



Prime Minister

RESTORATION OF THE FIVE PER CENT ABATEMENT OF UNEMPLOYMENT BENEFIT  
Since my uprating statement last week, there has been a lot of adverse comment on the absence of any proposal to restore the five per cent abatement of unemployment benefit after it comes into tax next July.

The pressure will be renewed tomorrow at the Report Stage of the Social Security and Housing Benefits Bill, when we debate a new clause put down by the Opposition which would require the abatement to be made good in November.

The line I have taken so far is that there would be a heavy extra benefit cost in restoring the abatement but that we will continue to keep the matter under review. When you were questioned about this yesterday you too referred to the extra cost and said that a final decision had yet to be taken.

For tomorrow's debate, we have a choice between sticking to the line that nothing can be done this year, but promising to review the matter in time for the 1983 uprating, or undertaking, without commitment, to review the matter between now and when the uprating order is presented by June this year.

I favour the latter course. We shall be in great difficulty if we try to play it any other way. There is no denying that although the abatement was a public expenditure saving, it was presented as an interim measure in lieu of taxation and that is how it has been seen. Despite our cautious words about considering the restoration of abatement "in the light of economic and other circumstances prevailing at the time that the benefit comes into tax", there has been a general expectation that we shall restore the abatement of unemployment benefit when it is taxed and things have been said which encouraged that belief.

As you are well aware, our present stance is being attacked, not least by some of our own back benchers, as a breach of faith and I



think there will be trouble tomorrow if we do not take the sort of conciliatory line I am suggesting. Nor is the pressure likely to die down. It would be surprising if there isn't a similar amendment put down in the Lords when the Bill gets there.

One of the problems, of course, apart from the feeling that we may be going back on our word, is that the taxation of unemployment benefit is expected to yield around £500 million a year, and against that the extra benefit cost of restoring abatement - £60 million a year - is not seen as a formidable obstacle.

I should be grateful if you and the Chancellor, to whom I am copying this minute, would let me know whether you agree with the line I am proposing to take in tomorrow's debate.

I am sending a copy also to the Chief Whip.

17 March 1982

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FROM: G W MONGER  
DATE: 17 March 1982

CHIEF SECRETARY

cc Chancellor  
Economic Secretary  
Financial Secretary  
Minister of State C  
Minister of State L  
Sir A Rawlinson  
Mr Barratt  
Mr Byatt  
Mr Evans  
Mr Mountfield  
Mr White  
Mr Ridley

ABATEMENT OF UNEMPLOYMENT BENEFIT

My minute of this morning said that Mr Fowler would probably minute the Prime Minister today about the line to be taken about the 5% abatement of Unemployment Benefit when the subject is discussed during Report Stage of the Social Security Bill tomorrow. Mr Fowler's object may well be to lead the Prime Minister to say that the abatement should be restored. The draft put to Mr Fowler recommends a promise, without commitment, that the matter should be reviewed between now and the presentation of the uprating order in June.

2. Mr Fowler is unlikely to send the minute until late this evening. But he needs an answer by about mid-day tomorrow. The subject may therefore be raised at Cabinet tomorrow, or perhaps at a smaller meeting afterwards. You might therefore like to have this note on the arguments.

Background

3. The 5% abatement was made in 1980 when the Government decided that UB should be brought into tax. This was partly as a proxy for tax, but there was never any commitment to restore the abatement when tax was imposed, as it will be this summer. The Government said only that it would reconsider the abatement when this happened.

7. Schinow says  
she doesn't  
want to do so.

4. There are signs that the Prime Minister might want to restore the abatement. She asked DHSS recently why it should not be restored. Yesterday at Question Time she said that final decisions had yet to be taken. [- text below.]

5. The arguments against a concession are those of cost, repercussion and effect on incentives.

#### Cost

6. The public expenditure cost of restoring the abatement would be £20m in 1982-3, and £60m in a full year. (The PSBR cost would be about two thirds of this because the increase in the benefit would be liable to tax).

