CABINET

SPECIAL FAMILY ALLOWANCE

Memorandum by the Paymaster General

1. During the Cabinet's discussion of public expenditure the Secretary of State for Social Services proposed the extension in 1976-77 of family allowances to the first child of one-parent families; and the Committee on Poverty, which was set up immediately after that discussion, was asked to clarify the facts and issues involved in order to provide the basis for an early decision by the Cabinet (CC(74) 49th Conclusions, Minute 3). This memorandum presents the results of their consideration of the matter. At Annexes I and II are memoranda by the Minister of State, Department of Health and Social Security, and by the Treasury and the Inland Revenue, respectively, which were considered by the Committee.

THE ISSUES

2. The proposal is for a Special Family Allowance (Special FAM) of £1.50 a week for the first children of one-parent families during the 12 months from April 1976. From April 1977 this would be absorbed in the new Child Benefits scheme. On this basis, the cost of Special FAM would be £16.5 million in public expenditure terms, the net cost to the Exchequer being £9 million. Within these figures is a sum of about £1.5 million for administration in 1976-77. The main issue for the Cabinet is whether, if the proposal were adopted, the cost could in practice be confined in this way.

3. The actual benefit derived from Special FAM, after taking account of any other tax liabilities and benefits of the recipients, would be as follows:

   a. £1.50 for those who neither draw Family Income Supplement (FIS) nor pay income tax, including those who are entitled to supplementary benefit and have not claimed it, and those whose incomes hover around the supplementary benefit level.

   b. 75p for those who receive FIS but pay no income tax.

   c. 67p for those who do not receive FIS but do pay income tax.
d. Up to £1.40 for those whose supplementary benefit entitlement is less than £1.50: they will gain the difference between their supplementary benefit entitlement and £1.50.

e. Between 67p and £1.50 for those who are just below the tax threshold and are brought into tax by the introduction of Special FAM.

4. There would be no benefit -

f. For those receiving supplementary benefit at a rate of £1.50 or more, or for those who receive dependency increases with national insurance benefits.

g. For those receiving FIS and paying income tax.

THE ARGUMENTS

5. There are two main arguments in favour of introducing Special FAM -

i. One-parent families as a whole are at an obvious disadvantage compared with two-parent families as a whole; their needs have been highlighted by the 1974 Finer Report, and they form a large and identifiable group who can be helped without extending the area of means-testing.

ii. Announcement of Special FAM would help to mitigate any unfavourable response to the Government's decision, which will have to be announced soon, to defer introducing the Child Benefits scheme until 1977.

6. The main arguments against introducing Special FAM are -

i. Not all one-parent families are amongst the poorest, and some two-parent families' needs are greater than the needs of those who would benefit from Special FAM.

ii. An identifiable separate benefit for one-parent families in 1976-77 would be likely to give rise to pressure for a permanent extra benefit for this group. The cost of such a permanent benefit, if one were introduced, would depend on the level of benefit but, as an illustration, if there were a continuing preference for one-parent families in 1977, then at £1.50 per child the public expenditure cost at 1974 Survey prices would be £21 million a year and at £3 per child would be £43 million; if the preference was £1.50 per family the cost would be £11 million, rising to £27 million at £3 per family. As against this, the Department of Health and Social Security have made clear that they are firmly committed to the position that Special FAM will be absorbed into the Child Benefits scheme, in 1977; and they consider that any pressure to establish a permanent benefit for one-parent families could be resisted.
iii. Alternatively, Special FAM might make it impossible to introduce Child Benefits in 1977 at a rate of £2.16, which is the rate assumed for the public expenditure programmes recently approved by the Cabinet. The reason for this is that for many of the families which had been receiving Special FAM in respect of the first child in 1976-77 (in particular those mentioned in paragraph 3(c)), the net benefit for the first child would be equivalent to £2.20 a week, taking account both of Special FAM after tax and clawback and of the tax allowance for a child under 11. To prevent such families from being worse off in cash terms in 1977-78, the initial rate of child benefit for all families would have to be at least £2.20; but there would almost certainly be pressure for further uprating of the benefit already received by one-parent families so as to leave them no worse off in real terms. If in consequence the rate for all families was set at £2.50, the additional cost to public funds would be about £100 million a year. On the other hand, it is argued that the rate can be kept entirely open; any pressure for a higher rate than £2.16 would apply with even more force in respect of the generality of children who would have to wait for two years from the uprating of ordinary FAM in 1975 until the Child Benefits scheme is introduced.

