

PREM 19/367

Part 3

m

Confidential Filing

The taxation of Short Term Benefits.
Supplementary benefits and strikers' benefits.
Deeming strike pay for supp. benefit purposes.
Payment of supplementary benefits to Strikers.
Proposed ~~to~~ cut in the Benefit limit.

SOCIAL SERVICES

Part 1: June 1979

Part 3: Feb 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
27.2.80							
28.2.80							
10.3.80							
13.3.80							
20.3.80							
25.3.80							
9.5.80							
22.5.80							
30.6.80							
1-7-80							
PREM 19/367							
ENDS							

● PART 3 ends:-

E(80) 23rd unity Item 2 1/7/80

PART 4 begins:-

Ralph Howell to PM 1.7.80
~~Ch of Ex to PM 15/7/80~~

Ref. A02477

PRIME MINISTER

Qualification for Unemployment Benefit for Workers laid off in a Trade Dispute
(E(80) 61)

BACKGROUND

When the detailed proposals for the financial treatment of strikers were being considered by the ad hoc Ministerial Group in February, the question of the qualification for unemployment benefit of workers laid off in a trade dispute was remitted for further official examination. People laid off are counted as "strikers" for benefit purposes if they have an "interest" in the outcome of the dispute. If they do not, they are without work because of circumstances beyond their control, and they are entitled to unemployment benefit. The paper is about how one should define who does, and who does not, have an interest in the outcome of the dispute. The present law derives from a recommendation of the Donovan Commission which was designed to remove anomalies resulting from the earlier definition. The change to the present law in 1975 was supported by the then Conservative Opposition.

2. One employers' organisation, the Coventry and District Engineering Employers Federation, suggested last year that the changes made in 1975 have made workers less likely to oppose strikes which might result in their being laid off, and so have altered the balance of power against employers. The proposal has not, however, been picked up more widely by the CBI.

3. Any change would require legislation, and the most likely vehicle available for this next Session would be the Social Security Bill dealing with employers' sick pay obligations. Any change which proposed an alteration in the entitlement to this contributory benefit would be highly controversial. The Secretaries of State for Social Services and Employment, in their cover paper, set out, in paragraph 3, the reasons why they believe that no change should be made at present.

U.B.
+ 12
1/2

CONFIDENTIAL

HANDLING

4. You might invite Mr. Prior to introduce the paper, followed by Mr. Jenkin as co-author. You might then seek to establish whether your colleagues are persuaded of the need for early change, and if so whether there is a consensus in favour of any of the particular proposals considered in the paper (and summarised in paragraph 2 of the covering paper). If so there will need to be an early consultative document. The alternatives are to reserve judgment until next year by when there will be some experience of the new arrangement for supplementary benefits payments to strikers' families; or to allow this area of policy to lie dormant, unless there is growing evidence of interest from a wider selection of employers.

CONCLUSION

5.1 Depending on the discussion, you will probably be able to conclude either

(i) that the Committee accept the recommendation of the two Secretaries of State that no legislative action should be taken at this stage;

or

(ii) as (i) but with a limited requirement that the position should be reviewed next year;

or

(iii) that the Committee favours a change, and invites the two Secretaries of State to begin a process of consultation, without commitment, to determine the nature of the change to be made. If the Committee could give guidance on its preferences as between the various options for change this would no doubt be of assistance to the Secretaries of State in fulfilling this remit.

RA

ROBERT ARMSTRONG

30th June, 1980

CONFIDENTIAL



HARRING

You might invite Mr. [Name] to [Location] the [Date], following [Date]. You might then ask to determine whether your [Name] are persuaded of the need for [Action], and if so whether they are persuaded in favor of any of the [Proposals] considered in the [Paper]. The alternatives are to [Action]. The alternatives are to [Action]. The alternatives are to [Action].

COMMITTEE

(i) that the Committee accept the recommendation of the two Secretaries of State that no legislative action should be taken at this stage;

(ii) that the Committee favor a change, and invite the two Secretaries of State to begin a process of consultation, without commitment, to determine the nature of the change to be made.

0961 JUN 08
 U.S. DEPARTMENT OF STATE
 OFFICE OF THE SECRETARY

ROBERT ARMSTRONG

300 June, 1961

PRIME MINISTER

Original returned
to Mr. Hoskyns.

UNEMPLOYMENT BENEFIT

1. We suggest below a more radical alternative than most colleagues will want to adopt. We believe the very muted reaction to the £12 deduction from SB shows that it is possible to tilt the bargaining balance much more sharply against strikers.
2. The first step with this proposal would probably need to be consultation with outside bodies. If colleagues are not ready for this, it could be put in reserve for use in a future package.
3. We think that the present disqualifications for UB are too narrow. Those with a direct interest in the outcome of the dispute are ineligible for UB. However, since there is an established pattern of differentials within most plants, there is a sense in which an excessive pay award may eventually bring higher wages to everyone employed there. The availability of UB helps to protect those laid off at a plant by the actions of others. But if they were not insulated, they might put more pressure on their fellow workers not to resort to strike action. The aim should be to motivate the non-striking majority into discouraging strikes as a weapon of first resort by smaller groups.
4. The general principle we would like to see adopted is already reflected in the practice of some individual companies with lay-off pay agreements. For example, BL's guarantee of lay-off pay does not apply where the lay-off has been caused by industrial action within BL Cars.

Options Discussed in E Paper

5. The very modest change described as Option 1 would not be worthwhile. Option 2 would discourage unions from paying strike pay. Option 3 would discriminate against the members of a union involved in a dispute, which colleagues were anxious to avoid with SB. Option 5 is too complicated, involving workers in plants that are remote from the dispute.
6. By contrast, Option 4 would help to establish the principle that all who work at a plant are affected by the actions of others who work there. If those laid off were disqualified from receiving 'B, they would take a closer interest in preventing strike action from ever breaking out. Of course it is easier to justify this treatment of those laid off where

disputes are about pay, since their own pay might eventually be affected by a successful strike by others. Where disputes arise over non-pay matters, those laid off may understandably protest that the dispute is "nothing to do with them".

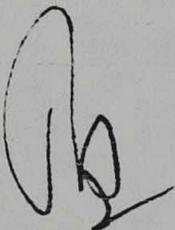
7. But we are trying to change this attitude. We want all workers at a plant to make it their business to discourage strikes. The reality is that a strike in another part of the plant does affect the performance of the plant as a whole. Although we do not claim that this relatively small change alone will transform industrial relations, we do think that it will tend to encourage more rational bargaining structures at plant level. This means bargaining institutions where the essential common interest of those who work at a plant is recognised and reflected. This kind of reform is precisely what Jim Prior called for in his Granada lecture, when he criticised separate negotiations with many different unions.

8. We do not believe it would be difficult to justify a move on the lines of Option 4. It could be explained that the state no longer wished to cushion the impact of disputes on other groups under the same roof. Instead, the new arrangements would reinforce the reality that all workers at the same plant have a common interest in its success.

Consultation

9. It is true that there has been little pressure so far for the change we are recommending. But managers simply do not spend their time considering how the social security payments system could be redesigned. Even in the case of trade union immunity for secondary action, the CBI took a very cautious view about changes until the scales fell from their eyes during the steel dispute. If this question of UB entitlement was properly aired, many managers would see the sense of disqualifying all those who were at a plant where a dispute takes place.

10. I am copying this minute to the Chancellor of the Exchequer and the Secretary of State for Industry.



JOHN HOSKYNS

FD

Social Services

CF

9 May, 1980.

I have shown your letter of 6 May about the taxation of invalidity benefit to the Prime Minister. She is content for Lord Cockfield to write to Mr. Nicholas Scott, M.P., in the terms of the draft which you enclosed - except that she would like the letter to make it clear that the Government have abolished the tax on war widows' pensions. You will see that Mr. Buckmaster's letter refers not only to invalidity benefit, but also to war pensions.

I. P. LANKESTER

N. V. Brotherton, Esq.,
HM Treasury.

LB

Mr Gow



Prime Minister

Are you content for Lord Cockfield to write as proposed - i.e. but you did not make

Treasury Chambers, Parliament Street, SW1P 3AG any pre-election

Please make clear that we have omitted long term persons on war pensions. Yes no

commitment not to tax long term invalidity benefit? ~~and war~~

6 May 1980

~~penalties?~~

Dear Tim

TAXATION OF INVALIDITY BENEFIT

Richard can't recall any such commitment nor can Central Office.

I attach a copy of correspondence sent to the Financial Secretary by Nicholas Scott MP. The constituent, Mr Buckmaster refers to a pre-election commitment by the Prime Minister that long-term Invalidity Benefit and War pensions* would not be taxed. Extensive investigations by the Inland Revenue and Mr Cropper, a Special Adviser, have failed to disclose such a commitment. Lord Cockfield would therefore like to know, before he replies to Mr Scott, whether there is any objection to the terms of the draft reply.

** war pensions are not taxed.*

TL

*Yours
Nigel Brotherton*

N V BROTHERTON
Private Secretary

T P Lankester Esq
No 10, Downing Street



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

25 April 1980

1. Mr Cropper *See below ↓*
2. Minister of State (Lords)

... 1. The attached letter from Mr Nigel Buckmaster, a constituent of Mr Nicholas Scott, refers to a pre-election statement by the Prime Minister that invalidity benefit would not be taxed by an incoming Conservative Government.

2. The terms in which the Chancellor announced the taxation of invalidity benefit in the Budget Statement were: "We are also considering how best to bring into income tax at an early date the remaining short-term benefits, and invalidity benefit, which primarily for administrative reasons are at present untaxed". In the Public Expenditure White Paper, invalidity benefit is mentioned with the short-term benefits, and the text continues: "It remains the Government's intention to bring these benefits into tax at the earliest possible moment". On this basis, the Social Security (No 2) Bill, going through the House at present, provides for invalidity benefit and the other benefits concerned to be uprated by five percentage points less than the "price-indexing" requirement. To reverse the decision now to tax the benefit would therefore mean changing tack on both the tax and the social security fronts.

I have checked the Manifesto briefs and the Questions of Policy documents and can find no record of any commitment to avoid taxing Invalidity Benefit. I have also checked with Central Office and can find nobody in authority who admits to having answered enquiries in the sense conveyed by Mr Buckmaster's letter. I have also checked with Mr Lancaster at No 10 and he has not heard of any such commitment. It might nevertheless be wise to clear the ground with No 10 before despatching it. PJC

3. It has not been put to us from any other source that the Prime Minister made a commitment in speeches on the lines suggested by Mr Buckmaster; nor has it been put to DHSS, or raised in the House in the debates on the Budget or the Social Security (No 2) Bill. We also understand that no commitment of this sort has been found in Conservative Party General Election policy documents; and that Central Office, with whom Mr Cropper has been in touch, have not been able to put any chapter and verse to the Prime Minister's statement.

4. In the circumstances, whatever commitment was made on the point is clearly less easily verifiable and less widely-known than might have been the case. We are not sure in quite what terms you will think it best to reply to Mr Scott, or whether you will want to arrange to clear the reply with the Prime Minister's office. However, you may take the view that the point raised is not sufficient to justify a change of policy at this stage, and the attached reply is drafted on this basis.

...

hm

R R MARTIN



Treasury Chambers, Parliament Street, SW1P 3AG

May 1980

Nicholas Scott Esq MBE MP

You wrote to Nigel Lawson on 1 April enclosing this letter from Mr Nigel Buckmaster of 47 Knightsbridge Court, Sloane Street, London SW1 about the announcement in the Budget Statement that we shall be bringing into tax invalidity benefit along with the short-term benefits which are at present untaxed.

Mr Buckmaster refers to a pre-election commitment on this point, but I am afraid that after a careful search of our General Election policy documents and records we have not managed to find any trace of this. I hope it may help if I outline briefly the reason why we are proposing to take the course which Geoffrey Howe put forward in the Budget.

Until now, short-term sickness benefit has not been taxed, because of the administrative complications involved, and it has been felt that in these circumstances it would hardly be defensible to tax invalidity benefit (which is effectively the longer-term equivalent of short-term sickness benefit). It has long been recognised, however, that as a matter of general principle all benefits of an income nature should be taxable, not least because the effect of taxing a benefit is that those in the greatest need will receive the largest payments. Invalidity benefit was in fact specifically mentioned by the previous Government as a source of income which should in principle be taxable.

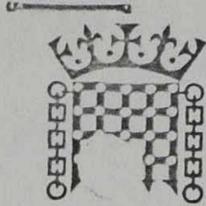
Geoffrey Howe made clear in his Budget Speech that we have proposals for the large majority of payments of short-term sickness benefit to be replaced by a scheme under which employers would have the responsibility for payment of a minimum level of sick pay during the early weeks of sickness. This scheme will



bring the bulk of sickness payments into tax through PAYE, and in these circumstances I think that we would find it difficult to justify continuing to exempt the equivalent long-term benefit from tax; this is particularly so when recipients of other long-term benefits, for example the retirement pension, widows' benefits and the mobility allowance, are taxable on them in the normal way.

I appreciate Mr Buckmaster's feelings on this point, but I hope what I have said will help to explain why we came to this decision.

LORD COCKFIELD



House of Commons
London SW1

Nicholas Scott, MBE, MP

APR 1980

1 April 1980
- 3 APR 1980
✓
ACTION: PS / MST (C)

Dear Nigel

The enclosed letter from my constituent Mr Nigel Buckmaster of 47 Knightsbridge Court, Sloane Street, SW1, in which he refers to the Chancellor's announcement that from the next up-rating short-term benefits and invalidity benefit were to be treated as part of taxable income will be self-explanatory.

I would be most grateful for your comments on the particular point he makes about this proposal.

Nigel Lawson

SECRETARY OF STATE
- 7 APR 1980
ACTION: PS/IR

Nigel Lawson Esq MP.

47, Knightsbridge Court
Sloane Street
London SW1

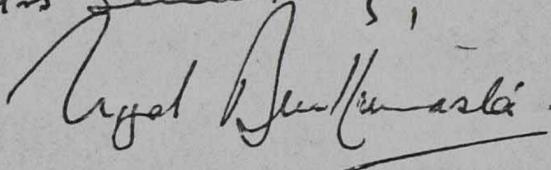
235 2561

28 March 1980

Dear Mr Scott,

As soon as I heard that the Chancellor's intention to tax long term Invalidity Benefit I telephoned the Conservative Central Office to point out that in Mrs Thatcher's pre-election speeches she had categorically stated that it was Conservative policy to tax only short term Sickness Benefit. She specifically stated that her government would not tax long term Invalidity Benefit or War pensions.

The spokesman at Smith Square agreed that this categorical statement had been made by Mrs Thatcher and strongly advised me to write to my MP, adding that he had had many calls that morning also making my point.

