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THE PRIME MINISTER

19 December 2008

Dear Fran

Thank you for you and your co-signatories letter of 19 November.

The 2008 Pre-Budget Report (PBR), *Facing global challenges: supporting people through difficult times*, sets out the measures that we are taking to support the economy through these difficult times and immediate action to provide real help now for those individuals, families and businesses most affected by the downturn.

Over the past year, major shocks have hit the economies of every country in the world. While commodity prices have recently eased, the credit shock has intensified into the worst global financial crisis for generations, a crisis that is being addressed by a global policy response of unprecedented scale and scope. These developments mean economic prospects are subject to exceptional uncertainty. Asset markets and the financial sector have been severely affected, but I know that the consequences are being felt by families and businesses across Britain. We are committed to standing behind those affected, providing whatever support we can to safeguard their jobs, homes and livelihoods, and their futures.

The economic and fiscal climate is exceptionally challenging, but because of the macroeconomic framework introduced in 1997 the UK is facing these shocks from a solid foundation. Credible medium-term objectives and mechanisms for short-term flexibility mean that the Bank of England and the Government can deliver the necessary support to the economy without compromising their respective commitments to low inflation and sound public finances.

I have attached a note addressing the specific points you have raised. I would like to thank you and all of your co-signatories for taking

the time to write such a carefully considered letter. It is impressive and heartening to see so many organizations - organizations whose staff, members and volunteers do so much to help people in need and change lives in communities the length and breadth of Britain - working together in this way. I know that without your help and support, our efforts as Government, however determined they may be, will not have the impact for which we all hope.

With very best wishes for Christmas and the New Year,

Yours sincerely

A handwritten signature in black ink, appearing to be 'Gordon Brown', written in a cursive style.

Ms Fran Beckett

## **ANNEX**

You ask about introducing Winter Fuel Payments for all households in receipt of benefit. Government introduced the Winter Fuel Payment in 1997 to give pensioners reassurance that they could afford to heat their homes in winter. It is paid in a lump sum each winter to ensure that money is available when fuel bills arrive. Older people are targeted because they are particularly vulnerable to the effects of cold weather during the winter months. Winter Fuel Payments of £200 for households with someone over 60, £300 if over 80, have been committed for the lifetime of this Parliament. As announced at Budget 2008, this winter, households with those aged over 60 will receive an additional £50 or £100 for those with someone aged over 80.

Our £1 billion Home Energy Saving Programme will also help vulnerable households heat their homes and support the installation of 600,000 insulation measures this winter, up 70% on last winter. The key elements of the programme are as follows:

- 20% higher targets proposed for energy suppliers under the Carbon Emissions Reduction Target (CERT), an obligation on energy suppliers to achieve reductions in carbon emissions by installing energy efficiency measures such as loft and cavity wall insulation over the period 2008-2011. Including this proposed increase, CERT is expected to deliver emissions savings of 185 MtCO<sub>2</sub> over the projected lifetime of the measures, equivalent to annual savings of around 5 MtCO<sub>2</sub> a year by 2011. Measures such as loft and cavity wall insulation are now available to all households at a discount of 50%, saving those householders that install insulation up to £300 a year on fuel bills. A priority group of eleven million households, comprising those on qualifying benefits and the over 70s, qualify for these measures at no cost;
- a proposed new Community Energy Saving Programme, which will take a whole house approach to energy efficiency, in areas of high deprivation. Energy suppliers and electricity generators are expected to deliver around £350 million of energy efficiency measures under the programme, delivered with local partners, which could include local authorities, community organisations and social enterprises. It is hoped that this will deliver up to 100 schemes across the country, potentially benefiting some 90,000 homes over the next three years;
- a £74 million increase in funding for the Government's Warm Front programme, which provides free central heating and energy efficiency measures to vulnerable low income households. In addition, the Pre-Budget Report announces £100 million of new funding for Warm Front

on top of £50 million of spending on the programme brought forward now to support the economy;

- further measures to help vulnerable groups including a tripling of cold weather payments to £25 a week for this year, and increased social assistance provided by energy suppliers; and
- a major information campaign across press, radio and TV to publicise the help available.

Further to your remarks on the issue of child poverty, between 1998-99 and 2006-07 around 600,000 children were lifted out of relative poverty. Measures announced in and since Budget 2007 are expected to increase this figure by a further 500,000.