7. The arguments at 5i. and 6i. amount simply to a question of priorities: should this group be helped to this extent now? The arguments against the scheme at 6ii. and iii. amount to saying that the proposal involves an element of risk; but it is a matter of political judgment how serious it is.

CONCLUSION

8. The Cabinet are invited to decide whether or not Special FAM for one-parent families should be introduced in 1976. For presentational and operational reasons the decision should be taken before the House resumes on 13 January.

ED

Treasury Chambers

3 January 1975
SPECIAL FAMILY ALLOWANCE

Memorandum by the Minister of State (Social Security)
Department of Health and Social Security

INTRODUCTION

1. In C(74)138 the Secretary of State for Social Services explained briefly why something needs to be done for one-parent families in April 1976 now that the Child Benefits scheme has been postponed until April 1977. This paper sets out the case more fully. I attach as Annex I an outline of a Special Family Allowance scheme.

THE PLIGHT OF THE ONE-PARENT FAMILY

2. On our present policies, we will be doing progressively less for families each year between now and 1979. Family support from Family Allowances and Child Tax Allowances will decline up to 1977, and from Child Benefits and residual Child Tax Allowances thereafter. While we devoted £1240 million at 1974 prices in 1974-75, we will only be devoting £910 million by 1978-79, a drop of 20 per cent in real terms. Many of the poor will become steadily poorer over the period.

3. Low-paid families with children are the key group whose poverty already stands out. While we have done something to help parents with two or more children by raising family allowances, we have done nothing for those with only one child. Only with great reluctance has the Secretary of State accepted the deferral of our complete Child Benefits scheme till 1977. This deferral has led us to try and find a relatively small but definable group of families whom we can help at modest cost. It might be argued that we should select the poorest, but this would involve further means-testing which would be intolerable. The alternative which I propose is that we should help the category of single-parent families. Taken as a whole, they are not only poorer than two-parent families, but since the Finer Report, seen to be so. I attach at Annex 2 some details of their financial plight.

ONE-PARENT FAMILIES IN 1976-77

4. I accept that we cannot afford a Finer benefit in the near future though the demand for one is persistent and growing. The TUC have just asked to see the Secretary of State on this very subject. If the Child Benefits scheme had been introduced in April 1976 it would have been possible, if difficult, to argue that nothing more should be done to help...
one-parent families for the time being. But it is impossible to maintain that nothing can be done for first children in single-parent families until 1977 - well over two and a half years after the Secretary of State's statement on the publication of the Finer Report. Further, as Annex 2 shows, these families will be adversely affected during the run-up to 1977 by the reduction in food subsidies and higher fares, fuel prices and rents. This makes it much more difficult to justify rejection of the Finer proposals.

TIMING AN ANNOUNCEMENT

5. An announcement about the start date for the Child Benefits scheme will have to be made soon. It would, in my view, be quite disastrous not to be able to lessen the shock of the deferment by saying that we will be making a special exception for those who are most hard-pressed - the one-parent families. Indeed if we are to gain any credit for doing it, we must announce it at the same time as the deferment. Otherwise it will look as if we have been pushed into this exception by the outcry from the various pressure-groups which is bound to follow the announcement of the deferment.

6. Quite apart from the political advantage of an early decision, there are operational reasons which make it of the utmost importance to agree our policy well before the next budget. Every month which goes by narrows down options of how we could run a Special Family Allowance scheme from 1976. After the events of the past year when the whole uprating of benefits was at risk, we must have adequate time for consultation with the Staff Side, for the subsequent detailed planning, for the drafting of the legislation, for the printing of claim packs, forms and instructions and to make arrangements for accommodation and staffing. For all these reasons, presentational and operational, it is in our view essential to reach a decision by early in the New Year when the House re-assembles after the Christmas recess.

