

PRIME MINISTER

CHILD BENEFIT AND PES

You and the Chancellor discussed the proposed £1 per week uprating of child benefit for the first child only on Wednesday. Subsequently you considered with Andrew Turnbull and me whether the proposal made sense in terms of the Government's wider strategy on family policy; and whether it could be successfully got through the House.

The Chief Secretary and Social Security Secretary have given further thought to their proposal. In the attached minutes both have still come down in support of this addition to child benefit only for the first child.

Mr. Newton presents his proposals on child benefit as part of a wider package to provide:

- improved support for families with children;
- additional help for poorer pensioners; and
- higher income support limits for residential care and nursing homes.

Paying a higher rate of child benefit for the first child is presented as a measure, not only to help with the start-up costs of a family, but also to help cushion (albeit marginally) the loss of income for women who give up work to have children.

The heart of the case is in paragraphs 8 and 9. The proposal is presented as a "family premium" paid to mothers, that opens up a new range of options for future reviews of family policy.

Finally, Mr. Newton judges that the measure will be popular and can be successfully got through the House.

The Chief Secretary also commends the approach. He argues it would look odd to uprate child benefit in full in this more difficult year on the Public Expenditure front. Moreover the only alternative if the overall PES deal on the programme is to be maintained would involve dropping the extra benefits to poorer

pensioners and lower increases in income support for residential care. Both are policy initiatives to which Mr. Newton attaches importance.

Assessment

The case for the family premium is set out in the two minutes. The main arguments against are as follows.

- i) If the Government can afford to go this far, for a small extra sum (c. £100m) it can uprate child benefit in full. The policy looks mean.
- ii) Moreover, if it is argued that this limitation on child benefit was to make room for extra for poorer pensioners and those in residential care, that too could be counter-productive. All three measures will be criticised as mean-minded.
- iii) Any departure from full or zero uprating of child benefit opens up arguments about the future of family support policy.
 - a) Why a payment to the first child rather than to those families with say two or more children (the Chancellor reminded you of the possible reaction from the Catholic Church)?
 - b) Also, the proposed presentation about help with start-up costs and a cushion for women who leave work would in fact argue for payment of extra child benefit to children under five. Under Mr. Newton's proposal, much on the money would go to parents of single teenagers - where the mother has been back to work for some years.
- iv) Understandably, Mr. Newton sees attractions in his concept of a "family premium". But you may feel that you and colleagues should consider the new policy departure more thoroughly. If there is to be a "family premium" it is not obvious it should be paid through child benefit rather than

through the tax system. There are other ideas too, for example, raising NICs, to pay for greater support for children. Rather than extending the policy choice as Mr. Newton contends, this could be seen as a measure which restricts it.

- v) Mr. Newton's paragraph (11) on his discussion with the Chief Whip says relatively little. My understanding is that the Chief Whip was cautious in his response. He had been assuming a further freeze. Whatever the likelihood of a successful passage through the House, the danger lies in attacks from the Government's own side about the nature of this new family premium.

Conclusion

You will wish to weigh the advantages set out by Mr. Newton and the Chief Secretary against the possible drawbacks identified above. A further advantage of the package is of course that it has been negotiated between the Chief Secretary and Mr. Newton; that the only practical alternative - a further uprating of child benefit - will lead to some criticism of failure to give more to pensioners and those in residential care; and that, although this point can be over-played, it may make the overall Public Expenditure settlement look less tough than it is.

Mr. Newton had intended to lay the uprating order on Monday but this will now be postponed.

- i) Content to approve Mr. Newton/Chief Secretary's package; or
- ii) Content for me to write out in favour of full uprating of child benefit with offsets achieved elsewhere in the Social Security programme; or
- iii) Wish to talk further with the Chief Secretary, Mr. Newton, the Chancellor and the Chief Whip?

Yes please
BHP

BARRY H. POTTER

19 OCTOBER 1990

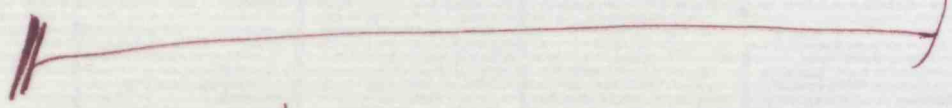
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PERSONAL AND
POLICY IN CONFIDENCE

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Prime Minister

1991/92 UPRATING: FAMILY SUPPORT POLICY

My minute of 16 October reported on the PES settlement I have reached with Norman Lamont. I understand you wished to have a fuller explanation of the thinking behind my proposals, particularly in relation to Child Benefit.

