

SUBJECT CC MASTER

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File Kls
6cc R Ingham

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 March 1990

Dear Sir,

CAPITAL LIMIT FOR ENTITLEMENT TO COMMUNITY CHARGE BENEFIT

The Prime Minister held a meeting this morning to discuss your Secretary of State's minute of today's date. Those present were the Chancellor of the Exchequer, your Secretary of State, the Secretary of State for Social Services and the Chief Secretary.

Your Secretary of State said that the announcement in yesterday's Budget of an increase to £16,000 in the capital limit for entitlement to community charge benefit and housing benefit from April 1990 had given rise to enormous protest and bitterness in Scotland. This followed the lines of the interventions at the end of the Chancellor's Budget speech. It was seen in Scotland as a key point of political principle that, if the £16,000 limit was to apply from the start of the community charge regime in England, it should be back-dated to the start of the same regime in Scotland. Failure to do so would be a further example of the apparent willingness of the Government to take action to ease problems over the introduction of the community charge when this affected England even though similar problems had been ignored with the introduction of the regime in Scotland. He recognised that the changes in capital limits announced by the Chancellor had not been limited to community charge benefits but the motive for the latest package was clearly seen as being to ease the introduction of the community charge. The earlier concessions in relation to transitional relief and Treasury funding of the safety net had been made retrospective in Scotland and the same should be applied to the capital limit change. There had already been major protests, not just from the Opposition, but also from many Government supporters and if no action was taken to back-date in Scotland a very serious political position would be faced.

In discussion, the following points were made:

- it was unacceptable for Scotland to press for the same concessions as in England. The fact was that per capita public expenditure in Scotland was already way above that in England, and community charge payers in Scotland had to meet a far smaller proportion of total local authority expenditure;

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- it was not true to say that no account had been taken of the difficulties of introducing the community charge in Scotland: a specific concession had been made last year in relation to the benefit taper;
- the administration of housing benefit and community charge benefit was inextricably linked and there would be fundamental operational problems in seeking to back-date just for one and not the other. It was against that background that major efforts had been made in framing the Budget announcement to ensure that retrospection was avoided. Aside from the administrative complications such an approach would also have been likely to require primary legislation;
- the Budget announcement had not been specifically related to the community charge. It covered the range of social security benefits and was being introduced uniformly throughout Great Britain;
- if the change for community charge rebates was back-dated in Scotland there would be strong pressure retrospectively to increase the capital limit for the assessment of rate rebates in England and Wales for 1989/90; and there were many poor people in England who had been paying much more in rates in that year than Scots in similar circumstances paying the community charge;
- any change to the position now would have a seriously adverse impact on the reception which had been given to the Budget, the more so because since the Chancellor's statement Ministers had made clear, in response to questioning, that the change would not be made retrospective in Scotland.

In further discussion it was suggested that consideration might be given to a possible scheme for channelling an equivalent sum of assistance to Scottish local authorities/community charge payers as would have been payable had the £16,000 community charge capital limit applied in Scotland in 1989/90. This seemed to be of the order of £4-5 million. Such a sum might be made available from within existing Scottish Office resources and channelled either to the local authorities by way of general subsidy or made available for the individuals affected by the capital limit to apply to local authorities for additional grant equivalent to the higher level of benefit they would have received. Any such approach would have to avoid formal retrospection or back-dating, and payments to individuals would not be as of right but in the nature of ex-gratia payments.

Summing up this part of the discussion, the Prime Minister said there could be no question of retrospection or amendment of the Budget changes to social security capital limits. It was, however, for consideration whether the scheme along the lines just described could be devised within the existing legal framework, financed from within the existing Scottish Office budget. Your Secretary of State might wish to consider this

possibility further with colleagues. It would then be necessary to consider further whether or not the objections to any such scheme out-weighed the political difficulties faced in Scotland; and if not whether there was a case for adopting the particular scheme put forward. Meantime, there was no question of your Secretary of State giving a hint that assistance of this sort could be made available.

At this point the Prime Minister had to leave the meeting.

There was then further discussion of how the Chief Secretary should handle exchanges on this point which seemed certain to arise during the course of this afternoon's Budget debate. Your Secretary of State said that he thought it would be a mistake for the Chief Secretary to argue against extending help for Scotland for 1989/90 on grounds of principle; that was likely to play into the hands of those who were pressing for retrospection. The only chance of diffusing the issue would be for the Chief Secretary to argue against any move for 1989/90 on the grounds of operational and administrative difficulties. Following further discussion, it was agreed that the Chief Secretary's comments would focus on the operational difficulties of back-dating, both in relation to identification of individuals and problems of drawing a distinction between housing benefit and community charge benefit; and also point out that even if such a move had been operationally possible, the amounts involved of some £4-5 million were de minimis in relation to the overall benefit position and were out-weighed by the administrative costs and difficulties in any attempt to back-date.

I am copying this letter to the Private Secretaries to those present and to Roger Bright (Department of the Environment).

Yan.
Pc

PAUL GRAY

Jim Gallagher, Esq.,
Scottish Office.

Ry

— RT HON MALCOLM RIFKIND QC MP, SECRETARY OF STATE FOR SCOTLAND, TODAY SAID:

"The Chancellor's recent announcement of the increase in capital limits for community charge rebates and housing benefits to £16,000 has been widely welcomed as a measure which will help many people of modest means, particularly pensioners with relatively modest savings, to take advantage of these benefits. The change will be made at the same time throughout the country, but there has been concern that the increased capital limits are not being made retrospective in respect of community charge rebate for those who paid the community charge in Scotland last year. It is clear that a change of this kind cannot be made retrospective, for reasons both of principle and practicality. Assessing entitlement to rebate, which depends on income and capital limits, retrospectively for the whole period of the previous 12 months would be impossible in practice, as well as being undesirable in principle.

I am however very much aware of the very serious concerns which have been expressed in Scotland and the sense of injustice which, rightly or wrongly, has been felt by many people in Scotland. I have been discussing the matter with the Chancellor and other Ministerial colleagues, and I have found them sympathetic.

With their agreement I will therefore be considering further with colleagues and the Convention of Scottish Local Authorities how a simple and workable scheme of ex-gratia payments can be devised to address these concerns. It will be a scheme administered and funded by the Scottish Office from its existing budget. We estimate that up to 15,000-20,000 people might benefit, at a cost of up to £4m. Urgent consideration is now being given to the details of such a scheme.

It is of course my intention to report my proposals fully to Parliament at the earliest opportunity, and I will do that when the details of a scheme have been fully worked out."

RT HON MALCOLM RIEKIND GC MP. SECRETARY OF STATE FOR

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I will therefore be considering further with colleagues and the Convention of Scottish Local Authorities a simple and workable scheme of ex-gratia payments ~~which will~~ ^{can} be devised to meet the problem. We ~~envisage~~ ^{it will be} a scheme administered and funded by the Scottish Office from its existing budget. We estimate that up to 17,000 people might benefit, at a cost of up to £4m. Urgent consideration is now being given to the details of such a scheme.

It is of course my intention to report my proposals fully to Parliament at the earliest opportunity, and I will do that when the details of a scheme have been fully worked out."