

2 pgs

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