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PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
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Mr Scholar - No.10

ADVISERS' BUDGET BRIEF

... The attached brief is being made available in the Whips' Office.  
It has been prepared by Adam Ridley and me incorporating official  
advice.

ROBIN HARRIS

1983 BUDGETA. INTRODUCTION

The two basic goals of the Government's economic policies, as stated clearly in the 1979 Election Manifesto, were to reverse our relative economic decline, and to re-establish sustainable economic growth. The main means to those ends have been to master inflation through monetary discipline, to reduce the burdens on private enterprise by reducing public spending, borrowing and taxes, and to create real incentives for both entrepreneurs and ordinary citizens by reducing direct taxes in particular. Although progress has been less than it was reasonable to expect at the time of the last election, it has been striking both when judged against the unexpectedly difficult conditions which have prevailed and, recently, when contrasted with the progress of our competitors.

2. This Budget proposes measures and policies which reinforce those taken in the past. In giving particular assistance to the income taxpayer it balances the massive assistance given to industry in the 1982 Budget and the Autumn Statement, and by the recent fall in the pound. But it contains as well an exceptional range of smaller proposals which will be of great benefit not only to industry generally, but to entrepreneurs and small companies, construction, charities, the needy (widows, the disabled, the lower paid, the unemployed), hard-hit regions (such as the West Midlands), and families with young children.

3. It deals with two important social security issues. The  $2\frac{3}{4}\%$  overshoot of benefits arising in the last up-rating will not be fully recovered, and a substantial part of the over-payment should remain in beneficiaries hands hereafter. Recent problems with uprating in 1980, 1981 and 1982 having demonstrated conclusively the inherently controversial and uncertain nature of the "forecast" method of uprating, the Government is proposing to return to the reliable "historic" method based on actual inflation.

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4. This Budget is being announced in conditions of unusual uncertainty above all because of the state of the oil market. It has therefore to be recognised that changing conditions in coming months may necessitate further policy changes. There is no way of telling now whether these might be favourable, as last autumn, or less so, as in the autumn of 1979 and 1980.

5. However it is already clear that the economy is in so much stronger a position than it was when we inherited it that it will be far better placed to ride through any difficulties than most of our competitors. Public spending and monetary policy are now under firm control which is admired rather than questioned by the markets. Though there is further to go in mastering inflation, the risks of its resurgence become steadily more remote and there should be few difficulties in passing through the slight and transient increase in retail price inflation in prospect later this year. The balance of payments is strong, and the pound has ridden through three periods of major turbulence and several sharp falls - during the Falklands crisis, when the oil prospects weakened in late 1982, and the current OPEC crisis - without the crises of confidence and need for "measures" from the Government which would have been inevitable in the past. Internationally the UK is now viewed a "strong" economy, which is leading the world recovery.

B. PROGRESS IN THE YEAR TO MARCH 1983

6. The prospect at the time of the 1982 Budget was for continued recovery, following the modest rise in the previous year. The measures taken both then and in the autumn were designed to strengthen it. With an expanding world economy, falling inflation and interest rates, strong growth of real domestic demand (including investment) and lower oil prices than previously foreseen, a GDP growth of 1½% was projected for 1981-82. In the event GDP only grew by ½%. But this disappointing performance was, in fact, rather creditable when the circumstances are taken into account. Looking at the home economy:

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- Total domestic demand grew by 2½% in real terms, fixed investment by 3½%.
- Inflation fell to 6% (RPI) rather than 9% projected for 1982 QIV, and nominal interest rates fell very sharply too, by 7% from a Clearing Bank rate peak of 16% in early 1982, which dwarfs the subsequent 2% increase to 11% since November.

7. The shortfall in GDP growth arose first because of a sudden and unpredicted weakening in world activity. In December 1981 OECD were projecting world trade in manufactures to grow by 5% in 1982. In the event it fell by around 3%. This meant that UK markets were some 8% below what was recently foreseen, the equivalent of about 2% off GDP. This is sufficient to explain the unforeseen setback to the recovery in 1982, though of course other factors were at work in both directions. Despite the contraction in world trade, UK exports of manufactures nonetheless grew by ½% in 1982 and so our share of world trade probably rose from (roughly) 7¼% to over 7½%. This increase in market share was well above that generally forecast. That, and a growth in imports which was modest given the fast expansion in home demand, makes judgements that the £ is "uncompetitive" rather questionable.

8. The second major reason was resumed stock reduction, which set in as industrial sentiment worsened here and in other countries from the summer onwards along with world trade prospects.

9. Over this period trends in GDP, industrial production, investment and the state of business sentiment were all markedly better in the UK than in other major industrial countries:

Real changes 1982/1 in	UK	Major industrial countries	Source: OECD
GDP	+½	-½	
Industrial production	-1	-4½	
Fixed Investment	+3½	nil	

Industrial Sentiment: Changes in balances in Standard EC survey of attitudes of Enterprises

ALL INDUSTRIES	UK	EC of 10
Production	-4.6	-10.7
Order Books	+7.8	- 4.1

Source EC: Euro-statistics. "Data for Short Term Economic Analysis" 1983 No 1 pp.37-40.

C. INDUSTRY ACT PROJECTIONS FOR 1983/4

10. These are described in Section 3 of the Red Book. Key points are

- GDP to grow by 2% 1983/2, 2½% p.a. by early 1984; and manufacturing output by broadly similar rates.
- Real demand to grow by 2½% in 1983/2, 3% by early 1984.
- Real investment to continue to grow by 3½% p.a., with the fall in manufacturing halting before the end of the year.
- Exports to rise by 1% this year, 5% by 1984 H1.
- Retail price inflation to rise slightly to about 6% p.a. either side of the year end; but the general underlying trend of inflation, as indicated by the "GDP deflator", to carry on downwards.

11. Unemployment trends can never be projected with confidence, even less so after a period in which output per head in manufacturing has improved dramatically, and far faster than forecast (12½% up since end 1980). Thus, while productivity in periods of low capacity utilisation is normally lower than in previous periods of high output, output per man hour is now 9% higher than at its previous peak in 1979 H1. Output growth at the 2-2½% p.a. rates of the MTF5 would, as §3.39 of the Red Book suggests, be consistent with no great change in unemployment hereafter.

12. However distressing and undesirable, it should be noted that today's high unemployment levels have in part to be viewed as the tragic by-product of the highly desirable process of raising competitiveness in a world recession. Higher employment today at the expense of competitiveness and orders tomorrow would not be a sensible goal, even in the short term, let alone any serious time horizon.

13. These Industry Act projections obviously depend particularly on a view of the world recovery; on oil markets; and on progress in solving the problems of the world financial system.

