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CP(70) 76

COPY NO

54

9 October 1970

CABINET

PUBLIC EXPENDITURE MEASURES: IMPACT ON FAMILIES

Memorandum by the Chief Secretary, Treasury

1. In this memorandum I summarise the impact of our measures on families.
2. I deal separately with:
 - a. the increases in health and education charges and the withdrawal of welfare milk, where we have taken firm decisions, which will be implemented on or before April 1971;
 - b. the interim scheme for changes in the system of agricultural support, which cannot begin to take effect before September 1971 at the earliest; and
 - c. the fair rents scheme for local authority housing, detailed proposals for which will be coming forward later this month, and which cannot take effect before 1972-73.

The different time-scale for these 3 groups of proposals is important.

I also deal separately with:

- d. the London rail fares increase, which has a rather different (because limited, regional) context).
- A. HEALTH AND EDUCATION MEASURES

3. These measures are:

| | |
|-----------------------|--------------------------------|
| Increased charges for | school meals |
| | prescription charges |
| | ophthalmic services |
| | dental services |
| Withdrawal of | subsidy for cheap welfare milk |

4. The effect of the measures on school meals and welfare milk, on those families who will pay the new charges, is estimated to be:

| 2 adult household | cost per week |
|-------------------|------------------------|
| without children | nil |
| with 1 child | around 2s 6d to 3s 6d |
| with 2 children | around 5s 0d to 7s 0d |
| with 3 children | around 7s 0d to 9s 6d |
| with 4 children | around 7s 0d to 12s 0d |

5. The average cost of the prescription, ophthalmic and dental charges will be a few pence per week for all families. However in practice these charges will fall with a very uneven impact on different families at different times. These average costs will probably be increased by a few pence per week, and the dispersion of actual costs around the average further widened, when we move to the percentage basis for prescription charges.

6. The poorest families - those earning around £20 a week or less, depending on the size of family, the ages of the children etc - will be exempt from these charges (or be entitled to have them refunded) even under the existing arrangements and will continue to enjoy free welfare milk. Sophisticated arrangements already exist to protect those whose means would be strained by a bunching of heavy charges at any particular point of time. Many of these people will be substantially better off when the Family Income Supplement (FIS) is introduced in the summer of 1971. None of them will be worse off in the interval.

7. Once one is above the income limits for remissions, the costs of the new charges (paragraphs 4 and 5 above) do not vary with the amount of income.

8. Around broadly the £20-£24 a week level (according to the size of family) there is a narrow band of people who, under the existing arrangements, would neither be exempt from the new charges nor pay a large amount of tax - but to whom an additional cost of 12s-13s a week would represent a real difficulty. It is to this group of people that the specific mitigation measures are directed. The raising of the present remission limits, as proposed in SL(70) 11, will mean that many of these people will on balance be better off than they are now.

9. Above this group we are coming close to the average industrial wage (just under £25 per week). At these levels fixed costs of up to 12s per week will represent a progressively smaller percentage of incomes, and these are the people who will stand to benefit from reductions in direct taxation.

B. AGRICULTURAL SUBSIDIES

10. The agricultural measures will cost a further 2s to 3s a week for (eg) a 3-child family earning £20-£30 a week. By contrast with the health and education measures, the cost will tend to be larger for those with larger incomes, since such families tend to spend more on food. But food is proportionately a smaller component of a well to do family's budget than it is with a poor family.

11. For the poorest families it is proposed that the scope and scale of the FIS should be enlarged to counter this impact and this will give rather more than 3s a week extra to most beneficiaries. The scheme will be in operation by the time that our agricultural reforms are implemented. Moreover, those receiving national insurance and supplementary benefits will automatically be compensated by the regular upratings of their benefits in line with prices.

12. For other families the impact of the new agricultural measures - 0.4 per cent on the cost of living - will be small in comparison with the changes which flow from movements in wages and prices in the ordinary way. Here too tax reductions will leave more money in people's pockets out of which they will be able to pay the higher food prices.

C. HOUSING

13. We cannot make a quantitative analysis of the impact of the new housing policies until the Minister of Housing has been able to develop firm proposals for the necessary increases in local authority rents, and for the improvement in rent rebate arrangements which is an integral part of these policies.

14. In broad outline, however, it seems likely that for those who will pay them - ie those in local authority housing who do not qualify for rent rebates - there will be annual rent increases averaging perhaps 10s or 15s a week starting in 1972-73 and continuing into the mid or late 1970s. This compares with a normal maximum increase of 7s 6d a week, averaged over an authority's houses, provided by our predecessor's legislation. To help pay these increased rents people will have the tax reductions, and as our policies bear fruit, rising real incomes. But we should expect that some local authority tenants who are now enjoying subsidy from public funds and who have incomes too large for rebate will be left worse off.

15. There will be the opportunity through a revised and standard rent rebate system to protect those least able to pay. The poorest families are expected on balance to be better off - especially where local authorities do not now have adequate rebate arrangements. The rebate arrangements will need to be designed to take proper account of the incidence, at different income levels, of the other social service charges and remissions. Similar

considerations apply to the Minister's proposals for applying fair rents to controlled private tenancies and for rent allowances for those in need. The detail of all these arrangements will take a little time to work out and is not something which we need settle for the Chancellor's October Statement, which will deal only with the points of broad principle.

D. HIGHER FARES FOR THE LONDON AREA COMMUTER SERVICES

16. The final fare structure resulting from the decision to make the services self-supporting will depend on detailed decisions taken by the Board of British Rail, who are free to apply a marketing approach, and the results of consultations with the Greater London Council (GLC) to which both the Ministry of Transport and the Board are statutorily committed. In broad terms the impact of the increases over the first year (1971-72) is expected to be as follows and there will be somewhat similar increases in 1972-73 and 1973-74:-

| Distance travelled each way | Average weekly impact for each monthly season ticket holder |
|-----------------------------|---|
| 5 miles | 2s 3d |
| 10 " | 3s 6d |
| 20 " | 6s 3d |
| 30 " | 8s 0d |
| 40 " | 16s 6d* |
| 60 " | 10s 9d |

*Some disproportionate increases in the 30-40 mile category are likely to result from a smoothing out of the existing Southern Region taper on season ticket charges for these distances, but they may not be as much as the figures quoted.

17. About a fifth of those who work in London use British Rail commuter services as distinct from London Transport and of these some 40 per cent (about 185,000), make journeys of under 10 miles with a maximum impact of 3s 6d a week and some 75 per cent (about 340,000) make journeys of under 30 miles with a maximum impact of about 8s a week. The main groups travelling distances over 30 miles are the professional and managerial groups and junior non-manual workers.

18. This has been examined by officials. The Ministry of Transport and Department of Health and Social Security believe that these increases will bear quite heavily on some lower-paid travellers but see no fair or practicable way of mitigating the impact on these people. For example, any system based on inquiry into individual circumstances would be excessively complicated, would affect relatively small numbers and would set an undesirable precedent for other conurbations and other areas with special transport problems.

M V M

Treasury Chambers SW1

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