Yours sincerely,


Nigel Buckmaster

Nicholas Scott Esq. MBE, MP.
House of Commons, SW1



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-6 MAY 1980



Social Sec

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

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

295
7 May 1980

Dear Jim,

SOCIAL SECURITY (NO 2) BILL: USE OF POWERS TO PERMIT HARDSHIP PAYMENTS FOR STRIKERS

I am very grateful for your letter of 28 April, Geoffrey Howe's of 29 April, and Keith Joseph's of 30 April.

I fully take the point which you all make about distinguishing between unionists and non-unionists. I therefore agree with you that hardship provision for the four sets of compassionate circumstances, a-d, on page two of my letter of 22 April should be available, as in the flood/fire type of circumstance, to unionists as well as non-unionists. I hope Geoffrey will agree that these four circumstances are so limited that we can put them in the regulations - and say during the progress of the Bill that we will be doing so - without waiting until actual cases arise once the new rules are in operation.

As regards my suggestion for a generalised automatic £6 hardship addition for non-unionists four weeks after last wages have run out, I agree, in the light of what you all say, to drop this for the present and see how events turn out. I fear, however, that it will be difficult to hold the line and we shall be pressed in Committee - possibly hardest as regards the non-unionist striker without dependants. The striker with dependants will always be able to get some basic support from supplementary benefit, albeit £12 less than now. The striker without dependants will get nothing.

I am copying this letter to Geoffrey Howe, Willie Whitelaw, Keith Joseph and John Nott.

Yours
Ratcliffe

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17 MAY 1960

CONFIDENTIAL



fletto

10 DOWNING STREET

From the Private Secretary

6 May 1980

SOCIAL SECURITY (No. 2 BILL): HARDSHIP PAYMENTS
TO STRIKERS

The Prime Minister has read your Secretary of State's letter of 22 April on the above subject, and the Secretary of State for Industry's letter of 30 April commenting on it. She has asked me to say that she very much agrees with the line taken by Sir Keith Joseph.

I am sending a copy of this letter to the Private Secretaries to members of the Cabinet and to David Wright (Cabinet Office).

T. P. LANKESTER

Don Brereton, Esq.,
Department of Health and Social Security.

CONFIDENTIAL

AB.

CONFIDENTIAL

cc David Wright
6/5



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

cc Mr Dennis

30 April 1980

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1

Prime Minister

Mr Jenkin (Flag A) is trying to introduce some distinctions between unionists and non-unionists. Cabinet having decided not to make any distinction, Sir Keith is

Dear Patrick,

SOCIAL SECURITY (No 2 BILL): HARDSHIP PAYMENTS TO STRIKERS *surely right*

Thank you for sending me a copy of your letter of 22 April to *to resist.*
Jim Prior about hardship payments to strikers. *Yes very much so*

The proposed provision on fire and flood was agreed by Cabinet and I can agree to that on medical needs set out in your penultimate paragraph. I have considerable reservations about the other elements in the package. *Mr 2/5*

First, in the four compassionate cases I do not believe we should exclude the unionist. The assumption underlying our policy is that all strikers will make their own provision for industrial disputes, either through savings or access to union strike pay. If therefore we accept that in special cases payments should be made on compassionate grounds - and I agree this is reasonable - then we ought not in equity regard these as proper only for non-unionists. To do so would unnecessarily lay us open to charges of discrimination of a rather mean kind against the trade union movement.

I cannot agree to the proposed benefits to non-unionists, with and without dependents, set out in paras 4 and 5 of your letter. Cabinet agreed that there should be powers to make regulations to mitigate severe hardship if later experience showed this to be necessary. The specific measures you now recommend do however go well beyond this. A general provision enabling automatic payments of £5 to be made where strikes last more than six weeks is difficult to reconcile with the basic £12 reduction we thought appropriate in Supplementary Benefits. However we defend it this seems bound to be interpreted as something of a retreat from the firm stand we have taken on strikers' benefits and as an apparent willingness to subsidise lengthy strikes. It would also represent an early departure from our declared even-handed policy towards unionists and non-unionists alike.

/I ...



I strongly recommend that we should maintain the general approach endorsed by Cabinet whereby we should take any powers necessary to allow a rapid response if in the course of time action to alleviate hardship should become desirable. We should not however declare our hand now. In the meantime I would agree that the existing special provision for strikers without dependents should be withdrawn but if we are to remain consistent this should apply to all strikers and not simply trade unionists.

I am sending a copy of this letter to the recipients of yours and to the Prime Minister and Cabinet colleagues.

Law,

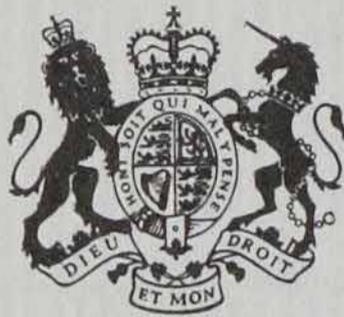
Keir

I've just seen Jim Prior's letter to you,
with the contents of which I agree.

K



MAY 1961



10 DOWNING STREET

Dear Mr. [unclear]

There is no statutory
obligation for an employer
to pay employees who
have been laid off because
of a dispute caused by
other employees.

If there is an
obligation in this case,
it must be because of
collective agreements.

R.

25/4

Print Union

92

I fear this would be pretty
costly. Better to go further on
social security payments. R

STRICTLY PRIVATE & CONFIDENTIAL

APRIL 24, 1980

24/4

The Secretary for Employment has the power to amend his temporary short time working compensation scheme on the lines referred to in the enclosed copy of my letter to him.

It is a very urgent matter for many employers, particularly those in the printing industry, at the moment. Many printing concerns without the sort of help I have outlined will have no option but to give in to the demands of the NGA or go bust. Thus inflation gets another upward twist and/or unemployment increases.

It is an example of the monopoly cartel in Labour which makes mincemeat of the Friedmanite monetary policy.

X in the day time!

Why do they have to
pay full time wages to people
laid off?

mf.

19 CAVENDISH AVENUE
LONDON NW3 9JD

01-286 9020

April 24, 1980

Urgent - By hand
Personal

The Rt. Hon. James Prior, M.P.
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
SW1N 9NA

Dear Sir,

You have a temporary short time working compensation scheme. At the moment this does not apply to people who have to be laid off for short time working (who might ^{or would} otherwise be made redundant) through strike action by any union or any part of a union to which they may belong.

In our own case at our printing works at Banbury we have a whole time strike by part of the NGA and intermittent strikes by another part of the NGA. These are causing us to have no full time work for members of SOGAT. Nevertheless we have to pay their full wages.

Would it not be possible to extend the provisions of your temporary short time working compensation scheme to cover such situations? At the moment the strikers have all the advantage and the employers none. The strikers immediately get rebates of income tax and social security payments for their families. The employers have to pay full wages to people laid off through the action of the strikers. This restricts the amount of time they can hold out against the strike. It thus means that they are forced to pay higher wages than the market can really bear in order to end the strike. In turn this causes higher inflation which you are anxious to avoid.

19 CAVENDISH AVENUE
LONDON NW8 9JD

01-286 9020

It would obviously be logical to give the employers a little bit of help. At the moment all Government help is given to those on strike trying to force up wages unnecessarily high against your own policies.

Yours

Woodrow

Woodrow Wyatt



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

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1

22 April 1980

Dear Jim

R
4/2/80

SOCIAL SECURITY (NO 2) BILL: USE OF POWERS TO PERMIT HARDSHIP PAYMENTS FOR STRIKERS

I have been considering what regulations will be necessary consequent upon clause 6(1) of the Social Security (No 2) Bill. I propose to make very limited specific exceptions to the general rule that strikers and their dependants will not be eligible for urgent need payments under section 4 of the Supplementary Benefits Act 1976. I am sure we need to have a pretty clear idea of what they are going to be, before we reach this Clause in Committee, in view of the interest expressed on Second Reading.

First, I think we must have a provision to relieve severe hardship caused by a fire, flood, robbery or other comparable disaster. This provision would be available to unionists and non-unionists alike.

Apart from this (and also to the extent mentioned below), I propose we should retain the exclusion of unionist strikers and their families from section 4 completely, on the ground that they have to look to their union for help.

For the non-unionist with dependants, there may well be the risk of severe hardship if the strike lasts more than a few weeks and he has no savings to make up the £12 deducted from his supplementary benefit. I know we decided on no distinctions being drawn between unionist and non-unionist, but this is both where the political pressure is going to come and where the hardest cases will occur. Whilst holding firm to the general principle, I do think we need to make some specific provision for this sort of situation; but without giving supplementary benefit officers any discretion which could be open to abuse. I therefore suggest an automatic addition to benefit under section 4 of £6 a week, payable four weeks after last wages have run out - this will normally be after six weeks on strike. The number of non-unionists on strike for this length of time will be very small. For the one-parent family on strike, I suggest the £6 should be payable two weeks after last wages have run out, instead of four, since the £12 reduction of benefit is proportionately greater where there is only one adult in the household.

E.R.

For the striker without dependants, the present formulae used by the Supplementary Benefits Commission would provide from next November that income is assumed to last at the rate of £19 a week and, when that has run out, a section 4 payment is made to allow him £14.50 a week if he can get no help from parents or relatives. As I say, I propose ending this rule for the unionist and giving him nothing. For the non-unionist I propose modifying the rule so that the payment allowed is £10 a week, not £14.50. I think a reduction to £10 is justified by comparison with the new rules for the non-unionist with dependants.

For non-unionists generally, there are also four rare compassionate sets of circumstances where we ought, I think, to make some special provision. There may be others that will be put to us in Committee. The four are -

- a. visit to member of the family or other close relative seriously ill in hospital
- b. fares to take or collect a disabled or handicapped child attending a residential special school
- c) repair or supply of essential household equipment (eg a fireguard, or an oilstove if there is no other working form of heating) on grounds of safety or in cases of severe illness
- d. carrycot and child's clothing urgently required on the birth of a child where the strike has lasted three months.

I would prefer, in the interests of simplicity and of minimising the work involved for my staff, to avoid any requirement to recover these payments.

All the payments set out above would be under section 4. I propose excluding strikers and their families from section 3, which enables lump-sum "exceptional needs payments" to be made in prescribed cases. The advantage of this course is that the rules for assessing need are tougher under section 4 than under section 3. In particular, account can be taken of all capital and disregarded income and, I propose, the presence of working members of the family in the household.

Finally I propose continuing the SBC's present rules on making regular weekly additions as part of ordinary benefit (not section 4 or section 3) where a dependant needs extra heating or an expensive diet on medical grounds; and an urgent need payment under section 4 for an expensive diet in the rare case where the striker himself needs it on medical grounds. These payments will apply, as now, to both unionists and non-unionists.

I would be grateful for your comments on these proposals and also comments from Geoffrey Howe, to whom I am copying this letter.

Whiteley
Noff
Joseph

Yours
Patel



- 2 MAY 1980

CONFIDENTIAL

CONFIDENTIAL

Social Services



Minister of State

NORTHERN IRELAND OFFICE

GREAT GEORGE STREET,

LONDON SW1P 3AJ

20 March 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Whitehall
London SW1

2
2/3

Dear Sir Geoffrey.

see A. 2.

At the meeting of E Committee on 23 January I was invited to examine the feasibility and financial implications of introducing in Northern Ireland, at the same time as in Great Britain, the scheme for taxing unemployment benefit.

The introduction of a scheme in Northern Ireland will be more difficult than in GB because the payment of unemployment benefit will not be computerised there until 1984/85. Any scheme introduced before that date will have to be undertaken on a manual basis and the scheme now favoured is estimated to require the equivalent of about 96 staff - 80 full-time plus about 100 casual for 2 months at the end of each tax year at an annual cost of about £700,000.

The Northern Ireland Civil Service (NICS) has been subjected to a 2 $\frac{3}{4}$ % staff cut involving about 580 staff in the current financial year, and further reductions will have to be agreed for implementation in 1980/81 as a result of cash limits and in subsequent years as a result of the Lord President's options exercise. The additional staff to operate the taxing scheme could not, therefore at present be found from within existing NICS sources without curtailing or eliminating other functions. Various functions will undoubtedly be curtailed or eliminated over the next two years, and further staff savings are likely to arise as a result of the policy studies presently

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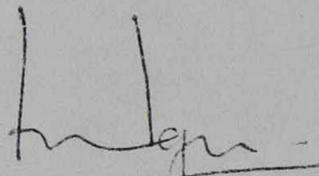
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being carried out in Great Britain and by Rayner exercises in Northern Ireland. There are therefore grounds for hoping that the taxation work might be undertaken by offsetting against planned savings and/or by some other redeployment of staff from within the NICS as a whole (though this is of course the more difficult the more staff costs are squeezed), and that it may not be necessary to recruit staff specifically for this purpose.

To set against the above costs, the tax yield of the scheme has been provisionally assessed by the Inland Revenue at between £4½m and £6m a year. The taxation of benefits could therefore offer a significant net yield in the years before full computerisation is possible. I am convinced that it would be wrong for Northern Ireland to be treated any differently from the rest of the United Kingdom and for taxation of benefits to be delayed until full computerisation has been completed. As indicated above, every effort will be made to find the staff and money from within existing resources of the NICS as a whole.

I am copying this letter to Paul Channon, other members of E Committee and to Sir Robert Armstrong.

John ...

HUGH ROSSI

CONFIDENTIAL

21 MAR 1980

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CONFIDENTIAL

PRIME MINISTER

The Financial Treatment of Strikers and their Families
(C(80) 18)

BACKGROUND

The Manifesto says:-

"We shall ensure that unions bear their fair share of the cost of supporting those of their members who are on strike."

2. The Cabinet considered ways of doing this in December on the basis of a proposal by Sir Keith Joseph (agreed with the Chancellor and the Secretaries of State for Employment and Social Services) that all strikers whether members of trade unions or not should be deemed to be in receipt of an income of £10 a week. The Cabinet balked at the proposal because they were quite clear that they did not want non-unionists to be "deemed" to be receiving strike pay which could not be available to them. Given that the advice they had was that it would be administratively difficult to distinguish between union and non-union members, the Cabinet asked for alternative approaches to be considered.

3. This examination has now been conducted by a small group of Ministers under your chairmanship. The conclusions of your group are set out in C(80) 18. The recommendations are agreed except on the central issue of whether penalty should apply to union members only or to all strikers. The essential difference from the position as discussed by Cabinet in December is that the Secretary of State for Social Services is now satisfied that a workable distinction can be drawn between union and non-union strikers.

HANDLING

4. You might open the discussion yourself with a reference to the background. You might then divide the discussion into two parts, firstly the question of applying the penalty to unionists or to all strikers, and secondly the recommended package.