- World Economy. the forecast assumes 1½% GDP growth in '83 in the 'major 6' industrial countries, and 1% growth in world trade.

- Oil revenues, which depend on both the  $\pounds$  oil price and the  $\pounds/\$$  exchange rate, are expected to run at about  $\pounds 8$ bn in '83/4 and '84/5, over  $\pounds 1\frac{1}{2}$  bn higher than foreseen last year. They then ran  $\pounds 1.8$  bn above the Budget forecast, one of the main reasons for the low PSBR outturn for '82/3.
- World Financial System. With the recent agreement to enlarge IMF resources in place [thanks very largely to the UK's initiative in greatly advancing the timetable], with progress being made in the affairs of debtor countries in difficulties, and lower real oil prices, there is justification for cautious optimism over world recovery.

#### D. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

14. The MTFS this year is, in essentials, little changed from last year's:

- the monetary ranges for the next two years remain 7-11% and 5-10%, and 5-9% has been added for 1985/6;
- the aggregates targeted remain  $M_1$ ,  $\pounds M_3$  and  $PSL_2$ , which have grown within the 8-12% range for '82/3;
- the inflation prospect over the period to 1985/6, which is measured by the GDP price index (or "deflator") falls from an increase of 7% in 1982/3 to 5 $\frac{1}{2}$ % in 1984/5;
- with the inflation and money growth assumed there is room for sustained, prudent growth of real demand and GDP over the three years 1983/4, 1984/5 and 1985/6, at a rate of around 2 $\frac{1}{2}$ % p.a. sufficient, probably, to stabilise unemployment;
- the public spending plans and course of tax revenues on this basis indicate a path for the PSBR which continues to fall as a percentage of GDP from 2 $\frac{3}{4}$ % in 1983/4 to 2% in 1985/6, and which should make for further reductions in interest rates;
- within that framework monetary policy will continue to be managed "taking account of all the available evidence, including the exchange rate, structural changes in financial markets, swing behaviour and the level and

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structure of interest rates, to maintain "monetary conditions that will maintain inflation on a downward trend". [Red Book §2.13].

- given the proposals in the Budget, positive fiscal adjustments of £½ bn in 1984/5 and £4 bn in 1985/6 indicate scope for further reductions in taxation in due course, on the assumptions above.

E. THE BUDGET JUDGEMENT

15. The 1982 MTFs and Budget proposed a PSBR for 1982/3 of £9½ bn. The latest outturn is put at £7.5 bn. This estimate is unavoidably tentative, with much revenue and spending still to be accounted for at a phase in the financial year when prediction is at its most difficult. The reasons for the substantial PSBR undershoot in prospect are complex, as section 5 of the Red Book explains; and it is not obvious that they will be repeated another year. They include:

- Local Authorities. £2bn overspending on current account, £1½bn underspending on capital - mainly a definitional phenomenon, as (higher-than-expected) receipts from land and council home sales are deducted from the total of their gross investment. LA borrowing down by about £¾bn below forecast.
- Public Corporations. Borrowing over £½bn less than projected, mainly because of substantial underspending on capital, and stock reductions.
- Oil revenues £1½bn higher than projected, due both to higher average oil prices than foreseen, and a lower pound. They thus account, alone, for over three-quarters of the net undershoot.

16. Given that over-estimation of oil revenues is less likely in 1983/4, major efforts have been made to reduce underspending in LAs and Nationalised Industries and that the recent estimates for 1982/3 and their lessons have been taken into account in the projections for later years, the £8bn PSBR proposed for 1983/4 is, on present information and assumptions, a reasonable central estimate.

Within that PSBR measures are proposed with a PSBR cost

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of around £1½bn in 1983/4 and £2bn in 1984/5 after indexation. In revenue terms the tax and spending measures will cost (£6m):

	<u>1983/4</u>	<u>Full year</u>
from indexed base	1.7	2.2
from un-indexed base	1.9	2.7
extra spending above PEWP programmes; (met from contingency reserve)	¼	(1984/5) ½

F. THE BUDGET'S MAIN COMPONENTS

17. The tax measures can be broken down into the following elements [£ bns, to nearest £50m]

<u>Base</u>	<u>1983/4</u>		<u>Full Year</u>	
	<u>Indexed</u>	<u>Unindexed</u>	<u>Indexed</u>	<u>Unindexed</u>
Income Tax allowances and thresholds	-1.2	-2.0	-1.5	-2.5
Corporation, Capital and other income and direct taxes	-0.3	-0.3	-0.35	-0.4
NIS	-0.2	-0.2	-0.4	-0.4
Excise duties	-	+0.6	-	+0.6
<b>Total</b>	<b>-1.7</b>	<b>-1.9</b>	<b>-2.2</b>	<b>-2.7</b>

18. A second approach is to divide the measures between persons and industry. On this basis, as against income tax, excise duties and other changes worth on an indexed basis some £1½bn in 1983/4, and £1.4bn in a full year, the Budget announcements directly favouring business include:

DIRECT TAX AND SPENDING CHANGES FOR OIL AND NON-OIL BUSINESS £m

	<u>'83/4</u>	<u>Full Year</u>
Corporation Tax	40	70
NIS cut	215	390
Small firms & Enterprise	60	190
Technology & Innovation	40	120
<b>Sub-total</b>	<b>330</b>	<b>715</b>
Plus North Sea Oil tax reliefs	115	200*
<b>TOTAL</b>	<b>470</b>	<b>970</b>

\* Average rate for next four years.



However these figures understate the full benefit to industry, since they do not allow for the unquantifiable impact on the construction industry of a higher mortgage interest relief ceiling, and some £60m of extra spending in 1983/4 on improvement grants, enveloping etc., or a number of other smaller measures.

19. Moreover, in assessing the impact of these and other recent proposals on industry and persons, other recent policy changes need to be borne in mind:

- (1) The overall cut in NIS from 3½% to 1% will be worth £2bn alone to industry in a full year.
- (2) The Autumn measures and this Budget will <sup>together</sup> be worth £1¼ bn to industry on a conservative estimate, as much as the 1982 Budget.
- (3) Employers have been very largely exempted from financing the substantial increases in national insurance contribution rates which have taken place since the election. Had the overall NIC increase been shared equally, as was once normal, between employers and employees, employers would now be paying £1bn or so more.
- (4) Were employers to carry the same share of total taxes as in 1978/9, they would be paying £3bn more than now proposed. That is only a partial measure of the assistance derived from Government policies, which have also helped by decisions on public spending, energy prices etc.
- (5) Industrial borrowers gain, it is generally reckoned, some £300m for each 1% reduction in interest paid on their overdrafts, which fell sharply last year.
- (6) The recent fall in the exchange rate of around 14% will greatly help exporters and those competing against importers.

