Bo.

chex.jp/ds/75

Prime Minister
I understand from Mark L-B that you asked to see this letter, following the discussion after Cabinet this morning.
BHP 5/4

cjh

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

P.S. Also attached are the tables you asked for.

26 March 1990

Christopher Hawkins Esq MP
House of Commons
LONDON
SW1A 0AA

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir J Anson
Mr A J C Edwards
Miss Peirson
Mr McIntyre
Mr O'Donnell
Mr Gilhooly
Mr Francies
Miss S James
Mr Hamshare
Mrs Chaplin

Dear Chris,

CAPITAL LIMITS

I am most grateful to you for the welcome you gave on the Today programme this morning to the increase in capital limits announced in the Budget. However, you expressed some concern about the DSS rules which determine how far people may actually benefit from the increase, and I thought it might be helpful if I were to explain how the operation of these rules will not prevent a significant number of people gaining.

As you said in the interview, the first £3,000 of savings is entirely ignored in calculating entitlement to benefit. Then for each £250 of savings above £3,000, £1 a week of income is assumed. This is the so-called tariff income rule. I am sure you would agree it is right to assume some income from capital, and it must be fairer to have a standard rule. Actual income for capital is ignored. The tariff does not, as was assumed in your discussion on Today this morning, imply any particular rate of return on savings. It is there to make sure that, for any given level of savings, state benefits are made available to those with the lowest incomes and thus in greatest need.

In any event, the maximum tariff is nothing like as high as the 20 per cent you suggested in the interview. It is important to remember that in calculating entitlement to housing benefit and community charge benefit, the tariff income is not deducted pound for pound from benefit entitlement. In each case, there is an income taper: 65p in the pound for housing benefit and 15p in the pound for community charge benefit. Thus the deduction for someone with the new maximum of £16,000 of savings would be

£33.80 a week for housing benefit and £7.80 a week for community charge benefit. The actual maximum tariff rates are therefore 11 per cent for housing benefit and only 2½ per cent for community charge benefit. Those with savings less then £16,000 face lower tariff rates.

Let me give an example. Consider a pensioner couple each paying an above average community charge of £400. They have savings of £14,000 plus a basic state retirement pension and an occupational pension of £15 a week. They will be entitled to community charge benefit (between them) of £3.53 a week. That is a rebate of 23 per cent. Without an increase in the capital limit, they would have been entitled to no rebate at all.

If their community charge were higher than the £400 assumed in the example, their benefit would also be higher. Similarly, if one of the pensioners were aged 75 or over, this too would be reflected in a higher rebate, because older and disabled pensioners have higher entitlements.

In all, DSS estimate that 195,000 individuals are likely to be brought into entitlement for community charge benefit as a result of the increase in the upper capital limit. Of these, 75,000 should also become entitled to help with their rents through housing benefit (many of the others will, of course, be owner-occupiers). Something like 35,000 of the 195,000 will have savings between £12,000 and £14,000. And some 25,000 will have savings between £14,000 and £16,000.

I hope this is helpful in showing that the increase in the limits will be of real value to a significant number of people with low incomes and savings above £8,000, notwithstanding the tariff income rule.

I am copying this letter to Tony Newton, Chris Patten, Malcolm Rifkind, Peter Brooke, and Peter Walker.

Yours Ever,

John

JOHN MAJOR