

SUBJECT CCMASTER



FILE

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From the Private Secretary

23 October 1990

Dear Stewart,

## SOCIAL SECURITY UPDATING 1991-92

The Prime Minister discussed social security updating for next year with your Secretary of State, the Chief Secretary and the Chief Whip yesterday.

Copies of this letter should go only to Ministers and officials directly concerned with handling this subject.

The Prime Minister said that she had considered carefully the package of measures proposed by your Secretary of State, following his successful negotiations with the Chief Secretary. A number of points, particularly on the proposed presentation, caused her some concern.

- (i) The proposals for 1991-92 involved an addition of £1 per week on child benefit for the first child only; an extra premium for pensioners in receipt of income support; and an addition to the residential care allowance. It would be important not to imply that each measure was modest in scope and cost, in order to make room for all three within a tight overall settlement. There was a danger that the package and each component would look mean-minded.
- (ii) The presentation of the proposals on child benefit as a new "family premium" was not attractive. It would be important not to suggest that the child benefit proposals represented a radical new departure in family policy. That would start arguments on the backbenches about the right means of family support.
- (iii) The proposals might be criticised as favouring small families. Accordingly there could be objections from such groups as the Child Poverty Action Group and the Catholic Church. It might be difficult to defend in equity £1 extra per week for a family with one child; and £1 extra per week for the family with five children.

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- (iv) There would also be problems in arguing that the "family premium" was to help with start up costs, and designed to help cushion the loss of income for women giving up work to begin a family. Such a rationale might be true in the long term. But in the short term the extra money would also go to families where the mother had been back to work for many years and the last (or only) child was now in the sixth form.
- (v) The case for channelling more help to poorer pensioners was not persuasive. An addition to income support had been paid to those over 75 last year. And pensioners in general would do well out of the overall uprating for next year. Pensions would be going up by 10.9 per cent. For the poorer pensioners on income support, the uprating would be 8.1 per cent (under the Rossi index); housing benefit would cover any increases in rents; and the community charge benefit arrangements were more generous than the previous rate rebates. The case for an addition to child benefit was much stronger.
- (vi) In putting forward the final package it would be vital to ensure that the Government would not be forced into further additions to any of the components. That risk seemed to be much greater on child benefit than on other items.

Your Secretary of State said that he and the Chief Secretary had developed the proposed package carefully and cautiously. He was convinced that it could be got through the House. The proposals on child benefit had to be seen against the background of changes in tax allowances over recent years which had not particularly helped families with children. Indeed households comprising families with children had done least well in recent years. Moreover within the group of such families, recent Government action had concentrated further support on poorer families with children. It was now too late to make changes in tax allowances that would have a significant effect before the next election. But it was not too late to act on child benefit. That was why, within the limited resources available from the Chief Secretary, he had given priority to an addition to child benefit. But he would be quite content to examine again the best form of presenting the proposal; and he was not wedded to introducing the concept of a family premium.

The Chief Secretary said that he too saw attractions in the proposals. It was important to bear in mind the risk of legal challenge if there were a further freeze. The Law Officers had advised last year that a freeze would become increasingly at risk of a successful legal challenge. But it would not be right to go as far as full uprating; that would not be affordable given the other measures proposed by the Social Security Secretary. It would also damage the credibility of the whole public expenditure package as a tough settlement in difficult economic circumstances.

The Chief Whip said he had some misgivings about the acceptability of the proposals on child benefit. The Government would be putting forward a halfway house solution: it would not



satisfy those who wanted to see child benefit uprated in full; neither would it please those who wanted a shift away from child benefit towards measures through the tax system. In general, backbenchers had been expecting a further freeze on child benefit; and the issue was not particularly contentious at present. In his view, backbenchers would have accepted a further freeze in this difficult year, thought it might be necessary to make clear that the Government would be reviewing family policy so that new proposals could be included in the manifesto.

The following points were also made in discussion:

- (i) The measures to provide additional help for those in residential care and nursing homes should go ahead.
- (ii) The future shape of family policy would need to consider a wide range of approaches, including additions to national insurance contributions to fund child support; child tax allowances; and measures to give financial support to women who wished to go out to work while their children were properly looked after. The Prime Minister saw some merit in further measures through the tax system: over 30 years ago a Royal Commission had accepted the principle that, through the tax system, children were entitled to share in the standard of living of their parents.
- (iii) It would be easier presentationally to go either for a full uprating or zero uprating of child benefit. But one alternative to the proposed £1 per week for the first child would be to give 50p to each child. This would be more even-handed and would not raise some of the presentational proposals identified during the discussion. The danger however was that it would be seen as mean-minded and that the Government would be pushed to the full uprating.

Summing up the discussion, the Prime Minister said that, before the Social Security Secretary went ahead with the existing proposals on child benefit, residential care allowances and the pensioner premium, he must be satisfied that they could be got through the House. Clearly the principal danger for the Government was being pushed further to uprate child benefit in full. The Secretary of State must weigh this factor carefully in reaching his final decision. If the Social Security Secretary proceeded with the existing proposal on child benefit, it should not be described as a family premium. Instead the focus should be on the difficult overall PES round and the limitation of resources available to the Social Security programme; the desirability of making additional money available to families with children; and the view that the best means of achieving this was by way of a £1 per week addition to child benefit for the first child. Although the pensioner premium was the weakest element in the package, it was too late to change that now. It would be important not to link the three elements of the package in a way which suggested overall meanness. At his own request the Social Security Secretary would give further consideration to whether the £1 per first child option should go forward or whether instead an addition of 50p per child to child benefit



should be announced.

I am copying this letter only to Jeremy Heywood (Chief Secretary's Office) and Murdo Maclean (Chief Whip's Office).

Yours ever,  
Barry

(BARRY H. POTTER)

Stuart Lord, Esq.,  
Department of Social Security.