In these difficult times for the global economy, maintaining a stable economy benefits all families. In the PBR the Government committed to helping the most vulnerable and hardest hit by the economic difficulties, by:

- supporting families' finances and spending power in the short-term through changes to personal taxation and reducing the rate of VAT and, next year, through the real terms gain from projected inflation;
- helping people quickly back into work through extra funding for Jobcentre Plus, extra support for people facing redundancy and a new national partnership between employers and Government; and
- additional support for homeowners facing financial difficulties.

The 2008 PBR also announced that the Government will provide additional financial support urgently to families with children, by bringing forward commitments to increase spending on tax credits and Child Benefit. As a result, increases to Child Benefit that were due to come into effect in April 2009 will be brought forward to January 2009, and increases to the Child Tax Credit that were due to come into effect in April 2010 will be brought forward to April 2009.

The sustainable eradication of child poverty is a long-term challenge, and one which requires the delivery of high quality public services, as well as financial support. It must also be a priority at every level of Government, and that is why the PBR announced that the Government will work with local delivery partners to identify more clearly the important role that they have in tackling child poverty. I know that we need to do more and that is why a child poverty bill will be introduced in 2009 to lay the foundations for lasting fundamental change.

You suggest introducing an automatic payment of Pension Credit and Council Tax benefit for older people who are entitled to benefits but are not receiving

them. As you will appreciate, in order to process claims for benefit, the pension service requires certain information which can only be obtained from the applicant. For example, when claiming State Pension the customer has to decide on the frequency of payment: weekly, four-weekly, or thirteen-weekly. Additionally, applicants need to nominate an account to receive payments of their State Pension. However, it is recognised that some pensioners will have reservations about the process of applying for benefits. Government has already simplified the claim process to make Pension Credit easier and quicker to claim. This has meant that more pensioners get the help they are entitled to. For example the Government has:

- removed the need for customers to sign and return their claim form;
- streamlined the Pension Credit and Housing Benefit/Council Tax Benefit (HB/CTB) claims process so that customers only have to provide information once;
- made changes to make the processes more automatic so that when claims for HB and CTB are made alongside Pension Credit, by telephoning The Pension Service, they will also be dealt with without the need for a claim form and signature. Further, the claim details will then be sent automatically to the Local Authority for assessment; and
- finally, a further measure, proposed in the Pensions Bill 2007, will remove the need for most Pension Credit customers aged 75 and over to tell The Pension Service about changes in their retirement income.

The Government is also launching a campaign to encourage people on low-incomes, in particular pensioners, to register to receive interest on their bank or building society accounts tax-free and to claim back any tax they have overpaid. The campaign is aimed at around 1.5 million pensioners who could be getting more value from their savings every year by registering to receive their interest tax-free.

In reference to your comments regarding social housing, I recognise the impacts that current market conditions are having on housing providers' ability to deliver new affordable housing schemes. The September housing package announced additional support to sustain delivery of social homes, bringing forward £400 million of spending to help provide up to 5,500 new social rented homes over the next 18 months. As part of a broader fiscal stimulus package announced in the PBR, we will bring forward a further £775 million of housing and regeneration investment, including £575 million to provide additional support for social rented homes, with £150 million to support delivery of around 2,000 more new social homes, £250 million to sustain and accelerate the Decent Homes programme and £175 million on major repairs.

More generally on housing issues, the Homeowner Mortgage Support Scheme announced by Margaret Beckett on 3 December is intended to provide greater assurance to homeowners that they will be able to remain in their homes if they suffer a temporary fall in income, but are expected to recover at a later date. The new scheme will provide a bridge, giving homeowners who are experiencing financial problems sufficient time to find new employment or recover income, without the added concern and stress of potentially losing their home in the interim. The scheme will allow lenders to reduce a borrower's current monthly mortgage payments, with the deferred payments rolled up, added to the principal, and paid at a later date when the borrower's financial circumstances have improved. The Government will guarantee the lender against a proportion of any loss incurred on the deferred interest payments in case the borrower defaults. The 8 largest lenders covering 70% of the mortgage market - HBOS, Nationwide, Abbey, L10yds TSB, Northern Rock, Barclays, RBS, HSBC have agreed in principle to support the new scheme.

This scheme is in addition to measures already announced to help homeowners:

- agreement with major lenders to treat customers fairly and only move to repossession as a last resort. The major lenders are committed not to initiate repossession proceedings within at least three months of an account going into arrears, and will work to develop creative and sustainable solutions to help borrowers stay in their homes;
- direct support to vulnerable individuals through the Government's £200 million mortgage rescue scheme which aims to reduce by up to 6,000 the number of repossessions of vulnerable households over the next two years. This new scheme was extended in the PBR to include second charge mortgages;
- direct support to some individuals through the Support for Mortgage Interest regime which has been strengthened by reducing waiting times from 39 weeks to 13 weeks for new working age claims and increasing the maximum value of eligible mortgages, and which could prevent up to a further 5,000 to 10,000 repossessions following reforms in September;
- a new mortgage pre-action protocol, introduced by the Civil Justice Council, which makes clear that repossessions should be a last resort and that all other options should be explored before cases are brought to court; and
- expanded free legal representation in county courts for households at risk of repossession, and a further £15.85 million to extend free debt advice to all consumers across the country.