Section J below gives further details of the help given to industry recently and in the Budget.

20. These are not the only reasons why it is misleading to analyse narrowly the precise allocation of the Budget proposals between industry and persons. For

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- (1) Income tax reliefs relieve the pressure for higher wages, and assist industry substantially at one remove.
- (2) Over the lifetime of this Government, the pressures on industry have been so great that the most immediate priority has been to increase the personal tax burden, though both income tax and national insurance in order to shelter industry from tax increases.

Now that the pressures on industry are abating, it is clearly right to take the first substantial step to lighten the burden on individuals, at a time when it is possible to accompany this by still further and significant help to business and enterprise.

G. PERSONAL TAXATION AND CHILD BENEFIT

21. Chancellor's concentration of available resources on raising personal tax thresholds appropriate now given that the 1979 Budget dealt with the worst features of tax rates, and thresholds were not indexed at all in 1981 at a time when inflation was much higher than today. And

- need to tackle 30 year growing problem of poverty and unemployment traps and incentives generally;
- non-indexation of thresholds in 1981, so as to cut borrowing and beat inflation while allowing interest rates to fall, makes important to restore ground lost by personal taxpayers then.

Main Changes

22. Income tax rates unchanged. But:

- all main allowances and thresholds raised by about 14 per cent, about 8½ per cent more than indexation requires;
- investment income surcharge threshold raised to £7,100 (£850 increase - £500 more than indexation);
- widow's bereavement allowance extended to year following bereavement (see below: 6).

<u>Cost (£m)</u>	<u>Full Year</u>
1983-84	
1,170	2,000

Effects

1. Change in Allowances and Thresholds

23. Thresholds 5 per cent higher in real terms than the levels inherited from Labour in 1979, 8½ per cent up on 1982-83.

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- Real increase in thresholds for second successive year reduces average rates of income tax for all taxpayers.
- Weekly income tax cut in cash for basic rate taxpayers will be £2.02 per week (married) and £1.27 a week (single), £1.67 and £2.65 respectively for the retired.

Best way of helping low paid: 750,000 fewer low paid (and pensioner) taxpayers, compared with if indexed only, and 1.25 million less than if tax thresholds not altered; although cash benefits obviously greater to highest paid, percentage of income taken in tax drops more for, and so proportionately helps most, the lowest (and highest) paid, who lost most from failure to index thresholds in 1981-82.

2. Tax and NIC Changes on Incomes (see 7 for mortgage interest relief)

24. Cannot predict precisely whether people better or worse off in 1983-84, after tax and NIC, than 1982-83: depends on prices and earnings movements. Also for those with mortgages, tax payments may be affected by MIRAS and effect of tax underpayment in 1982-83. But if earnings rise by 6½ per cent (assumption given by Government Actuary) and prices by 6 per cent (FSBR 1983-84 forecast) then joint effects of higher allowances and thresholds for income tax, on one hand, and increase in NIC (0.25 per cent of earnings increase for contracted-in if below upper earnings limit) on the other will give:

- immediate effect of cut in income tax greater than effect of NIC increases for all but a minority (900,000);
- percentage of income paid in income tax and NIC combined will be unchanged or lower in 1983-84 than in 1982-83 for all paying contracted-in NIC. Will rise slightly for some contracted-out;
- on above illustrative (GAD and FSBR) assumptions, everyone will have higher real net earnings than in 1982-83 and low paid among those gaining most.

NB Changes in National Insurance Contributions not part of the budget, though coming into force at same time as budget tax proposals. It is wrong to lump together their effect and that of the budget, as Labour and other critics tend to do.

25. But NB two special groups gain more:

- families with children get additional gain from increase in child benefit from November (see 10 below) and so get bigger increases in real net income than childless couples;
- elderly get more advantage than most taxpayers for second year running because they gain from increase in tax threshold but do not pay NIC.

3. Comparisons with 1978-89

26a. Basic rate down from 33p to 30p since 1978-79; top rate down from 83 per cent to 60 per cent; threshold for 60 per cent tax more than 60 per cent higher in real terms - but 25 per cent reduced rate band abolished and NIC rate (contracted-in) up from 6½ per cent to 9 per cent (contracted-out up from 4 per cent to 6.85 per cent), needed to pay for higher SS costs.

26b. Allowances have been increased by 5 per cent in real terms since 1978-79 and are about same proportion of average earnings as then. Real take-home pay (on GAD assumptions on earnings) higher on average in 1983-84 than in 1978-79 at all earnings levels. NB Allowances could not be increased enough to restore the 1978-79 burden of tax and NIC as a proportion of income.

4. Incentives, Poverty and Unemployment Traps

27. Budget helps incentives by:

- taking 1¼ million people out of tax (¾ million if just indexed);
- raising allowances to improve 'poverty trap' (ie where workers through tax, NIC and withdrawal of means-tested benefits enjoys little or no net reward from higher gross income);
- taking 200,000 people out of higher tax rate;
- supplementary benefit increase in November by less than likely increase in net income in work and big increase in child benefit (see below) helps incentives.

## 5. The Elderly

28. Because of increase in tax thresholds and not paying any NIC, pensioners do better than most taxpayers from budget; age allowance increase for 65s and over gives weekly tax cut of £1.67 (single) and £2.65 (married). Pensioners with basic state pension only will pay no income tax. Single pensioners can have £12 income per week above basic pension without paying tax and married pensioners £19 per week above; this increase in 'clear water' between tax threshold and pension level means percentage of their other income going in tax will be cut.

29. Half of Investment Income Surcharge payers are over 65: they benefit from £850 increase in thresholds, £500 over indexation. There will be about 250,000 fewer elderly taxpayers than in 1982-83 (under statutory indexation, would have been about 50,000 more than in 1982-83).

## 6. Widows

### 30. Earlier action to help widows:

- 1979 budget exempted war widows' pensions and widows' child dependency allowances from tax;
- 1981 budget introduced a bereavement allowance to benefit widows in tax year of husband's death.

### 31. Now:

- allowance increased to £1,010 (14 per cent up on 1982-83, 9 per cent more than indexation); and extended to cover year after husband's death, as well as actual year of bereavement, because many widows' income is fully covered by other allowances in the year of death. Cost of extension £25million in 1983-84, £30 million full year;
- will help more than 100,000 widows compared with only 45,000 benefiting from WBA at present.

## 7. Mortgage Interest Relief

32. Mortgage interest relief is from April 1983 to be given at source (MIRAS) rather than through PAYE. This change is not part of this

budget. But because of the date at which it takes effect and because it affects mortgage and tax payments (reducing the former and increasing the latter) it will affect pay packets from April.

