

FROM: J P MCINTYRE (ST1)
DATE: 21 MARCH 1990
EXT: 4799

CHIEF SECRETARY

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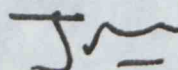
cc: ~~PS/Chancellor~~
PS/Financial Secretary
PS/Economic Secretary
PS/Paymaster General
Sir John Anson
Mr Edwards
Mrs Lomax
Miss Peirson
Mr Gilhooly
Mr O'Donnell
Mr A M White
Mr Francis
Mr Hudson
Miss James
Mr Hamshare
Mrs Chaplin
Mr Tyrie
Mr Lightfoot

BUDGET DEBATE: CAPITAL LIMITS

You asked for a speaking note on the Scottish dimension. This is attached. The note is probably longer than you would wish to use, but you can select the points which you think most effective. I hope it can also serve as a brief for any meeting on Mr Rifkind's minute of today, arguing for backdating.

2. LG advice is that there was nothing of particular advantage to the Scots in the 1989-90 or 1990-91 grant settlements which could be used as a bull point in the argument. It is true that the AEG settlement for 1989-90 gave the Scots a 5.5 per cent increase, higher than for England and Wales. But England and Wales have been given a larger percentage increase in grant for 1990-91.

3. I have sent the note to DSS officials and will let your office know if they have any comments.



J P MCINTYRE

CONFIDENTIAL

CAPITAL LIMITS AND SCOTLAND

1. It has been suggested by some Hon. Members that the higher capital limits for the income-related benefits should be made retrospective to April 1989 in Scotland. I cannot accept that this would be reasonable or fair.

2. Firstly, increases are being made in the upper capital limits for all of these benefits, not just community charge benefit. The limits for income support and family credit will go up from £6,000 to £8,000. And the limits for both housing benefit and community charge benefit will go up from £8,000 to £16,000. So these are changes affecting this entire area of the social security system. To put this another way, the increase in the upper limit for community charge benefit is projected to cost around £35 million, about 30 per cent of the total estimated cost of the changes. The changes affecting the other benefits account for 70 per cent of the cost.

3. Secondly, it is really not sensible to suppose that we could make a change of this kind retrospective for up to 12 month in Scotland without creating a great deal of anomalies and unfairness, both within Scotland and between Scotland and the rest of the United Kingdom. It would clearly not be feasible to make the change retrospective in any precise way, taking account of all the changes in people's circumstances over such a long period. In many cases, incomes will have changed and levels of savings will have changed; and some people will have moved from one local authority to another. All these factors affect the benefit to which people are entitled. It would therefore be necessary to

● apply a fairly rough and ready scheme of backdating which assumed that there had been no change in circumstances over the period. In practice, this would mean that people whose incomes and savings had increased over the past year would be under-compensated (and perhaps get no benefit at all from retrospection). Others whose incomes and savings had risen would be over-compensated.

4. Nor would retrospection in Scotland be fair to ratepayers in England, Wales and Northern Ireland. The present capital limits have of course applied to rate rebates in the rest of the United Kingdom during 1989-90. I think it would be very hard to justify making a retrospective change in Scotland to ratepayers in the rest of the United Kingdom with savings above the existing limits.

5. Finally, Hon. Members should recall that there was indeed a specific change in the benefit system last year to help with the introduction of the community charge in Scotland. The income taper was cut from 20p in the pound to 15p in the pound. (That is, for each extra £1 of income above the income support level, 15p of community charge rebate was withdrawn instead of 20p under the rate rebate scheme.) This more generous rebate scheme was introduced in Scotland only in April 1989 to coincide with the introduction of the community charge. It will not apply in the rest of the United Kingdom until next month.

6. Nearly 1 million community charge payers in Scotland have been helped by the rebate scheme this year, about 27 per cent of the total number of chargepayers. The estimated full year cost is £214 million.

Defensive

Transitional relief was made retrospective in Scotland. Why not the change in capital limits too?

Transitional relief was specifically related to introduction of the community charge. It will run for the first 3 years of the charge in Scotland and the first 3 years in England and Wales. The increase in capital limits is not a transitional measure and is not related to introduction of the community charge.