

Mr. McHugh
Mr. Hodgson

Prime Minister

am very much
opposite this extra
commitment. It is a real
burden to future and we
should not
do it.

Prime Minister

The Chancellor and I have been discussing what form of statement I should make at the time of the Uprating Order for child benefit which I am bringing before the House next Monday. In his letter to Mr William Waldegrave, the Chancellor gave a clear indication that some statement of intent would be made, though it would of course be one with sensible provisos.

We consider that the statement of intent should be on the following lines:-

"The Government ^{are} ~~is~~ of course committed to the child benefit system and it is their intention, subject to economic and other circumstances, to uprate child benefit each year so as to maintain its value".

The Chancellor and I have agreed that final decisions on the uprating of child benefit would of course be taken at the time of the Budget, when the "economic and other circumstances" to be considered would include the Chancellor's decisions on personal tax levels; though it would be made clear that this did not mean we necessarily undertook to maintain any particular relativity between child benefit and personal tax levels.

It would also be made clear that the flexibility represented by the words "subject to economic and other circumstances" was real, and that if circumstances did in fact demand it we should make use of it. It is important that there should be no misunderstanding on this point, as this would lead to possible accusations of bad faith later.

The provision for maintaining the real value of child benefit, which is at present in the contingency reserve, would then

be transferred to the social security programme. This would not, of course, pre-empt the annual decision as to what should be done since there is no statutory obligation to uprate child benefit each year. It would however be presentationally helpful, and would add nothing to total public expenditure.

Is this really so? Think it through

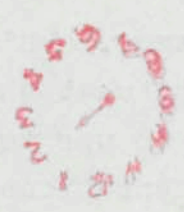
We both feel that such a commitment is about the least which we can proffer, and subject to your approval I will therefore use the above form of words when the Uprating Order is presented.

I am copying this minute to Cabinet colleagues.

PJ

PJ

conqueror



24 JUL 1980

CONDENSATOR

**ORIGINAL IN POLICY UNIT
- TO BE REPLACED.**

*Social Services,
Prime Minister*
The Chancellor and Mr
Jordan have agreed the
form of words. In view
of the qualifications ("subject
to economic and other
circs."), it seems O.K.

Acquiesced

Prime Minister

R 28/7

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Control

R

28/7

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PJ

28.7.80!



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With

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R.

My

3 April 1980

Dear Don,

CHILD BENEFIT BRIEF

Thank you for your letter of 2 April and the photocopy of your Secretary of State's comments on the Child Benefit Brief. As you say, his comments are straightforward and raise no problems. A revised final and agreed version incorporating them has therefore been sent to the Paymaster General's office for distribution to Ministers.

I am copying this letter to Chief Whip, and Bernard Ingham and Tim Lankester at No 10.

There will be further material on this before very long, in particular on the longer-run historical comparisons.

A.

John

Adam

ADAM RIDLEY

SPEAKING NOTE FOR MINISTERS - CHILD BENEFIT

The revised notes attached on Child Benefit replace those circulated under the same title on 26 March with PMG Note 20/80, which were subsequently withdrawn.

CHILD BENEFIT - KEY POINTS

1. 1 November 1980 increase of 75p a week per child is generous.
 - Means £9.50 per week for 2 child family, £12.50 if parent is single.
 - will have higher real value than child support^{had} for great majority of basic rate tax payers after upratings of '76, '77, '78. For typical couple (2 children under 11, basic tax payers) old family allowances (FAM) and child tax allowances (CTAs)^{now} only worth £6.90, revalued CBs £9.50. For the poor who pay no tax, CBs worth even more, since CTAs useless to them.
 - the 75p increase, 18½% up since April 1979, represents an annual rate of increase of just over 11% - the same as the 11% increase in the value of the personal tax allowance for the married couple allowing for abolition of 25% tax band. Burdens thus shared fairly in difficult times.
2. This is a family Budget.
 - when CB is uprated in November, Budget tax changes and CB together will give smallest cash sums to singles, more to marrieds, most to those with children.
 - we are doing much else for hard-pressed families. FIS and help to lone parents improved. Supplementary benefit fully price protected, fuel scheme helps poor with children under 5. /See p2/
3. Very difficult to justify bigger increase
 - CB a massive £3.3bn programme, of which the 75p rise costs £400m. That shows our commitment when so much else is being cut. A £5 or £5.20 rate would cost £135m or £1½ bn on top.
 - Real question of priorities to be faced. CB cannot take absolute priority over everything else - hospitals, education, police, tax cuts. With falling output, less available to share out. CB has kept a very fair share
 - CB goes to all 13 million children in the UK, whether parents are rich or poor. So, though it helps "why work"/incentives/poverty, an expensive method. When times are difficult and little money available, selective help via FIS etc the best approach.
4. Why not Index CB - eg to April 1979 value, or from November 1980?
 - April '79 not a fair date to measure from. Shift to CB from CTAs and FA long and complex, and must be looked at over a period. The £4 increase in April '79 can be looked at as the normal November '79 increase moved forward (for special political reasons)
 - However, rigid indexation from that date, or any other in the future inappropriate in principle. As Budget Speech said (Col 1449, 50 Hansard), some measure of price protection needed in tax and social security. But full protection must be at cost of those who have none. Unfair when national incomes falling. CB and children not Governments only priority.