33. The new scheme for net of tax interest payments is simpler for the borrower. It will in future give correct relief quickly and without need for PAYE adjustments when interest rates change since they will no longer need to be reflected in tax codes. The new scheme will also save a massive 1,000 Inland Revenue staff by 1984.

34. The introduction of MIRAS will not reduce the amount of the borrower's tax relief. But for a limited number of borrowers it can mean higher initial repayments if they so choose. It also coincides, and its effects may become confused with, with a recovery of excess mortgage interest relief for 1982-83. For administrative reasons the calculation of PAYE codes for 1982-83 could not take into account the substantial fall in interest rates which occurred last year. Indeed, this is just the sort of difficulty which a switch to the new MIRAS system is meant to avoid. Neither MIRAS nor the adjustment of the 1983-84 PAYE codes to recover excess relief paid last year means a reduction of the amount of mortgage interest relief over the duration of the repayment of a mortgage.

#### 8. Fringe Benefits

35. Increase in scales for taxation of car and petrol fringe benefits represents a further step towards taxing such benefits on a realistic basis. However, increases of about 15 per cent in scales rather than the 20 per cent increase of the last three years show the Government's awareness of need not to move too fast at expense either of recipients of benefits or of UK motor industry. Yield of £35 million in a full year.

36. Action also proposed on: payment of cost of children's education by employers (reversing decision on ICI scholarship case); provision by employer of house rent free or at peppercorn rent; employer failing to deduct PAYE at proper time and accounting for too little tax. NB change in law affecting ICI Scholarship Scheme (and others like it) does not affect Scholarship income in hands of scholar, genuine charitable scholarships won in open competition or school fees paid while parent is working abroad.

9. Secondhand Bonds

37. Legislation in Finance Bill was announced by Financial Secretary on 24 June 1982, to tackle device whereby bonds (ie life insurance policies and life annuity contracts) are sold to third party to go out of income tax into capital gains tax net, thereby avoiding proper charge.

10. Child Benefit and One-Parent Benefit

38. The increase of 65p a week from £5.85 to £6.50 in November - by some 11 per cent - will put it at its highest level ever, at above the level set by Labour in April 1979 when the normal November increase was specially advanced for electoral reasons. Allowing for the phasing-out of child tax allowances, the value of support for children under 11 will have risen 90 per cent since 1978-79 in money terms (or 11 per cent in real terms) while income tax allowances will have risen by 82 per cent. One-parent benefit will be increased by 11 per cent from £3.65 to £4.05. It will then also have been more than doubled in money terms by this Government, giving a real increase of over 30 per cent.

H. INDIRECT TAXES

39. Changes proposed this year are straightforward and should be uncontroversial:

- No change in VAT rate.
- "Sensible presumption" (budget statement) established in successive budgets that excise duties rise broadly in line with prices.
- Overall revenue effects of excise duty changes is £595 million in 1983-84 and £605 million in full year - half the 1980 or 1982 figures, and only a quarter of 1981.
- RPI effect of only about 0.4 per cent, smallest for many years, one of the benefits of low inflation. Included in the forecast.

40. Again, as last budget, regard had to needs of business:



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- duties on aviation gasoline (AVGAS) and road fuel gas (LPG) remain at half that on petrol;
- small widening of tax differential in favour of Derv from 12p to 13p a gallon helps limit impact on business costs;
- the duty rate on fuel oil is unchanged for the third successive year. This means that the real value of the duty on it is about 20 per cent below level of 1980, so helping industry with energy costs;
- VED rates up on selected heavy vehicles (about 195,000) which do most damage, to cover those costs; down about 10 per cent on about 315,000 lighter, less damaging lorries; duty rates still lower in real terms than under Labour;
- increases on petrol (4.9 per cent) and Derv (4 per cent) below inflation. Will only add about £10 a year to typical private motorist's bill. Duty differential in favour of Derv widened slightly. UK petrol prices will remain, with Germany and Luxembourg, markedly below those in other European countries.

I. SOCIAL SECURITY UPGRADING, CHARITIES AND DELAYED DECISIONS

Benefit Increase

41. As the Budget Speech makes clear, it is not now proposed to recover the full overshoot which arose in last autumn's benefit upgrading, when inflation was some 2.7 per cent less than assumed when the increase was announced in the 1982 budget. At a time when the main budget proposals provide for significant tax relief to those in work as well as to businesses, it is clearly right to be generous and leave some of this "windfall" overpayment in the hands of social security recipients. With the exception of beneficiaries with children, who will receive substantial help from the increase in Child Benefit, the bulk of social security recipients are neither in work, nor pay significant income tax, and so will not benefit as much or as directly from the budget as the bulk of the population.

42. What is now proposed will, on the assumption of year-on-year RPI increases of around 4 per cent in May 1983, be worth substantiall more

in a full year than if the overpayment was recovered. Between the November upratings of 1978 and 1983 prices are likely to have risen some 70 per cent and pensions by some 75 per cent. Thus the Government's pledge to maintain the value of the pensions will have been more than fulfilled.

43. To have left the full overpayment in place in years to come would have required accepting yet more increases in National Insurance Contributions at a time when the rates in force now are recognised as being so high as to be damaging to employment, incentives and the will to work, and every further increase in them is the cause of widespread concern both in Parliament and the country at large. In addition, it would have pre-empted resources needed to finance a number of other important reforms in social security which are needed now.

#### Other Important Social Security Measures

44. These include, as well as the substantial improvement in child benefit (see §38 above):

- restoration of the 5 per cent abatement of unemployment benefit;
- 12 per cent increase to £22.50 in the Therapeutic Earnings Limit, the amount the disabled and chronically sick are allowed to earn before their benefit is reduced;
- Complete removal of the "Invalidity Trap". At present those receiving Invalidity Benefit (IVB) cannot qualify for short-term SB, one year's receipt of which is the passport to long-term SB. What is now proposed is that IVB recipients over 60 will qualify immediately for the long-term rate instead of waiting a year. Some 70,000 people will gain. Those under 60 not previously eligible at all, will become eligible after a year of incapacity benefits. This is how the "trap" is being eliminated.
- Disabled War Pensioners. A new mobility supplement to replace the present vehicle scheme with the equivalent of the Mobility Allowance plus a special premium of £2.10 a week in recognition of their special status. 11,000 war pensioners should be helped by this.

