



RECORD OF A DISCUSSION ON THE NATIONAL INSURANCE CONTRIBUTIONS
REVIEW AT 9AM ON 8 NOVEMBER IN NO 11 DOWNING STREET

Present:

Chancellor
Mr Middleton
Mr Kerr
Ms Seammen

Secretary of State
Mr Newton
Mr Hepple

The Secretary of State said that, with the Fund in surplus, and the GAD forecasting a continued surplus next year, it would be feasible and appropriate not to raise National Insurance Contribution rates. An announcement this month that the rates would not rise next year would be particularly helpful in the context of the public expenditure savings on social security programmes which would also have to be announced; and the package might indeed have to be re-considered if there were any serious question of rates going up. An increase in the upper earnings limit would not, however, cause similar difficulties. As for the Treasury Supplement, it had come down from 18 per cent to 13 per cent since 1979, and a further reduction would be unnecessary and unwelcome.

2. The Chancellor said that he agreed that UEL should rise. He also saw a strong case for a reduction in the Treasury Supplement: the balance of the Fund would rise, on the GAD's calculations, unless the Supplement were reduced. As for the rate, the budgetary prospect now was for tax increases next year; and there were strong political arguments for reducing these increases by action on NIC now. It would also be appropriate, given that social security expenditure next year, and in the later PESC years, seemed likely to come out some £300 million higher than had been assumed during the MISC 99 discussions, that this increase should be offset by an increase of a $\frac{1}{4}$ per cent on the NIC rates for employer and employee. He had envisaged discussing these



issues with the Secretary of State after Thursday's Cabinet; but he had no objection to pursuing them now.

3. Mr Fowler said that he saw overwhelming political and social arguments against an increase in NIC rates. British industry, and he guessed the Secretary of State for Industry, would also be very hostile. The Chancellor said that he recognised that. Of course an increase in rates would be unpopular: all tax increases always were. Given the strength of the Secretary of State's objections, and the fact that the fiscal forecast could change before Budget time, he would however be prepared to forego an increase in NIC rates, provided that the Secretary of State agreed that the upper earnings limit should be indexed in line with earnings and should therefore rise to £250, that there should be a 2 per cent reduction in the Treasury Supplement, and on the understanding that he could look for support from the Secretary of State in the New Year if and when he had in fact to report to Cabinet ~~in the New Year~~ that the Budget would have to entail tax increases.
4. The Secretary of State said that, while he would have preferred raising UEL only to £245, he was prepared to accept an increase to £250. He would however wish to reflect further on the proposed 2 per cent reduction in the Treasury Supplement. Given that the Government's commitment was to tax reductions, any move which increased the chances that NIC rates would have to rise in future years was plainly undesirable.
5. It was noted that agreement would have to be reached on or before 11 November, in order to allow time for the Government Actuary's further calculations, and for the publication of the Autumn Statement on 17 November. In view of the Chancellor's absence in Bonn before Cabinet, and the fact that a proposed increase in NIC rates would have to be discussed in Cabinet on 10 November, the Secretary of State's considered reaction to the Chancellor's proposed deal (ie the dropping of the proposed increase in rates in exchange for agreement on a 2 per cent reduction in the Treasury Supplement) would be conveyed urgently via officials.


J O KERR



Distribution:

Chief Secretary
Mr Middleton
Mr Bailey
Mr Watson
Mr Battishill
Ms Seammen

PS/S of S, DHSS
Sir K Stowe, DHSS
Mr Newton, Parliamentary Under Secretary
DHSS
Mr Hepple DHSS

Undisclosed copy to: Andrew Turnbull, No 10