Summary of extra help for hard pressed families

a. For low earners, where extra help has most impact on incentives, a big improvement in FIS:

- Average payment up by one-third from £7.50 to £10.00 per week, and twice as much as £5 level inherited in 1979.
- Income limit for a two child family for FIS up from £60.50 to £74.00 per week.
- Up to 10,000 new families entitled to FIS.
- NB All FIS families get free prescriptions and exemption from other health service charges so not hit by the increases there.

b. For lone parents:

- 50,000 will benefit from the FIS improvements.
- Extra 50p on the lone parent family premium putting it up from £2.50 to £3.00, on top of CB. Up 50% since May 1979.
- Higher earnings disregard for lone parents on supplementary benefit.

c. Families on supplementary benefit

- Automatic entitlement to £1.40 a week (£72.80 a year) fuel allowance where there is a child under 5. Covers all fuels.
- Much more help directed to children as part of the Social Security Bill changes.
- Supplementary benefit rates fully price-protected with the 16½% increase.

Comparison of Government's measures with child support in earlier years

Families better off with Child Benefit than they would have been if child tax allowances and family allowances had continued.

Attached table shows that four typical families of basic rate taxpayers all better off in November 1980 than if former system of CTAs and FAMs had been retained and revalued in line with prices. /Comparison with old system unfavourable only in a small number of cases.7

<u>Key Conclusion of Table:</u> Couple paying income tax at basic rate with -	1976/7 CTA & FAM Rates Revalorised	Value of CB in Nov '80	Difference
1 child aged 3	£ 2.90	£ 4.75	£1.85
2 children aged 4, 6	£ 6.90	£ 9.50	£2.60
3 " " 3, 8, 11	£11.40	£14.25	£2.85
4 " " 3, 8, 11, 16	£16.10	£19.00	£2.90

Those paying no tax gain even more advantage from CB.

- And remember a one parent family gets £3.00 a week on top of this from November.

FAMILY SUPPORTCOMPARISON OF FAMILY ALLOWANCES/CHILD TAX ALLOWANCES/CLAWBACK(revalorised since 1976/77) with Child Benefit, for Illustrative Families

	<u>1 child</u> <u>aged 3</u>	<u>2 children</u> <u>aged 4 & 6</u>	<u>3 children</u> <u>3, 8, & 11</u>	<u>4 children</u> <u>3, 8, 11, 14</u>
	<u>£ per week</u>			
<u>1978/79</u>				
Revalorised FAM/CTA	2.40	5.80	9.40	13.20
CB + Residual CTA				
April 1978	2.90	5.90	9.00	12.40
November 1978	3.60	7.30	11.10	15.20
Excess of Nov '78 CB over old system	1.20	1.50	1.70	2.00
<u>1979/80</u>				
Revalorised FAM/CTA	2.40	5.90	9.70	13.70
CB for Year	4.00	8.00	12.00	16.00
Excess of CB over old system	1.60	2.10	2.30	2.30
<u>1980/81</u>				
Revalorised FAM/CTA	2.90	6.90	11.40	16.10
CB To 24 Nov '80	4.00	8.00	12.00	16.00
From 24 Nov	4.75	9.50	14.25	19.00
Excess of Nov '80 CB over old system	1.85	2.60	2.85	2.90

Figures assume that FAM, CTAs and clawbacks are all revalorised by the RPI change consistent with the "Rooker-Wise" formula used for basic rate tax thresholds. They also take account of changes in the basic rate of tax.