Unionists only or all strikers

5. At the last meeting of your informal group, most of your colleagues were in favour of applying the penalty to all strikers, rather than just to trade unionists. They are, of course, essentially the same group of Ministers who

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made the original proposal, though they were reinforced by Lord Cockfield's arguments. They would defend their stance, in the light of the Cabinet's earlier discussion, by saying that they are not proposing to deem strike pay but to reduce the requirements level for strikers' families. Colleagues in the wider Cabinet who felt strongly last time that non-unionists should not be penalised may regard this distinction as more semantic than real. It is also possible - though it is always dangerous to impute motives - that the real concern of the protagonists of the wider penalty is to avoid a direct clash with the trade unions.

6. The arguments for and against the two alternatives are summarised at paragraph 4 of my paper C(80) 18. Other points which could be made in favour of the 'unionists only' approach are:-

- (i) The major objective is that, as unions are responsible for most strikes, unions should bear their fair share of the costs. The Manifesto refers specifically to unions and their members.
- (ii) The "requirements level" for a striker's family is already reduced by £15 below the normal Supplementary Benefits requirements level, because the striker himself is not eligible for Supplementary Benefit. A further reduction in this level on its own would be difficult to justify for the non-unionist with no other source of funds (and perhaps in a situation where he has no direct responsibility for the strike or lock-out). A provision designed expressly to shift the burden from the State to the unions, on the other hand, would be easy to justify especially as, if the unions do their part, families on Supplementary Benefit need be no worse off because of the deeming proposal.

7. The simplest way of coming to a conclusion here, without too prolonged discussion, might be to say that the central issue is a political one. In framing proposals to implement the Manifesto commitment, are the Cabinet prepared to penalise strikers who are not members of trade unions in the same way as those

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who are? The Chancellor of the Exchequer and the Secretary of State for Trade are likely to argue that both groups should be penalised. On form last time the Home Secretary, the Foreign and Commonwealth Secretary and the Lord Chancellor are likely to argue the other way.

8. This part of the discussion may well not end in complete agreement, and I suggest that you simply record the majority view as being the Cabinet's decision.

The Recommended Package

9. The package is set out at paragraph 5 of the paper C(80) 18. I imagine that the Cabinet will agree to it fairly readily, but you might take them quickly through each item.

- (a) Penalty of £12 per week. Your informal group agreed this early on, though the illustrative figure before Cabinet in December was £10 per week. Deemed strike pay to be ineligible for the miscellaneous income "disregard". As the paper says this is a technical but necessary point. If anyone asks, the short answer is that under present rules the £4 a week of "miscellaneous income" is disregarded for the purpose of assessing supplementary benefit entitlement; it is therefore necessary to make strike pay ineligible for the 'disregard' or the effects of deeming £12 strike pay could be reduced by £4.
- (b) Automatic yearly uprating of the penalty with provision for variation upwards or downwards. This is straightforward.
- (c) Strike pay actually received up to the level of the penalty to remain in the striker's hands. This is necessary, as the paper says, to avoid a double penalty - and to give the unions an incentive actually to make payments.
- (d) Tax refunds to strikers to be excluded from the miscellaneous income 'disregards'. Your informal group were firmly in favour of this, though it was not suggested to the Cabinet last time. Whatever is decided on the main penalty, this measure would apply to unionists and non-unionists alike, and it would produce a separate £4 a week penalty for those strikers who receive tax refunds week by week. (So it is a temporary provision - tax refunds will be deferred until the end of the strike from April 1982).

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- (e) No "urgent needs" payments for those to whom the penalty is applied except for causes unrelated to the strike. This measure is considered necessary in order to stop claimants getting the penalty deduction made up again by another route. But it could cause genuine hardship where the unions do not pay strike pay. The Government will obviously try to ensure that the blame for such hardship is pinned squarely onto the trade unions, but if the Government's position becomes politically untenable, there would be the possibility of changing it by regulation.
- (f) Supplementary benefit paid to strikers to become taxable from April 1982. This follows naturally from the Government's decisions on taxing unemployment benefit and supplementary benefit paid to the unemployed, and should readily be agreed.

Other Points

10. The "double payments" problem after April 1982. This is discussed briefly in paragraph 7 of C(80) 18. The Cabinet may wish to note that a decision will be needed later, but there is no need for a discussion now.

11. Announcements. The Chancellor of the Exchequer will announce the taxation measure in his Budget Speech. At your last informal meeting you asked him and the Secretaries of State for Employment and for Social Services to consider further the timing of the announcement of the Social Security measures and of the introduction of the Social Security (No.2) Bill. You might ask the Secretary of State for Social Services to say what he now intends on these points.

CONCLUSIONS

12. You will want to record the Cabinet's decision on whether the penalty should apply to trade unionists only or to all strikers, and their agreement, assuming that it has been given, to the package of proposals at paragraph 5 of C(80) 18.

RIA

Robert Armstrong

12th March 1980

12 March 1980

PRIME MINISTER

Original with
John Hoskyns.

1. Cabinet is being asked to choose between two alternative approaches to reduced Supplementary Benefits for strikers' families:
 - (a) "Deeming" union members to be receiving £12 per week of strike pay - whether they are or not.
 - (b) Declaring that the families of all "strikers" will receive £12 less than other Supplementary Benefit recipients.
2. The advantage claimed for (b) is that it is not directed specifically at union members and therefore likely to provoke a rather less sharp response from the trade unions. For union members, however, it is argued that (b) would still put pressure on trade unions to make up the £12 through strike pay.
3. We still prefer (a). One strong reason for this is that not everyone treated as a striker is a willing participant in the dispute. There are a few people who may be locked out, but we do not think that is a significant problem. More importantly, there will be non-unionists who are laid off as a result of a strike. If these people have a direct interest in the outcome - ie they will benefit from the pay increase won by those who started the strike - they are treated in the same way as strikers. Already, these families receive £15 less than other SB recipients - eg the unemployed - because the wage-earner himself is considered to be involved in a trade dispute. If the family's entitlement is to be reduced by a further £12, they will be £27 worse off than other SB recipients. But they may be unwilling participants in the dispute, and have no source of funds. This seems unjust.
4. In short, to treat non-unionists in the same way as union members involves rough justice in order to buy a little less protest from the trade unions themselves. This amounts to giving in to trade union power in a way which many of our supporters will regard as cowardly.
5. If colleagues feel that (a) makes too sharp a distinction between union members (who would be deemed) and non-unionists (whose SB entitlement would be unaffected, except for the small changes in the disregards) there is a possible compromise. This would be to offer the £12 element to non-unionists as a recoverable loan only. This would

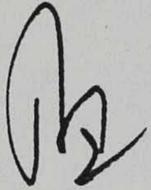
avoid a charge that the Government was discriminating unfairly between unionists and non-unionists. It would be discriminating, but the unionist would be expected to bridge the £12 gap through his union (ultimately, his own money paid in subscriptions) while the non-unionist was offered a £12 loan which he was obliged to repay. But we still think (a) is fairer and cleaner.

6. We also think it is important that the present decision should be seen as the first step in tackling the problem of state support for strikes. In the longer-term, the Government's aim should be to eliminate Supplementary Benefits for strikers' families, by shifting the burden to the unions. We favour making this clear as a long-term objective, and indicating that the deeming level will be increased gradually in real terms. If colleagues agree - or if they simply want to keep this option open - (b) will not do, since it would mean an increasing squeeze on the non-unionist unwillingly caught up in a dispute. The difficulty of squeezing this group further and further would, quite understandably, act as a barrier to any further increase in the deeming level. Some colleagues may not have thought about this because they don't really believe in moving towards complete elimination of SB for strikers' families. This point is important.

7. Finally, it is possible that someone may suggest that the way out of the difficult choice between (a) and (b) is to change the rules and make those laid off by a dispute eligible for full SB in future. This would be very dangerous. It would encourage unions to adopt the tactic of bringing a small number of carefully selected people out on strike, causing a larger number to be laid off - on full Supplementary Benefits. That is why we cannot remove the problem of the unwilling participants. We either treat them unfairly, (b), or we open ourselves to the charge of discrimination against trade union members, (a). We believe that this charge can be rebutted because most people know that trade unions are perfectly capable of paying strike pay. Indeed, they are rather more likely to be pressured into doing so under (a) - which explicitly refers to strike pay - than under (b). To the extent that (a) is more successful in making unions pay strike pay, the cost will become an important element in union decision-making about strikes. It is worth

Recalling that the ISTC simply could not have sustained strike pay for 10 weeks in the current steel dispute - atypical though this may be.

I am copying this minute to Keith Joseph.

A handwritten signature in dark ink, appearing to be 'JH' or 'John Hoskyns', written in a cursive style.

JOHN HOSKYNS

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PRIME MINISTER

FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

I know that this topic is to be discussed in Cabinet tomorrow. Naturally the issue must be decided on broad policy grounds.

The paper, however, gives no indication of the staffing implications of the measures proposed, nor whether they can be absorbed within authorised manpower totals, as I would hope.

U As I will not be present, could I suggest that whichever policy decision Cabinet comes to, Patrick Jenkin and I be asked to consider these staffing questions separately.

We need jointly to determine how many staff are involved, and whether they can be absorbed within the DHSS manpower figures for the relevant years.

I am copying this minute only to Patrick Jenkin and Sir Robert Armstrong.

P.C.

PAUL CHANNON
12 March 1980

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copy to Mark's set

Subject

THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

NOTE OF A MEETING HELD AT 10 DOWNING STREET,
ON MONDAY 10 MARCH 1980 at 6.00 pm.

Present: Prime Minister ✓

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for Social Services
Secretary of State for Trade
Minister of State, Treasury (Lord Cockfield)

Mr T P Lankester - 10 Downing Street
Mr A A Duguid - " " "

Sir Robert Armstrong - Cabinet Office
Mr P Le Cheminant - " "
Mr A S D Whybrow - " "

1. The meeting considered two minutes to the Prime Minister, one dated 6 March 1980 from the Secretary of the Cabinet enclosing a further report by officials, and one dated 7 March 1980 from the Minister of State, Treasury (Lord Cockfield) commenting on the proposals in the officials' report.

2. In discussion of the questions for decision (paragraph 10) in the officials' report, the following main points were made:

- i. Powers to be taken in the Social Security (No 2) Bill to "deem" strike pay of £12 a week for trade unionists.

The figure of £12 and the use of the Social Security (No 2) Bill were both agreed. It was suggested, however, that the measure should be applied to all strikers rather than just to trade union members. This could be done by reducing the supplementary benefit "requirements level" for strikers' families, and thus did not necessitate the

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"deeming" of non-unionists to be in receipt of strike pay, which the Cabinet had previously ruled out. The choice between deeming strike pay for unionists and reducing the requirements level for all strikers should be put to Cabinet as an open question without a recommendation from the Group.

- ii. Strike pay to be excluded from the "miscellaneous income" disregard. This was agreed.
- iii. Tax refunds to be excluded from the "miscellaneous income" disregard for both union and non-union members. This was agreed.
- iv. Union members involved in a trade dispute to be debarred from receiving "urgent needs payments". This was agreed as a corollary of the "deeming" option, on the understanding that the power would be available to change the regulations at a later stage to meet any unacceptable consequences which came to light.
- v. Supplementary Benefit payments to strikers to be made liable to tax from April 1982 through legislation in the 1981 Finance Bill. This was agreed.
- vi. The "double payments" problem. It was agreed that there was no need for a decision on this at the present, though the view was expressed that "double deeming" would not be desirable.
- vii. "Dynamising" the £12. It was agreed that the legislation should provide for the £12 to be increased automatically each year in line with the movement in supplementary benefit rates, with a provision for further variation upwards or downwards by Order.

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3. In further discussion, it was agreed that the Social Security changes should be introduced in November 1980 along with the annual supplementary benefit uprating; that the Chancellor of the Exchequer should announce the taxation proposal in his Budget Speech; and that the Chancellor of the Exchequer and the Secretaries of State for Employment and Social Services should discuss further the timing of the announcement of the Social Security proposals and the introduction of the Social Security (No 2) Bill.

4. The Prime Minister, summing up the discussion, said that the Secretary of the Cabinet should circulate a paper to the Cabinet for discussion on Thursday 13 March, inviting them to decide whether the proposed financial penalty should apply to all strikers or to trade union members only, and recommending them to endorse the other points which the meeting had agreed.

5. The meeting -

Instructed the Secretary of the Cabinet to circulate a memorandum to the Cabinet as indicated in the Prime Minister's summing up.

Cabinet Office

12 March 1980

Distribution:

Those present

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PRIME MINISTER

The Financial Treatment of Strikers and their Families -
Meeting at 6.00 pm on 10th March

→ SUPPLEMENTARY BRIEF

You will recall that the package of measures provisionally agreed at your last meeting included the proposition that union members involved in a trade dispute should be debarred from receiving urgent needs payments for hardship except for causes, such as fire and flood, unrelated to the strike. The argument was that without such a provision unionist strikers not in receipt of strike pay would claim hardship payments and nullify the purpose of the 'deeming' provision.

2. Late on Friday night we were approached by Parliamentary Counsel who is drafting the Social Security (No.2) Bill on the basis of instructions from DHSS based on that remit. Counsel pointed out that, although the Social Security (No.1) Bill codified and simplified the rules for Supplementary Benefit payments and greatly reduced the degree of discretion built into the present arrangements, it nevertheless provided an ultimate discretion to cope with really deserving cases (operated by the Chief Supplementary Benefits Office). He sought confirmation that his instructions to withdraw any discretion for the Government to act to help the families of striking unionists accurately reflected the Government's wishes. We naturally referred him to DHSS (and warned them of the query we had received) and Mr Jenkin will come to your meeting this evening briefed to deal with the point.

3. The essential issues are these:-

- (a) If the Government has no residual power, will the other available safety nets suffice to avoid well-publicised family disasters for which the Government might be blamed? There will be two such "official" safety nets: the residual duty on the Local Authorities to take children into care, or provide money for their support, in the absence of other sources of assistance;

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and the provision in the Supplementary Benefit system as revised, for providing additional help for the seriously ill - whether the illness affects the striker or a member of his family - by providing money to finance special diets or extra heating (though even with this help the total family income could still be well below the usual 'requirements level').

- (b) If Mr Jenkin were given an ultimate discretionary power - on the lines of that envisaged in the Social Security (No. 1) Bill - could he operate it in such a way as to avoid nullifying the purpose of "deeming strike pay"?

CONCLUSIONS

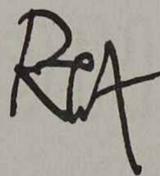
4. There are two possible outcomes on this point:-

Either

- (i) the Group can stand by its present recommendation;

Or

- (ii) the Group can authorise Mr Jenkin to introduce a measure of residual discretion to cope with extreme hardship provided he can do so in a way which does not nullify the main purpose of the "deeming" provision.



