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PRIME MINISTER

MEETING ON CHILD BENEFIT

Those attending are: the Chancellor (who has to leave at 1630), the Chief Secretary, Mr. Parkinson, Mr. Moore, the Chief Whip and Richard Wilson (Cabinet Office).

There is no formal paper for the meeting. But I attach a brief the Treasury have prepared for you. This has not gone to others attending the meeting, although the Treasury have separately provided some other briefing to Mr. Parkinson. The brief focuses on the issues other than child benefit that are still on the table. You will see that the Treasury propose that, in concluding the discussion, you could side with Mr. Moore on Community Charge compensation and disability benefits. But you should side with the Treasury on overseas pensions; although the sums at issue during the Survey years are not that big, in the long term the actual amount of money at stake would be around £175 million - i.e. broadly offsetting the saving to be achieved by not uprating child benefit this year.

Handling the Meeting

I suggest you open the meeting with some words designed to sooth Mr. Parkinson's feelings - he is likely to be concerned that his Star Chamber role is being taken away from him.

The best way of doing this (which I have discussed with the Chief Secretary) might be for you to say:

- the September RPI figure which is relevant for the April 1989 upratings has now been published (at 5.9 per cent);
- knowledge of that figure combined with the return of Parliament this week is likely to lead to strong Opposition pressure for an early uprating announcement - possibly as early as the beginning of next week;

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- hence there are timing difficulties in uprating issues being considered in the Star Chamber;
- you therefore thought it would be helpful to hold this early meeting to see if the outstanding issue of child benefit uprating could be settled to facilitate an early uprating announcement;
- if the issue could be settled today, Mr. Moore could report the outcome to Cabinet this Thursday and so pave the way for an early Parliamentary uprating statement;

You might then invite Mr. Moore to explain his worries about child benefit, followed by the counter case from the Chief Secretary. The Chief Whip and Mr. Parkinson may then wish to comment.

We understand that the Chief Whip is likely to say that a nil uprating can be got through the House, although inevitably with some blood on the carpet. There is no need for a positive vote in order to prevent an uprating. But the main handling difficulty is likely to be on an Opposition amendment to the Social Security Bill; in the Commons that can perhaps be countered by a suitable selection of Committee Members, but handling in the Lords could be more problematic.

After some initial debate of the child benefit issue, you might like to ask the Chief Secretary whether he has any other outstanding disputes with Mr. Moore. In response you will want to lend support to his arguments on overseas pensions.

In concluding the meeting, I suggest you use the formula in the attached Treasury brief. You will want to consider whether to ask Mr. Moore to report to Cabinet this Thursday on his uprating statement.

Other Star Chamber Issues

It was agreed at your meeting yesterday with the Chancellor and the Chief Secretary, which Mr. Parkinson did not attend, that the Chief Secretary should make further efforts to resolve the transport and Wales programmes bilaterally.

This does, however, give rise to handling difficulties for the Star Chamber:

- (i) particularly in the light of today's meeting, Mr. Parkinson will be wondering whether he has a role;
- (ii) initial meetings of the Star Chamber are scheduled for Thursday this week, starting with an over-view meeting, and the Treasury ought therefore to be circulating a paper today to the group. But, as the Chief Secretary explained yesterday, he does not want to reveal the emerging overall position to Mr. Parkinson or other members of the Star Chamber.

To help overcome these difficulties, I suggest that at the end of the meeting you invite the Chief Secretary and Mr. Parkinson to stay behind for a further word.

You might handle this as follows (which again I have discussed with the Chief Secretary):

- ask the Chief Secretary to report on the position reached on the other outstanding programmes;
- he will respond by saying that he is planning further bilaterals on Wales and transport later this week;
- you might then say that this still leaves uncertain whether the Star Chamber will need to operate; but that it would seem sensible to cancel this week's Star Chamber meetings and provisionally arrange for early next week

meetings of the group to consider the overall position and then the particular position on Wales and transport.

Hopefully this would both satisfy Mr. Parkinson and continue to apply psychological pressure on Messrs. Walker and Channon. We will then need to consider again at the end of the week where the Chief Secretary has got to and whether the Star Chamber does need to be brought into operation.

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Paul Gray

18 October 1988

## 1988 SURVEY: SOCIAL SECURITY

1. Key numbers are set out at Annex A.
2. Outstanding Issues other than Child Benefit:

(i) Compensation for 20 per cent Community Charge

E(LF) agreed last year that compensation for income support claimants should be set once and for all in 1989-90 when the community charge is introduced in Scotland and that the resulting benefit rates should be updated in later years in line with inflation in the normal way. Precise amounts of compensation to be included within 1989-90 income support rates now need to be settled.

