RH

cc. DHSS
Social Services

10 DOWNING STREET

THE PRIME MINISTER

2 September 1980

Dear Ralph.

Thank you for your letter of 1 July about Lynda Chalker's reply to your Parliamentary Question on 18 June.

You drew my attention to the figures in table A2 showing that, without earnings-related supplement, a family with previous earnings of £45 a week appeared to be £7 better off in unemployment than a family with previous earnings of £65 or more a week. This results from the assumption on which (among others) the tables in the reply were based, that family income supplement (FIS) continues for the first six months of unemployment. It is FIS which makes the difference between the incomes of the families on flat-rate unemployment benefit in Table A2; once FIS came to an end - which could in practice be at any time in the first year of unemployment - their incomes would be the same.

The rule that FIS lasts for a year regardless of changes of circumstances does indeed sometimes lead to an anomaly of this kind, but there are other circumstances in which the rule has advantages for the recipient. It is especially important in mitigating the effects of the poverty trap, because a person who obtains a pay rise while receiving FIS does not have his benefit reduced straightaway.

You also mentioned the fact the family whose net spending power, including flat-rate unemployment benefit, was £43.90

/ would

JS

would be below its supplementary benefit level and would need supplementary benefit. If such a family claimed supplementary benefit it would not be paid in addition to all the other benefits listed in the table. In practice the supplementary benefit would be paid instead of rent and rate rebates. Supplementary benefit is always available as a last resort for those who cannot work full-time and whose incomes, whether from national insurance benefits or other sources, are inadequate for their needs. It would of course be impossible to set national insurance benefits - flat-rate or earnings-related - at levels which met everyone's needs when housing costs and other family circumstances can vary so greatly.

It is true that the abolition of the earnings-related supplement and the other changes in national insurance benefits under the Social Security (No.2) Act 1980 will lead to some increase in the numbers claiming supplementary benefit. But as you know these changes are necessary in order to achieve much-needed savings in the cost of social security benefits, and they will also help with work incentives. At the same time we are continuing to protect the poorest families through the supplementary benefits scheme.

Yours

Norman

Ralph Howell, Esq., M.P.

10 DOWNING STREET

PRIME MINISTER

When you saw the attached draft to Ralph Howell, MP you asked why FIS could continue to be paid to someone who was unemployed.

The answer is contained in the note from the DHSS at Flag A. In a nutshell, FIS is paid for 52 weeks notwithstanding any change of circumstances, including the loss of a job.

Yes. I know. But MS
there that is wrong.

30 July, 1980 It should not go
on for so long as the man
a year
is still employed not.

10 DOWNING STREET

Prime Minister

Now amended as you asked.

MAP 1/IX.

PRIME MINISTER

You still owe Ralph Howell a reply to his letter of 1 July, which led to your suggestion that the FIS 52-week rule might be changed for those who become unemployed.

I have changed the original draft a little, so as not to be quite so enthusiastic about the rule. I attach the revised draft, with which I hope you will be content.

MJS

One sentence deleted

28 August 1980

Rutgers

CONFIDENTIAL

JS

10 DOWNING STREET

From the Private Secretary

1 August 1980

Dear Don

The Prime Minister has seen the note you sent to me about the payment of FIS to the unemployed.

The Prime Minister has commented that, in her view, FIS payments should cease if the recipient becomes unemployed.

I think at this stage that it would be helpful if you could let us have your Secretary of State's reactions to this suggestion.

I am copying this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Nick Sanders

Don Brereton, Esq.,
Department of Health and Social Security.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

PO 2715/511

Nick Sanders Esq
Private Secretary
10 Downing Street
London SW1

28 July 1980

Dear Nick.

Thank you for your letter of 23 July about the draft we provided for the Prime Minister to send to Ralph Howell MP.

I enclose as requested a note for the Prime Minister explaining the rules under which FIS is paid to the unemployed.

Yours ever
Bernie

B MERKEL
Private Secretary

FAMILY INCOME SUPPLEMENT (FIS) AND THE UNEMPLOYED

Note for the Prime Minister

1. A family man (or lone parent) can qualify for family income supplement (FIS) only if he is in full-time work. So FIS cannot be awarded to anyone who is unemployed when he claims. Once FIS has been awarded, it continues in payment for 52 weeks and is not affected by any change of circumstances. So it is possible for a man to lose his job but to continue receiving the rest of his 52 weeks' FIS.

2. This 52 weeks' rule is an essential feature of FIS. Ministers rely on it as a main defence against the recurring criticism of the effects of the poverty trap. It saves staff - DHSS can run FIS on a shoestring.