(Robert Armstrong)

10th March 1980

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PRIME MINISTER

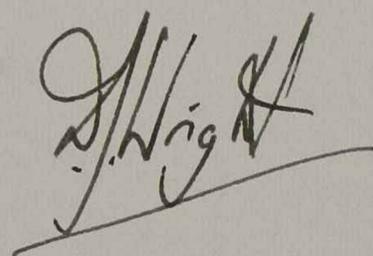
The Financial Treatment of Strikers and their Families

→ SECOND SUPPLEMENTARY BRIEF

We have now seen Lord Cockfield's comments to you on the proposals your Group will be looking at tonight. They are useful in setting out a clearly-reasoned approach to several of the propositions before the Group. Namely:-

- (a) In favour of eliminating tax refunds altogether from "disregards".
- (b) Against the "double deeming", post-1982, of tax refunds the striker will not get during the strike.
- (c) In favour of adopting a "Rooker/Wise"-type solution to the problem of updating the "strike pay disregard" from time to time.

2. They are less useful when it comes to the question of deeming strike pay for union members only (Lord Cockfield argues in favour of deeming the same offset for unionists and non-unionists alike) Because this issue was effectively settled at Cabinet discussion on 20th December last when Lord Cockfield was not present. It was pretty clear at that meeting that deeming strike pay - or the equivalent - for non-unionists was most unlikely to be acceptable either to the Cabinet or to Parliament.



Robert Armstrong

Approved by Sir Robert Armstrong
and signed in his absence.

10th March 1980

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PRIME MINISTER

THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

It is evident that the TUC is in an uncertain mood; it lacks moral authority, it is uncertain of its members' support and it feels instinctively, as I do, that the Government is making headway in the "battle of minds" on the shop-floor. Since nothing is more vital than to restore the balance of economic power it is important that we now consolidate these gains.

One measure concerns me in this context, namely your determination to discriminate against trades unions on strikers benefits. At this time I am concerned lest we should provide any cause which consolidates the membership of the unions behind the TUC. The evil which we seek to eradicate is strikes - not trade unions. It is unclear to me why a strike conducted by a trades unionist (merely because he has paid a subscription to a friendly society to help him in need) should be treated in a harsher way than a strike conducted by a non-unionist (who has chosen not to insure himself against a temporary loss of earnings). In practice non-unionists seldom strike, so the cases of hardship will not be frequent. Of course our Manifesto implied a deemed payment by the trades union, but it was expressed in terms of discouraging strikes, not discriminating in the benefits system against a particular class of citizen.

I realise that a proportion of our backbenchers would welcome discrimination against the trades unions on strikes, but I am very concerned at its wider consequences - and I still prefer a reduction in strikers' benefits generally.

I have not discussed this matter with Geoffrey Howe and Jim Prior outside our meetings, and I do not intend to raise it at our resumed meeting on Monday. But I wanted you to be in no doubt of my own firmly held views on this matter.

mt
Department of Trade
1 Victoria Street
London, SW1

7 March 1980

JKampse
JN
(Dictated by the
Secretary of State
and signed in his
absence.)

PRIME MINISTER

THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

You asked for my personal views on these proposals.

1. The first question is whether the measures proposed should extend to non unionists as well as to union members. The preferred solution of "deemed strike pay" seemed to point clearly to the rules applying to union members only as non-unionists had no union which could be deemed to make the payment.

There is a flaw in this argument as it amounts to defining the problem in terms of the solution instead of designing the solution to fit the problem.

2. The real reason for taking action is not to impose a penalty on the striker: nor to induce unions to pay strike pay. It is simply that it is offensive to most people that their money should be used to support strikers who are inflicting damage on them and on the community at large.

What matters therefore is removing, or substantially removing, payment by the state.

Looked at from this point of view it is a matter of indifference whether the striker is a member of a union or not.

3. Unions do have an important part to play in mitigating hardship suffered by their members. It is a proper function of unions to do this by paying strike pay and it is legitimate to encourage them to do so.

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But this is not and cannot be the end of the matter. The primary responsibility for supporting himself and his family rests upon the individual. Most people do in fact put money aside for a rainy day. Traditionally people who suffer misfortune are for limited periods able to cope with their difficulties with the aid if necessary of friends and relatives and indeed sympathetic tradesmen. It is reasonable, not unreasonable, that people who wish voluntarily to take action which temporarily deprives them of income should make provision for this in advance. It needs to be remembered also that where there are children, child benefit continues to be paid.

4. It is entirely reasonable therefore to assume that everyone who goes on strike whether a member of a union or not has made some provision for himself, either through his union or by other means. This points not to deeming strike pay, but to deeming that every striker has modest resources of his own which are available before he needs to call on the state for support. A deemed income of £12 a week universally applied does give effect to this approach.

5. The second question is that of "disregard" ie the practice that specified amounts of income should be left out of account in calculating the claimant's means in order to decide the benefit to which he is entitled. The only logical case for any such disregard is to avoid the administrative trouble of pursuing trivial items: or in the case of the wife's earnings to avoid creating matrimonial discord. Any payment by the community to strikers must be of the nature of a reluctant payment. In principle therefore there should be no disregard applied either to strike pay or to tax refunds. These are clearly funds which are available and they reduce pro tanto any legitimate claim on the state.

6. Third there is the question whether "urgent needs" payments should be made to strikers. In general I agree with the recommendation that they should not. But I would qualify this to a limited extent in the case of the non union member. The union member has his union to fall back on. The non-union member does not. Some ultimate hardship provision does

therefore need to be made in the case of the non union member. But such payments should be severely restricted. Thus where child benefit is received, no supplementation is called for and in the case of the wife any help given should be less than the normal scale rate. Moreover any payment should be by way of loan. These terms are so unattractive that it is unlikely that union members would try to pass themselves off as non union members in order to get them. Nor would the non union striker claim them unless he was really desperate. Finally there would be no union to try and force the employer to pay off the loans as the price of settlement.

7. Next taxation of supplementary benefit. I agree that from April 1982 supplementary benefit should be brought into the tax net and tax refunds deferred as proposed in the case of unemployment benefit. Both these decisions flow almost inevitably from the decisions already taken on unemployment benefit.

In the circumstances which would then exist, I see no convincing grounds on which one could justify deeming the striker to have received the tax refund when he patently had not; particularly when it had been our own action which has prevented him from receiving it. But there would rarely be a "one for one" duplication of benefit as the additional supplementary benefit would itself attract tax at 25% or 30%. I would defend this situation on the basis that we had withheld tax refunds during the strike and it was this which was the cause of public affront: and that looking at the situation as a whole, the taxation of short term benefits including supplementary benefit was a major step forward in making it less attractive not to work. I would firmly decide to do this: but I see no reason why we should spell it out, and certainly not before 1982.

8. Finally I suggest that the best way of uprating the £12 deemed income from time to time would be to follow the income tax precedent (the "Rooker/Wise" amendment) and provide that the amount should automatically be uprated each year by reference to the retail price index unless over-ridden by Order. We propose redrafting the Rooker"Wise provision this year

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to put it into better statutory shape and the same formula could then
be applied here.

I am copying this to the members of your informal Ministerial group and
to Sir Robert Armstrong.

Cockfield

LORD COCKFIELD

7 March 1980

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Faint, illegible text at the top of the page, possibly bleed-through from the reverse side.



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Ref. A01636

PRIME MINISTER

The Financial Treatment of Strikers and Their Families

(My minute to you of 6 March 1980 enclosing a further report by officials).

INTRODUCTION

1. Your meeting on 28 February reached provisional agreement on a package of measures to be introduced this year, and on the taxation of Sup Ben paid to strikers from April 1982. But the meeting wanted to see the package set out, and wanted a further chance to consider the relationship of the proposals for the periods before and after April 1982. They also wanted further advice on possible methods of "dynamising" the £12 level of deemed strike pay.

2. The purpose of the meeting on 10 March is to reach agreement on a package of measures to recommend to the Cabinet, if possible at their meeting on 13 March. The issues for decision are set out at paragraph 10 of the report.

HANDLING

3. You might open the meeting by inviting your colleagues to work through the issues for decision in paragraph 10 of the report. They fall into 3 groups -
- The package of measures for introduction this year (paragraph 10 items a-d, and paragraphs 1 and 4 of the main report);
 - The proposals for implementation from April 1982 (paragraph 10 e and f, and paragraphs 5-7 of the main report);
 - Dynamising the £12 (paragraph 10 g and paragraph 8 of the main report).
4. In addition the group will need to consider the timing of announcements.

Measures for introduction this year

5. You might take the meeting quickly through paragraph 10 items a-d, -
- a. Deeming £12 strike pay for trade unionists;
 - b. Exclusion of strike pay from the miscellaneous income "disregard";
 - c. Tax refunds to be similarly excluded from the miscellaneous income disregard;
 - d. Union members involved in a trade dispute to be debarred from receiving urgent needs payments except for emergencies unrelated to the dispute (fire, flood, etc - and under a different heading, the illness of a dependant and exceptionally the striker himself).
6. Items a, b, and d, go together, and I imagine the meeting will quickly confirm its agreement to them. But item c is optional, and you might check whether the meeting wants it. If this item is dropped, the effect is to leave tax refunds eligible for the miscellaneous income disregard as they are at present, and the effect of the remaining package would be to reduce the licence of trade unionist strikers by £12 a week from their present level (rather than £16) - before taking account of any strike pay which the unions may make available - and to leave non-unionists in the same position as now (rather than £4 worse off).

Measures effective from April 1982

7. The problem here is a familiar one. Ministers have already agreed to tax unemployment benefit and Sup Ben paid to the unemployed from April 1982 and it would be illogical not to tax Sup Ben paid to strikers from the same date. But the method of taxation will mean that the tax refunds for a striker on Sup Ben will have to be "frozen" until the strike is over. This could lead to double payments because he would get extra Sup Ben to compensate for the absence of tax refunds during the strike, plus the tax refunds themselves at the end. At their last meeting Ministers wanted to be sure that this problem, which will not arise until 1982, did not kick back in unacceptable ways on the proposals for this year. Officials do not believe that it will do so. They also suggest (paragraph 7 of the report) that the effective choice of action now for Ministers lies between -

- a. Accepting 'double payment' as a marginal consequence of bringing Sup Ben into tax and deciding to do nothing about it.
- b. Deferring a decision until the problem becomes 'live' in the run up to taxing Sub Ben in 1982.

8. There are no strong arguments either way. The first choice settles the matter. The second held over the possibility for the Chancellor of achieving a minor further reduction in public expenditure in 1982 at the expense of added complexity to the system and, no doubt, a further wave of controversy.

Dynamising the £12

9. At the last meeting, Ministers were hoping for a method which would i. enable the deemed level to rise faster than the RPI and ii. not require separate Parliamentary debate. These two objectives are in conflict. The possible solutions are set out in paragraph 8 of the report. The simplest possibility is that at 8 a - including a new deeming figure in each year's uprating order. You will want the views of the Secretary of State for Social Services on the best way of proceeding, and might then see what others present at the meeting think.

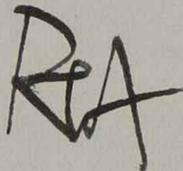
Announcements

10. I think the Chancellor of the Exchequer will want to announce the taxation of Sup Ben to strikers from April 1982 in his Budget Speech, when he will be announcing the taxation of benefits to the unemployed. I assume that you will want the Secretary of State for Social Services to announce the measures for introduction this year - but should this be done in launching the Social Security (No 2) Bill, or earlier? You will want his views and may wish to take the views of the rest of the group.

CONCLUSIONS

11. You will want to record the group's conclusions on paragraph 10 a-g of the report and on the timing of the announcements.

12. The next step will be to circulate a paper to the Cabinet. I should be grateful for your instructions as to whether you want to circulate it yourself, or whether you want me to do so. This turns on how heavily you want to be committed to what the group have agreed. A possible draft, in my name and anticipating some of the group's decisions, is attached to this brief.



ROBERT ARMSTRONG

7 March 1980

DRAFT

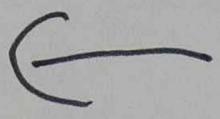
THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

Note by the Secretary of the Cabinet

1. The Cabinet considered the problem of supplementary benefit paid to strikers' families at their meeting on 20 December 1979 (CC(79) 26th Conclusions, Minute 6). They agreed that further consideration should be given to different possible approaches to the problem, with the proviso that non-trade-unionists should not be "deemed" to receive strike pay.

2. An informal group of Ministers under the Prime Minister's chairmanship has now considered the problem in detail. This paper sets out their conclusions. For convenience it refers throughout to "strikers". But in practice the proposals would need to apply to all those directly involved in trade disputes, whether on strike, laid off, or locked out.

EWB



3. The group recommends that the following measures should be included in the forthcoming Social Security

(No 2) Bill and implemented later this year:

a. Striking trade unionists who claim

Supplementary Benefit (Sup Ben) to be "deemed"

to be receiving £12 per week strike pay from

their unions whether or not they actually do so.

b. Strike pay, [and tax refunds] to strikers, to be

ineligible for the £4 per week miscellaneous

income "disregard" in the calculation of Sup Ben

entitlement.

c. Striking trade unionists to be debarred from

receiving any urgent needs payments for hardship

except where it arises from (fire, flood, or other

comparable) emergencies unrelated to the dispute.

*This refers to
actual persons on strike
who receive no benefit
at present*

But special payments related to the illness of a dependant (and very exceptionally of the striker himself) would continue to be made.

- d. The amount of deemed strike pay to be reviewed annually and a new figure prescribed in the annual Sup Ben uprating order. The intention would be normally to increase it somewhat more than the increase in the r.p.i.

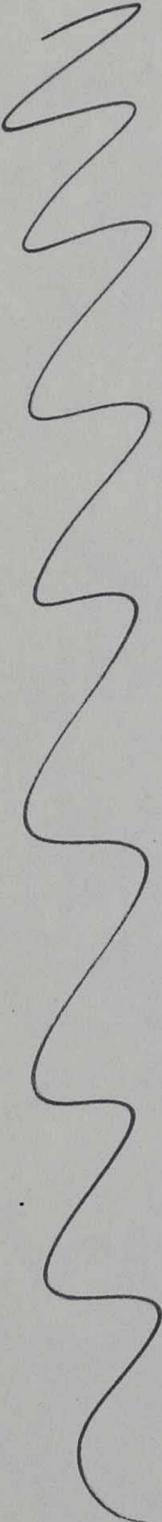
4. Assuming that the striker is receiving Sup Ben and tax refunds but no strike pay, the effect of the proposals at (a) and (b) above is to make him £16 per week worse off than at present if he is a unionist and £4 per week if he is not.