DSS propose for: single claimants under 25: £1.05 (£1.00)\*  
 single claimants over 25: £1.30 (£1.30)  
 couples: £2.10 (£1.70)

\* Figures in brackets are for rates compensation in current year.

The £1.05 and £2.10 proposals are based on DOE's latest estimate of the average community charge were it to be introduced in April 1989 across Great Britain as a whole. DSS want a higher amount for single claimants over 25 because most of them (in England and Wales) will be ratepayers in 1989-90, and DOE's projection of 20% average rates is £1.50. E(LF)'s decision implied a cut in compensation for this group to reduce windfall gains when the community charge is introduced (at much less than £1.30) in 1990. But DSS are against any cut because of the projected rates bills for next year.

To meet their bid in full, DSS need an extra £ million 97/101/104 (on top of £400m pa already in baseline). Chief Secretary has so far conceded an extra 68/71/74. He has been particularly concerned to minimise windfall gains for single claimants over 25 after the community charge is introduced in England and Wales in 1990.

(ii) Overseas Pensions

DSS want an extra £ million 10/29/48 to unfreeze the UK pensions of those now living in Australia, Canada, and New Zealand. (This is net of savings from the UK not having to pay pensions to Australians, etc living here in respect of their employment before emigration, as we do now.) Money at stake would be much larger in longer term - £175m gross cost in 15/20 years; with much slower growth in offsetting savings. Thus conceding this bid would virtually wipe out savings from CB freeze in longer term. Also hard to give priority to overseas pensioners at same time as freezing CB.

(iii) Disability Benefits

Chief Secretary has asked DSS to identify options for savings of £ million 50/100/150 in view of the rapidly growing cost of these benefits. DSS' bids for disability in this Survey are for an extra £ million 550/820/1400 to pay for higher take-up and rising real benefit payments. (There is also an agreed bid to extend Mobility Allowance to those aged 75-80, who are disallowed under current legislation; this is small within Survey period but substantial in longer term: £130m a year by 2000-1 at today's prices.) DSS are reviewing disability in the light of OPCS reports and want to bring forward proposals in 1989 Survey.

## CONCLUSIONS TO MEETING

(i) Further savings in social security justified, despite low bid in 1989-90. Further freeze in child benefit right and defensible in terms of government's policy of targetting resources on those in need. Presentation of freeze could bring out that up to £80 million of gross savings from freeze would be channelled into extra income-related benefits.

(ii) Freeze will help to free extra resources for poorer pensioners. DSS and Treasury to consider options in next Survey.

(iii) Bid to unfreeze overseas pensions would be expensive in longer term and should not be pursued. Unfreezing would be particularly hard to present against background of child benefit decision.

(iv) However, bid for community charge compensation should be agreed in full. Presentation of decision should be agreed between DSS, DOE, and Treasury. Important to take full credit for additional £100m a year being added to programme for this purpose.

(v) DSS should not be pressed to make savings on disability benefits in this Survey, pending review of this area and in view of DSS commitment to bring forward proposals in next Survey to contain growth of expenditure. Presentation of this year's Survey outcome should take maximum credit for additional provision to fund existing range of benefits and for extension of Mobility Allowance to those aged 75-80.

## SOCIAL SECURITY

		<u>£ million</u>		
	1989-90	1990-91	1991-92	
Survey baseline	50,889	53,347	54,681	
<u>DSS bid</u>				
Benefits	3*	1204	3123	
Administration	184	254	211	
Total bid	<u>184</u>	<u>1458</u>	<u>3354</u>	
<u>Treasury proposed reductions on bid</u>				
Child benefit	-197	-197	-197	
Overseas pensions	- 10	- 29	- 48	
<u>Proposed Treasury Settlement</u>	<u>- 20</u>	<u>1232</u>	<u>3089</u>	

- \* The very low bid for benefit expenditure in 1989-90 is explained mainly by the fall in unemployment since the last Survey. The assumption for unemployment used in the last Survey was 2.6 million; the current assumption is 2.0 million. This reduction saves around £1,300 million. However, these savings have been broadly offset by estimating increases (ie higher take-up and higher average entitlements) and the cost of last April's housing benefit concessions. The estimating increases are much larger in later years, resulting in substantial net bids.