- Substantial increases in Supplementary Benefit "Disregards". The capital disregard - £2,000 in 1981, £2,500 last year, will now be £3,000 - 50 per cent up in two years. The extra £300 disregard for single payments (eg bedding, heating costs) goes up by 60 per cent to £500. A new £1,500 disregard introduced for capital held as life insurance policies, over and above the £3,000 normal capital disregard.

### Charities

45. The budget proposes further important assistance:

- the cost of employees seconded to charities to be a tax deductible expense, as requested by the NCVO;
- CTT exemption limit abolished (raised from £50,000 to £250,000 in 1982-83), thus ensuring that no outright bequests to charities will now be taxed;
- limit for higher rates and IIS income tax relief on covenants raised by two-thirds from £3,000 to £5,000.

46. Despite intensive investigations, it is not possible to propose recovery by charities of VAT on their purchases. A scheme of relief would probably involve at least 100,000 charities, which would necessitate a disproportionate increase in administrative manpower. Moreover it would, unavoidably, be indiscriminate, and have undesirable repercussive effects.

### Change in the System of Up-rating

47. Labour's switch from the "actual" or "historic" method of up-rating to one based on the forecast RPI has an unfortunate origin and has been a source of constant trouble. It was introduced in 1976 only to excise from the uprating the worst months of inflation between March and November 1975. This reduced the benefit increases by 6-7½ per cent, worth £500 million in the prices of the day, or some £1 billion at current prices. This was clearly in breach of the commitment given by Brian O'Malley, Minister of State at DHSS, as to the purpose of what was to be the Social Security Benefits Act 1975:

"..... I believe that I have demonstrated to the Hon. Gentleman that the historic method is in the end, the fairest method. It means that there is a consistent link between the movement of earnings on the one hand and the movement of retirement pensions and long-term benefits on the other. There are no assumptions. Once one starts to make assumptions, it is easy to make one which results in pensioners doing worse than they otherwise would." (OR Standing Committee B. 12.12.74. Col. 191).

Prophetic words indeed.

48. Forecasting inflation is always difficult. As Table 3.7 of the Budget Red Book makes clear, a Budget-time forecast of the RPI increase in the fourth quarter of the same year is liable to average errors of plus or minus 2 per cent. This is amply borne out by recent experience; the projections were 1 per cent too high in 1980, 2 per cent too low in 1981 and 2.7 per cent too high in 1982. Such errors create both needless uncertainty for beneficiaries, avoidable controversy for Governments and are impossible to correct for 12 months.

49. A return to the historic basis has been advocated by Pensioners' organisations. It has even been commended by the Opposition: Jeff Rooker described it as "very sensible considering the trouble that the Government have had over past few years" in the debate on the Social Security and Housing Benefits Bill on 22 December 1981.

50. Moving back to the old system is not only a switch back to certainty and commonsense, but it reverses the 1976 Barbara Castle decision in another important respect. While she made it in such a way as to leave beneficiaries with £1 billion less at today's prices than the indexation commitments of the Social Security Act required, the change now proposed should leave a substantial sum in their hands over and above the indexed increase required by law, even if not all the over-payment windfall. There will be no "missing months" - the period between May and November 1982 is included in the uprating formula now proposed.

J. BUSINESS AND EMPLOYMENT

51. General: Chancellor stressed in budget statement that tax cuts for people themselves help business and jobs. Direct effect of main tax and spending measures benefiting business in this budget are summarised in Section <sup>para</sup> 18 above.

52. The Main Measures

- 'Small Companies' Corporation tax rate cut by 2% to 38%, profit limits substantially increased; significantly reduces marginal rate between limits: NIS to be cut by  $\frac{1}{2}\%$  to 1%, for private sector only, from August 1983.

- Measures to help small firms, enterprise and wider share ownership (see para 63 below)

- Technology and innovation package, costing £185m over 3 years for public spending measures and £48m over 3 years for tax measures, other measures: help for housing and construction, including increase in Mortgage interest relief ceiling and money for "enveloping" schemes (total cost/ of £115m in 1983/84); help for North Sea Oil industry, through tax reductions (cost £115m in 1983-4); proposals on tax havens and proposed changes on ACT and double taxation relief do not between them involve any increase in total tax burden on international business;

- Employment and Early Retirement Measures (See para 60 below);

53. Para 19 sets out some of the benefits to industry attributable to this Government's policies. Other points to note are that:

- Budget measures alone help business by £ $\frac{3}{4}$ bn in a full year. The reflects assistance worth about £1 $\frac{1}{2}$ bn, as set out in 18, less the effects of increases in petrol duty, DERV, & VED. On top of £ $\frac{1}{2}$ bn help in Autumn announcements.

- the real burden of tax and NIC on (non-oil) industry and commerce in 1983-84 will be some £2bn less than in 1978-9.

54. There is<sup>no</sup> assistance in this budget with industry's energy costs. But particularly since exchange rate fell, vast majority of UK industry pays prices comparable to EC competitors; and over £250m of help given in last two budgets. In addition this year there is to be no increase (on average) in electricity prices and the freeze on price of contract gas is extended to 1 October 1983;

Main individual measures

1 NIS

55. Labour introduced and increased NIS. Liberals, during Lib-Lab pact, pressed for increase too. Government has slashed it:

- Rate inherited in 1979, and up to 1981-82: 3½%
- Effective Average Rate in 1982-83: 2%
- Rate from April to July 1983: 1½%
- Rate from August 1983: 1%
  
- present cut is worth £215m to private employers - 1983-84, £390m in a full year, will be clawed back as before from Government and NI cash limits:
  
- even taking account of NIC increases since 1978-9, the over all effect of NIC and NIS changes worth some £1.4bn to private sector employers in full year;
  
- overall NIC/NIS rate on contracted-in employers up from 8½% to 13½% under previous government. Now down to 11.45%. Contracted-out rate down from 9% to 7.35%.

2 Housing and Construction

56. Government recognises importance of healthy construction industry for employment. Within public spending plans, provision made for spending<sup>on</sup>/construction in 1983-84 of over £10bn, 10% increase on previous year's outturn.

Measures to help construction introduced in last three budgets provided help worth some £350m

57. 1983 Budget introduces 8 measures:

- mortgage interest relief ceiling increased to £30,000; £50m in 1983-4;
- mortgage interest relief extended to some self-employed who did not previously qualify;
- stock relief extended to houses taken in part exchange by builders, helps private housebuilders;
- local authorities to be given additional spending allocations for 1983-4 for approved 'enveloping' schemes ie repair of external fabric of terraces and streets, often in inner city areas: helps builders and socially deprived areas; and eligible expense limits for home improvement grants increased by 20%; local authorities able to spend without limit on improvement grants in 1983-4 including (about £10m) cost of these higher limits;
- change in industrial buildings allowance to allow greater proportion of non industrial space to qualify, accords more flexibility to builders:
- important rule change in small industrial workshop to help conversion of old buildings into small units;
- two year extension of deferment of DLT liability on development for "own use".