The strategy

2. My overall concern has been to achieve a balanced set of measures across the social security field as a whole, which can sustain our position up to and through the Election.

3. Thus, using the room to manoeuvre created by the Statutory Sick Pay (SSP) proposals with which I understand you are content, I have constructed a package for this up-rating with three key ingredients:

- an improvement in support for families with children generally (with which most of the rest of this minute is concerned);



- additional help to those poorer pensioners who did not gain from the increases we made last October, in order to underpin our generally good record on pensioners incomes by enabling us to point to a real improvement for all the pensioners who are least well-off;

- Income Support limits for residential care and nursing homes, with increases focused particularly on the latter where the problem is clearly greatest, to hold the position in the wake of the deferment of the new arrangements for community care, and avoid a repeat of the difficulties we experienced in this area earlier this year.

4. Taken together with the extensive measures of the past three years for low-income families with children, the major programme of improvements in disability benefits we are carrying through, and the proposals we shall shortly be publishing for child maintenance, I believe this gives us a record on which we can stand with confidence. Not least, provided it contains a credible approach to the needs of all families with children, it can be presented as supporting "family policy" in a wider sense - that is to say, one which takes account of responsibilities to the old as well as the young, and the special problems of families facing particular pressures such as those arising from disability or marriage breakdown.



Child Benefit

5. I am in no doubt that a substantial move on Child Benefit is a very important element in this strategy. Three years of freeze, coupled with measures directed only towards hard cases, have created a growing perception - by no means confined to the Left - that 'normal' families are losing out by comparison with almost every other group, including those who have no family responsibilities at all. A continuation, even if politically sustainable (which I doubt), would put us very much on the defensive in the run-up to the Election. And it is increasingly vulnerable to legal challenge, on the grounds that I am operating a settled but undeclared policy rather than properly fulfilling my statutory obligation to review.

6. What I have therefore sought to do is to make a proposal which takes us out of this trap, while recognising the special constraints on public expenditure this year, in a way which both creates greater flexibility for the future and, crucially, can be presented as a sensible step forward in the social security aspects of family policy itself.

7. The modern reality is that, for most families, the major impact of having children is when the first child arrives. This is not just because the "start-up costs" are then incurred, but above all because, in a world in which virtually all women work while they are childless, but the great majority cease to work (or work much less) for some considerable time after they become mothers, the arrival of the first is for most families associated with a sharp loss of income. The effect of the arrival of later children is much smaller by comparison.



8. This clearly points, in my view, to introducing into Child Benefit the concept of a "family premium" paid to mothers (which of course we have already introduced into Income Support as part of the reforms, and has been a welcomed and accepted feature of them). That, in effect, is what I am proposing - though in the legal form of an extra payment for the eldest child, since I can do that without the need for primary legislation which we are rightly anxious to avoid in this field at this time.

9. Apart from its basic merits in recognising and responding to real family needs, such a proposal has two other significant advantages.

First, it opens a new range of options for future reviews - that is, increasing the premium, increasing the rate per child, or some combination of the two - but without closing off other options we might wish to consider, such as age-related payments (or indeed complementary moves within the tax system, though work between Treasury officials and mine has shown very great difficulties in devising anything which might serve our objectives).

Secondly, it opens the way to restoring a healthier balance of support as between two parent families and lone parents. You will have noted that my proposal is that all families should get an extra £1, but that One Parent Benefit should not additionally be increased. I think we could legitimately and sensibly look over a period to see a Family Premium gradually overtake One Parent Benefit so that we have a premium which goes even-handedly to all.



10. I see no reason to doubt that a move of this kind, presented in the way I have described, would receive a wide welcome from the great majority of our backbenchers, including some of the more substantial figures (notably Norman Fowler in the Commons and Keith Joseph in the Lords) who have recently been adding their expressions of concern about family support to those of the more familiar "Child Benefit lobby".