The proposal at (c) is necessary to prevent the "deeming" being rendered ineffective by increased claims for hardship payments.

5. The group further recommended that Sup Ben paid to strikers should be made taxable at the same time as Unemployment

Benefit and Sup Ben paid to the unemployed, in April 1982

following legislation in the Finance Act 1981.



6. The method of bringing Sup Ben into tax will mean that, from April 1982 the tax position of the strikers receiving Sup Ben has to be "frozen" during the strike, any refund being payable only after return to work. If no action is taken to the contrary, this will give rise to "double payments" as Sup Ben will be increased to compensate for the absence of tax refunds during the strike and the striker will also get the refund after returning to work.

← The approach to this problem will require further thought.!

But no decision on it is needed for the present and the existence of the problem does not, in the group's view, invalidate any of the proposals which they have put forward for decision now.

7. The Cabinet is invited to say whether it agrees to the proposals in paragraphs 3 and 5 above. If it does, it would

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be appropriate for the taxation of Sup Ben to strikers
from April 1982 to be announced by the Chancellor of the
Exchequer in his Budget Speech and for the measures for
implementation this year to be announced by the Secretary
of State for Social Services [as soon as possible].

ROBERT ARMSTRONG

Cabinet Office

7 March 1980

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Prime Minister

I doubt whether you need
work through the detailed
explanation: the guts of the paper
are in paras 9 and 10.

(John Hoskyns suggests we start
deeming at £15, rather than
£12.)

12/6/3

Ref. A01613

PRIME MINISTER

The Financial Treatment of Strikers and their Families

In the light of your informal group's meeting on 28th February I have had
the attached paper prepared setting out the package as provisionally agreed. A
further meeting of your Ministerial group to discuss this has been arranged for
Monday, 10th March, at 6.00 pm. A final paper could then go to Cabinet for
decisions on 13th March.

2. At the meeting on 28th February it was suggested that Lord Cockfield
might be asked to look at the proposals and inform the group of his reactions.
I am therefore copying this minute to him as well as to the Chancellor of the
Exchequer and the other Ministers who attended the meeting - the Home
Secretary, the Secretaries of State for Industry, Employment, Social Services
and Trade and the Chief Secretary, Treasury.

he will
attend
the meeting
P.

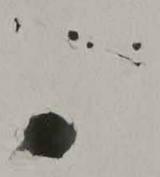
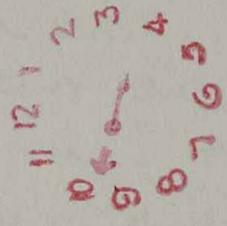
RIA

ROBERT ARMSTRONG

6th March, 1980

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THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES: NOTE BY OFFICIALS

The Prime Minister's meeting on 28 February reached provisional agreement on a package of measures to be introduced this year affecting the payment of Supplementary Benefit to strikers and their families. Subject to confirmation, if necessary at a further meeting of the Prime Minister's group, the intention was to recommend the package to Cabinet for adoption at their meeting on 13 March. The necessary powers would be taken in the forthcoming Social Security (No 2) Bill and the measures would come into operation later this year. The measures were -

- a. Trade Union members involved in a trade dispute and eligible to receive Supplementary Benefit to be "deemed" to be receiving £12 a week strike pay from their unions whether or not they actually did so.
- b. Strike pay to be ineligible for the £4 per week "miscellaneous income" disregard in calculating Supplementary Benefit entitlement. The elimination of strike pay from this "disregard" is a necessary corollary to "deeming" strike pay because otherwise, for a striker with no other source of miscellaneous income, the effect of the deeming would be reduced to £8 a week.
- c. Tax refunds to strikers to be similarly excluded from the "miscellaneous income" disregard. This would in effect be a bridging operation until Supplementary Benefit is brought into tax in 1982 and tax refunds therefore deferred until the strike is over. Otherwise the striker would be entitled, under the present arrangements, to retain the first £4 of tax refund without affecting his Supplementary Benefit entitlement. Once tax refunds are no longer available this possibility will not arise. The new arrangement would affect both union and non-union members alike and is the only point in the new package which bears directly on the non-unionist striker prior to the taxation of Supplementary Benefit in 1982.
- d. Union members involved in a trade dispute to be debarred from receiving any urgent needs payments for hardship except that arising from (fire, flood, or other comparable) emergencies unrelated to the dispute. This provision was seen as essential if the "deeming" of

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strike pay were not to be rendered ineffective by hardship claims. It was envisaged, however, that special payments related to the illness of a dependent and very exceptionally of the striker himself (eg for extra heating, special diet, visits to hospitals, etc) would continue to be made.

2. As an aid to their further consideration of the package Ministers asked for -

a. a statement of the effects of the package in the period prior to the taxation of Supplementary Benefit payments;

b. an illustration of the combined effects of the package and the taxation of Supplementary Benefit when this is introduced in 1982;

c. an examination of the compatibility of the proposals with any future action to tackle the problem of 'double payment' ie that, when Supplementary Benefit is taxed and tax refunds therefore deferred, Supplementary Benefit payments to strikers eligible for tax refunds would be higher than they would otherwise have been during the currency of the strike;

d. an examination of the techniques which might be used to increase 'deemed strike pay' in future while making the minimum necessary calls on Parliamentary time.

3. Answering the first three of these requests involves a degree of tedious, but inevitable, detail. We have set this out in full in Annex A. But for convenience a summary table is included in the concluding section of our Report at paragraph 9. Annex B looks at the related question of tax refunds.

4. The effect of the package before 1982: Example 1 in Annex A shows the position of a representative striker's family in receipt of Supplementary Benefit under present arrangements. It also shows, at Example 2, the effect on the family of deeming £12 a week strike pay and, in Example 3, of further removing tax refunds from the "miscellaneous income" disregard. It will be seen that in Example 2 the unionist striker will receive £12 a week less than now from public sources while the position of the non-unionist striker is unchanged. Removing the disregard for tax refunds in addition to deeming £12 a week strike pay (Example 3) reduces the Supplementary

Benefit payment for the unionist by £16 a week if he has tax refunds available to him and by £12 a week if not. The non-unionist with tax refunds available loses £4 a week. The position of the non-unionist with no tax refunds available is unchanged.

5. The situation after Supplementary Benefit is brought into tax in 1982: Ministers have decided to tax Unemployment Benefit and Supplementary Benefit paid to the unemployed from April 1982, in such a way that tax refunds or deductions will be deferred until return to work or the end of the tax year if that is earlier. The necessary legislation will be contained in the 1981 Finance Bill. Ministers have not yet taken a specific decision to tax Supplementary Benefit paid to strikers but are agreed that it would be illogical not to so tax it (with legislation similarly in the 1981 Finance Bill) when Supplementary Benefit to the unemployed is taxed. Example 4 of Annex A shows the position post-1982 for the representative family assuming that Supplementary Benefit is taxed in the same way as for the unemployed, so that tax refunds are deferred until the strike is over. Ministers have also so far assumed that the deferment of tax refunds to strikers in receipt of Supplementary Benefit will carry the consequence of similar deferment for strikers not in receipt of Supplementary Benefit. This is a reasonable assumption (it would be administratively very difficult to operate a system which sought to distinguish the two categories of strikers) but there are complications - notably of consistency of treatment with people dropping out of employment and not then claiming unemployment benefit - which will need to be sorted out before legislation is introduced in 1981. Any complication arising here, however, will not affect the basic proposition that, when Supplementary Benefit is brought into tax, both union and non-union members involved in a trade dispute and eligible for Supplementary Benefit will receive the same income during the strike post-1982 as they would under the proposed new arrangements pre-1982 (with Supplementary Benefit replacing current tax refunds). In addition, however, both will also receive tax refunds after the strike is over (though those who have been receiving Supplementary Benefit will get smaller refunds than if Supplementary Benefit were not taxed).

6. The problem of 'double payment': The foregoing paragraph shows that the taxation of Supplementary Benefit has the perverse effect (by deferring tax refunds and thus increasing immediate entitlement to Supplementary

Benefit during a strike) of giving strikers' families a higher total income over the period of the strike and its aftermath (though not during the strike) than they would have had if Supplementary Benefit had not been brought into tax. There are three ways of reacting to this problem -

a. Ignore it as an inevitable and marginal consequence of bringing Supplementary Benefit into tax - a process which over the whole Supplementary Benefit field benefits the Exchequer. And justify it, if justification is needed, on the grounds that the striking unionist receiving Supplementary Benefit ^{is} nevertheless ^{worse off} ~~receives less from public sources~~ than under present arrangements while the strike is in train (unless his union pays strike pay - which is the object of the exercise) and that striking unionists not in receipt of Supplementary Benefit (the great majority) are substantially worse off during the strike (because their tax refunds are deferred and not replaced by Supplementary Benefit) and no better off in total - again therefore putting pressure on the unions to pay strike pay.

b. Regard the striker (unionist and non-unionist alike) as being in receipt of tax refunds for the purposes of calculating his Supplementary Benefit entitlement ('double deeming'). The effects on strikers' incomes of this procedure are shown in detail in Example 5 of Annex A. The advantage is that the striker would not receive higher total income during and after the strike than he would receive under the new pre-1982 arrangements. The disadvantages are that -

i. Unlike 'deemed strike pay' there is no potential source of immediate income to be tapped to replace deductions in respect of future tax refunds. This course therefore carries the risk of genuine hardship cases arising - and attracting adverse publicity.

ii. Because individual tax circumstances vary there will be some strikers who will be able to claim that they are not in any case entitled to tax refunds. There is no simple way of keeping track of individual tax circumstances during a strike and taking them into account in Supplementary Benefit payments.

iii. In the case of the representative family described in Annex A the 'double deeming' route would virtually eliminate Supplementary Benefit payments to the unionist striker.

c. Make Supplementary Benefit payments during the strike without taking account of future entitlement to tax refunds but arrange to claw back Supplementary Benefit payments from tax refunds when the strike is over. The striker's family income during the strike would then be as in Example 4. But the additional Supplementary Benefit payments would in effect be a loan to the striker for later repayment. This approach would be administratively complex both for the employer and for DHSS and would need further examination.

7. Ministers could decide now not to attempt to tackle the double payments problem when it arises in 1982. Equally they do not need to come to a final view yet because none of the measures proposed for early introduction appears to inhibit future decisions on this issue. It is also relevant that the problem of 'double payments' already exists where, for whatever reason (eg a strike of pay clerks) tax refunds are not now available to individual strikers who have a legal entitlement to them. Such strikers receive both Supplementary Benefit and later tax refunds. The practice has not attracted criticism.

8. Dynamising the £12: The annual Supplementary Benefit uprating requires an order subject to affirmative resolution. The main possibilities for dynamising the £12 deeming level are -

a. To include a new figure in each year's uprating order. This would require a fresh decision each year but would leave Ministers free to decide the extent of the increase. It would not add significantly to the complexity of the order though it would no doubt be controversial.

b. To make the figure a set percentage of some stated Supplementary Benefit rate. This would mean that increases were a consequence of the increase order, not contained in it. But it would tie the increases to movements in Supplementary Benefits rates.

c. As b. but with provision for the percentage to be changed in the increase Order. This would provide flexibility at the price of drawing special attention to increases out of line with those in Supplementary Benefit rates.

Summary and Conclusions

9. This is a complex subject where a good deal turns on the detailed consequences of particular decisions. We have attempted in Annex A to show the underlying arithmetic in as simple a form as we can. But it may nevertheless be helpful if we summarise the main elements.

Resources available from public sources to a representative family during a strike.

	<u>Income</u>	<u>of which Sup Ben</u>
<u>EXAMPLE 1: NOW:</u> (No distinction between union and non-union member)		
i. with tax refunds available	£37.10	17.90
ii. without tax refunds	£33.10	25.10

EXAMPLE 2: PRE-APRIL 1982: £12 'deemed strike pay' for union members:

a. <u>union member</u>		
i. with tax refunds available	£25.10	5.90
ii. without tax refunds available	£21.10	13.10
b. <u>non-union member</u>		
i. with tax refunds available	£37.10	17.90
ii. without tax refunds "	£33.10	25.10

EXAMPLE 3: PRE-APRIL 1982: £12 'deemed strike pay' plus £4 tax refund not disregarded

a. <u>union member</u>		
i. with tax refund available	£21.10	1.90
ii. without tax refund "	£21.10	13.10
b. <u>non-union member</u>		
i. with tax refund available	£33.10	13.90
ii. without tax refund "	£33.10	25.10

Income of which Sup Ben

EXAMPLE 4: POST-APRIL 1982: £12 'deemed strike pay' Sup Ben taxed and tax refunds deferred

a.	<u>union member</u>	£21.10	13.10
b.	<u>non-union member</u>	£33.10	25.10

EXAMPLE 5: POST-APRIL 1982: £12 'deemed strike pay' Sup Ben taxed, the refund deferred and £11.20 tax refund also deemed

a.	<u>union member</u>	£9.90	1.90
b.	<u>non-union member</u>	£21.90	13.90

10. The questions for decision are whether to recommend to Cabinet that -

- a. Powers should be taken in the Social Security (No 2) Bill to 'deem' trade unionists involved in a trade dispute to be receiving £12 a week strike pay for the purposes of calculating Supplementary Benefit entitlement.
- b. As a corollary of a., strike pay should be excluded from the 'miscellaneous income' disregard (the combined effects of a. and b. being shown in Example 2).
- c. Tax refunds should be similarly excluded from the 'miscellaneous income' disregard for both union and non-union members (the combined effect of a. b. and c. being shown Example 3).
- d. Union members involved in a trade dispute to be debarred from receiving 'urgent needs payments' to protect the integrity of the decisions on {a. b. and c. above (see paragraph 1d).
- e. Supplementary Benefit payments to strikers to be made liable to tax at the same time as unemployment and related Supplementary Benefit payments are brought within the tax net in April 1982 through legislation in the 1981 Finance Bill (the combined effects of a. b. c. and e. being shown in Example 4).
- f. Either i. to agree now that no further action should be taken to avoid the 'double payments' problem which will arise in 1982;
 or ii. to defer a decision on this until next year (see paragraph 7).

Better to ←
defer a
decision - no
immediate decision
needed. R 6/7

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g. Either i. to agree that power should be taken to increase the level of 'deemed strike pay' by Order in future years;

or ii. to agree that the deemed strike pay should be expressed as a percentage of an existing benefit rate so that it would rise automatically without further Parliamentary process;

or iii. to agree that power should be taken as in g.ii. above subject to a power of override by Order.