3. As changes of circumstances do not have to be reported and unemployment benefit is not affected by FIS, we do not know how many unemployed parents are drawing the remainder of their 52 weeks' FIS awards. (It is just possible that some information may emerge from the analysis of the Cohort Study of the Unemployed). But we think the number is relatively small.

4. There is some support for this view from the (November 1979) figures of unemployed people on supplementary benefit - about 515,000, of whom only 1000 (0.2 per cent) were drawing FIS. (Altogether there were 1,300,000 registered unemployed, of whom 390,000 were drawing unemployment benefit without supplementary benefit).

Branch L1, DHSS
25 July 1980

Th. R. HOWELL
(Earnings)

10 DOWNING STREET

From the Private Secretary

23 July, 1980.

Chase pls.

Nick is happy to wait until Monday. calling today 28/7 BL

Your Department supplied us with a draft reply for the Prime Minister to send to Ralph Howell, M.P., who had written to the Prime Minister on 1 July about the gap between earnings in and out of work.

The Prime Minister has asked for details on how it is possible for FIS payments to continue during unemployment. She had not been aware of the extent to which FIS was paid to the unemployed.

I should therefore be grateful if you could let me have a short note, by the end of this week, explaining the rules under which FIS is paid to the unemployed, and giving some idea of the number of cases involved.

M. O. SANDERS

Don Brereton, Esq.,
Department of Health and Social Security.

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DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

P02715/487

Nick Sanders Esq
Private Secretary
10 Downing Street
LONDON SW1

21 July 1980

Dear Nick

Thank you for your letter of 4 July to Don Brereton enclosing a copy of one that the Prime Minister had received from Ralph Howell MP.

I enclose as requested a draft reply together with a background note for the Prime Minister.

Yours sincerely

B MERKEL
Personal Secretary

Enc

Background Note

Mr Howell's letter to the Prime Minister arises from a Parliamentary Question in which he sought figures illustrating the effect on spending power of changes in the national insurance scheme including the abolition of the earnings-related supplement to short-term benefits. A copy of Mrs Lynda Chalker's full reply is attached.

Mr Howell's comments are related to table A2 in the reply, which shows the incomes of unemployed people when no earnings-related supplement is payable. As stated in the body of Mrs Chalker's reply, this table does not show the actual or relative incomes of beneficiaries in 1982, when the supplement will end, since benefit levels will change before that; instead it shows what their incomes would have been in November 1979 without the earnings-related supplement.

As the Prime Minister will know, Mr Howell is campaigning for a restructuring of the social security and tax systems under the banner 'Why Work'. He has latched on to the two points he asks the Prime Minister to consider, as a means of keeping up the momentum of his campaign. The first one results from the run-on of FTS regardless of changes of circumstances, and he is well aware of the existence of this rule and the reasons for it. The second appears to be little more than a complaint that a family with only flat-rate national insurance benefit (and child benefit) may need supplementary benefit. This, as he also knows, has always been the case because supplementary benefit, unlike national insurance, is intended to meet individual needs including housing costs and the requirements of children of different ages.

PO 2715/487

SUGGESTED REPLY

GR
for Mp/
aI6

Thank you for your letter of 1st July about Lynda Chalker's reply to your Parliamentary Question on 18 June.

You drew my attention to the figures in table A2 showing that, without earnings-related supplement, a family with previous earnings of £45 a week appeared to be £7 better off in unemployment than a family with previous earnings of £65 or more a week. This results from the assumption on which (among others) the tables in the reply were based, that family income supplement (FIS) continues for the first six months of unemployment. It is FIS which makes the difference between the incomes of the families ~~as~~ on flat-rate unemployment benefit in table A2; once FIS came to an end - which could in practice be at any time in the first year of unemployment - their incomes would be the same.

The rule that FIS lasts for a year regardless of changes of circumstances may sometimes lead to an apparent anomaly of this kind, but in spite of this the advantages of this rule greatly outweigh its disadvantages. It is especially important in mitigating the effects of the poverty trap, because a person who obtains a pay rise while receiving FIS does not have his benefit reduced straight away.

