

CP(70) 59

COPY NO 54

28 September 1970

CABINET

ASSISTANCE FOR THE FAMILIES OF LOW
WAGE EARNERS

Memorandum by the Secretary of State for Social Services

Two powerful considerations make it essential that we should provide additional help for poor families with children. There is in the first place our commitments to tackle the problem of child poverty. In addition we have to protect these families from the consequences of the proposed reductions in expenditure.

2. The Social Services Committee discussed this dual problem on 25 September. I explained that for technical reasons the obvious course of increasing family allowances and limiting the cost by additional 'clawback' was not as we had hoped practicable.

3. The Committee considered however that the Family Income Supplement scheme (FIS) described below offered a sensible alternative method of getting help to these families, though our discussion threw up one point of doubt (see paragraph 11). We also discussed proposals for modifying the low-income remissions for school meal and other charges that will be going up.

4. Although we could not in the short time available put forward firm recommendations I think it is important that my other Cabinet colleagues should know what progress we have made and that we should at this stage allocate a definite sum to provide relief for these families.

THE FIS SCHEME

5. The scheme is designed to give measure of help to the poorest families with children where the breadwinner is in full-time work (i. e. there is no entitlement to supplementary benefits). Payments would be made to families whose income falls short of an amount (the 'make-up level') which would vary according to the number of children as follows:-

1 child	£ 15 per week
2 children	£ 17 per week
3 children	£ 19 per week

and so on in £2 steps. These levels approximate to the present tax thresholds, and also to supplementary benefit levels assuming average rents. The payment would be 50 per cent of the shortfall, subject to a maximum of £3 per week. Thus, a 3-child family with an income (including family allowances) of £15 per week would receive £2 per week.

6. Supplementary Benefit scales represent no more than a minimum acceptable living standard and we agreed that households with incomes even up to £4 per week above this level are in many cases very hard pressed.

7. Awards would normally be made for 6 months at a time, based on the income over the 5 weeks preceding the claim. The scheme would be administered through the offices of the Department of Health and Social Security, and it is envisaged that claims would be decided by the Supplementary Benefits Commission, with a right of appeal to an independent appeal tribunal.

8. It is clearly essential that the scheme should start at the earliest possible date. There is provision in the current legislative programme for a "main programme" Bill on family allowances, which a Bill for this purpose would replace. Provided we get the legislation on the statute book by Christmas, we would hope to be able to invite claims from next April and start payments at the beginning of August.

9. On the basis of the Family Expenditure Survey we estimate that, as at April 1970, approximately 210,000 families were in the paragraph 5 group, and that, assuming 75 per cent take-up the cost in a full year would have been about £8.5 million (this includes £1 million for an adjustment to Supplementary Benefit in 'wage-stop' cases). Some 5-600 extra staff would, on this basis, be required for the take-on period, (April-August) and some 200 thereafter.

10. On the same basis (i.e. April 1970 earnings levels) it is estimated that to cover the group referred to in paragraph 6 would have brought in about another 300,000 families at an extra cost (on the same assumption as to take-up) in the region of £10 million per annum.

11. If we are to have any prospect of starting the scheme next year, the numbers I have given in paragraph 9 must be regarded as the limit. In discussion in the SL Committee, however, it was pointed out that the anticipated increase in earnings between April 1970 and August 1971 will mean that substantially fewer people will be in this income group but that higher prices will largely carry the need up into the paragraph 6 bracket. It was suggested therefore that the make-up levels should be raised to allow for this. The matter is, however, not a simple one. If for example this meant that we should be taking the levels substantially above the tax thresholds, the combination of tax and the 50 per cent taper of the scheme might produce a marginal tax rate of as much as 82 per cent, which could be represented as a serious disincentive, though at this level

of income the combined effects of tax and benefits in cash and kind are probably rarely understood. Moreover we now have to consider whether the paragraph 6 group will have moved up the income - though not necessarily to the same extent the real income - ladder. If not the number will be too large to take on board by August 1971. Further, we shall have to give Parliament some explanation of the levels chosen, and if this involves disclosing our estimates of the movement of earnings it could, I suppose, be embarrassing.

12. Clearly, therefore, we shall have to give further consideration to the levels and numbers, and I have asked officials of the Departments concerned to do this as a matter of urgency. However, in view of the timetable it is essential to get ahead with preparations for the scheme, including particularly the drafting of a Bill for introduction as soon as Parliament returns. For this reason I would like to have my colleagues' agreement to the scheme in principle, subject to the further consideration I have suggested.

INCREASED CHARGES

13. The average weekly impact over the year of the proposals for school meals and welfare milk would be in the following range (depending on the children's ages):-

2 adults

with one child	2s. 6d to 3s. 6d.
with two children	5s. to 7s.
with three children	7s. to 9s. 6d.
with four children	7s. to 12s.

In the case of school meals the impact would be concentrated in the weeks when the child is at school. In addition there would be increased charges for prescriptions and optical and dental services but the effect of these on a family would not be spread evenly over the year and while negligible in some cases it could be quite high in others. It does not seem necessary to take account of the withdrawal of free milk from junior schools in that few families are likely to buy more milk as a result of this. On the other hand, the withdrawal of agricultural subsidies might raise food costs by some 2s. to 3s. a week for a family of three children and an income of £20 to £25 a week, but not before next September at the earliest. In the housing field new proposals for housing finance and for an improved rent rebate system will be ready shortly but will not affect housing costs before April 1972 at the earliest. Meantime rents are likely to rise in accordance with previous trends; but this will not be a consequence of the current proposals; the effects will be mitigated for a large proportion of Council house tenants by the existing (discretionary) rent rebate schemes.

14. It is estimated that at present income levels something like 10 per cent of households will be unaffected by the proposed increases provided that they take up their existing entitlement to exemption or remission. A smaller number of households - about half a million - might be caught by some, but not all of the increases. About 13 million households, of which some $6\frac{1}{2}$ million are families with children, would be liable to pay the increased charges in full. This last group covers a wide range of incomes from very high to very modest ones. The increased charges are likely to be hardest on families with incomes just above the exemption limit.

15. My proposals for FIS have already been drawn to take account of the increased food costs mentioned above but the scheme in its present form falls short of the upper limit of the present remission scales for the benefits affected by our proposals and would not therefore help families in that range of income, or, indeed, just above it. The Social Services Committee have considered whether some alteration in the remission levels should be made to soften the impact of the increased charges and withdrawal of the subsidy for welfare milk but thought that the possibility should be examined of further extending the ambit of the FIS to cover this level of income. There may, however, be very substantial difficulty in this for the reason given at the beginning of paragraph 11 above.

CONCLUSION

16. These are problems of some intricacy and it would be desirable to re-examine them in the Social Services Committee before putting final proposals to the Cabinet. I am not yet able to offer firm estimates. To allow us to proceed with our main exercise I suggest therefore that we proceed on the basis that £20 million in all (including the £8.5 million originally estimated as the cost of the FIS scheme to help towards which I have already offered savings of about £4.5 million) should be set aside for the two purposes I have described, the precise allocation of such expenditure between remission arrangements and/or FIS being left for determination in the light of further consideration.

K J

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28th September 1970