#### Repercussions

7. This concession would lead to pressure for the restoration of the 5% abatement made at the same time on certain other benefits: invalidity benefit, sickness benefit, injury benefit and maternity allowance. The public expenditure cost of this would be £24m in 1982-3 and £70m in a full year. In the case of invalidity benefit, which accounts for about two-thirds of these costs, there is a firm commitment to restore the abatement when the benefit comes into tax. Imposition of tax has now been postponed indefinitely, so there is a strong case on merits for restoring the abatement on this benefit now.

#### Incentives

8. Restoration of the abatement would of course further narrow the gap between in work and out of work incomes. The figures for total income for a man with two children are: for November 1982:

At work, on  $\frac{1}{2}$  average earnings £ 73.50 per week

Unemployed, dependent on UB

with abatement £ 57.80

Unemployed, dependent on UB

with abatement restored £ 59.85

(this is a very hasty calculation)

An alternative concession

9. I see that according to today's FT (page 10) some Government backbenchers are concerned about three points on social security: the failure to restore the UB abatement, the new method of uprating Supplementary benefit (SB), by taking housing costs out of the calculation, and the small rise in the SB capital disregard.

10. There is a strong case for a concession on the second point. Mr Fowler has announced that the new method of uprating will produce an increase for SB of  $10\frac{1}{2}\%$  in November, compared with 11% for other benefits. The savings resulting from the  $\frac{1}{2}\%$  differential are £10m in 1982-3 and £30m in a full year. These are only half the cost of restoring the 5% abatement on UB. But the more important point is that even these savings may not materialise in practice. The calculation is sensitive to changes in the mortgage rate which has of course fallen sharply. If the rate fell again the differential between the RPI and the RPI less housing costs would disappear. There would then, other things being equal, be a shortfall of  $\frac{1}{2}\%$  on SB, which it would be very hard to resist restoring in 1983. In that case, there would be no net benefit to public expenditure, taking the affected years together. Moreover, in subsequent years the effect of excluding housing costs from the RPI is very uncertain, and might be adverse from the start.

Strong  
Case =  
Nil cost.  
Hear,  
Hear!

11. I would therefore recommend offering a concession on this point in lieu of one on UB. But you should be aware that Mr Fowler is now much attached to the new method of SB uprating, and that to give it up would require him to eat a lot of words (but, equally, a concession on UB would mean an overt change of line, and be inconsistent with the new levels for the benefit announced in the Budget speech). You might also bear in mind that the Prime Minister, although initially doubtful about the SB change, is now an advocate of it, and some care may be needed in revealing that the benefits from it are now doubtful.

*G W*

G W MONGER

17 March 1982

## Secondary Education (Manchester)

6. Mr. Marks asked the Secretary of State for Education and Science when he expects to complete consultations on the Manchester local education authorities' revised proposals for secondary education; if he will announce his decision in time for implementation in 1982.

Dr. Boyson: I wrote to the hon. Member on 10 March advising him that, immediately following the completion of consultations, my right hon. Friend the Secretary of State had approved Manchester's proposals.

Mr. Marks: I welcome the early announcement, that will enable change to take place this year, although it is months since Manchester submitted its application. Does not the Minister agree that Manchester acted urgently and correctly in recognising the problem of falling school rolls? The Government have since told all local education authorities to do the same. What has been the response?

Dr. Boyson: I appreciate the hon. Gentleman's kind remarks about the early announcement. I should tell him that we had the new proposals for only about two weeks before we approved them. That is productivity of which the country can be proud. With regard to the rest of the country, the number of places taken out of use last year with Government approval was twice that of the previous year.

Mr. Silvester: What undertakings have been given by the Manchester city council to ensure that there is no bad effect arising from the city council's policies, on the recruitment to the three excluded schools, or on the careers structure of their staff?

Dr. Boyson: I am aware of my hon. Friend's concern about that matter. My right hon. Friend the Secretary of State met the Manchester education committee to discuss that matter and to ensure that there was no movement away from child population that would deprive the three retained sixth forms of their natural catchment. An assurance was given by the authority that that would not happen.

## Local Authority Higher Education Advisory Board

17. Mr. Norman Hogg asked the Secretary of State for Education and Science what arrangements are being made for representation of, and consultation with, non-teaching staffs and colleges and polytechnics by the new Local Authority Higher Education Advisory Board.

Mr. Waldegrave: The National Advisory Body for Local Authority Higher Education is in the process of constructing effective liaison machinery for those interest groups without direct representation on its board.

