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Dear John

Prime Minister 2

This came up in 30 July 1987  
Questions briefing a couple of  
weeks ago. JWS 31/7.

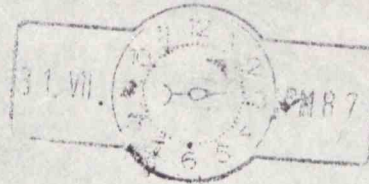
#### RATE AND COMMUNITY CHARGE REBATES: UPDATING OF INCOME SUPPORT

Before the Election Norman Fowler announced that, when the revised rebate scheme is introduced in April 1988, income support levels will be uprated by 20% of the average rate bill paid by people in receipt of income support. We now need to consider how to reflect that decision in relation to the community charge. I am being pressed on this in public debate and it has serious implications in terms of the 'gainers' and 'losers' from the introduction of the community charge.

E(LF) accepted the DHSS proposal that uprating in 1988 should apply to all groups on income support (rather than being targeted on, say, pensioners and lone parents) because this was the only way to ensure that help went to all the poorest people, and would avoid focusing debate entirely on those excluded. They recognised that the decision would create anomalies and would have consequences for the community charge.. Uprating income support levels, for householders and non-householders alike, by an amount equal to 20% of average rate bills (probably £1.30 a week), produces a windfall gain for those people with below average rate bills, and for all non-householders. Against this, the uprating will not fully compensate those with above average rate bills and the full gain to non-householders will last only until the community charge is introduced.

The question now is what we should do in 1990 and here we are faced with a presentational problem. We have been arguing that the introduction of the community charge will benefit many of those on low incomes, including the vast majority of single adults - 69% of single pensioners, 85% of single pensioner households and 83% of one-parent families. These figures contribute one of the strongest arguments we have at our disposal that the community charge will be fairer than rates. They were, however, calculated - before E(LF)'s decisions on uprating - on the assumption that the post-1988 rebate arrangements had been implemented in respect of both rates and the community charge (ie that everyone would have to contribute 20%) and that there would be no uprating of benefits.





If we had decided, in isolation, to uprate income support levels in 1990 (assuming the community charge were introduced in full) the amount needed to compensate community charge payers on income support for 20% of the average bill would be about 85p per week. This would have been a perfectly reasonable way to proceed. But we are faced with the fact that DHSS will already have uprated income support levels by £1.30 in 1988 for the contribution to rates.

One option would be to clawback in 1990, some of the uprating we provided in 1988 - the difference between the £1.30 and the 85p. Such a move would, however, have major presentational problems, given that the £1.30 will have been included in the income support threshold and its reduction will result in some people losing entitlement to basic income support. Moreover, it would have the unfortunate - indeed disastrous - side effect of reducing the number of gainers, and increasing the number of losers, from the introduction of the community charge. This is simply because the loss of income support would, in some cases, outweigh the saving that we are predicting from moving from rates to the community charge. However justified we were in making the reduction, it would be practically impossible to mount a convincing argument against accusations of making many of the poorest families worse off.

If, at the other extreme, we merely ensured that the uprating that DHSS will have carried out in 1988 were carried forward into 1990 (ie avoiding any clawback of the uprating given in 1988), we would both guarantee that the balance of gainers and losers - on which we rely so heavily - would remain undisturbed, and we would avoid the unacceptable step of reducing benefits in 1990, though I also see the difficulties and disadvantages of this course.

It is clear that we cannot, at this stage, say precisely on what basis income support will operate post-1990, particularly as there is to be a transitional period during which domestic rates and community charge co-exist. Indeed, during the early stages of transition, the proper degree of compensation might be very close to the pre-1990 position, since the average combined rates and community charge bill may not be significantly lower than the average rates bill. I see no reason why we should decide now, let alone announce, what assistance the income support system will give with the 20% contribution to the community charge. It is better to decide these matters nearer the time and I see no difficulty in saying so. Even so I see no need to stop quoting the figures I have mentioned for gainers under the new system provided we recognise that the decisions we make in due course will need to take account of this.

I am copying this letter to the Prime Minister, to other members of E(LF) and to Sir Robert Armstrong.

NICHOLAS RIDLEY