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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:-

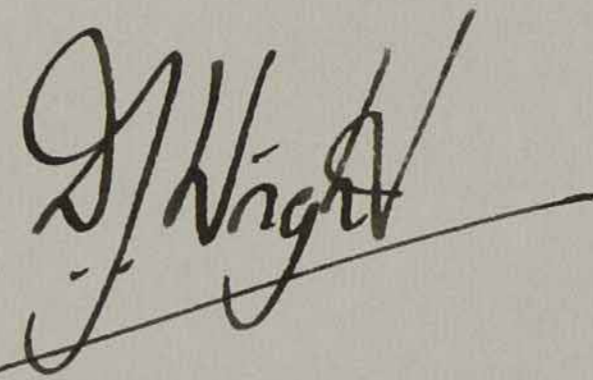
- (a) Deem £12 a week strike pay from this year but leave the deferment of tax refunds to follow naturally when Sup. Ben. is taxed in 1982 (essentially items (iii)-(vii)). This would concentrate action on the striking unionist in receipt of Sup. Ben. It could be toughened by providing that tax refunds 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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