Mr. Hogg: Does the Minister appreciate that the composition of the board does not include the National and Local Government Officers Association, which has 10,000 members in polytechnics and a large number of members in colleges? Will he take steps to ensure that non-teaching unions are represented?

Mr. Waldegrave: I am sure that the hon. Gentleman will be pleased to hear that the president of the union that he mentioned, by which I believe the hon. Member is sponsored, has been invited to join one of the working groups on the national advisory board.

## PRIME MINISTER

## Engagements

Q1. Mr. Beith asked the Prime Minister if she will list her official engagements for Tuesday 16 March.

**The Prime Minister (Mrs. Margaret Thatcher):** This morning I had meetings with ministerial colleagues and others, including one with the President of the Council of Ministers and the President of the Commission of the European Community. Later I was present at the arrival in London of His Majesty the Sultan of Oman. In addition to my duties in the House I shall be having further meetings later today. This evening I shall attend a State banquet given by Her Majesty the Queen in honour of the Sultan of Oman.

**Mr. Beith:** Will the Prime Minister find time today to read again the promise that was made to the House by the Secretary of State for Social Services two years ago to the effect the 5 per cent. abatement of unemployment benefit would end when that benefit was brought into tax? Is it not a gross breach of faith with the House and the unemployed that the Chancellor of the Exchequer now proposes not to give back that 5 per cent? Why should the unemployed, of all people be subject to double taxation?

**The Prime Minister:** Final decisions on that matter have yet to be taken. If extra is to be found, it will probably come once again from the national insurance contributions.

**Mr. Dover:** Will my right hon. Friend accept that the key issue in the North-West of England at the moment is one of law and order? Will she be willing to break with tradition and allow another debate on capital punishment in the lifetime of this Parliament?

**The Prime Minister:** I accept that the question of law and order is one of those foremost in the public mind, and for good reasons. We have already had one debate on capital punishment. I would have considerable doubts about whether another one would produce a different result, but this is a question for my right hon. Friend the Leader of the House.

**Mr. Foot:** Does the right hon. Lady think that there is any connection between the record rates of crime and of unemployment that have come about under her Government?

**The Prime Minister:** No, Sir. There is not a direct relationship in any way. The right hon. Gentleman has only to look at the way in which the crime figures rose through periods of increasing prosperity and decreasing unemployment. They steadily rose. For obvious reasons, street crimes take place very much in the centres of our cities. Idle hands get to mischief. However, in my view that is not the reason for the sharp increase in crime.

**Mr. Foot:** Will the right hon. Lady apply her mind directly to the question of what is likely to happen to crime and unemployment figures if the community enterprise programme of the Manpower Services Commission is cut by the Secretary of State for Employment? Does she not think that that could also contribute to crime and unemployment?

**The Prime Minister:** The community enterprise programme is being expanded by a further 5,000 to 30,000.

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18 MAR 1982

## Social Security Benefits (Uprating)

3.51 pm

**The Secretary of State for Social Services (Mr. Norman Fowler):** I will, with permission, Mr. Speaker, make a statement required by the Social Security Act 1975 about the annual uprating of social security benefits which will come into operation in the week beginning 22 November. For the convenience of the House, a detailed schedule of the new rates of benefits, which forms part of this statement, has been placed in the Vote Office and will be included in the *Official Report*.

The new rates reflect the estimate that the general level of prices will increase by 9 per cent. between November 1981 and November 1982. Benefits generally will be uprated in line with that forecast, and in addition the 2 per cent. shortfall at the 1981 uprating will be made good—not only for pensions and other related long-term benefits, as we had already promised, but for all other weekly benefits. This gives a total increase for most benefits of 11 per cent.

Turning first to the uprating of national insurance benefits, the standard rate of basic retirement pension for a single person will go up by £3.25 a week from £29.60 to £32.85. The rate for a married couple will go up by £5.20 from £47.35 to £52.55. The standard rate of sickness benefit and unemployment benefit will go up by £2.50 for a single person from £22.50 to £25.00, and by £4.05 from £36.40 to £40.45 for a married couple.