3. Innovation and Technology

58. As in last budget, Chancellor announced major package to help technologies and industries of future: Total cost of £230m over next three years. Of this, £185m (over 3 years) is a package of additional spending on innovation, in addition to existing DoI help with industrial R and D of over £300m per year. Main item is reintroduction of Small Engineering Firms Investment Scheme at £100m over three years. Also, extra aid for computer software, advisory services, and new schemes to plug gap between development and commercial production (Details to be announced by S of S for Industry). This will cover:

- help to industry to invest in new technologies for tomorrow's jobs and bring new products and processes to market;
- SEFIS, very successful in 1982, and of special help in West Midlands.
- Teletext: 100% first year allowances for spending by trade on teletext sets for renting out to consumers extended for further year, till May 1984.
  - helps information technology growth;
  - helps UK electronics; teletext a UK invention and rented TV sets mostly British made.

Technology-based industries also benefit from increase from 10% to 25% in permissible office space in buildings which qualifies for industrial buildings allowance.

59. Films: extension of 100% first year capital allowances for British firms for further 3 years to 31 March 1987.

#### 4. Employment and Early Retirement

60. Government recognises need to reduce labour force where practical and prudent to do so, so as to help tackle unemployment. Budget contains three new measures of this sort to help employment:

- from April unemployed men aged 60-65 will no longer have to register first to get contributions credits so as to protect their pension rights (affects 90,000).
- from June unemployed men over 60 on Supplementary benefit will qualify for higher long-term rate of benefit without having to wait a year or until they reach 65 (affects 42,000);
- from October (till March 1985) men over 62 and women over 59 able to retire under new part-time Job Release Scheme, allowances paid at half full-time rate, should provide part-time jobs for up to 40,000 unemployed people. Has no net expenditure cost in 1983-4, because of savings in benefit payments.
- Enterprise Allowance extended to whole country Allowance, which

And

encourages unemployed to set up in business by paying £40 a week for first year to offset loss of unemployment benefit if then start a business. Nationwide extension (cash limit for 1983-4 of £25 m



enough for 25,000 places) builds on experience of 5 pilots set up in January 1982: attracted 2000 successful applications.

5. Other Company Taxation

61. Budget also proposes action to deal with group relief avoidance, whereby a group arrange for profits/loss to be available for group relief proposes in another group; necessary to take action because of actual and potential revenue loss.

62. Taxation of international businesses

Revised draft clauses issued last December on proposals for new charge on some UK controlled companies in tax haven countries. Measures to apply from 6 April 1984. Represent sensitive response, after 3 rounds of consultation, to business community's criticism of earlier proposals. But real need to stop significant loss of UK tax, currently estimated at £100 million p.a. This move will be accompanied by a change in the Set-Off of ACT and Double Tax Relief. These proposals are of benefit generally to companies with overseas income for allowing double taxation relief to be set against corporation tax in priority to ACT. Credit for tax paid on foreign income now to be available against UK corporation tax before relief given for ACT paid (previously, ACT relief given first).

Cost: nil 1983-4, in long term up to £100 million.

Overall these two measures offset one another in revenue terms, lower taxes on companies which should send profits home onto those who accumulate them in taxhavens. There are No measures this year on company residence and up stream loans.

K. ENTERPRISE AND SMALL FIRMS

63. Fifteen measures in budget to help enterprise and small firms. Fourth successive year in which Budget has included such a package. Demonstrates continued commitment to small and medium sized businesses as source of new jobs.

- Business Expansion Scheme, extending Business Start-Up Scheme.
- Changes in Corporation tax to help small and medium firms.
- Nationwide extension of Enterprise Allowance.
- Increase in VAT registration and de-registration thresholds.
- Tax encouragement of profit sharing and share option schemes.
- Extension of interest relief on borrowing for employee buy-outs.
- CTT changes, improving business and agriculture reliefs.
- CGT changes, increasing retirement relief.
- new rules for tax treatment of deep-discounted stock.
- new tax rules for raising finance through acceptance credits.
- new non-tax rules to help raising finance through Eurobonds.
- raising ceiling for loan guarantee scheme.
- increasing limit below which investment income of close companies apportioned to individuals not assessed for tax.
- changes in small workshop scheme.
- introduction of free ports at two or three places as experiment.

Estimated revenue cost of package is £1<sup>100</sup>1m in 1983-84 and £275m in full year. In addition, Enterprise Allowance has gross cost of £25m in 1983-84. Brings total cost of package up to £135m in that year.

Main points:

64. Business Expansion Scheme major initiative, building on BSUS, introduced in 1981. Now scheme will apply not just to new companies but also to many existing unquoted trading companies too. Also relief available at full income tax rates (including IIS) doubled to £40,000 per person per year. Previous 50% limit on proportion of company's shares qualifying for relief now dropped. Life of scheme extended by 3 years to 5 April 1987. Full year cost, perhaps £75m.

65. Profit Sharing and Share Option Schemes. Government's commitment to wider ownership and to giving employees incentives again demonstrated. Over 550 profit sharing and share option schemes now set up cf 30 when we took office. Over 100,000 employees now involved in approved share option schemes. Now,

- in addition to current limit on allocation of shares per employee of £1,250 pa a new alternative limit of 10% of earnings up to £5,000 pa;
- upper limit for monthly contributions under 1980 SAYE share option schemes raised from £50 to £75;
- extension from 3 to 5 years of instalment period over which income tax paid on share options exercised outside 1980 approved schemes.

66. Buy-Outs. Government commitment to helping NFC-style management/employee buyouts shown by relief to be extended on borrowing by employees to buy shares in employee -controlled company as part of employee buyouts.

67. Capital Taxes. Government recognises capital taxation, if too heavy, can suffocate enterprise and discourage investment.

- CGT: This budget builds on major reforms in last Budget, above all indexation of capital gains; so annual exempt amount raised in line with RPI. Now more than five times level when government took office and three times 1978-79 level in real terms. Maximum retirement relief for those aged 65 or more doubled from £50,000 to £100,000 and proportionate increase for those retiring between 60 and 65: will encourage business owners to reinvest profits in business, rather than in pension schemes.
- CTT: Again, builds on 1982 budget reforms. Last budget introduced indexation of CTT threshold and rate bands; so raised in line with inflation now. Threshold now 40% higher in real terms than 1978-79.
- Also, rate of business relief for minority holdings in unquoted companies and of agriculture relief for tenanted land each increased from 20% to 30%.