11. I have spoken briefly to Tim Renton, who had been assuming a fourth consecutive freeze accompanied by sizeable further improvements in income-related benefits for low-income families and lone parents, and thought that would be sustainable; he was however unaware of the possible legal difficulties to which I have referred, and I have not had an opportunity to take him through the strategy described in this minute.

12. Since no primary legislation is involved, and therefore no possibility of amendment arises, I see no difficulty in carrying the proposal through the House. As always with up-rating orders and the like, there is no way in which people can vote for higher increases than those on offer, and they are reluctant to get into the position of voting for no increase at all.



Conclusion

13. I hope that, in the light of this minute, you will feel able to agree that I should proceed as I have agreed with Norman. If however you feel that further consideration is needed, I believe the only realistic alternative for the statement I must make quite soon now would be a full up-rating of Child Benefit. As I have indicated, I doubt the viability of a further freeze; and a middle course of a modest increase across the board seems to me the worst of all worlds, since there would be no grounds of policy or principle on which to defend it, other than the fact that it is cheaper than a full up-rating.

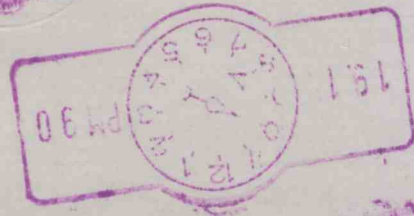
14. A full up-rating could be accommodated only by an upwards adjustment of some £116 million in my recent settlement; or alternatively, within the agreed expenditure envelope, by going further on SSP (which might be a bridge too far) or by abandoning the agreed improvement for poorer pensioners and sharply reducing any extra help in the field of residential care and nursing homes. Either of these latter courses would, in my judgement, seriously damage the strategy I set out earlier.

15. I am copying this minute to John Major, Norman Lamont, Tim Renton and Sir Robin Butler.

T.H.

19 October 1990

TN





FILE

A: / Social

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 October 1990

Social Security Benefits: 1991-92 Uprating

The Prime Minister was grateful for your Secretary of State's minute of 16 October and for the Chief Secretary's minute of the same date on this subject.

We spoke on the telephone and I have also spoken to the Private Secretaries to the Chancellor and the Chief Secretary.

You are undertaking the further examination and work requested. Following the further consideration your Secretary of State, in consultation with the Chancellor, Chief Secretary and Chief Whip as necessary, will report their conclusions to the Prime Minister.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Chief Secretary to the Treasury.

BARRY H POTTER

Stuart Lord, Esq.,
Department of Social Security.



FROM: CHIEF SECRETARY

DATE: 19 October 1990

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY: SOCIAL SECURITY

I understand you have some concern about Tony Newton's proposal to increase child benefit by £1 per family next April.

2. Given the widespread expectation that in this very difficult year Child Benefit will be frozen once again, I believe that this increase in support for children will be well received. I am confident that what Tony proposes will be seen as a positive step towards recognising the drain on a couple's resources which occurs when the first child arrives.

3. At the same time - and this seems to me to be a crucial point - it does not tie our hands for the future. We would remain free to freeze Child Benefit in future years, or to uprate it - when resources permitted - either across the board or by boosting what is in effect a premium for the first child.

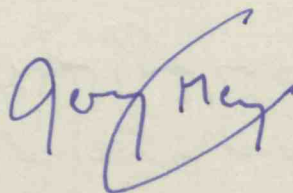
4. I must stress that John Major and I regard the cash envelope I have agreed with Tony as an essential part of our public expenditure strategy. A full uprating of Child Benefit would require offsetting changes elsewhere in the package. These would be bound to include dropping the extra benefits for poor pensioners to which Tony attaches great importance, and probably also smaller increases in the income support limits for residential care and nursing homes. There is a severe danger that the latter would again come under pressure in the House, not least because of the decision to postpone the community care initiative.

5. A full uprating of Child Benefit in the current Survey would seem a very odd decision in such a difficult year. We would surely be challenged on why we could afford to do it now, but had not been able to afford it over the last three years when the fiscal position was so much stronger.

6. A less expensive alternative would be a partial uprating. But that would probably be the worst of all worlds. It would be criticised as mean by supporters of Child Benefit. And we would be able to defend it only in pure public expenditure terms.

