004/3298

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

14 August 1987

Dear Secretary of State,

RATES AND THE COMMUNITY CHARGE: INCOME SUPPORT

You sent me a copy of your letter of 30 July to John Moore, and I have since seen Nick Scott's reply dated 11 August and also Ian Lang's letter of 10 August.

I agree with Nick Scott that further work by officials is necessary before we can take decisions on the way in which Income Support should be adjusted to take account of the Community Charge. As Nick says, we need to see what the options are and the associated costs. As part of this exercise, I think it is important that officials examine ways of avoiding windfall gains to Income Support recipients, arising from the fact that the amount needed to compensate them for their 20 per cent payment of Community Charge will, on the basis of your estimates, be substantially less than for 20 per cent of rates. As you know, social security expenditure continues to burgeon and, against that background, we should resist solving presentational problems, however difficult, by allowing such windfalls.

As Nick says in his letter, our decisions on the Income Support arrangements in relation to Community Charge will affect the gainers and losers profile, and it would be prudent to acknowledge this. Indeed, it is important that while this work is going on, nothing is said which prejudices the outcome of our discussions in the Autumn. This means that the gainers and losers profile, on the outdated basis you refer to, should not be quoted without the qualification that they take no account of the precise way in which Income Support will be adjusted to compensate those on low incomes.

Finally, I ought to make one point in relation to rates. In the second paragraph of your letter, you say that uprating

Local Govt
Rates
PTV

CONFIDENTIAL

income support levels produces a windfall gain for all non-householders. In fact, John Moore's officials and mine are still in discussion about the best way of implementing the remit given to us by E(LF) that we should avoid such windfall gains to non-householders.

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

Yours sincerely
MA Fallon

pp JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence.)