Cabinet Office

5 March 1980

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FINANCIAL POSITION OF STRIKERS' FAMILIES

A. Assumptions

- married couple with two children aged 7 and 4
- husband earning average wage
- entitled to married tax allowance only
- tax refund of £11.20 a week (the period for which this refund will continue depends on the time of year - see Annex B - the weekly level is however a consequence of the operation of the PAYE tables)
- no strike pay or other resources, ie the union does not pay the "deemed" £12

B. Sup Ben requirements level for the family

for wife	-	£14.65)
children	-	£11.45) to be increased in November 1980
rent	-	£ 7.00)
		<u>£33.10</u>	⁽¹⁾

Note (1): if the husband were unemployed he would be assessed as having a personal requirement of £15.05 making a total family requirement of £48.15.

C. Income during the strike

EXAMPLE 1: PRESENT POSITION

(i) If the striker receives tax refunds

Tax refund £11.20 (of which £4 'disregarded' for Sup Ben purposes)

Child	
Benefit	8.00
Sup Ben	
Payment	<u>17.90</u> ⁽²⁾
	<u>£37.10</u> ⁽³⁾

Note (2): calculated as follows -

Requirement	33.10
less Child Benefit	8.00
less £7.20 tax refund not disregarded	<u>7.20</u>
	17.90

Note (3): in addition the striker's family may receive up to a further £6 a week without Sup Ben entitlement being reduced (£4 wife's earnings; £2 own earnings - to be increased to £4 in November).

(ii) If the striker has no⁽⁴⁾ tax refund his resources are -

Child Benefit	8.00
Sup Ben payment	<u>25.10⁽⁵⁾</u>
	33.10

Note (4): either because he has no back tax arising or because the employer does not pay. In the latter case the striker already has a tax refund to come at the end of the strike.

Note (5): calculated as follows -

Requirement	33.10
<u>less</u> Child Benefit	<u>8.00</u>
	25.10

EXAMPLE 2: £12 DEEMED STRIKE PAY AND STRIKE PAY ONLY REMOVED FROM THE 'MISCELLANEOUS INCOME' DISREGARD

(a) Resources available to the union member

(i) with tax refunds available

Tax refund	£11.20
Child Benefit	8.00
Sup Ben	<u>5.90⁽⁶⁾</u>
	£25.10

Note (6): calculated as follows -

Requirements	33.10
<u>less</u> £7.20 tax refund (£4 disregarded)	<u>7.20</u>
<u>less</u> Child Benefit	<u>8.00</u>
<u>less</u> 'deemed strike pay'	<u>12.00</u>
	5.90

(ii) without tax refunds available

Child Benefit	8.00
Sup Ben	13.10 ⁽⁷⁾
	<u>21.10</u>

Note (7): calculated as follows -

Requirements	33.10
<u>less</u> Child Benefit	8.00
less 'deemed strike pay'	<u>12.00</u>
	13.10

(b) Resources available to the non-union member

(i) with tax refunds available

Tax Refund	11.20
Child Benefit	8.00
Sup Ben	17.90 ⁽⁸⁾
	<u>37.10</u>

Note (8): calculated as follows -

Requirements	33.10
<u>less</u> £7.20 tax refund (£4 disregarded)	7.20
<u>less</u> Child Benefit	<u>8.00</u>
	17.90

(ii) without tax refunds available

Child Benefit	8.00
Sup Ben	25.10 ⁽⁹⁾
	<u>33.10</u>

Note (9): calculated as follows -

Requirements	33.10
<u>less</u> Child Benefit	<u>8.00</u>
	25.10

EXAMPLE 3: £12 STRIKE PAY 'DEEMED' AND BOTH STRIKE PAY AND TAX REFUNDS
REMOVED FROM THE 'MISCELLANEOUS INCOME' DISREGARD

(a) Resources available to the union member

(i) with tax refunds available

Tax refund	£11.20
Child Benefit	8.00
Sup Ben	1.90 ⁽¹⁰⁾
	£21.10

Note (10): calculated as follows -

Requirements	£33.10
<u>less</u> tax refund	11.20
<u>less</u> Child Benefit	8.00
<u>less</u> 'deemed strike pay'	12.00
	£ 1.90

(ii) without tax refunds available

Child Benefit	£8.00
Sup Ben	13.10 ⁽¹¹⁾
	£21.10

Note (11): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
<u>less</u> 'deemed strike pay'	12.00
	£13.10

(b) Resources available to the non-union member

(i) with tax refunds available

Tax rebates	£11.20
Child Benefit	8.00
Sup Ben	13.90 ⁽¹²⁾
	£33.10

Note (12): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
<u>less</u> tax rebate	11.20
	£13.90

(ii) without tax refunds available

Child Benefit	£ 8.00	
Sup Ben	25.10 ⁽¹³⁾	
	£33.10	

Note (13): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
	£25.10

EXAMPLE 4: MEASURES AS IN EXAMPLE 3 PLUS TAXATION OF SUP BEN AND
CONSEQUENTIAL DEFERMENT OF TAX REFUNDS

(a) Resources available to the union member

Child Benefit	£ 8.00	
Sup Ben	13.10 ⁽¹⁴⁾	
	£21.10 ⁽¹⁵⁾	

Note (14): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
<u>less</u> £12 'deemed strike pay'	12.00
	£13.10

Note (15): In addition the striker would receive at the end of the strike a tax refund of £11.20 per week of the dispute minus tax on the element in the Sup Ben payment attributable to the wife's requirements. On the example the net tax refund would be about £8 per week for the weeks when Sup Ben was paid.

(b) Resources available to the non-union member

Child Benefit	£ 8.00
Sup Ben	25.10 ⁽¹⁶⁾
	£33.10 ⁽¹⁷⁾

Note (16): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
	£25.10

Note (17): in addition at the end of the strike the non-unionist would receive tax refunds on the same basis as the unionist striker. However as his Sup Ben receipts would be greater the tax refund would be lower - perhaps £7 a week for the weeks during which Sup Ben was paid.

EXAMPLE 5: SITUATION POST-1982 IF EXPECTATION OF TAX REFUND TAKEN INTO ACCOUNT IN CALCULATING SUP BEN ("DOUBLE DEEMING")

(a) Resources available to union member

Child Benefit	£ 8.00
Sup Ben	1.90 ⁽¹⁸⁾
	£ 9.90

Note (18): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
<u>less</u> £12 'deemed strike pay'	12.00
<u>less</u> £11.20 'deemed' tax refund	11.20
	£ 1.90 ⁽¹⁹⁾

Note (19): about 50p per week of tax would be payable after the strike on this payment.

(b) Resources available to the non-union member

Child Benefit	£ 8.00
Sup Ben	13.90 ⁽²⁰⁾
	<hr/>
	£21.90

Note (20): calculated as follows -

Requirements	£33.10
<u>less</u> Child Benefit	8.00
less £11.20 'deemed' tax refund	11.20
	<hr/>
	£13.90 ⁽²¹⁾

Note (21): about £4.20 a week of tax would be payable after the strike on this payment.

TAX REFUNDS - PRESENT POSITION

STRIKE BEGINS	SINGLE MAN*	MARRIED MAN**
	Weekly refund	Weekly refund
Mid-May	£7.50 until 6 September when all tax is refunded	£11.20 until 12 July when all tax is refunded
Mid-September } Mid-January }	£7.50 for the rest of the tax year, ie until 5 April	£11.20 for the rest of the tax year, ie until 5 April.

*With previous weekly earnings of £120 and the single person's tax allowance only.

** With previous weekly earnings of £120 and the married man's tax allowance only.

Notes

1. When a person who has paid tax earlier in the tax year goes on strike his earnings for the year remain static but his allowances continue to accrue week by week. These allowances are set against those earnings, making the tax already paid disproportionate, so that a refund becomes due. The weekly refund represents the value to the basic rate taxpayer of his personal allowance and lower rate band of tax, ie the difference between a 25% and a 30% rate of tax on the first £750 of his taxable income.

2. The refunds in the table will therefore apply to all basic rate taxpayers who have only the single person's/married man's tax allowance. But they will be payable for longer periods (though not beyond the end of the tax year) to those with earnings above £120 per week and for shorter periods to those with earnings below this figure. Any additional allowances, eg for mortgage interest, would give rise to bigger weekly refunds.

5 March 1980



File re HMT
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DASH
CO
Mr Hoskyns

10 DOWNING STREET

From the Private Secretary

5 March 1980

B/F 7.3.80
for Mega 10/3.

Strikers and Supplementary Benefits

I am writing to confirm that there will be a further meeting to discuss the above at 1800 hours on Monday 10 March at 10 Downing Street.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Secretaries of State for Industry, Trade, Employment and Social Services as well as to David Wright (Cabinet Office) and John Hoskyns.

CS

John Chilcot, Esq.,
Home Office

John Chilcot

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Social Services

THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES

NOTE OF A MEETING IN THE PRIME MINISTER'S ROOM, HOUSE OF COMMONS,
ON THURSDAY 28 FEBRUARY 1980, at 6.15 p.m.

Present: Prime Minister

Home Secretary
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for Social Services
Secretary of State for Trade

Mr C Whitmore - 10 Downing Street ✓
Mr T P Lankester - " " "
Mr D Wolfson - " " "
Mr J Hoskyns - " " "

Sir Robert Armstrong - Cabinet Office
Mr P Le Cheminant - " "
Mr A S D Whybrow - " "

1. The meeting considered a report by the Official Group, MISC 33, which had been circulated under cover of a minute to the Prime Minister from the Secretary of the Cabinet dated 27 February 1980.
2. In discussion of the report's conclusions (paragraph 35) the following main points were made:
 - i. Deferment of tax rebates to strikers until the end of the strike. It was agreed that this measure should not be implemented until it became necessary as a consequence of taxing supplementary benefit (Sup Ben) paid to strikers from April 1982.

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- ii. Methods of avoiding extra Sup Ben costs arising from deferment of tax rebates. In view of the decision on (i) above, this issue did not arise immediately, though decisions would be needed in time for the taxation of Sup Ben to strikers from April 1982.

- iii. Taxation of Sup Ben paid to strikers from April 1982. This was agreed.

- iv. Deeming of trade unionists on strike to be receiving a certain level of strike pay, initially £12 per week. The principle of deeming for unionists only had already been agreed, though it was argued that there was a case for treating unionists and non-unionists alike. The initial figure of £12 was agreed, as was a proposal that it should be "dynamised", though the method of doing this would require further consideration.

- v. Debarment of unionist strikers from receiving any urgent needs payments for hardship except for causes unrelated to the strike. This was agreed.

- vi. Abolition of the £2 per week disregard for the striker's own part-time earnings. It was suggested that this disregard was of minor importance and was better left untouched.

- vii. Strike pay (deemed or real) to be ineligible from the miscellaneous income disregard. This was agreed. In view of the decision on (i) above, it was also agreed that tax refunds to strikers should be ineligible for this disregard.

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3. It was agreed that the Social Security measures should be the subject of main legislation in the forthcoming Social Security (No 2) Bill.

4. It was suggested that the package which had been agreed should be set out in a fresh paper for the group, so that they could consider in particular the relationship between the proposals for the periods before and after April 1982.

5. The Prime Minister, summing up the discussion, said that the group had reached broad agreement on the shape of a package to be recommended to the Cabinet. They would like to see the package set out in a fresh paper from the Cabinet Office, on which they would also welcome the views of Lord Cockfield. The Secretary of the Cabinet should arrange for this new paper to be circulated to the group as soon as possible. If Ministers on the group were content with it, it would form the basis of a memorandum to the Cabinet on which decisions could be made.

6. The meeting -

Took note, with approval, of the Prime Minister's summing up of their discussion, and instructed the Secretary of the Cabinet to proceed accordingly.

Cabinet Office

3 March 1980

Distribution:

Those present

Chancellor of the Exchequer

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Social Services

Ref. A01553

PRIME MINISTER

The Financial Treatment of Strikers and their Families

(My minute to you of today, enclosing MISC 33's second report)

BACKGROUND

This will be the second meeting of your informal Group on this subject. The first meeting on 12th February dismissed a number of possible options and asked the Official Group MISC 33 for more work on the rest. MISC 33's second report covers all the remaining taxation and supplementary benefit (Sup. Ben.) options, and gives the basis for a package. They still have to report on Option J, relating to unemployment benefit, but this is a separate issue which can be handled in different time.

2. At this meeting you will want if possible to get agreement on a package which could be put to Cabinet on 6th March.

HANDLING

3. The issues for decision are set out at paragraph 35 of the report. You might like to open the discussion yourself by recalling the previous discussion and suggesting that the Group should take each issue in turn. But I suggest that you start with the social security measures, items (iv)-(vii). I think agreement will be easier on these than on the tax measures, and the discussion of tax measures should be easier if the Group are clear about the social security provisions.

4. Item (iv) deeming of £12 strike pay for trade unionists. There are two separate issues here -

- (i) The choice between Option H (lower requirements level for all strikers) and Option I (deeming of strike pay for trade unionists). The choice is simple (paragraph 17 of the report). Option H would be better if you could not, or did not want to, distinguish between unionists and non-unionists. But, as you can so distinguish (and Cabinet last time wanted to distinguish), Option I is better, because it puts the onus of supporting strikers'

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families on to the trade unions. Officials have assumed that Ministers will choose Option I, and I imagine you will want the Group to confirm this.

(ii) The level of the deeming. At the last meeting, £12 per week was agreed as a provisional figure. You might ask the Group if they will now firmly agree on £12 as the starting point. There are two further questions - should it be increased later in real terms and should it be added to because of tax rebates - but these can best be dealt with later in the discussion.

5. Item (vi) debar unionist strikers from receiving urgent needs payments for hardship (except for causes unrelated to the strike). This is an essential adjunct to "deeming". Without it, strikers could get the "deemed" strike pay from DHSS in the form of hardship payments. An incidental effect will be that unionist strikers without dependants, e.g. the single, will have no claim on Sup. Ben. at all during a strike unless they are suffering from hardship (fire, flood, etc.) unconnected with the strike. You will want to get the Group's formal agreement to this proposal.

6. But there is a further point. This provision will cause hardship where unions do not pay. Officials consider that the policy line could be held with the deeming at £12 per week (and, by implication, with subsequent increases to reflect rising prices). But they point out that the pressures would be greater if the deemed level were raised in real terms. There is no need to take a decision on this at this meeting, unless the £12 level is seriously questioned or colleagues want to announce in advance that the initial deeming level is later to be raised in real terms. In either of these events the key issue (paragraph 19 of the report) is whether the public can be brought to blame the unions, not the Government, for hardship arising from the non-payment of deemed strike pay and the refusal of urgent needs payments.