The same percentage increase of 11 per cent. will apply to the earnings-related additional component to national insurance pensions; to pensions payable under the old graduated pension scheme; to those who receive guaranteed minimum pensions from contracted-out occupational pension schemes; and to public service pensions. It will also apply to all other weekly national insurance benefits, including industrial injuries benefits, and to war pensions.

Child benefit will also be increased, by over 11 per cent., from £5.25 to £5.85, an increase of 60p per qualifying child. One-parent benefit will go up by the same percentage from £3.30 a week to £3.65. So a one-parent family with two children not in receipt of any other social security benefits will find the amount paid for the children rising from £13.80 a week to £15.35.

After taking the increases in child benefit into account, as has been the practice in previous years, the dependency additions for children paid with short-term national insurance benefits will be 30p a child compared with 80p at present. The child dependency additions payable with retirement, widow's or invalidity pensions will increase from £7.70 a child to £7.95.

Family income supplement is payable to people in work where the family's gross income, apart from child benefit and one-parent benefit, falls short of a prescribed level. The prescribed level of income for family income supplement will go up by £8.50 to £82.50 weekly for one-child families, and the additional amount for each further child will be raised from £8 to £9 a week. The maximum payment for a one-child family will rise from £18.50 to £21 a week, and the addition for each further child will go up by 50p to £2. This means that the increases will be particularly helpful to larger families with the lowest incomes.

instruction right up to later days. Not only would I recommend "The Art of the Possible" to anyone who wishes to know how the Conservative Party has survived so long against all the odds, but I would also recommend the introduction to Disraeli's "Sybil" which I believe was one of Rab's last writings.

Contrary to any supposition that there might be, Lord Butler was not an admirer of Disraeli. I know that fashions change in these matters. Indeed, I suppose that in a sense, although he would never have used the term himself, Lord Butler might have been described as the original "wet".

Lord Butler approached his own politics in his own way, and although he was scornful of Disraeli in many respects, in his introduction to Disraeli's "Sybil", with the touch of irony that added to everything that he said, he wrote:

"Even today there is in Britain a 'one nation group' led by Lord Hailsham and Lord Hinchingsbrooke which is dedicated to uniting the rich and the poor."

As I believe the right hon. Member for Down, South (Mr. Powell) wrote in *The Times* this morning, the witticisms of Lord Butler were always deliberate and I think that they were deliberate in the sentence that I have quoted. I doubt whether Lord Hailsham and Lord Hinchingsbrooke have exchanged a word in the past two decades. Moreover, I doubt whether Lord Butler, who was never a member of the "one nation" group, was as enthusiastic about it as that sentence might suggest.

Lord Butler presented politics to the nation in an original manner and tone and the Opposition are happy to join the Prime Minister in the tribute that she has paid.

3.43 pm

**Mr. J. Grimond** (Orkney and Shetland): The Liberal and Social Democratic Parties would like to be associated with the tributes that have been paid to Lord Butler and with the sympathy offered to his widow.

Together with Harcourt and Joseph Chamberlain, Rab was one of the trio of leading politicians of their time who never became Prime Minister. Yet he has left an imprint on our affairs greater than that left by many Prime Ministers. The background against which all parties have developed their policies on education and the Home Office derives not only from the reforms that he introduced but from his capacity to crystallise opinion and to generate consensus. Butskellism can be seen as the practical application of the doctrines of Keynes—the patron saint of responsible capitalism and the mentor of those who try to manage the mixed economy.

Rab was at once a reforming and a unifying figure in a post-war world in which, without him, politics might have been much more abrasive. I personally regret that he did not become Prime Minister after Suez. I believe that Britain at that time was ready for wider reforms of the type at which he excelled and which, had they been carried out with the good will that he engendered, would greatly have improved the performance of our industry, our industrial relations and the well-being of our country.

His talents, his kindness and his taste are celebrated. Everyone was always glad to see Rab. People gravitated towards him and were often rewarded by the latest Rabism. His illuminating ambiguities said more than many straight answers, and the expected oblique was part of his charm. I once asked him to dinner on a certain

I turn now to supplementary benefit. As the House will be aware from the proceedings last week in the Committee stage of the Social Security and Housing Benefits Bill, we propose to increase the scale rates of supplementary benefit from next November in line with the forecast increases in the general level of prices, after excluding housing costs. This is because both under the present scheme, and when housing benefit is introduced, the housing costs of supplementary benefit claimants are met separately. Supplementary benefit is different in this respect from all other benefits. The treatment of housing costs distinguishes those costs from all other day-to-day living expenses that are covered by the supplementary benefit scale rate.