7. For these reasons I greatly prefer Tony's proposal. It both meets the main concerns of the lobby for increased support for children while securing important savings in public expenditure.

8. I am copying this minute to John Major, Tony Newton and Tim Renton.



NORMAN LAMONT

[Approved by the Chief Secretary
and signed in his absence]



DEPARTMENT OF SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 071-210 3000

From the Secretary of State for Social Security

POLICY IN CONFIDENCE

Barry Potter Esq
Private Secretary
10 Downing Street
London
SW1

19 October 1990

Dear Barry

1991/92 UPDATING: FAMILY SUPPORT POLICY

I am writing to let you know how the proposal to bring the £1 increase in Child Benefit for all families would be handled in Parliament.

The measure would not require primary legislation but can be achieved by the making of regulations under the Child Benefit Act 1975 to introduce a higher rate of Child Benefit for the oldest or only eligible child in the family. The intention will be to bring forward these regulations at the same time as the updating order and, if possible, to debate them at the same time. Both the order and the regulations are subject to affirmative resolution procedures.

My Secretary of State believes that the need to make separate regulations on this occasion would be unlikely to cause any more debate than would arise on the updating order provided it is possible to have them debated at the same time, and that the debate would be much less difficult than in previous years. The practice in the past has been for the Opposition to want a half day in prime time to debate the updating package as a whole and they are usually amenable to taking all of the associated provisions together.

I am copying this letter to John Gieve, Jeremy Heywood, Murdo MacLean and Sonia Phippard.

Yours,
Stuart

STUART LORD
Principal Private Secretary



Prime Minister

SOCIAL SECURITY BENEFITS: 1991/92 UPRATING

1. In the light of my agreement with the Chief Secretary in the current Public Expenditure Survey, I have recently reported to you how I intend to fulfil your commission to publish before the end of this session a White Paper on the establishment of a Child Support Agency and the related benefit arrangements for lone parents. The settlement Norman Lamont and I have reached also means that I shall now shortly be circulating to colleagues a draft of the statement I propose to make as early as possible next week about the general uprating of benefits. I thought you would wish to have advance notice of the main features of that statement.
2. In general, benefits will be uprated as usual by the appropriate index - the RPI or the "Rossi" index (RPI minus housing costs). There are however two significant exceptions where I have agreed with Norman Lamont that more is needed because of especial pressures.
3. The postponement of local authorities' new community care responsibilities means that social security continues to bear the brunt of demand for support for people in residential care and nursing homes. This, coupled with recent research evidence of the level of costs in these homes, indicates that a Rossi uprating would be bound to invite a recurrence of the political difficulties we experienced this year with our own supporters about the inadequacy of the upper limits on residents' Income Support. I have therefore agreed with Norman Lamont a higher level of uprating which can be defended against the research evidence. It will focus particularly on nursing homes.

4. Our strong overall record on pensioner incomes is vulnerable in respect of poorer pensioners, particularly those who have not gained from the spread of occupational pensions. There are signs that, having fallen between 1979 and 1985, the number of pensioners in the lowest income decile is now rising.

5. We have therefore agreed on a £1 greater than Rossi increase in the Pensioner Premium for singles and a comparable £1.50 for couples. The effect of this is to give additional help to all those less well-off pensioners who were not assisted by the increases in premiums for older and disabled pensioners which we made last year. Thus we will be able to say that all less well-off pensioners have had a real increase in the last two years.

6. My uprating statement will however also reflect my agreement with Norman Lamont on two aspects where - both on intrinsic policy grounds and to help curb the cost of my programme - benefits will be uprated by less than the appropriate index.

7. Child Benefit has been frozen for the last three years. A further full freeze would run a now very considerable risk of legal challenge that I had failed to carry out properly my statutory duty to review the value of the benefit. It would also be exploited by our opponents (and those of our own supporters who argue in favour of uprating Child Benefit) as conveying a negative impression of our longer term intentions for family support. I therefore intend to increase child benefit by £1 for each family (25p more than the amount per child which would be provided in an across-the-board uprating). This makes it unnecessary to uprate One Parent Benefit, which would have provided a smaller increase for every one parent family. This selective uprating of Child Benefit will be consistent with a variety of future policy options and will enable us to recapture the initiative when considering proposals for the manifesto.



