

Prime Minister 6A1

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11th March, 1980

✓ Mr Wright (L.O.)
Mr Dwyer
Mr Hoffman

Dear Tim,

CHILD BENEFIT

Further to our conversation of this morning, I will be writing you an income tax memorandum; he sees no way of substituting altering his preferred package.
enclose a note which Peter Kemp has prepared for the Chancellor about the current state of play on child benefit, including the amendment which Mr. Jenkin expects will be put down to his current Social Security Bill at the Report Stage and the scope for making changes at this stage to the Public Expenditure White Paper. The Chancellor thought that the Prime Minister might find this note useful.

Mr. Jenkin apparently intends to raise this matter at Cabinet on Thursday. The Chancellor had thought that a decision would have to be made today about whether to remove from the Public Expenditure White Paper the current statement about the uprating of child benefit. In the event, however, officials have advised that the statement could be excised after Thursday's discussion, if that were to prove necessary. For obvious reasons, the Chancellor would strongly prefer it if this fact were not to be revealed before Cabinet.

Yours,

Richard

(R.I. TOLKIEN)
Private Secretary

T.P. Lankester, Esq.,
Private Secretary,
10, Downing Street

If Mr Jenkin raises this in Cabinet, the Chancellor intends to resist strongly & any suggestion of an increase. However, you might want to consider with him whether an increase to £1 would make the income tax package more palatable - it would cost £160m in 1980/81. (The Chancellor

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr Bailey
 Mr Battishill
 Miss Brown
 Mr F E R Butler
 Mr Unwin
 Mr C D Butler
 Miss Peirson
 Mr Ridley
 Mr Cardona
 Mr Cropper
 Mr White

CHILD BENEFIT

The state of play is as follows. Mr Jenkin now expects that a reasoned amendment will go down to his current Social Security Bill for report stage (which is next Tuesday or Wednesday). This reasoned amendment will call for a restoration of the £4 so as to give price protection next November, and for continued annual price protection thereafter. Mr Jenkin will want to report to Cabinet on Thursday that this happening, and that this amendment (unlike Mr Andrew Bennett's somewhat similar amendment) is likely to get quite a lot of support, including Government backbench support. His officials tell me that he is minded nevertheless to resist, but he will want to seek his colleagues' views on the chances of defeat and, presumably, if the Government feel that these chances are too great to be risked, what alternatives might be open. Presumably the alternatives are either simply to accept the amendment, or to table some alternative Government amendment; for instance one might think in terms of the amendment as proposed but coupled with an a "Rooker-Wise" type override, or an amendment which allowed less than full price protection in November 1980, but went for full price protection thereafter; or a combination of the two; or some other variant.

2. A complication is that there is a further amendment going down which will make death grant non-contributory. This again, Mr Jenkin feels, is going to attract a lot of support and again the Government might be defeated on it. The

cost here is about £2½ million in a full year, though there may be some staff savings. Again Mr Jenkin is disposed to try to resist this, but again he will want advise colleagues' of the risk that exists here. On this matter, however, there is really no half-way house; the Government either accepts the amendment or it is defeated.

3. Ministers will want to consider the problem this presents. There is no doubt that there is a very big head of steam behind the wish for at least a £1 increase in child benefit next November, and indexing thereafter. What we should like, of course, would be the present position - 75p next November and no indexing; all this for the reasons set out in my minute of 3 March and supported by Sir Anthony Rawlinson in his advice dated 4 March. It is worth noting that if the Government cannot resist this amendment on child benefit, there must be serious doubt whether it would be possible to secure the necessary legislation for the other social security proposals built into the public expenditure savings - thus the 5 per cents off certain benefits and the abolition of ERS, for instance. From this and many other points of view it is clearly of the utmost importance that Government supporters should support the Government. Of course one can think of possible packages which might help avert a potential defeat next week - for instance a change of mind on the 75p and announcement in debate that child benefit will go up to, say, £1 in November; and/or acceptance of the death grant amendment. But we must advise against both these.

4. Meanwhile there is the question of the Public Expenditure White Paper. This at the moment actually refers to the 75p. Action, set out in paragraph 6 of my note of 3 March - simple deletion of references to 75p etc in the White Paper text but letting the arithmetic otherwise run - is still open, and remains open until the "read at press" stage of the White Paper which takes place on Thursday and Friday next. It would just be possible, therefore, in the light of the Cabinet discussion to make a change to the White Paper to delete the actual 75p. I attach the text of possible amendments. As I pointed out, however, the arithmetic remains built around 75p, so it could become known fairly quickly that an assumption of 75p had been made and (if some other figure were given) altered. But of course this would not become clear until after the other figure, whatever it was, had been announced and arguably could be seen then as a matter of only academic interest. You will want to consider urgently after

BUDGET CONFIDENTIAL

Cabinet on Thursday or not to get the attached changes made.

5. One point your colleagues will want to weigh is whether the notes on child benefit sent to you by the Chief Whip yesterday are having any effect.



E P KEMP

11 March 1980

PUBLIC EXPENDITURE WHITE PAPER

Page 6, line 1:

at present reads :-

"increase next November of 75p a week in child benefit and
50p a week in the"

alter to read :-

"increase next November in the rate of child benefit and
also in the rate of"

Page 108, para 8, lines 1-3:

at present reads :-

"8. Child benefit will be increased in November 1980 from
£4.00 to £4.75 for each child, and the additional payment for
single parent families (child benefit increase) will go up
from £2.50 to £2.80 a week."

alter to read :-

"8. Child benefit will be increased in November 1980 from
the present £4.00 for each child, and the additional payment
for single parent families (child benefit increase) will also
go up from £2.50 a week."