The Government's approach recognises this, and, in effect avoids double-counting, while maintaining full price protection for all claimants. In addition, as with other benefits, we shall be making good the 2 per cent. short fall. The effect of this will be that the increase in the scale rates will be 10.5 per cent. but housing costs will, of course, be paid on top of that.

The ordinary supplementary benefit scale rate will, therefore, rise from £23.25 to £25.70 for a single householder and from £37.75 to £41.70 for a married couple. The long-term scale rate will rise from £29.60 to £32.70 for a single householder and from £47.35 to £52.30 for a couple. The scale rates for children will rise from £7.90 to £8.75 for children aged 10 and under, and from £11.90 to £13.15 for children aged 11 to 15.

There has been a great deal of concern about the effects of the capital limit for supplementary benefit. This is the limit on the amount of capital a person can have and still get supplementary benefit. It has been argued that the current limit of £2,000 set in November 1980 is now too low. The Government recognise the force of the argument and propose to raise the limit by 25 per cent. to £2,500. This will fully restore the value the limit held when it was introduced.

We also propose a further small but worthwhile improvement in the supplementary benefit scheme. We are increasing the amount of occasional payments by way of a gift, for example at Christmas or for a birthday, which can be disregarded. At present, any excess over £20 is deducted from benefit. We propose to increase the amount that can be totally disregarded to £100.

Supplementary benefit heating additions are now paid to over 2 million families. In 1980 we boosted them with a record increase. The 1981 uprating turned out to be more than enough fully to protect this increase against rising fuel costs. For 1982 we propose to increase the heating additions from this higher base in line with the expected rise in fuel prices between November 1981 and November 1982. The standard amount will rise from £1.65 to £1.90 a week, and the higher rate from £4.05 to £4.65.

As the Chancellor of the Exchequer announced yesterday, mobility allowance will no longer be subject to tax. I am sure the whole House will welcome that change, which will benefit some 40,000 recipients who have other taxable income. In addition, the rate of mobility allowance will be increased in November from £16.50 to £18.30. This means that since coming to office we have increased the rate of mobility allowance by 83 per cent. These measures will help even more disabled people to take advantage of the motability scheme for leasing or buying cars on advantageous terms.

I have also decided to make an improvement in the rules affecting invalid care allowance. The weekly amount which can be earned by someone who is looking after a severely disabled person will be increased from £6 to £12. The disregard has been £6 since the benefit was introduced in 1976 and the increase will restore its original value.

A further improvement affects the therapeutic earnings limit, which helps people recovering from illness who want to get back into full-time work. The present earnings limit is £16.50. I intend to raise that by 21 per cent. to £20.

The Christmas bonus of £10 will be paid on the same basis as last year in the week commencing 29 November. I also propose to increase the earnings rule limit for retirement pensioners in November from £52 to £57, the first such increase in three years.

The total cost of the uprating will be close to £3 billion in a full year, of which about £2 billion will fall on the national insurance fund, the balance coming out of the Consolidated Fund. The House has already approved the changes in contribution levels in 1982-83, set out in the Social Security (Contributions) Act 1982, and I shall, as usual, further review contribution rates in the autumn. Any necessary changes will take effect from April 1983.

The proposals mean that annual expenditure on social security benefits will rise to over £30 billion in 1982-83, which represents about 26 per cent. of all public spending. The changes that I have announced mean: full price protection of all weekly benefits; the 2 per cent. shortfall in 1981 made good for all benefits; the supplementary benefit capital limit increased to £2,500; supplementary benefit heating additions protected against rising fuel costs; the retirement pension earnings rule increased for the first time in three years; mobility allowance taken out of tax and fully price protected; a doubling of the earnings disregard for those receiving invalid care allowance; and an increase of more than 20 per cent. in the therapeutic earnings limit for those receiving incapacity benefits.

The measures will particularly benefit the elderly and disabled people. They will also give valuable extra help to all families with children. They are designed to bring practical help to those who most need it.