A SPECIAL FAMILY ALLOWANCE

7. The benefit of £1.50 a week which I am proposing for the year from April 1976 to April 1977 would go to those one-parent families who really need some help. The benefit will have to be claimed, but a very high rate of response to a benefit of this kind (non-means-tested and akin to ordinary FAM) can certainly be expected. Although one-parent families on supplementary benefit or widowed mothers allowance will not gain from this modest scheme (they are already shielded from inflation by having uprateable benefits) it will bring a full £1.50 a week more to other poor one-parent families below the tax threshold:

(a) where the parent is in low-paid work, but not claiming FIS, though the family may have title to it;

(b) where the family are living on part-time earnings and/or maintenance but are not claiming supplementary benefit - Finer put this number at 80,000 of whom 38,000 had title to supplementary benefit.

These families are least likely to be taking advantage of the various means-tested facilities such as free school meals and rates/rent rebate - partly because they do not have the supplementary benefit (or FIS) passports, and partly because they evidently do not like to claim means-tested benefits at
all. Special FAM will, admittedly, since it would be paid without a means-test, go also to the minority who are well above the tax threshold. However, after tax and "claw-back" these families would only be getting 67p a week, not £1.50 - and they would of course be getting virtually the same amount in 1977 anyway when the Child Benefits scheme starts.

COST

8. It is because Special FAM would be so selective in its effect that it can be introduced at a modest cost of £15 million in public expenditure terms and at a net Exchequer cost of £7 ½ million. Apart from the money recovered in ordinary tax and "claw-back" there would be a full offset against supplementary benefit and a 50 per cent offset against FIS. Averaged over the year something like 500 staff units would be needed to run the scheme at an administrative cost of £1 ½ million. This is a broad estimate which should be adequate to cover some modest, but as yet unquantified, extra work for Revenue as well as DHSS staff costs. So the total public expenditure cost would be around £16 ½m and the net Exchequer cost about £9m.

ADMINISTRATION

9. The administrative cost is admittedly high in relation to the benefit expenditure. This is inevitable. The setting up costs of a new benefit are a once and for all exercise. They are the same whether the benefit runs for one year or ten. But there are two points to bear in mind. First, that the cost is for one year only (1976/77) after which it would be replaced by the proportionately much more modest administrative cost of Child Benefits. And secondly, the administrative costs - looked at as a separate item, and not relative to the benefit costs which are low because the benefit is a small one - are quite modest - and certainly a modest price to pay for postponing a more expensive benefit.

THE REPERCUSSIONS ON THE CHILD BENEFITS SCHEME

10. At Cabinet the Chancellor expressed the view that although the initial cost, in 1976-77, would be small, Special FAM could mean the expenditure of an extra £100m or more in 1977 because the scheme might generate pressures to put up the level of Child Benefit as high as £2.50 a week. There is absolutely no reason why this should be so.

11. In April 1977 the Special Family Allowance would have to be meshed into the general Child Benefits scheme which will replace Child Tax Allowances and Family Allowances by a single benefit which effectively gives the value of the CTA's to those poorer families who have not been able to use them before. Just how this would be done must depend on the decision about the actual cash rate of Child Benefit which is arrived at nearer the time. That decision is dependent among other factors on what, if anything, is done by way of increases in Child Tax Allowances in any of the Budgets before April 1977; and as the Secretary of State has made clear her position as to the actual rate Child Benefit is fully reserved.

12. Employing the figure of £2.16 which is the flat-rate benefit in cash terms in 1977 implied in the Public Expenditure programmes recently approved by Cabinet, the Child Benefits scheme will give an improvement to all families at that point in time - the biggest improvement going to the single child
family where what is paid for that child in excess of the value of the CTA is all gain. The smallest gain will go to very large families since there is a net loss of 4p per child from the second child onwards (in those cases where the value of the CTAs is fully used) to set against the gain for the first child. With Special FAM the single-parent families would have had their improvement a year earlier than the rest of the population. This carries with it the consequence that the minority of better-off single parents paying some tax would lose at the rate of 4p per child from April 1977.

