IS, 50,000 onto HB, 130,000 onto CCB. (There will be a much smaller number of gainers on FC.) Numbers add to over 185,000 as some will get more than one benefit.

(iii) Gainers (in benefit units, ie singles and couples)

	Gainers	Cost	Average Gain
CCB	130,000	£35m	£5 pw
HB	50,000	£55m	£20 pw
IS	25,000	£30m	£21 pw

(iv) Examples of gainers (ineligible for benefit before changes)

(a) Pensioner couple, aged 60-74, with £10,000 free capital. Community Charge (CC) £355. Rent £23 pw. Basic state pension and small occupational pension = total income of £75.55.

HB entitlement £4.80, CCB entitlement £6.72.

(b) Single pensioner, aged over 80 or disabled, with £9,000 free capital. CC of £355 and below average rent of £20 pw. Has basic state pension and occupational pension of £10 pw - total income of £57.15.

HB entitlement £2.19, CCB entitlement £1.35.

(c) Married couple, aged 52/50. Husband is disabled and receives ~~£110.70~~ ^{£138.70} pw in disability benefit. £10,000 free capital. Rent of £23 pw. CC of £355.

HB entitlement ~~£21.77~~ ^{£17.79}, CCB entitlement ~~£5.10~~ ^{£17.41}.

(v) Higher capital limits will particularly help pensioners, disabled people, and families, with low incomes, because they are allowed a higher level of income than others (including assumed income from capital) before benefit is affected.

Defensive

(i) DSS and local authorities unable to make changes in time for 1/9 April? Regulations are being made immediately, so that limits are raised from 1/9 April. DSS and LAs will automatically backdate payments where there is any delay in processing. Also, regulations will make special provision for backdating where a claim is made before 27 May.

(ii) Why not abolish limits entirely? Income-related benefits designed to help those in greatest need. It is therefore reasonable that, above a certain level of savings, these benefits should not be available. New limits make benefits available at significantly higher levels of savings.

(iii) Cost of abolition Up to an extra £100 million a year, on top of the £120 million of the announced increase. The Government believes it is right to have some limit on the savings people can have and still get income-related benefits.

(iv) Why bigger capital limit in HB/CCB? Within the resources available priority has been given to helping with community charge costs, recognising that a £16,000 limit will particularly benefit couples - two-thirds of the individuals who gain will be members of a couple. (The higher limit for HB extends help with rent to the same groups and ensures administrative simplicity for LAs.) Those on low incomes with savings between £8,000 and £16,000 will not be eligible for IS or FC to help with their general living costs. But they may be eligible for help with their rents and community charges.

(v) Why not raise lower limit from £3,000 or ease tariff income rate? Most concern has been with upper limits. Reasonable that those with savings of £3,000 or more should begin to see some offset against their benefit entitlement. Tariff income rule bears least on those with savings just over £3,000 - because first £3,000 is ignored.

(vi) Tariff income implies a very high interest rate (the highest is 16.9 per cent, where savings are £16,000)/Wrong that reduction in benefit for those near the upper limit in HB/CCB should exceed actual income through interest. Tariff income rule does not imply any particular return on savings. There to ensure that, within the capital limits, help is targeted on those who need it most, ie those with low incomes.

(viii) Limit for couple should be twice that of a single person/Joint assessment of capital inconsistent with independent taxation? Basic principle of benefit scheme that couples share both their resources and their expenses.

(ix) Will not help poorest? Poorest will be helped by the benefits uprating in April. This measure ensures that those with low incomes but moderate savings will also be able to get some help.

(x) Income support should be increased to help claimants pay minimum 20 per cent community charge. Those on income support get 80 per cent of actual charges, however high, paid through community charge benefit. Government made once and for all change to income support rates in 1989, to help with the remaining 20 per cent.

(xi) Change will be expensive to implement? No. Will be small in relation to annual cost of administering these benefits.

Contact point: R J Wills (ST1) 270 5052

DSS LOBBY NOTELOBBY NOTEUNATTRIBUTABLE BACKGROUND NOTECommunity Charge Benefit - Capital Limits

Following the Budget announcement yesterday changing the capital rules for Community Charge Benefit, there will be an estimated 130,000 gainers. 70,000 of these will have capital over £10,000. This will include 50,000 pensioners and 40,000 couples - there is of course an overlap. The 70,000 new gainers represents 110,000 individuals.

The average Community Charge Benefit entitlement for these gainers will be over £5 a week.

Of the 50,000 Housing Benefit gainers, 25,000 will have capital over £10,000.

When calculating benefit entitlement, £1 per week in income is assumed for each £250 of capital over £3,000 (known as tariff income). Some claimants will therefore be taken out of entitlement to benefit because their total income, including tariff income, is sufficiently high to disqualify them. In general, the higher a person's rent, or the higher his Community Charge, the more likely he is to be entitled to benefit despite the assumed income from capital. Couples who have two Community Charges are obviously more likely to qualify for benefit than single people with the same income.