68. Small Companies Corporation Tax Rate

- Lower limit more than re-valorised this year and limit doubled since Government took office;
- big increase in upper limit helps medium-sized companies with profits up to £500,000; increased almost six fold since we took office;
- marginal rate applying between lower and upper limits reduced from 60% to 55½%.

All show Government's commitment to small and medium sized businesses.

69. VAT Registration and Deregistration. Thresholds raised from £17,000 to £18,000.

70. Loan Guarantee Scheme. The total sum for loans to be doubled from £300m to £600m. So far some 9,000 loans have been made, over half to new businesses.

71. Measures to encourage Industrial Finance. Reductions in the PSBR, judicious recourse to index-linked gilt-edged borrowing and a high target for national savings have all been vital in allowing long term interest rates to fall. Indeed in 1982-83 it was possible to dispense with long term fixed interest/rates (eg on 20 year gilts) <sup>gilt-edged stocks almost entirely.</sup> As a result, long term interest have fallen by as much as short term rates (5% or so in each case), whereas in normal circumstances they would have been expected to fall much less. This is a major factor favouring revival of the corporate bond market. This is receiving further direct encouragement in several ways:

- Deep discount stock. New tax regime following removal of embargo in June 1982, and consultative document from Inland Revenue. Borrowers will get relief against income annually for accrued discount; investor to be taxed on disposal or redemption, income tax on accrued income, CGT on balance of gain or loss.

- Convertible Loan Stock. Incidental fees to be allowed against tax.
- Acceptance credits. To encourage companies to use bills of exchange, discounts and incidental costs to be allowed against tax.
- Interest on Eurobonds for non-residents to be payable "gross".
- Close company investment income limit for not making tax assessment for an individual to be raised from 1973 figure of £200 a year to £1,000; £250 more than revalorisation.

L. NORTH SEA OIL

72. Chancellor recognises importance of further development of North Sea off-shore industry to Britain, source of wealth and jobs. Major, well-judged changes in fiscal regime intended to maintain balance between interests of Exchequer (and taxpayer) and health of the industry and employment it provides, as oil market becomes more difficult.

- Advance Petroleum Revenue TAX (APRT) to be phased out by 1 January 1987 by reducing rate at which charged (currently 20%).
- New PRT relief for spending incurred after budget on exploration appraisal outside area of existing oil field or development.
- New fields for which development consent given after 1 April 1982 - except onshore fields and fields in Southern Basin of North Sea - to get double existing oil allowance. And same new fields will not pay any royalties.
- Other changes in PRT, including abolition of restriction on PRT relief for expenditure on assets where oil (including gas) producer shares assets with other field (eg pipe lines).

Cost of whole package of measures: 1983-84 £115m. Average cost  
1983-84 to 1986-87: about £200m.

73. Measures: - through phasing out APRT, removes a charge which is not related to profit and payable early in field life, so creating cash flow problems;
- new PRT relief should encourage exploration and appraisal of UK reserves;
  - help for future fields especially, will pay no special tax or royalties till costs recovered from income and marginal rate for such field significantly improved.

M. PUBLIC SPENDING

74. Main points are:

- public spending under firm control; held within levels of earlier plans; ratio to GDP down from 44½% in 1981-82 to planned 43½% in 1983-84;
- measures in budget total £238m in 1983-84 but all charged to Contingency Reserve in 1983-84 so will not add to planning total;
- public sector capital spending in 1983-84 as shown in White Paper amounts to £11¼bn, increase of 12% over estimated outturn for 1982-83, local authorities told they can spend without limit on home improvement grants, if necessary additional allocations will be given retrospectively; 50% of forecast levels of capital receipts by local authorities will be included in basic allocations; because of reduction in inflation more real output possible with giving cash plan for capital spending. All show that Government determined to achieve right balance of capital and current spending, without jeopardising objective of curbing total spending.
- Civil Service manpower under control: on course for 630,000 target by 1 April 1984 and down 11% since 1 April 1979; since 1979 staff reductions in civil service have saved £600m on Civil Service salary bill, centrally organised efficiency programme 1979-82 has yielded potential savings of £317m a year, and £44.5m once-for-all savings.

# PRESS RELEASE

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83/58

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Norman Fowler, Secretary of State for Social Services, today gave details of the social security changes outlined in the Chancellor's Budget Statement. He said:

"I shall be introducing a Bill immediately to restore the historic basis of uprating social security benefits. What this means in practice is that this year's uprating, and future upratings, will be based on the actual increase in prices over a past period, not on the forecast increase. The forecast system - introduced to save money by the last Government - has not worked. The forecast has been wrong in five years out of seven. I believe the certainty and stability that this change will bring will be widely welcomed.

"In addition the benefit improvements announced in the Budget are probably the most significant made during the lifetime of this Government. They will give considerable extra help to many different groups in our community - the unemployed, the sick and disabled, the elderly and families with children. I am particularly glad that we are increasing the real value of child benefit and one-parent benefit to their highest ever level; abolishing the "invalidity trap" which our predecessors were not able to do; and restoring the 5 per cent abatement of unemployment benefit.

"A Bill to return to the historic method of uprating will be introduced tomorrow. The Government has also decided to make the following improvements:

uprate child benefit and one-parent benefit by 11 per cent next November. This means a real increase in value, and both benefits will stand at their highest value since their introduction. Child benefit will be £6.50 and one-parent benefit will be £4.05.

remove what is known as the "invalidity trap" so that people on invalidity benefit can qualify for the long-term rate of supplementary benefit;

restore the 5 per cent abatement of unemployment benefit;

improve the two main capital disregards in the supplementary benefit scheme and introduce a new disregard for the surrender value of life assurance policies;

allow all men over 60 on supplementary benefit to qualify immediately for the higher long-term rate;

award national insurance credits automatically to men over 60 thus relieving them of the need to register as unemployed whilst preserving their future benefit position;

increase the amount which sick and disabled people are allowed to earn without affecting their incapacity benefit;

introduce a new mobility allowance for war pensioners in place of the war pensioners' vehicle scheme.

Commenting on the changes Mr Fowler said:

#### UPRATING METHOD

"The present forecast method of uprating has given rise to general dissatisfaction. Since its introduction in 1976 the upratings have been based on forecasts but these forecasts have only been correct in two years. In most cases, therefore, the forecast method has meant having to adjust the benefit increases due a year later. Whether the adjustment was upwards or downwards it invariably led to strong public criticism and to confusion.