13. As I have pointed out, under our Public Expenditure plan there will be a downward trend in the amount allowed for family support. There will be, so to speak, a kink in that downward line when the improvement for the first child occurs in 1977. It is certainly going to be difficult to persuade our critics that this is all we can afford; but the problem will not be made any the more difficult simply because we give certain people (one-parent families) their improvement a year earlier than the rest.

14. On a practical level, it seems highly improbable that the 4p a week per child which those within tax would lose would be identifiable. It would be masked by any changes in national insurance rates, the individual’s earnings or changes in other items such as life insurance and mortgage repayments for which tax allowances are made, while the amount on the order-book in their hands would in all cases be going up from £1.50 to £2.16 per child. Moreover, it is this group of one-parent families who in 1976 would have gained 67p (after tax and "claw-back") from the new benefit only because it is not means-tested. They will have had a year’s free ride.

15. In any case, it would not be the poorest families who would be affected. There would be no loss at all for those below the tax threshold who are the families we most need to help. Indeed, for such single-parent families there would be a further gain in 1977, even for the first child, by moving over from £1.50 Family Allowance to £2.16 in Child Benefit. The gain would be up to the full amount of the difference between the two (66p) according to how far below the tax threshold the families were and at the other extreme, the change will not, in general, affect the incomes of those on supplementary benefit at all. I am fully satisfied therefore that by introducing a £1.50 Special Family Allowance for the first child of one-parent families in April 1976 we would in no way be pre-empting Cabinet’s decision on the level of Child Benefits to be introduced in April 1977.

CONCLUSION

16. For a modest cost this benefit will bring help to some of the poorest families. It would be impossible, in my view, to announce a postponement of the main Child Benefit scheme to 1977 without making this start in 1976. The new benefit will go some way to defend us from the charge that we are failing to shield the poorer families from the consequences of the reduction in food subsidies, the introduction of realistic food prices, and the general rise in the cost of living in the period before Child Benefits come into effect.
AN OUTLINE OF THE PROPOSED SCHEME

INTRODUCTION

1. The scheme proposed will be an interim one for the year from April 1976 to April 1977, when the general Child Benefits scheme will be introduced. Both because of its short life and because of operational constraints, the scheme will need to be as simple as possible. It is envisaged that the rate of benefit will be £1.50 a week, and be subject to normal income tax and to "claw-back", like the existing family allowances (which would be operationally simplest for the Revenue).

ENTITLEMENT

2. The benefit would be payable for the first, or only, dependent child of a one-parent family provided that:

(a) the child is living with the claimant, and the claimant is the natural or adoptive parent;

(b) the claimant is not in receipt of a national insurance benefit which already carries dependency increase for the first child (e.g. sickness, unemployment, widows benefit etc.) This restriction is necessary because in 1977 the Child Benefit for the first child (illustratively £2.16) will replace that amount of dependency benefit for the first child. If, therefore, special FAM were paid on top of the dependency benefit in 1976 there would have to be a reduction of £1.50 in 1977.

3. There will therefore be four principal categories of recipient

(a) the unmarried mother (whether or not she has maintenance payments from the father of the child);

(b) the divorced or formally separated man or woman who has the care of children;

(c) the informally separated man or woman who has the care of children;

(d) the widower with children.

4. It would clearly be wrong to pay benefit to an informally separated wife (or husband) as soon as the separation took place. This could
only encourage temporary desertion; and in any event at the outset it will often not be clear, even to the couple themselves whether or not the separation is going to last days, months, or be permanent. There will therefore be a qualifying period of 3 months informal separation before Special FAM is payable. This is in line with Finer's approach.

5. The benefit will not be paid where a couple are living together as man and wife though not legally married, if that man normally supports the child for whom a claim could otherwise be made, or has a legal liability to do so. The pair would otherwise be put at an unfair advantage over the ordinary married couple. The fact that the child may be supported (e.g. through a Court order against the husband and/or father) by someone outside the household will not debar the mother from getting SFA.