You also mentioned the fact the family whose net spending power, including flat-rate unemployment benefit, was £43.90 would be below its supplementary benefit level and would need supplementary benefit. I was rather surprised that you desribed this as "bureaucratic madness". If such a family claimed supplementary benefit it would not be paid in addition to all the other benefits listed in the table. In practice the supplementary benefit would be paid instead of rent and rate rebates. Supplementary benefit is always available as a last resort for those who cannot work full-time and whose incomes, whether from national insurance benefits or other sources, are inadequate for their needs. It would of course be impossible to set national insurance benefits - flat-rate or earnings-related - at levels which met everyone's needs when housing costs and other family circumstances can vary so greatly.

/ It

It is true that the abolition of the earnings-related supplement and the other changes in national insurance benefits under the Social Security (No 2) Act 1980 will lead to some increase in the numbers claiming supplementary benefit. But as you know these changes are necessary in order to achieve much-needed savings in the cost of social security benefits, and they will also help with work incentives. At the same time we are continuing to protect the poorest families through the supplementary benefits scheme.

HS

R. HOWELL
(Benefits Tax)

Overdue

4 July 1980

Chancellor
MS 21/7

I attach a copy of a letter the Prime Minister has received from Ralph Howell, M.P. I should be grateful if you could suggest a draft reply for her to send to him, to reach us here by Friday 18 July.

N.J. SANDERS

Don Brereton, Esq.,
Department of Health and Social Security.

HS

4 July 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 1 July, which I will of course place before her at once. You will be sent a reply as soon as possible.

N.J. SANDERS

Ralph Howell, Esq., M.P.

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10 DOWNING STREET

PRIME MINISTER

This letter from Ralph Howell is a further one about "Why Work".

We will let you have a draft reply.

MJS

4 July 1980

RALPH HOWELL, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

GCB

1st July 1980

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister

Dear Prime Minister,

I am enclosing copy of a Written Reply given to me by Mrs. Lynda Chalker on 18th June, 1980, showing the effect on spending power of making benefits reckonable for tax. I can understand and fully support the idea of abolishing Earnings Related Supplement, so that everybody receives the same amount when sick or unemployed, regardless of their previous earnings but I fail to understand the logic of a person who has been earning over £65 per week, receiving £7 per week less than a person who has been earning £45. I am also concerned that this figure of £43.90 is below supplementary benefit level, thus necessitating an extra payment to bring it up to a maximum of £44.65. In my view this is bureaucratic madness. I would be most grateful for your comments on these points. I have written a similar letter to Sir Geoffrey Howe and to Patrick Jenkin.

Yours ever
Ralph

to rebuild the paediatric cardiology unit at Alder Hey hospital from the following:

Liverpool Central and Southern Community Health Council
Liverpool Family Practitioner Committee
Royal Liverpool Children's Hospital (Myrtle Street/Action Committee)
TUC Affiliates Committee (Liverpool AHA(T))
British Association of Social Workers (Merseyside Branch)
Royal College of Nursing (Liverpool Centre)
Three consultants on behalf of some of the medical staff at the Royal Liverpool Children's Hospital.

It has also received representations about its long-term proposals to transfer services from the Royal Liverpool children's hospital to Alder Hey hospital, and about changes envisaged in the future for specific specialties or services to children.

I hope to visit Liverpool shortly.

Chronically Sick and Disabled Persons

Mr. Roy Hughes asked the Secretary of State for Social Services what representations he has received from the Association of County Councils, concerning the provision of essential services for disabled people; what reply he has given; and if he will make a statement.

Mr. Prentice: A proposal was put forward by the association that section 2 of the Chronically Sick and Disabled Persons Act 1970 should be made discretionary, but I understand that the proposal is no longer being pursued. My right hon. Friend has no present plans to amend the section.

Mr. Alfred Morris asked the Secretary of State for Social Services what information he has received on the outcome of the research undertaken by the Disablement Income Group charitable trust into the circumstances of chronically sick and disabled people on supplementary benefit; if there is any action he will be taking arising from the main results of this research; and if he will make a statement.

Mr. Prentice: I do not yet have any definitive information on the outcome of the research referred to by the right hon. Gentleman.

Family Incomes

Mr. Ralph Howell asked the Secretary of State for Social Services if he will publish a table, on the same basis as the reply given to the hon. Member for Norfolk, North, *Official Report*, 7 November 1979, column 213, showing the effect on spending power for a single person, a married couple and a couple with two children of making benefits reckonable for tax, and of abolishing earnings-related supplement, assuming previous earnings of £45, £55, £65, £75, £85, £95 and £105, and illustrating the effects on the spending power of recipients of (*a*) unemployment benefit, (*b*) invalidity benefit, (*c*) widows pension and (*d*) supplementary benefit.