"The historic - or actual - method avoids the possibility of forecasting error and therefore the need for later adjustment of uprating increases. It replaces doubt with certainty based on fact. The Labour Government last used this method in 1975. They then decided to change the method because they did not wish to include in the reckoning for the 1976 uprating a period of high inflation which pensioners had recently suffered. They left an 8 months' gap in their calculations from which they saved £500 million - equivalent to £1 billion at today's prices.

#### BENEFIT IMPROVEMENTS

Mr Fowler said that there were eleven major benefit improvements announced in the Budget:



## Families

"First, child benefit is to be uprated in November by 11.1 per cent. This will take the rate to £6.50 a week, an increase of 65p, which is substantially more than necessary to protect the November 1982 level of the benefit. Indeed the increase will more than restore the April 1979 value which the Government inherited and the new rate will represent the highest value since child benefit was introduced.

"Second, one-parent benefit will be similarly increased - by 11 per cent - to £4.05 taking it to its highest ever value in real terms.

"These decisions demonstrate in a practical way the importance we attach to support for families generally and to giving extra help towards the special needs of one-parent families. The increases will cost £122 million in 1983/84 and £340 million in 1984/85.

## The Elderly

"Third, the main capital limit in the supplementary benefits scheme is to be raised from £2,500 to £3,000. This is the second increase of £500 in this limit in successive years. It was raised from £2,000 to £2,500 in November 1982. In the course of a year, therefore, the main capital disregard will have risen by £1,000 - a 50 per cent increase.

"Fourth, the capital limit which applies to single payments under the supplementary benefit scheme is to be raised also - from £300 to £500. The new limit will allow more people to qualify for a single payment rather than have to use up some of their small savings when a special need arises.

"Fifth, a new disregard of capital is to be introduced into the supplementary benefits scheme. Up to now, the surrender value of a life assurance policy has been treated as capital and set against the main capital limit. In future, up to £1,500 surrender value will be ignored. Any amount above that will count towards the new, main £3,000 limit.

"Those three changes will all take effect in November 1983. They represent a clear indication of the Government's concern not to penalise thrift and to help people with small savings or a modest lump sum redundancy payment when they are most in need of help.

### Early retirement

"Sixth, from 5 April men over 60 will no longer be required to attend an Unemployment Benefit Office to sign on as unemployed and make themselves available for work, if their only reason for doing so is to obtain national insurance credits, particularly to protect their State basic pension rights. Instead, they will be given the necessary credits automatically, under regulations to be made shortly. This will relieve some 90,000 people of the requirement to sign on. Details will be available at Unemployment Benefit Offices at the end of this month.

"Seventh, a further measure designed to help this age group is that some 80,000 men over 60, whether sick, disabled or unemployed, will be eligible for the long-term rate of supplementary benefit immediately instead of having to wait for one year on the lower short-term rate. This change will take place in June, as soon as the necessary amending regulations have been introduced. In addition, we shall remove the requirement for those over 60 to register as unemployed. The extra benefit will be worth up to £7 a week for a single householder and up to £10.60 a week for a married couple, at a cost of £23 million in 1983/84.

"These changes will assist men aged 60 and over who have either effectively retired from work or wish to retire early. The Department of Employment will also be extending the Job Release Scheme for a further year and applying it from October to part-time as well as full-time work.

### Unemployed people

"Eighth, the 5 per cent abatement of the uprating of unemployment benefit introduced in 1980 is to be made good at the next uprating in November. This will help some 900,000 beneficiaries and their families at a cost of about £20 million in 1983/84 and £60 million in 1984/85.

### Sick and disabled people and war pensioners

"Ninth, steps are to be taken to remove the so-called invalidity trap. At present, people receiving invalidity benefit cannot qualify for the long-term rate of supplementary benefit. The decision to allow men over 60 to qualify for the long-term rate immediately will remove the effects of the trap on them. This will benefit 37,000 people over 60. In addition 30,000 people under 60 will be removed from the trap from November 1983. A year in receipt of incapacity benefits will be counted as meeting the qualifying period for eligibility to the higher long-term rate. This

will mean that they will qualify for extra weekly benefit up to £7 a week for a single householder and up to £10.60 for a married couple. In addition, they will be eligible to claim additional payments under the supplementary benefits scheme, for example, to help with heating, diet and other special needs. This will cost £3 million in 1983/84 and £10 million in 1984/85.

"Tenth, the Government intends to introduce more flexible provisions for war pensioners with mobility needs by introducing a cash mobility supplement in place of the existing vehicle scheme which will be progressively phased out. This supplement will be set at a rate £2.10 a week higher than the civilian mobility allowance (£18.30 a week at present), thus maintaining the traditional war pensioners' preference. Recipients of the new supplement will be able to choose how to provide for their mobility needs - they will be able to use this money to run a car, or to obtain greater mobility by other means. If they wish to run a car of their own they will be able to take advantage of the Motability leasing arrangements. About 11,000 war pensioners will be entitled to the new supplement. Of these, some 700 do not drive now. They are unable to benefit under the present arrangements, which provide a car or a cash sum for the upkeep of the pensioners's own car, but a cash allowance will help them. Details of the new scheme will be given in due course.

"Eleventh, the therapeutic earnings limit (at present £20) is the amount which people on incapacity benefits (such as invalidity benefit) can earn before their benefit is withdrawn, so long as the work done will not prejudice their recovery. The ability to earn some money without loss of benefit allows people to ease their way back into work, and can be a useful aspect of rehabilitation. The limit was given a boost in real terms last year, and in November 1983 will be increased again from £20 to £22.50 - a 12½ per cent increase."

#### EFFECTS ON MAIN GROUPS OF BENEFICIARIES

Under the present forecast method of uprating, pensions and other benefits would have increased by 3.3 per cent - based on a forecast movement of prices of 6 per cent from November 1982 to November 1983 less 2.7 per cent to reflect the 1982 overshoot. It is not possible to say by how much benefits will increase in November 1983 under the historic method since the rates will not be finally determined until June. But on an illustrative assumption of a  $4\frac{1}{4}$  per cent increase pensions will have increased by 75.6 per cent under the present Government against an expected rise in prices of 70.7 per cent between November 1978 and November 1983.

The increases in child benefit and one-parent benefit will mean that the value of each benefit is higher than ever before. Child benefit went up to £4 in April 1979. The proposed level of benefit in November 1983 is £6.50. This represents an increase of 62.5 per cent since April 1979. By comparison, prices are expected to go up by 61.4 per cent between April 1979 and November 1983. One-parent benefit (then called child benefit (increase)) went up to £2 in November 1978; there was no further increase in April 1979. The proposed level of benefit in November 1983 is £4.05. This represents an increase of 102.5 per cent since November 1978. By comparison, prices are expected to go up by 70.7 per cent between November 1978 and November 1983.