6. It is estimated that there are at any one time 500,000 one-parent families, (apart from widows,) of whom 100,000 are men. Of this total 233,000 are receiving supplementary benefit (including 7,000 men).

7. Special FAM like family allowance would be offset in full against supplementary benefit. Only those few whose entitlement to special FAM was more than their current rate of supplementation would gain. The amount of their gain would be the difference between the two rates.

8. A further 40,000 are in full-time work and receiving Family Income Supplement. As special FAM would be treated as a resource in the same way as ordinary FAM the net gain for these families would only be half (less, of course, where they are liable to tax)

9. It is the remaining 225,000 who will contain the principal beneficiaries (see para 5 of the paper).

HOW THE BENEFIT WOULD BE PAID

10. It will not be possible to pay Special FAM on the ordinary 52 week FAM books because the rules for its award will be different to those governing FAM. A separate order-book will probably be issued for £1.50 a week.
11. As this is an interim benefit being paid to a particularly volatile section of the community, there is a strong case for not attempting (even if it were operationally feasible) to take account of changes in family status during the period for which an order-book is issued. There would be extremely difficult problems of "linking" periods of one-parent responsibility if one did. It may be possible to follow the FIS precedent and make an award for a set period regardless of changes of circumstances. The award would however be only for a 13 week period, with a renewal claim included in the order-book - much shorter period than for FIS is essential because of the changing circumstances of such families especially in cases of informal separation.

12. It is essential that title to these awards should not duplicate title to an increase of any national insurance benefit for a child (see para 2(b) above), especially since such duplication will not occur under the Child Benefits scheme. Operationally it may be difficult to give effect to this principle in certain cases (e.g. where sickness benefit is claimed for just a few days, and this is receiving further study.

ADJUDICATION

13. It would seem quite impracticable and would prejudice the essentially simple nature of the SFA scheme for the benefit to come within the full adjudication system of national insurance officer, local Tribunal and National Insurance Commissioner. For this ad hoc benefit with only a one year life span, and needing a certain amount of discretion in the more 'difficult' cases it will be right to have all decisions as Secretary of State decisions (although there might be single right of appeal say to the local NI Appeal Tribunal). The CB scheme itself will, of course, have a full adjudication system.
PART A - THEIR OVERALL SITUATION AS SEEN BY FINER

The Finer Committee made out a formidable case on the poverty of the one-parent family, taken as a whole. In their Report they stated:

"The statistical material and the research studies we have examined overwhelmingly confirmed the general impression of financial hardship on one-parent families which had been noted at the time our Committee was set up. It has been consistently shown that, with only a few individual exceptions, fatherless families are considerably worse off financially than two-parent families. They are distinguished particularly by their dependence on one adult alone to provide the family's income, and handicapped by the relatively low level of earnings which mothers with children, particularly young children, can achieve, mainly because of low rates of pay for women's work, but also, to a much lesser extent, because of restrictions they may have to place on the hours for which they can work. The consequence is that a high proportion of fatherless families, particularly those with very young children, rely on supplementary benefit and have little or no other income."

(Report Para 5.36)

NUMBERS

2. The table below, based on the 1971 census adjusted in the light of supplementary benefit and national insurance statistics indicates the breakdown of one-parent families by category in Great Britain:

<table>
<thead>
<tr>
<th>FEMALE</th>
<th>Number of Families (Thousands)</th>
<th>Number of Children (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>90</td>
<td>120</td>
</tr>
<tr>
<td>Separated</td>
<td>190</td>
<td>360</td>
</tr>
<tr>
<td>Widowed</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>Divorced</td>
<td>120</td>
<td>240</td>
</tr>
<tr>
<td>Total</td>
<td>520</td>
<td>920</td>
</tr>
<tr>
<td>Male</td>
<td>100</td>
<td>160</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>620</td>
<td>1,080</td>
</tr>
</tbody>
</table>
FINANCIAL CIRCUMSTANCES

3. About 40% are on supplementary benefit, with a further 7% (38,000) living, usually on part-time earnings and maintenance, below the supplementary benefit level. Of the 233,000 on supplementary benefit 173,000 are householders and 60,000 non-householders.