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for domestic rates would have been in individual authorities given some of the spending levels that have been set. The community charge—or domestic rates if we still had them—will be higher in areas controlled by Labour councils. For example, the average charges in Labour-controlled London boroughs are £167 higher than in Conservative boroughs.

Mr. McKelvey: Will the Secretary of State compare the average charges in England with those of the Labour authorities which control most of Scotland? Will he give the amounts that might be reclaimed in rebates and state whether they take into consideration the changes made by the Chancellor of the Exchequer yesterday? Does the Secretary of State believe, as I and most other Scots do, that the changes should apply retrospectively to Scotland? Does he further understand—

Mr. Speaker: Order. One question please.

Mr. McKelvey:—that despite the transitional payments, which are part of the poll tax and were announced by the Conservative party conference, not one person in Scotland has benefited from the supposed changes?

Mr. Patten: The responsibilities of my Department are extensive but do not go as far as the bounds of the hon. Gentleman's question. He will have noticed that the research on Scotland shows that people in low-income households pay a smaller proportion of their income on the community charge than they paid on domestic rates. I take it that part of the hon. Member's question was addressed to the generosity of the local authority grant settlement in Scotland.

Mr. Tracey: My right hon. Friend will join me in congratulating the Chancellor on his welcome announcement on community charge relief. Will he assure the House and our constituents that the new reliefs will be paid before the bills have to be met this year, following the changes made by the Chancellor?

Mr. Patten: All local authorities will want to do everything that they can to ensure that people get the relief they deserve as rapidly as possible.

The Department of Social Security will be talking to local authorities to ensure that relief is paid as expeditiously as possible. As my hon. Friend said, yesterday's statement by my right hon. Friend the Chancellor was widely welcomed and shows that we have listened to some of the constructive criticisms.

Mr. Pike: For once, will the Secretary of State stop knocking local authorities for overspending and recognise that local authorities such as Lancashire and many others are trying to meet the needs of the people who elected them? If poll tax capping is introduced, will he accept responsibility for the services that are cut and at some stage will he say what he will do to help people who cannot pay the poll tax?

Mr. Patten: What is of most concern is not whether I am knocking local authorities but whether local authorities are knocking community charge payers—and all too many of them are. I am extremely pleased that the community charge benefits are more generous than those available under domestic rates.

Mr. Mans: Does my right hon. Friend agree that the wide range of community charge levels reflects the wide range of council manning levels and shows that some at least are overmanned and inefficient—Lancashire, for one? Will he take an early opportunity to publish a list of manning levels of local authorities so that community charge payers can see whether they are getting value for money?

Mr. Patten: An inevitable and welcome consequence of the introduction of the community charge is that more local voters are becoming interested in value for money in local government. The sort of figures for which my hon. Friend has called will be of considerable interest to many local charge payers.

Mr. Blunkett: Does the Secretary of State accept that although Opposition Members warmly welcome the statement of the Chancellor yesterday, we are very concerned that the Treasury and the Department of the Environment seem not to understand that, while lifting the capital disregard for entitlement to rebate on poll tax and to housing benefit, they have failed to alter the taper? In consequence, people who have capital investments or savings of over £10,000 a year, despite the lifting of the ceiling to £16,000, will not be entitled under present rules to either housing benefit or poll tax rebate. Will he state this afternoon that the Government are prepared to change the rules, which involve £1 of income being counted for every £250 of capital savings held over £3,000, so that people are entitled to benefit? Does he accept that, in making a complete mess of this—as they have of everything else—the Government have misled people into believing themselves entitled to help that they will not get?

Mr. Patten: The hon. Gentleman is not well-informed on that question. I hope that he will recognise that the taper is already more generous than it was previously. That is why many more people will benefit under the new system than did under the previous system.

Architects

7. Mr. Summerson: To ask the Secretary of State for the Environment how many architects are employed by his Department; and at what cost.

The Parliamentary Under-Secretary of State for the Environment (Mr. Christopher Chope): Thirty-six architects are employed by my central Department and 375 in the Property Services Agency at salary costs of £1 million and £9.2 million respectively.

Mr. Summerson: Is my hon. Friend satisfied with the work of those architects in designing buildings to be erected on vacant and derelict publicly owned land? Would not it be better to dispose of the land and to let private sector architects get on with the job?

Mr. Chope: I agree with my hon. Friend that architects have an important role in bringing derelict land back into use and that it is desirable to have as many architects as possible in the private sector. That is why I am delighted that of the 375 employed in the PSA, 372 will go with PSA Services into the private sector in 1992.