Turning to the issue of pre-payment meters, the recent Of gem probe into the energy market concluded that in some cases price differentials for prepayment customers could not be justified by the extra costs involved. Of gem are now consulting on the findings of that probe and suppliers have until 1 December to provide a formal response. Of gem will then come forward with its conclusions, including any proposed changes to licence conditions. Ed Miliband has met representatives of each of the big six energy companies again to reiterate his concerns about the findings of the Of gem report. He made clear the importance the Government attaches to this and other issues identified in the probe. He emphasised that if a speedy and satisfactory resolution is not reached, he stands ready to consult on legislation.

You also raised lending practices in your letter. The Government is committed to ensuring all consumers have access to range of products which offer affordable forms of credit. We are working with the credit union sector to examine ways to expand the provision of affordable credit alternatives by third sector lenders. The DWP's £80 million Growth Fund has already supported more than 105,000 loans to low income families to a total value of £46.5 million.

The Office of Fair Trading (OFT) is responsible for licensing lenders and for taking action against business which engage in unfair practices or exploit vulnerable consumers. The Consumer Credit Act 2006 (CCA06) has strengthened its powers to tackle rogue and incompetent lenders. From April 2008, lenders will undergo a more rigorous test by the OFT in order to get a Consumer Credit Licence and the OFT can now impose a wider range of penalties - from placing conditions on licences to imposing a fine (of up to £50,000), or taking away the licence. The OFT has identified the home credit sector as carrying a high risk of consumer detriment and will be targeting its monitoring and scrutiny activities on such areas.

The Government is aware of the growing concerns around this issue and is currently looking into what more can be done and welcomes your constructive comments. It is important to note that further regulation into the sub-prime lending sector may cause some lenders to withdraw from the market. This would undoubtedly mean that some low-income and vulnerable consumers would be forced to take out larger loans than they need or to obtain credit from unlicensed or illegal lenders.

Looking next at your remarks regarding the asylum system, it is not generally our policy to allow asylum seekers to work. The Government believes that managed migration is a valuable source of skills and labour to the British economy and there are recognised routes into the UK for those seeking to

work. However, entering the country for economic reasons is not the same as seeking asylum, and it is important to maintain the distinction between the two. It is important that those who apply for asylum in the United Kingdom have their applications processed as quickly as possible. That is why we have set a target to conclude (grant or remove) 90% of asylum applications within 6 months by December 2011.

Giving asylum seekers or failed asylum seekers permission to work would be likely to encourage asylum applications from those without a well-founded fear of persecution, hence slowing down the processing of applications made by genuine refugees and undermining the integrity of the managed migration system. This is why we do not generally allow asylum seekers to work while their claim for asylum is under consideration. The only exception is asylum seekers who have been waiting 12 months for a decision where this delay cannot be attributed to them. Allowing asylum seekers to work in these circumstances is standard practice in countries which have implemented the EC Directive on reception of asylum seekers.

As I have already mentioned, the UK Border Agency is now focused on taking asylum cases through from start to finish within 6 months of the date of application. By the end of 2007 we were beating our target of concluding 40% of cases within 6 months and we are on track to conclude the majority of cases within 6 months by the end of the year. Those who are recognised as refugees will therefore increasingly be permitted to work here legally much sooner than in the past, enabling them to make a contribution to the UK. Furthermore, the skills they had on arrival here are unlikely to have become out-of-date. The Government welcomes the enormous contribution that the skills and knowledge of genuine refugees make to our society and economy.

Finally, since Budget 2008, the Government has taken a number of actions which deliver support to the economy, including raising the income tax personal allowance by £600, helping 22 million basic-rate taxpayers and packages of support for homeowners and households facing rising energy bills. This Pre-Budget Report announced that, to provide further support for growth and incomes during the economic downturn, the Government will complement the action taken to date with a fiscal stimulus through a temporary reduction in the VAT rate to 15% with effect from 1 December 2008 to 31 December 2009 and bringing forward £3 billion of capital spending from 2010-11 to 2008-09 and 2009-10.