[Mr. Brynmor John]

he said that they have been calculated using yet another price index—the “Rossi” price index—which does not include housing costs, but since it was casually and inadequately explained to a rather startled Standing Committee, will he tell us exactly how the housing costs have been removed and give the House his estimate of their expected rise by next November? By how much, therefore, will the base rate for supplementary benefit uprating have been lowered?

Will the right hon. Gentleman consider the greatest crime of the Budget? Does he share with the rest of the House the belief that our financial treatment of children is the greatest cause of poverty to the low-paid and those on social security? If so, how does he justify increasing child benefit by only 60p a week, thereby cutting its real value since 1979 by 40p a week? Does that not represent a fall in child benefit of 6½ per cent. during the Government's reign?

Does the right hon. Gentleman agree that total child support for short-term beneficiaries, such as the unemployed who have children, will have fallen since November 1979 by 23 per cent. while support for long-term beneficiaries, such as widows with children, has fallen by nearly 12 per cent.? Is that not an absolute disgrace?

How does the right hon. Gentleman justify his decision not to make good the 1980 5 per cent. abatement on unemployment benefit? It was supposed to be an interim measure until taxation was introduced, as it will be in July. The House was assured that the abatement would then cease. It will not. Does that not amount to a gross breach of faith, and will the invalidity pensioner eventually be treated in the same shabby way as the recipients of unemployment benefit?

The Government have assumed a 9 per cent. increase in inflation, but is it not right to err on the high side, bearing in mind the bitter experience of the 2 per cent. shortfall and the incompetence of the Chancellor of the Exchequer? Is it not a fact that an underestimate now

to the scale rates and they are met in full. In that respect it is different from all other benefits, and we are proposing a 10½ per cent. scale increase, plus full housing costs.

The cost of the child benefit increase is about £400 million this year. The total cost of the benefit and the one-parent benefit is about £4 billion a year. That shows the Government's commitment to bringing support to children.

The unemployed will obviously be helped by the decision on the shortfall. A heavy cost would be involved in restoring the 5 per cent. unemployment abatement, but clearly we shall continue to keep that under review.

**Several Hon. Members** rose—

**Mr. Speaker:** Order. There will be plenty of opportunities for these matters to be pursued in the Budget debate. Therefore, I shall limit questions to 15 minutes today.

**Mr. Paul Dean** (Somerset, North): I welcome the increases in pensions and other benefits, the making up of the 2 per cent. shortfall and the increase in child benefit, all of which show the Government's continued commitment to protect the most vulnerable sections of the community.

I welcome also the increase in the capital limit for supplementary benefit and ask my right hon. Friend whether, to encourage thrift, that can be indexed so that it does not fall behind in future years? In regard to the long-term unemployed, will my right hon. Friend give increasing attention in future plans to the mounting evidence that those who have been unemployed for a long time, particularly those who have dependent children, do not have arrangements that give them adequate support?

**Mr. Fowler:** My hon. Friend knows that the Government have already improved the position for the over-60s and we shall continue to keep the matter under review. I am grateful for my hon. Friend's comments on the supplementary benefit capital disregard figure and on the other benefits that we are increasing. The present capital disregard is a disincentive to thrift. The cut-off level is too low, which is why we are improving it and increasing it. I cannot give a commitment on indexation, but we shall keep it under review.

**Mr. Harry Ewing** (Stirling, Falkirk and Grangemouth): The Secretary of State mentioned the Social Security and Housing Benefits Bill, which is in Committee. Is he aware that clause 18 removes from local authorities in Scotland their discretion under the Local Government (Scotland) Act 1973 and the Housing Finance Act 1972 to disregard completely war widows' pensions and war disablement beneficiaries' pensions for the purposes of rent rebates? Can the Secretary of State reassure the Royal British Legion in Scotland that that discretion will be restored when the Bill comes back for Third Reading?

**Mr. Fowler:** The discretion remains with the local authorities. The Royal British Legion can be reassured on that.

**Mr. Patrick Cormack** (Staffordshire, South-West): May I add my thanks to my right hon. Friend and say that I believe that the package will be warmly received generally? However, will my right hon. Friend reconsider the capital limit on supplementary benefit? Does he accept that many people in their fifties, who are out of work