7. Items (vi) and (vii) abolish the disregard of £2 per week of the striker's own part-time earnings, and make strike pay (deemed or real) ineligible for the £4 miscellaneous income disregard. I imagine that the Group will agree readily to

both these proposals. The first is a minor step, but clearly in the right direction. It penalises the striker as compared with the unemployed men. The second is important if deeming is to have its full effect (paragraph 25 of the report).

8. Legislation. All the social security changes discussed so far could be introduced by regulations. But the considerations in the report (paragraphs 30-32) point towards main legislation in the Social Security (No. 2) Bill, due for presentation in the last week of March. You will want the Secretary of State for Social Services's views on this. If the Group agree on main legislation rather than regulations, you might record policy approval on a provisional basis in advance of next week's Cabinet discussion, and invite the Secretary of State for Social Services to contact the Chancellor of the Duchy of Lancaster for drafting authority.

Tax Measures

9. You might then turn to the tax measures (i)-(iii).

10. Item (i), defer tax rebates to strikers until the end of the strike. This will have to happen once you are taxing Sup. Ben. to strikers (item (iii) below) but Ministers have not so far seriously considered introducing deferment on its own - partly because of a reluctance to hold back repayment of the striker's own money. However, it can be introduced this year (in the Finance Bill) and it is the only measure which gets at the majority of strikers who do not receive Sup. Ben. The effects for those who do receive Sup. Ben. are shown at Annex B, example 1. One problem is that, unless avoiding action is taken (item (ii) below), strikers on Sup. Ben. would be relatively better off at the end of the day as a result of deferment - because they get extra Sup. Ben. during the strike and the tax refund at the end - though they would all be worse off than at present during the strike (because the present arrangements allow them to keep £4 of the tax rebate without affecting their Sup. Ben. entitlement) and the unionists would be worse off than at present even when the tax refunds come through (because "deemed" strike pay exceeds the normal level of tax rebates and would not attract the £4 disregard).

11. You will want to see what the Group think of the proposal, perhaps starting with the Secretary of State for Employment. I suggest that you aim for broad endorsement of the proposal, though the Group may not want to take a final decision

until they have looked at the "double payments" problem - the "double deeming" issue which caused some confusion last time - (see below).

12. There is also the question of tax refunds to the unemployed. These will have to be deferred when Sup. Ben. to the unemployed becomes taxable in April 1982. However, if Ministers agree to defer them sooner for strikers, the question arises of tackling tax rebates to the unemployed at the same time. This issue was mentioned in the Chancellor of the Exchequer's "incentives" paper for E Committee (E(80) 17), but was not specifically discussed when this paper was before Tuesday's meeting of E. You need a decision soon (though not necessarily at this meeting) if there is to be legislation in this year's Finance Bill. The alternative is to let deferment of tax rebates to the unemployed wait for later decision. Deferment for the striker alone would (until April 1982) penalise him as compared with the unemployed man. You might see if the Group has a clear view one way or the other, but, if not, leave the matter undecided.

13. Item (ii), avoiding the "double payment" problem. The problem and possible solutions are discussed at paragraphs 10-13 of the report. The effects are at Annex B example 2 (before Sup. Ben. is taxed) and 4 (after Sup. Ben. is taxed). The policy question is - do Ministers want to create this additional drop in income for those receiving Sup. Ben. during the strike over and above that caused by deemed strike pay? The point about winning the publicity battle, which arose in discussion of the level of deeming, is of course highly relevant. You will probably find that the Chief Secretary, Treasury, and the Secretary of State for Trade support action to get payments from public funds during the strike as low as they will go. The Secretary of State for Employment and the Secretary of State for Social Services will probably argue the other way. Their arguments are likely to be on the lines that a very substantial drop in the incomes of those on Sup. Ben. puts the Government at risk during a strike to charges of callousness; that to defer tax refunds while expressly providing for them to be taken away will be hard to defend (however logical it may be); and that these ideas make the whole package too complicated for public presentation. You will want to see what the Home Secretary and the Secretary of State for Industry think.

14. A possible compromise might be built on the fact that the effect of measures to cope with "double payments" is much more pronounced before Sup. Ben. is taxed than it is afterwards - simply because the present levels of tax refunds are that much bigger than they will be when Sup. Ben. is brought into the account. So one possibility would be to go for a step-by-step approach, i.e. go for example 1 (which ignores the expectation of tax refunds) before Sup. Ben. is taxed, but for example 4 (taking them into account) when taxation of Sup. Ben. is introduced. If the Group favour that approach, you will want their views on whether it should be announced in advance or later as a possible second-stage operation.

15. Item (iii), tax Sup. Ben. to strikers at the same time as Sup. Ben. to the unemployed, i.e. April 1982. I assume that the Group will agree to this, but you will want to confirm that they do (the possibility of taxing Sup. Ben. for strikers before 1982 has been looked at but is apparently not on technically).

CONCLUSIONS

16. You will want to record the Group's conclusions on items (i)-(vii) above. In doing so it may be helpful to bear in mind that the options explored by officials can be assembled to give three different packages in terms of severity. These are:-

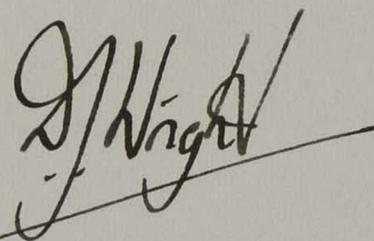
- (a) Deem £12 a week strike pay from this year but leave the deferment of tax refunds to follow naturally when Sup. Ben. is taxed in 1982 (essentially items (iii)-(vii)). This would concentrate action on the striking unionist in receipt of Sup. Ben. It could be toughened by providing that tax refunds should also be excluded from the £4 "miscellaneous income" disregard. If this were done those affected would receive the same income during the strike as under (b) below but would not, of course, receive accumulated tax refunds when the strike was over.
- (b) Deem £12 strike pay and defer tax refunds from this year (the above plus (i)). This would have the same effect as (a) above during the strike for those in receipt of Sup. Ben., it would be more generous for that limited

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group when the strike was over, but it would affect all strikers whether in receipt of Sup. Ben. or not from the beginning of the strike.

(c) The whole package, including double deeming.

17. The next step will be to circulate a Cabinet paper. I can draft a paper for you to circulate, commending the package to your colleagues, or for circulation under my own name recording what the Group have agreed. It depends how far you want to be positively and expressly committed in advance to the proposals which are put to the Cabinet. I should be grateful for your instructions on this point.



ROBERT ARMSTRONG

*approved by Sir Robert
Armstrong and signed in his
absence.*

27th February, 1980

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PRIME MINISTER

BENEFITS FOR STRIKERS

1. The aim we must keep in mind throughout this exercise is to tip the bargaining balance enough to discourage militant action - and the excessive power that its cost-free use gives trade union negotiators.
2. Deferring tax rebates would reduce strikers' cash flow by around £11 per week. This appears important because it affects the majority, who do not claim Supplementary Benefits (SB). But we must not exaggerate its importance, since the rebate will be received when the strike is over. Those who do not claim SB are, by definition, not very hard-pressed. Many of them have other sources of income within the family.
3. We believe it makes sense to bring benefits for strikers into the tax system - along with benefits to other groups. When this is done, it will be necessary to defer tax rebates during a strike for SB claimants and non-claimants alike. This change - which will affect strikers and other groups as well - can be made as a complete package in spring 1982 at the latest.
4. The paper contains a separate proposal to introduce legislation this year in order to defer tax rebates for strikers (and, if Ministers wish, for the unemployed as well) before the more general change is made to bring these benefits into the tax system. On balance, we doubt the wisdom of this early change:
 - (a) It would be politically much more difficult to sell the deeming proposals and the deferral of tax rebates at the same time. It looks like two measures designed to hit the same target.
 - (b) The moral justification for deferring tax rebates - to which individuals are entitled - is much less strong than the principle that unions should pay a share of the cost of supporting their members on strike.
 - (c) The deferral of tax rebates has two unfortunate side effects: it increases the number who are likely to claim SB and increases the amount of SB to which claimants are entitled.

5. If colleagues wish to proceed with the deferral of tax refunds this year, it will be necessary to increase the level of deeming in order to have the effect originally intended when £12 was discussed. Two alternative approaches are outlined in paragraph 13 of the paper. The simpler method would be to raise the level of deeming to £23 - which would still leave the unionist only £16 per week worse off than at present when the strike was over.
6. We favour establishing the principle of deeming this year without the complication of tax refund deferral, which should come as part of the package in 1982. However, it is very important that the level of deeming should be sufficient to provide a real incentive to some of the strikers to exert pressure on their union to provide strike pay. If tax deferrals are to be left to one side, we would recommend an initial level of deeming of £15.
7. Finally, I think it was agreed at the last meeting that the level of deeming should be increased progressively in real terms. This is central to the aim of eventually transferring to the unions the responsibility for the welfare of their members on strike. If £15 per week were widely adopted, this would become a major factor in the calculations a union had to make about striking in future. But there will be many cases where only relatively small numbers of a large trade union are involved in a strike. In the long run, we should aim to increase the financial burden of strikes and eliminate the idea that the state should help to finance them. (We would have liked to move straight to this position, but for various reasons colleagues were unwilling to contemplate this at the last meeting.) Unless there is a public commitment to increasing deeming in real terms over the years, it will be unlikely to happen and more difficult to explain the underlying philosophy.

I am sending a copy of this note to the Chancellor.



JOHN HOSKYNS

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PRIME MINISTER

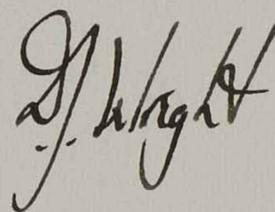
The Financial Treatment of Strikers and their Families

At your informal meeting of Ministers of 12th February, it was agreed that the Official Group MISC 33 should undertake further work on some of the options described in their report MISC 33(80) 5.

2. I now attach the Group's second report, MISC 33(80) 9.

3. This report is due to be discussed at your meeting at 6.00 pm on Thursday, 28th February.

4. I am copying this minute to the other Ministers who will be attending Thursday's meeting - the Home Secretary, the Secretaries of State for Employment, Industry, Social Services and Trade, and the Chief Secretary, Treasury and to the Chancellor of the Exchequer.



(Robert Armstrong)

*approved by Sir R. Armstrong
and signed in his absence.*

27th February 1980

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THE FINANCIAL TREATMENT OF STRIKERS AND THEIR FAMILIES - SECOND REPORT

Note by the Official Group MISC 33

INTRODUCTION

1. Ministers considered MISC 33's first report (MISC 33(80)5) at a meeting under the Prime Minister's chairmanship on 12 February.
2. Of the options set out in MISC 33(80)5, Ministers favoured a solution combining Option F (deferring tax refunds and making Supplementary Benefit for strikers' families taxable) with either Option H (reducing the Sup Ben Requirements Level) or Option I ("deeming" that union members received a certain level of strike pay, provisionally £12 in the first instance), together with, perhaps, some elements of Option G (altering the Sup Ben "disregards").
3. Officials were instructed to report further on the preferred solution, so that final decisions could be taken. In the following paragraphs we take each of the elements in turn.
4. Ministers also asked that Option J (narrowing the qualification for Unemployment Benefit) should be further considered as a separate issue. This will be the subject of a further report.

TAXATION PROPOSALS (OPTION F)

5. There are two separate proposals - deferment of tax refunds and taxation of Sup Ben. We start with deferment. Until recently it has been assumed that this would be introduced only as an element in the taxation of short-term benefits. But it could stand on its own if Ministers wished, and it would affect the majority of strikers who do not claim Sup Ben.

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Deferment of Tax Refunds

6. At present, almost all strikers are eligible to receive tax refunds weekly during the strike (see Annex A). Payment of such refunds, where due, is the legal responsibility of the employer unless he formally transfers the responsibility (and makes his records available) to the local tax office. In practice, the availability of refunds depends on whether or not the employer's pay clerks are on strike as well. In the current steel strike it is estimated that refunds have been available to only some 35 per cent of the workforce.

7. Main legislation, as well as regulations, would be needed to defer the present entitlement to tax refunds. It could be incorporated in this year's Finance Bill. This would mean that refunds could be deferred from a point later this year - say by November. The regulations would need to use the same broad definition of strikers as is used for Sup Ben, ie covering all those involved in a trade dispute including those locked out. In practice it would have to apply equally to unionists and non-unionists. Deferment of tax refunds during a period of unemployment could if Ministers wished be included in the same legislation. Ministers have considered this possibility (E(80)8th Meeting, item 1) but have not yet reached final decisions.

8. The responsibility for withholding refunds and paying them at the end of the strike would normally rest with the employer, without any intervention by the Inland Revenue. In general, the change would reduce the striker's financial resources during the strike, but would have no long-term detrimental effect on him because he would get the money later. It would be neutral in revenue terms (The position of strikers receiving Sup Ben is more complicated - see paragraphs 10-13 below).

9. Inevitably, some strikes will run across the end of a tax year. It would be administratively tidier in those cases to make refunds to strikers at the end of the tax year, rather than wait for the end of the strike. But it would seem arbitrary to support some strikers, but not others by tax refunds during the strike, and the refunds might help the strike to continue with a bigger

boost for the longer strikes. The best course might therefore be to withhold refunds from strikers until the strike is over, irrespective of the time of year.

Tax Refunds and Supplementary Benefit

10. Where a striker receives Sup Ben, withholding tax refunds will increase his entitlement to Sup Ben during the strike, because he will have less "miscellaneous income" to offset against it. But he will still receive the tax refund at the end of the strike.

11. We have considered whether anything could be done to avoid what would be, in effect, a double payment by the Exchequer. There are two basic possibilities -

(i) to claw back the extra Sup Ben from the tax refund at the end of the strike.

(ii) to reduce the Sup Ben payable during the strike by reference to the tax refund which will become payable at the end.

12. The claw-back option seemed attractive in principle but on closer examination we concluded that there were severe practical objections to it. It would impose a heavy workload on the employers who would have to make the calculations, and it would probably be incompatible in practice with any proposal to tax Sup Ben.

13. The alternative is to offset future tax refunds against current payments of Sup Ben. This could be done in two ways, either - for all strikers - by taking account of the accruals of tax refund in the Sup Ben calculation (even though they were not being paid at the time) or - for unionists only - by increasing the level of "deemed" strike pay. The effect of these approaches is shown in Annex B, examples 2 and 4. They would further reduce the income available to unionists and non-unionists during the strike and would thus tend to put greater pressure on them to return to work - though equally they would place greater pressure on Government to meet hardship claims, especially during

lengthy disputes. However, even without these actions, the remaining proposals (Annex B examples 1 and 3) leave all strikers worse off than at present during the strike, and unionists worse off than at present, though by less than the £12 deeming, even when the tax refunds come through. Ministers will wish to consider whether they want to take the further action in this paragraph in addition to that.

