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CH/EX. REF. NO. B(81)12

NOTE OF A MEETING HELD AT NO.11, DOWNING STREET AT 4.10 P.M.
ON WEDNESDAY, 18 FEBRUARY, 1981

Present:-

Chancellor of the Exchequer
Secretary of State for Social Services
Mr. R. Radford (DHSS)
Mr. S. Hepple (DHSS)
Mr. P. Kemp

Mr Cornex
1. Mr Pickering
2. Mr Kelt
3. Mrs Chadwick (Caring)

The meeting considered the Secretary of State's proposals for the Budget, as mostly set out in his letter of 16 February to the Chancellor.

2. The Secretary of State said that he had been asked many times recently when, following the report of Scott, the Government were going to take action on public sector pensions. So far as an indexed gilt was concerned, it seemed, from his viewpoint, simply to be pushing the problem on to the next generation. The Chancellor was also concerned that early action be taken on Scott: he was considering the case for introducing a less than 100 per cent uprating limit and/or increasing employee contributions. On indexed gilts, he thought that whilst there were disadvantages, there were probably more than offsetting advantages.

Social Security Uprating 1981

3. The Chancellor said that the Q4 1980 to Q4 1981 price forecast would be 10 per cent, giving a benefits uprating factor of 9 per cent. He proposed that child benefit be increased by 50p, i.e. price protection, and said that income tax thresholds were unlikely to do as well as this. Mr. Jenkin said that, in

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the circumstances, he would be happy to defend this increase.

Supplementary Benefit Children's Rates

4. The Chancellor said that the widening gap between CB and Supplementary Benefit Children's Rates (SBCR) was inimical to the Government's policy on work incentives. Though the 1 per cent abatement in the November 1981 uprating would apply to SBCR (but not, of course, to CB), the higher base from which these rates were uprated would mean that the cash lead of SBCR would increase. He would therefore favour some further abatement. The Secretary of State said that the expenditure at stake was minimal, so that the only possible argument was one of incentives. Given 2½ million unemployed and the fact that only one-third of the recipients of SBCR were capable of work, it did not seem very persuasive. Further abatement would fit ill with the Government's commitment to maintain the safety net for the very poor and jeopardise backbenchers' support for 'why work' measures generally. The Chancellor wondered whether a compromise might not be further abatement accompanied by an increase in the one-parent family supplement. The Secretary of State said that this would bear harshly on the disabled and families where neither parent was working. Whilst child benefit only represented a contribution to the costs of bringing up a child, the children's supplement was supposed to provide full compensation. It was agreed that the question of the gap between CB and SBCR should be remitted to the Bailey group or the group on work incentives for further study.

One-parent Benefit

5. It was agreed that this benefit should be increased from £3 to £3.30 per week, i.e. price protection.

Family Income Supplement

6. The Secretary of State said that FIS was one of his Department's most cost-efficient benefits, though its take-up was low. It was agreed that officials should consider further

whether improvement in the rate could be accommodated within the Department's existing PES allocation.

Mobility Allowance

7. It was agreed that MA should at the least be increased from £14.50 to £16, i.e. price protection. The Secretary of State said that Mr. Stirling of Motability had pressed for the tax exemption of MA, rather than increasing its cash value in real terms. However an increase in the cash benefit would be more widely spread and whilst an increase to £16.50 would cost an extra £4 million in a full year, tax exemption would cost £10 million. It was therefore agreed that the MA should be increased to £16.50 and should remain taxable.

X

Motobility

8. The Chancellor said that he would be zero-rating, for VAT purposes, car adaptation for disabled drivers and donations for ambulances, wheelchairs and specialised aid for the disabled. He did not feel able to agree to Mr. Stirling's request that motobility be exempted from VAT and car tax, though the measures he was proposing represented a significant gesture. The Secretary of State accepted this package.

X

Invalidity Benefit

9. The Secretary of State said that making good the 5 per cent reduction in the real value of invalidity benefit from November 1981 would represent a major achievement in the International Year of the Disabled (IYD). Invalidity benefit should not be brought into tax before unemployment and sickness benefit. The Chancellor thought that a decision to defer bringing these benefits into tax strengthened the case for using the Social Security Act to deduct a further 5 per cent from benefits. The Secretary of State said that such a decision would mean that sickness, unemployment and invalidity benefit would have been reduced by 10 per cent in

real terms by November 1981. The full effects of the 5 per cent reduction would only be felt after the final disappearance of the earnings related supplement in January 1982. A further 5 per cent reduction could provoke very considerable criticism of the Government indeed. Moreover, it would lead to increased claims for supplementary benefit, which would mean more staff, at a time when the Department would have to be dealing with the consequences of the lost savings from the ESSP. He would want to refer any such proposal to colleagues. He would however be prepared to leave restoring the 5 per cent on invalidity benefit until April 1982, rather than November 1981. This would avoid an addition to public expenditure in 1981-82 and, if invalidity benefit were to be brought into tax from April 1982, this package would have a negative PSBR effect, since the revenue on taxation would substantially exceed the cost of making good the 5 per cent.

Invalidity Allowance

10. The Secretary of State asked that the 5 per cent be restored on the invalidity allowance at a cost of £1 million in 1981-82 and £4 million in a full year. This would be of presentational benefit in the IYD. The Chancellor agreed to consider this sympathetically.

Long-term Rate of Supplementary Benefit

11. The Secretary of State wanted to improve the rate of long-term supplementary benefit, at a cost of £65 million, though this was not for the 1981 Budget. He envisaged finding about £30 million towards this from additional saving on the ESSP scheme, which would at the same time meet a point about certification about which the doctors felt strongly. It was agreed that this could be examined further in the context of the PES. The DHSS wanted to alleviate the "invalidity" trap at a cost of £15 million. Again, this could be put forward in the context of the PES.

CHANCELLOR OF THE EXCHEQUER

Supplementary Benefit and Redundancy Pay

12. The Chancellor explained his concern that redundant workers were being discouraged from investing their redundancy pay in new or expanding local businesses because of the rule that persons having free assets of more than £2,000 were ineligible for supplementary benefit. The Secretary of State shared the Chancellor's concern but said that his local offices simply did not have the skills necessary to distinguish between genuine and non-genuine cases. Moreover, worthy though the objective might be, the social security system was not an instrument for promoting enterprise and local employment. His Department might be able to help if others, for example, the Department of Industry, were to provide certificates indicating that redundancy pay was being used for some genuine purpose. Even then, there might be problems with other categories calling for exemption from the £2,000 rule. The Secretary of State noted that another problem was that which arose when the unemployed moved to becoming self-employed, thus losing their entitlement to supplementary benefit and jeopardising their ability to sustain their new venture.

R.I.T.

R.I. TOLKIEN
19 February 1981

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