MJ/2692p

cc ga 11

SECRET

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Prime Minister 2

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

Sept 28. '87

Dear John

1987 SURVEY: SOCIAL SECURITY - RATES OF INCOME RELATED BENEFITS

When we met, I promised to write about the legislative and operational constraints which impose a very tight timetable for determining the rates of the three new income related benefits - income support, housing benefit and family credit - to be introduced in April 1988. Under the 1986 Social Security Act, I am required to consult the local authority associations about the housing benefit rates before the necessary regulations can be laid. The regulations must then be cleared by the Joint Committee on Statutory Instruments, be debated in both Houses and come into force no later than 23 November if the conversion of existing cases to the new system is to be completed in time. I have gone through the timetable in detail, and I am convinced that the initial approach to the local authorities cannot be delayed beyond 12 October. It is helpful that we have been able to resolve the various issues on the new rates in time to meet this timetable; this letter sets out what we have agreed.

2. So far as the underlying benefit rates themselves are concerned, we have agreed that the personal allowances for single people and for couples should be introduced at 50p and £1 respectively below the illustrative figures given in the Technical Annex to the 1985 Reform White Paper uprated in line with price movements. We have further agreed that the housing benefit rent tapers (the rate at which people lose benefit as their net income rises) should be increased from the illustrative figure of 60% to 65% in April 1988 and to 70% from April 1989. Taken together, these measures will reduce the projected cost of the reformed schemes by £200m in 1988/89 and by £250m in 1989/90.

E.R.

3. To these adjusted underlying rates will be added the compensation for the liability to meet 20 per cent of domestic rates agreed by E(LF) before the Election. In 1988/89, this will amount to £1.30 for couples, lone parents and single people over 25, in line with our estimate of the average amount that householders who are income support claimants will have to meet as their minimum contribution to domestic rates. As was also agreed by E(LF), action has been taken to avoid as far as possible giving a windfall gain to non-householders. In particular, we will not include any element of compensation in the personal rate for 16-17 year olds, as nearly all of this group are non-householders, while compensation for single people aged 18-24 (other than lone parents) will be limited to £1, reflecting the lower average rates liability of this group. In addition, we have agreed to increase the deductions made from rate rebates for non-dependants.

4. We agreed that the inclusion of this latter element will put us in a position to say that we have honoured our undertakings to compensate the least well-off for the contribution that they will have to make to their domestic rates. The compensation that should apply when domestic rates are replaced by the community charge is being considered separately, and I hope to circulate proposals to colleagues in E(LF) shortly.

5. The overall effect of implementing the E(LF) decision in this way is now estimated to be a public expenditure cost of £369m in 1988/89.

6. Taking these changes together, the profile of gainers and losers from the reforms will be more favourable than the figures presented in the Technical Annex, with 3.6 million gainers and 4.6 million losers (and because of transitional protection, income support claimants will not experience any cash loss at the point of change).

7. Returning to the timetable, the process of consultation will be fairly low key, involving an official letter to the local authority associations. I would not propose to make any further announcement at that stage, though the rates would then be in the public domain. The full details of the new scheme would be given as part of my announcement of the annual uprating. There will be strong pressure for a statement, as soon as the relevant RPI is published on 9 October, and, subject to the views of the business managers, I would propose to make the announcement, one of several I have to make early in the session, as soon as possible after Parliament resumes. If this was before 2 November, the rates of the new benefits would have to be described as provisional pending the outcome of consultation. The regulations themselves would be laid in the week of 2 November, for debate in both Houses in the week of 16 November.

I am copying this to the Prime Minister, Willie Whitelaw, Tom King, Nicholas Ridley, Malcolm Rifkind, Peter Walker, Norman Fowler, John Wakeham, David Waddington and Sir Robert Armstrong.

JOHN MOORE