Taxation of Supplementary Benefits

14. Ministers have decided to tax Sup Ben paid to the unemployed, and at the meeting on 12 February it was argued to be inequitable not to do the same for Sup Ben paid to strikers' families. We assume that the taxation of Sup Ben for strikers' families would follow the pattern of taxation on Sup Ben to the unemployed in two important respects -

- (i) The payments for the striker's wife or other adult dependant (£14.65) would be taxable, but not the additions for children, rent, etc. Because Sup Ben tops up other income, this means that any benefit paid would be taxable up to the £14.65 level.
- (ii) The benefits would be taxable subsequently not currently, so the striker's tax position would be frozen while he was on strike, with neither refunds nor deductions of tax being made.

15. The taxation of Sup Ben paid to the unemployed is due to begin in April 1982, following legislation in next year's Finance Bill. The taxation of Sup Ben paid to strikers could be introduced at the same time.

16. The benefit would be brought into tax by ^{the} DHSS Benefit Office notifying the striker's employer of the amount of taxable benefit he had received during the strike. DHSS would pass this information to the employer as soon as possible after the strike had ended but there would necessarily be some delays in those offices with large numbers of claimants. This would mean in practice that the payment of tax refunds (to all strikers - not just those who had received Sup Ben) could be delayed for up to a month after the end of the strike.

SOCIAL SECURITY MEASURES

Choice between reducing the Requirements Level and deeming strike pay
(Options H and I)

17. These two options have the same effect of reducing the Sup Ben payable to strikers' families. But they achieve it in fundamentally different ways. The case for Option H rests essentially on the fact that strikes are of finite and usually short duration. It can therefore be argued that strikers' families need less money in total than the families of, say, unemployed Sup Ben recipients, who may be on the standard rates indefinitely. But this option fails to put the onus of supporting strikers' families on to the trade unions. Option I on the other hand involves saying that unionists' families shall receive less Sup Ben than others because they have a potential source of income - strike pay - not available to other Sup Ben recipients, and that there is a duty on trade unions to support their members.

18. We have assumed that Ministers will prefer Option I, which will mean that when striking union members claim Sup Ben they will be treated as if they had a certain level - provisionally £12 per week - strike pay whether the actual strike pay is in fact nil or anything up to that level.

19. If the deeming option is accepted it will be necessary to provide that the non-payment of the deemed sum by the union does not constitute hardship and therefore does not qualify for an urgent needs payment (though such payments would still be available for hardships unconnected with the strike eg fire and flood). Officials consider that this policy line could be sustained with the deeming at £12 a week. But the pressure for hardship payment would become stronger if the deemed level were set higher in real terms. To succeed in resisting this pressure, the Government would need to win public support for the view that it was the unions which were responsible for hardship resulting from the non-payment of strike pay.

20. Ministers may wish to consider whether the initial level of "deemed" strike pay should be increased broadly in line with inflation or whether the aim should be to increase the level in real terms with a view to its eventually

reaching the Sup Ben level, thus removing entitlement to Sup Ben. If they decide on the latter the question arises whether this intention should be announced at the outset.

Disregards (Option G)

21. The present disregards of income for Sup Ben purposes are: £4 of wife's earnings; £2 of the striker's own part-time earnings; and £4 of miscellaneous other income, including strike pay, tax refunds and war pension.

22. The Ministerial meeting on 12 February agreed that the disregard of wife's earnings should not be changed, and this disregard is not further discussed in this report.

23. The disregard of the striker's own part-time earnings follows that for the unemployed. It is given to the unemployed so that there is no total disincentive to earn. But the same argument does not apply to the striker. It would be a useful simplification to abolish this disregard for strikers. This could be done on its own or in combination with other changes.

24. There remains the £4 miscellaneous income disregard. Its effect is to leave the striker's family £4 better off when he has the income to disregard. In practice the disregard is absorbed by a tax refund in most cases at present. With deferment of tax refunds during the strike as discussed above, there arises the question of the application of the disregard to strike pay.

25. With the proposal to deem £12 strike pay, there is a strong case for not allowing strike pay - deemed or real - to qualify for the disregard at all. The aim of the new policy is to transfer to the unions some of the cost of supporting their members who are on strike, and to reduce Sup Ben even where the unions do not pay the amount of strike pay deemed. This effect will be lessened if the £4 disregard is kept. For example, a family might have a Requirements level of £30 per week. At present, they would be receiving £30 per week Sup Ben. If they are deemed to be receiving £12 per week strike pay, and the £4 disregard is abolished, the Sup Ben payments will drop by £12, to

£18 a week. But if the disregard is kept, they will drop by only £8, to £22 per week. Therefore, to maintain the full effect of the £12 deeming, we recommend that there should be no disregard for strike pay. Strike pay actually received up to £12 would not be offset against the new reduced entitlement.

26. Under this proposal, there will be no financial incentive for the unions to pitch strike pay at any level between £12 and the Sup Ben Requirements Level for the minority of their members on Sup Ben - between those levels the extra money will benefit the Exchequer, not the striker. It is comparatively rare for strike pay in large unions to be in this band - payments are usually below £12 or much higher, for example in selective strikes where the union provides full pay. If the Government wished to encourage payments somewhat above £12 it could do so by having a disregard for strike pay between £12 and say £16 per week. But this would not sit easily with the Government's general approach to social security as it would give more help to the less needy. It would be more straightforward - if Ministers wished - to increase the "deeming" level in real terms, and perhaps to give advance notice of this intention.

27. We recommend that the abolition of the disregard for strike pay should be achieved not by making the miscellaneous income disregard unavailable to strikers, but by excluding strike pay from the terms of the disregard. In this way a striker who had a war pension of say £4 per week could continue to benefit from it.

Strikers without Dependants

28. At present a striker without dependants is expected to make his final pay packet (plus any income during the strike) last at the rate of £16.50* a week. Only when his income has run out at this rate is he considered to be in urgent need on grounds of hardship. He will then get his income made up to £12.50* a week in supplementary benefit if he can get no help from anywhere else.

*These figures will be increased in November with the supplementary benefit uprating - probably to around £19 and £14 respectively.

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29. These rules will continue for the non-unionist. For the unionist, the amount of deemed strike pay is sufficiently close to the level to which supplementary benefit makes up his income, that it seems reasonable to say that unionist strikers without dependants should not be able to get any urgent need payments (except for fire, flood, etc). They should look to their union for support. This would be the same approach as is suggested for strikers with dependants in paragraph 19 above, the only difference being that the striker with dependants would receive reduced Sup Ben while the striker without dependants received none at all.

Social Security Legislation

30. All the supplementary benefit changes above (deemed strike pay; alteration or abolition of disregards; reduction of requirements; restriction on urgent need payments) could be achieved in regulations under powers being taken in the current Social Security Bill. The aim is for Royal Assent in May.

31. However, during debates on the Bill, the Opposition have been asking for assurances that any changes in the rules would be made in fresh main legislation, not, for example, by amendments at Report stage (due week of 17 March) or by regulations. At an earlier stage DHSS Ministers said that they did not completely rule out the possibility of using the Social Security Bill, but the timing is now such that any attempt to do so would be highly controversial.

32. If Ministers therefore decide to proceed by way of main legislation, they could use a further Social Security Bill which is due for presentation in the last week of March. The aim is for Royal Assent by the summer recess.

STAFFING IMPLICATIONS

33. The taxation proposals are neutral in their effects on the Inland Revenue, but would have an impact on DHSS. Deferment of tax rebates would increase the number of Sup Ben claims. Taxation of Sup Ben would involve a substantial staff effort. The precise level would depend on the nature of the strike (especially the number of separate employers involved and the number of strike centres). A preliminary estimate based on a strike involving

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a small number of employers and lasting 3 weeks is that some 700 man hours would be needed for 10,000 strike claims. The deeming proposal would lead to a small net saving in staff. There would be a reduction in staff effort because the number of successful claims would be reduced partially offset by the extra staff cost of the more complicated assessment process and of establishing whether the striker was a union member or not. There would also be an increase in the number of appeals.

Conclusions

34. Ministers may wish to consider a package on the following lines. The results are summarised in Annex B. Examples 1 and 2 show what could be done by next winter. Examples 3 and 4 show possibilities for the longer term.

35. A number of the elements of the package could be implemented on their own. Where there are links these are indicated. Ministers could therefore decide on certain measures for early announcement, leaving decisions on others to follow.

a. Tax measures

- i) Defer tax rebates to strikers until the end of the strike. Could be implemented this year if powers are taken in the 1980 Finance Bill. Could be applied to the unemployed at the same time if Ministers so decide.

- ii) The effect of deferment is to increase the total Exchequer cost of a striker on Sup Ben above what it would otherwise have been. There are ways of avoiding this extra cost (see paragraph 13) but Ministers will wish to decide whether they are worthwhile. If Ministers so wish, they could be introduced this year through regulations or main legislation in the Social Security (No 3) Bill.

15.5
14.05
30

- iii) Make the Sup Ben paid to strikers taxable. Could be implemented in April 1982 at the same time as taxation of Sup Ben to the unemployed. Presents administrative difficulties if i. is not implemented as well, though i. could be implemented on its own.

- b. Social Security measures (all could be implemented this year through regulations or main legislation in the Social Security No.3 Bill).

- iv) Deem trade unionists on strike to be receiving a certain level of strike pay, initially £12 per week, whether they actually do so or not. (The deeming could be at a higher level if Ministers so decide under item ii. above).

- v) Debar unionist strikers from receiving any urgent needs payments for hardship except for causes unrelated to the strike.

- vi) Abolish the disregard of £2 per week of the striker's own part-time earnings.

- vii) Make strike pay (deemed or real) ineligible for the miscellaneous income disregard.

Cabinet Office
26 February 1980

STRIKE BEGINS

SINGLE MAN*

MARRIED MAN**

Weekly refund

Weekly refund

Mid-May

£7.50 until
6 September
when all tax
is refunded.

£11.20 until
12 July when all
tax is refunded.

Mid-September }
Mid-January }

£7.50 for the
rest of the tax
year, ie until
5 April

£11.20 for the
rest of the tax
year, ie until
5 April.

* With previous weekly earnings of £120 and the single person's tax allowance only.

** With previous weekly earnings of £120 and the married man's tax allowance only.

Note

When a person who has paid tax earlier in the tax year goes on strike his earnings for the year remain static but his allowances continue to accrue week by week. These allowances are set against those earnings making the tax already paid disproportionate, so that a refund becomes due. The weekly refund represents the value to the basic rate taxpayer of his personal allowance and lower rate band of tax ie the difference between a 25% and a 30% rate of tax on the first £750 of his taxable income.

Financial position of striker receiving both Sup Ben and tax refunds

ASSUMPTIONS

<ul style="list-style-type: none"> - married couple, two children (aged 7 and 4) - husband earning average wage - entitled to married tax allowance only - <u>no strike pay</u> or other resources 	<p><u>Sup Ben requirements level</u></p> <p>for wife: £14.65</p> <p>children: £11.45</p> <p>rent: £ 7.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p>£33.10</p>
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Present position

<p><u>Weekly income during strike</u></p> <p>£37.10.</p> <p>(Tax refund not disregarded £7; Sup Ben £26.10 to bring income to requirements level (£33.10); £4 tax refund disregarded).</p>	<p><u>Weekly income per week of strike</u> (including income received after the strike)</p> <p>£37.10</p>
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EXAMPLES Possibilities for next winter - Sup Ben not taxed

<u>Element from package in conclusions</u>		<u>Weekly income during strike</u>	<u>Weekly income per week of strike</u>
i, iv, v, vii.	1(a) <u>Unionist</u> Tax refund withheld till after strike. £12 strike pay deemed.	£21.10 (Sup Ben - £12)	£32.10 (including £11 pw tax refund)
i.	(b) <u>Non-unionist</u> As (a) but no deemed strike pay.	£33.10 (Sup Ben)	£44.10 (including £11 pw tax refund)
i, ii, iii iv, v, vii	2(a) <u>Unionist</u> Tax refund withheld. Deemed strike pay £23 (£12 + £11 for tax refund)	£10.10 (Sup Ben - £23)	£21.10 (£10.10 plus £11 tax refund)
i, ii.	(b) <u>Non-unionist</u> Tax refund withheld. No deemed strike pay but expectation of tax refund taken into account.	£22.10 (Sup Ben - £11)	£33.10 (£22.10 plus £11 tax refund)

Possibilities for longer term - Sup Ben taxed (and tax refunds deferred)

<u>Element from package in conclusions</u>		<u>Weekly income during strike</u>	<u>Weekly income per week of strike</u> (including income rec'd after the strike)
i,iii,iv, v,vii	3(a) <u>Unionist</u> Sup Ben taxed and £12 deemed strike pay.	£21.10 (Sup Ben-£12)	£27.70 (£21.10 + £6.60 tax refund) ie £11 minus tax on £14.65 of Sup Ben)
i, iii.	(b) <u>Non-unionist</u> As (a) but no deemed strike pay.	£33.10 (Sup Ben)	£39.70 (including tax refunds of £6.60 pw, as above)
i,ii,iii,iv, v,vii	4(a) <u>Unionist</u> Deemed strike pay of £18.60. (£12 + £6.60 for tax refund)	£14.50 (Sup Ben - £18.60)	£21.10 (£14.50 + £6.60 tax refund)
i,ii,iii.	(b) <u>Non-unionist</u> Sup Ben taxed. No deemed strike pay but expectation of tax refund taken into account.	£26.50 (Sup Ben - £6.60)	£33.10 (£26.50 + £6.60 tax refund)

NOTES - See over.

NOTES

1. If the husband were unemployed the requirements level would include a further £15.05 for the husband, making a total of £48.15.

2. Disregards The examples show the family benefiting from the £4 miscellaneous income disregard in the 'present position' (they keep £4 of the tax refund) but not in the other examples because tax refunds are deferred and the disregard is abolished for strike pay. The position on the other two disregards is as follows -

i) Wife's earned income - £4 disregarded at present. No changes are proposed so if the family benefited from this at present their income would be £4 per week higher throughout the examples.

ii) Own part-time income - £2 disregard. The package in the conclusions abolishes this disregard for strikers (item (vi)) so if the family benefited from it at present their present weekly income would be £2 higher but their income in the other examples would be the same.

3. Child Benefit. This is offset against the Sup Ben payments, so the figures described as 'Sup Ben' in the table include an element of £8 child benefit and only the remainder is paid by the Supplementary Benefits Commission.

PART 2 ends:-

Misc 33 (80) 8

25. 2. 80

PART 3 begins:-

Misc 33 (80) 9

26. 2. 80