8. My second major savings proposal relates to Statutory Sick Pay (SSP). In recent years we have seen industry tacitly accepting (in my view rightly) a growing share of responsibility for covering short-term sickness amongst those in employment. Over 90 per cent of employees are now covered by occupational sick pay schemes, with the result that they are in practice affected little or not at all by the prescribed rates of SSP.

9. I intend therefore to make further changes broadly along the same lines as those I made last year, by making a full up-rating only in the standard SSP rate (which goes to lower-paid employees, who are less likely to be covered by occupational schemes), while extending upwards the band of earnings to which it relates. There would be no increase in the higher SSP rate.

10. I propose also to adjust the arrangements under which employers are fully reimbursed for their expenditure on SSP, and move to 80 per cent reimbursement. In parallel with this change - which will not only make an important contribution to public expenditure constraint this year, but give us greater flexibility in this area in the future - I shall make an offsetting reduction in employer's National Insurance contributions, so that the overall effect of this part of my package will be broadly neutral for the costs of employers as a whole.

11. The overall package of changes in SSP and NICs - which I understand Norman Lamont has agreed with John Major - results both in substantial expenditure savings and, even allowing for the NIC changes, a significant gain to the PSDR.

12. The change in the rate of employers reimbursement of SSP will entail a short Bill, and I have the Lord President's agreement to its inclusion in the programme.



13. I believe that these changes represent a satisfactory outcome for Norman Lamont, but will also enable me to make an uprating statement which can be presented to the country and to our own supporters as balanced and responsive to the key pressure points.

14. I am copying this minute to John Major and Norman Lamont.

TN

16 October 1990

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CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 16 October 1990

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY: SOCIAL SECURITY

I have seen Tony Newton's minute to you of today. I believe the proposals in it are sensible and satisfactory in public expenditure terms.

2. As you know, in this year's Survey we faced large additions on the non-discretionary parts of the social security programme - amounting to roughly £3.0/+4.1/+7.1 billion. It was therefore of overriding importance on the discretionary part of the programme to secure cuts. What Tony is proposing implies a settlement on the discretionary side of £-32/+48/-36 million. This is a very good outcome indeed.

3. By partially privatising employers' insurance for their employees' short term sickness - a measure already being asked for by some backbenchers - he has found sufficient headroom for the benefit improvements he felt most urgent. John Major has agreed that the extra costs employers will face (which will be marginal) should be partly compensated through a small reduction in employers' national insurance contributions. However, the key point is that half of the saving in public expenditure will feed through to the PSDR, so there will be real savings.

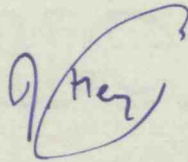
4. At the same time this is an attractive package politically - with the Child Support Agency, an increase in Child Benefit and something for poorer pensioners and on residential care.


CONFIDENTIAL

5. The overall settlement does depend heavily on a short Bill in the coming Parliamentary session. I am grateful for Geoffrey Howe's agreement to find space for it early in the session. This is essential to unlock the agreed savings on statutory sick pay and I have made it clear that we would have no alternative but to go back and reconsider the relatively modest agreed benefit improvements without it.

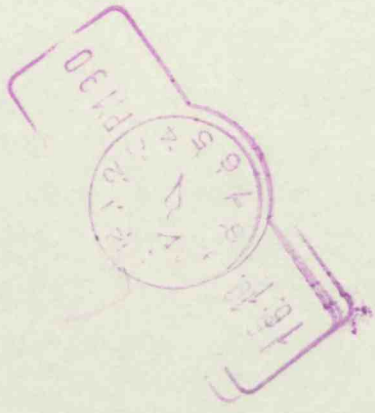
6. I recommend the settlement we have reached as a coherent and balanced package of measures. It recognises the limitations on what can be managed in the current difficult circumstances for public expenditure, at the same time addressing the most cogent of Tony's expenditure pressures.

7. Copies of this minute go to John Major and to Tony Newton.



 NORMAN LAMONT

[Approved by the Chief Secretary
and signed on his behalf]



COMPLIMENT