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SOCIAL SERVICES: Upgrading
of Benefits
PT4.

10 DOWNING STREET
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From the Private Secretary

18 May 1988

Dear Nick,

The Prime Minister met a group of Conservative backbenchers yesterday afternoon, at their request, to discuss some aspects of the Government's social policy. The Members attending were Timothy Raison, Sir George Young, Robert McCrindle, Andrew Bowden and Robin Squire. Your Minister was also present.

I should be grateful if you (and Jill Rutter, to whom I am copying this letter) could ensure that there is very limited distribution of this letter in your Departments.

Timothy Raison opened the meeting and said he fully agreed with the Prime Minister's statement in the House that people at all levels were better off since 1979. But there was a worry that the less well off might be adversely affected by policies in the pipeline. The Government and the Party must not give the impression that they were no longer concerned about the poor. Mr. Raison said that the main focus of concern was those somewhat above the level of income support. It was vital that the Government ensured that new social policies did not leave the less well off worse off, and that this aspect was properly assessed in advance. He urged that the Prime Minister take fully into account the views of backbenchers before introducing controversial social policy. They were well placed to offer advice on the practical and political impact of these measures. He and his colleagues then went on to make a number of more detailed points.

Child benefit

The MPs believed strongly in child benefit. They welcomed the Prime Minister's re-affirmation of the Manifesto commitment in the House that afternoon. The benefit had the advantages of being paid to the mother, of helping those just above the level of income support, of emphasising the Government's commitment to the family, and of avoiding the poverty trap. It was, admittedly, not easy to justify paying child benefit to those on higher incomes, particularly when they had benefited so much from tax cuts. But the fact was that mortgage interest tax relief was given to those in the same position, and a universal benefit ensured 100 per cent take-up.

The Prime Minister asked the MPs how they thought the Government might respond to criticism that those who were well off, and had done well out of recent Budgets, were still receiving child benefit. Some people argued that it might be made subject to tax for those paying the higher rate, although clearly the introduction of separate taxation for husband and wife had a bearing on that proposal. The MPs took the view that the Manifesto commitment meant that child benefit should remain unchanged. But they appeared to prefer some form of claw back arrangement for the better off to the gradual erosion of child benefit through a failure to up-rate.

The Prime Minister took note of the points made. She repeated that the Manifesto commitment was clear, and it would be honoured during this Parliament. There might, however, be a number of views as to the interpretation of that commitment.

Housing benefit

The MPs said there was still concern that many people were suffering benefit losses of more than £2.50 per week because the new transitional protection did not cover the liability to pay 20 per cent of rates, the water rate and any rent and rate increases this year. The perception was that these losses were the responsibility of the Government rather than the local authority. They urged that monitoring of the new arrangements should pay particular attention to that problem.

War widows and other pensioners retiring in the late 1960s and early 1970s had suffered grievously as a result of high rates of inflation wiping out their savings. Their second pensions were not likely to be inflation-protected. Housing benefit had been a small compensation for these losses. The Prime Minister was urged to raise top and bottom capital limits from £8,000 and £3,000 to £10,000 and £5,000. The cost of some £200 million would be modest. Such pensioners frequently had no house to pass on to their children, and the exemption for a property was no help to them.

The Prime Minister thought it was difficult to justify sons and daughters benefiting from an inherited property while the owner of that substantial asset had been supported at the taxpayers' expense. Similar arguments applied to those with over £8,000 in capital. The Prime Minister understood and sympathised with those pensioners whose savings had been eaten away by high inflation. That was one reason why the present Government's priority was to keep inflation low. But a limit had to be set on what the taxpayer could be asked to bear. There were cases under the old rules of people deliberately manipulating the social security system in order to avoid having to support parents and elderly dependents, at the taxpayers' expense.

Community Charge

The MPs pointed to the recent difficulties of housing benefit and, though they welcomed the changes which had now been made to modify the reforms, they were anxious that there might be similar turbulence over the introduction of the community charge, and over a possible increase in rents following the housing reforms, at a sensitive time before the next election. Under the community charge there would be more losers than under the housing benefit reforms. Many of them - as in the case of child benefit and housing benefit - were Government supporters.

The Prime Minister reminded the MPs that major reforms could not be undertaken on the basis of a simple arithmetical count of gainers and losers. What mattered was the overall fairness and rightness of the reform. The fact was the community charge would help many of those who were treated unfairly by the existing rating system.

At the conclusion of the meeting, the Prime Minister thanked the MPs for putting their points constructively. She had carefully noted them.

Separately from the meeting, the Prime Minister had a brief discussion with your Minister about the future of child benefit. She said, as she had told the House that afternoon, there could be no question of going back on the Manifesto commitment. Any proposals which were currently under discussion would need to be fully compatible with that commitment. More radical reform of child benefit was possible, but only in the next Parliament. Your Minister said that he had been considering a package of measures which should offer more help to those who needed it most, reduce help for those on higher incomes who had done particularly well out of the budget, and should also generate some savings. The Prime Minister was somewhat sceptical that a package of the kind Mr. Scott had in mind would be fully in keeping with the Manifesto commitment. The matter would need looking at very carefully, and your Minister agreed to come forward with a paper accordingly.

I am copying this letter to Jill Rutter (Chief Secretary's Office, Treasury).

*Yours sincerely,
Pat Gey*

h MARK ADDISON

Nick Bromleu, Esq.,
Department of Health and Social Security.