EARNINGS

4. Amongst the 153,000 lone mothers in employment, 132,000 had earnings of less than £25, 110,000 had earnings of less than £20 and 68,000 had earnings of less than £15. At the nearest comparable time, the average earnings of men in full time manual work in manufacturing and some of the principal non-manufacturing industries were nearly £31. At the end of 1971, whereas 85% of fatherless families in work had gross earnings of less than £25 a week, only 18% of 2 Parent Families had such gross earnings.

5. Another pointer to low earnings for 1 Parent Families are the figures of Family Income Supplements. In October 1971 average awards to fatherless families were £2.20 a week as against only £1.51 for 2 Parent Families. These higher awards to 1 Parent Families are all the more significant because 2 Parent Families claiming FIS have on average more children than 1 Parent Families. The figures for 1972 are £2.58 : £1.79

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MAINTENANCE

6. A Bedford College study on a 1,230 case sample of maintenance orders payable to wives with children, live on 1 January 1966, showed the overall average to be £1.18. At that time the statutory limit was £7.50 for a wife and £2.50 for each child. No wife had the maximum award and only 1% had orders for £5.50 or more.

7. Of all orders, 39% were in arrears - 25% for more than six months. A follow up Survey in 1971 showed that, by then, no less than 75% of the orders which were live on 1 January 1966 and were
still live in July 1971 were more than 6 weeks in arrears; half these orders showed arrears of more than £200.

8. These findings are consistent with those of the Supplementary Benefits Commission in June 1970 which were that of the lone mothers in receipt of Supplementary Benefit who had maintenance orders, 95% with one child had an order of £3 a week or less, and 94% of those with 2 children an order of £5 or less. Only 45% of the orders live were complied with regularly (to the extent of 75% or more of the amount due).

HOUSING

9. Lone mothers, (and to a lesser extent lone fathers) are much less likely to be owner occupiers than two-parent families. FES data shows of 280,000 lone mothers, other than widows, only 17% are owner occupiers compared with a national figure for all families of about 50%.

10. At the other extreme, fatherless families account for a disproportionately high percentage of those living in furnished accommodation. The Francis Committee found, in 1970, that in London fatherless families accounted for 31% of furnished tenants with children in distress areas, and 21% in the conurbation as a whole.

B - THEIR PROSPECTIVE SITUATION

1. Over the next 2 years there will undoubtedly be a further substantial rise in the cost of living. The one-parent family on supplementary benefit is to some extent shielded from its effects. Not only will the benefits rates go up, but supplementary benefit (and FIS) are "passports" to free school meals and other, fringe benefits.

2. The position of the family not getting such social security benefits is more exposed. Admittedly the lone mother who is out at work can expect higher earnings which to some extent will ease the financial problem. But the single mother is often at a disadvantage because of a restriction she has to place on the kind of work she can do and the hours she can be away from home. Consequently, she will often be in low-paid work and often also in a poor position to argue for substantial wage increases.
3. Again, many of these families will have title to free school meals - but take-up is unlikely to reach the same level as for those on supplementary benefit when the individual has (unlike the supplementary benefit recipient) both to know the level at which she would be entitled, and to make a declaration of income to the local education authority. It is also true that the poor can claim rent and rate rebates. But as indicated, a disproportionate number of one-parent families occupy furnished accommodation, where the proportion of tenants eligible for rebates who actually claim them is much lower than for tenants in local authority accommodation, or even private unfurnished accommodation.

4. Insofar as one-parent families do not avail themselves of the means-tested benefits mentioned above, or are just outside their scope, they will certainly be hard hit as a result of the cut in fuel a food subsidies and the increase in school meal charges. Taking such a family with two children at school:–

(a) the April 1975 and September 1976 increases in school meal charges will add 60p per week during term-time:

(b) over the two years, 1974-75 to 1976-77, the value of the food subsidy for a one-parent two-child family will have been reduced by something like 15p:

(c) the reduction in the fuel subsidy is likely to mean extra expense for such a family of 35p to 40p a week.