Mrs. Chalker [*pursuant to her reply*, 10 June 1980, c. *141-42*]: I regret that it is not possible to provide information under all the heads requested by my hon. Friend. However, the tables below show net weekly spending power as at November 1979 both with and without earnings related supplement where that is appropriate: earnings-related supplement is not payable with invalidity benefit or supplementary benefit. My hon. Friend will appreciate that these tables cannot be used to illustrate the position as it will be in January 1982, the date from which it is proposed to abolish the remaining earnings-related supplement. By January 1982, flat-rate benefits will have been uprated twice and the real value of earnings-related supplement will have declined.

It is not possible to include the effects of making benefits reckonable for tax because the precise shape of the arrangements for taxing benefits is not yet known.

The assumptions on which the tables have been based all relate to November 1979. Other assumptions have been made as follows:

For married couples, the wife has no personal income from earnings or social security benefits, apart from child benefit where appropriate;

There have been no previous spells of unemployment or sickness which would affect the amount of benefit and any earnings-related supplement payable;

Means-tested benefits are taken up in full. In the case of family income supplement, payment is assumed to continue for the first six months of unemployment or widowhood.

40 X 14

TABLE A1—UNEMPLOYMENT BENEFIT WITH EARNINGS-RELATED SUPPLEMENT

Earnings-related supplement is payable with unemployment benefit only from weeks 3 to 28

November 1979

Family type	Previous earnings £	Unemployment benefit £	Child benefit £	Family income supplement £	Rent £	Rent rebate £	Rates £	Rate rebates £	Free school meals £	Free welfare milk £	Net weekly spending power £
Single person	45	24·68	—	—	5·40	4·83	2·30	1·89	—	—	23·70
	55	25·94	—	—	5·40	4·52	2·30	1·79	—	—	24·55
	65	27·20	—	—	5·40	4·20	2·30	1·69	—	—	25·39
	75	28·46	—	—	5·40	3·89	2·30	1·59	—	—	26·24
	85	29·72	—	—	5·40	3·57	2·30	1·49	—	—	27·08
	95	30·98	—	—	5·40	3·26	2·30	1·39	—	—	27·93
	105	32·24	—	—	5·40	3·04	2·30	1·31	—	—	28·89
Married couple	45	32·16	—	—	5·40	5·40	2·30	2·30	—	—	32·16
	55	37·39	—	—	5·40	5·28	2·30	2·03	—	—	37·00
	65	38·65	—	—	5·40	4·97	2·30	1·93	—	—	37·85
	75	39·91	—	—	5·40	4·65	2·30	1·83	—	—	38·69
	85	41·17	—	—	5·40	4·33	2·30	1·73	—	—	39·53
	95	42·43	—	—	5·40	4·02	2·30	1·63	—	—	40·38
	105	43·69	—	—	5·40	3·70	2·30	1·53	—	—	41·22
Married couple with two children aged 4 and 6.	45	33·35	8·00	7·80	6·50	6·50	2·80	2·62	1·50	1·05	51·52
	55	39·31	8·00	2·80	6·50	6·50	2·80	2·55	1·50	1·05	52·41
	65	42·05	8·00	—	6·50	6·50	2·80	2·55	1·50	—	51·30
	75	43·31	8·00	—	6·50	6·31	2·80	2·45	1·50	—	52·27
	85	44·57	8·00	—	6·50	5·99	2·80	2·35	1·50	—	53·11
	95	45·83	8·00	—	6·50	5·68	2·80	2·25	1·50	—	53·96
	105	47·09	8·00	—	6·50	5·36	2·80	2·15	1·50	—	54·80

TABLE A2—UNEMPLOYMENT BENEFIT WITHOUT EARNINGS-RELATED SUPPLEMENT

November 1979

Family type	Previous earnings £	Unemployment benefit £	Child benefit £	Family income supplement £	Rent £	Rent rebates £	Rates £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
Single person	Any level	18·50	—	—	5·40	5·40	2·30	2·30	—	—	18·50
Married couple	Any level	29·95	—	—	5·40	5·40	2·30	2·30	—	—	29·95
Married couple with two children aged 4 and 6.	45	33·35	8·00	7·80	6·50	6·50	2·80	2·62	1·50	1·05	51·52
	55	33·35	8·00	2·80	6·50	6·50	2·80	2·80	1·50	1·05	46·70
	65–105	33·35	8·00	—	6·50	6·50	2·80	2·80	1·50	1·05	43·90*

* There would also be entitlement to supplementary benefit, making the net weekly spending power £44·65.