Such families therefore - and directly as a result of Government policy - can expect to have extra expenses of about £1 a week (even if one averages over the whole year the term time extra expenditure on school meals). And this is in the context of generally rising prices and an end to the rents freeze.
THE PROPOSED SPECIAL FAMILY ALLOWANCE AND GENERAL POLICY FOR FAMILY SUPPORT

Official note by the Treasury and Inland Revenue

The Committee has to consider the proposal that Family Allowances at the rate of £1.50 a week should be extended to the first children of single-parent families in April 1976; that this arrangement would run for 12 months only; and that from April 1977 the Special Family Allowance would cease and be absorbed into the general system of Child Benefits (CBs) at the levels of benefit which it is now planned to introduce at that date. If this were the end of the story, the only issue would be the additional expenditure of £16½ million involved for 1976-77 alone; and this could no doubt be accommodated without too much difficulty if the Cabinet accorded priority to it. The story is, however, a good deal more complex.

2. It is necessary in the first instance to examine carefully the arguments concerning a Special Family Allowance in itself. Second, and still more important, the question must be considered whether the introduction of a special benefit for single-parent families would lead to a major increase in the cost of Child Benefits when they are introduced, and the wider implications if that were to happen.

3. These questions are discussed separately below. It may, however, be helpful in the first instance to describe briefly the general background.

General Background

4. The Government's policy concerning support for families is one of providing Child Benefits of universal application to all families with children. The main new element will be the extension of FAM to the first children of all families. Universal Child Benefits will, however, incorporate a selective element according to income, in favour of the poorest families, by extending the value of Child Tax Allowances to those who get no value from them now because they pay no income tax. "The poor" for this purpose are thus defined by reference to income tax thresholds; and selectivity according to income under this policy, both for the poor and the not-so-poor, will depend solely on the
operation of the general system of income tax. At the same time, the Child Benefits will replace in whole or part existing means-tested benefits in respect of children of families who receive the latter.

5. The effect is, in sum, that (as with the 1975 increase in FAM) the great majority of poor families, who already draw means-tested benefits, will gain little or no advantage; those families with incomes below the tax threshold who for whatever reason do not claim means-tested benefits will gain substantially; and the great majority of all families who do pay tax will gain but by declining net amounts as their incomes bring them into higher rates of tax. A system of universal application such as this, the major part of the cost of which represents a gain to better-off families, is inevitably expensive; it is necessary to avoid making it more expensive still.

The proposed Special Family Allowance

6. The first question concerning this proposal is whether it would be realistic to expect that, having committed ourselves in principle to a special benefit for single-parent families, the resulting pressures could be resisted for a special differential benefit for these families to be provided in perpetuity on top of the general system of Child Benefits. This seems doubtful, (unless Child Benefits were to be set at a much higher rate and at a very much higher cost than the Cabinet have endorsed).

7. As for the merits of the case concerning single-parent families, the evidence certainly suggests that many such families are among the poorest, and that single-parent families are relatively very dependent on means-tested benefits. These facts were known before decisions were taken to give greater priority to proposals for improvements in social security, including increased FAM and general Child Benefits, other than a special benefit for single-parent families. In any case, by no means all single-parent families are poor; and the poorest families include a number of two-parent families. But many of the poorest of both categories will benefit from improvements already planned. Out of about 85,000 families with more than one child who will receive the maximum additional net benefit from the 1975 increase in FAM, single-parent families account for 40,000; and the maximum benefit from the introduction of Child Benefits in 1977 will go to a total of about 150,000 families, of which about 65,000 are single-parent families.

Wider implications for the cost of Child Benefits generally

8. The further question must be considered whether the introduction of a special benefit for single-parent families would have the effect of increasing the cost of the universal benefit itself, and of doing so in a way which would seriously prejudice the pursuit of other major policies.
9. The risk that it would do so arises primarily because of the implications for uprating of the benefits concerned. A special benefit for a particular group of people such as single-parent families would naturally be expected to be regularly uprated in line with prices at least. But serious consequences would follow if any such commitment were adopted for uprating of the general Child Benefits.

10. The integration of cash benefits and tax allowances, which is fundamental to the intended system of Child Benefits, has important consequences for fiscal policy as well as social policy. In particular, the necessary flexibility for purposes of economic management which has hitherto been available in the determination of Child Tax Allowances must be imported into the new benefits system. In other words, policy towards uprating these universal benefits must be governed far more by considerations of economic management than would be the case for a selective benefit; and the greatest possible flexibility must therefore be retained in policy towards uprating of Child Benefits.

11. The foregoing considerations are explained more fully in the Annex, which also explains the basis of calculation, including the assumptions concerning upratings, of the planned provision for the cost of Child Benefits which was incorporated in the Chancellor's proposals for public expenditure which the Cabinet accepted on 25 November.

12. The main argument against introducing a special benefit for single-parent families in 1976 is that it would run a serious risk of prejudicing uprating policy towards Child Benefits, in the first instance by making it politically impossible to introduce Child Benefits at a rate of £2.16 in 1977 - i.e. within the total net Exchequer cost of £120 million (inclusive of the cost of the 1975 increase in FAM) at 1974 Survey prices which has been allowed for in the Cabinet's decisions for forward planning of public expenditure.

13. If one-parent families received a Family Allowance of £1.50 for first children in 1976, some of them would then be enjoying a net benefit for the first child equivalent to £2.20 a week taking account both of FAM after tax and clawback and of the tax allowance for a child under 11. Having singled out this group as specially needing a new benefit in advance of Child Benefits generally, would it be defensible to give that group less in real terms in 1977? In other words, if the support these families had received in 1976 had to be fully uprated in 1977 in line at least with price increases, a Child Benefit rate for single-parent families of something like £2.50 a week would be implied. (If, however, single-parent families continue to receive in 1977 no more in cash terms than in 1976, implying a general Child Benefit of £2.20, then this would itself add about £16 million a year to planned expenditure. But it would also imply that some single-parent families would be demonstrably worse off in real terms in 1977 than in 1976). If, however, the level of Child Benefits generally were set at £2.50, corresponding to an uprated value of the support received by single-parent
families after the introduction of the Special Family Allowance in 1976, the net Exchequer cost of Child Benefits would be increased by over £100 million above the provision in public expenditure plans.

14. Especially given that DHSS Ministers have suggested that the Government will in any event be strongly pressed to accept a statutory commitment to regular reviews of the rate of Child Benefits, it seems doubtful whether it would be possible in these circumstances to avoid thus increasing the cost of these Benefits, and of incurring the no less objectionable consequences for economic management.

15. We do not think that we should embark on action which would run the risk of incurring these consequences.

HM TREASURY
London SW1

13 December 1974
1. The policies to which the Government are committed (an increase, subject only to normal tax, in family allowances, and a subsequent move to family endowment) involve three main strands in the way in which the State now takes account of family responsibilities (apart from benefits for special categories such as widows). First, there are child tax allowances, which are part of the graduation of income tax, and reflect the fact that a taxpayer with a child or children has a smaller taxable capacity than a childless taxpayer. Second, there are family allowances, which are universal cash payments for children irrespective of income or personal circumstances. Third, there are those social security benefits (eg supplementary benefits and FIS) which are designed to reflect individual needs. The Government's policy is to increase the importance of the second element, relative to the first and third.

The effect of higher family allowances and child benefits on family incomes

2. The increase in April 1975 in the family allowance (FAM) for second and subsequent children will give across-the-board help to families with two or more children with the largest benefit going to big families. Help will go to those who pay tax, as well as those who do not (since there will this time be no "clawback" of the addition, as there was in 1968, from taxpayers). But the fact that the increase will be liable to income tax will impose a significant element of selectivity within the system. The point below which the increase will be received in full - the poverty line for this purpose - will thus be related to tax thresholds. But the increase in FAM will be offset against existing social security payments (eg SB) and since the great majority of those with incomes below the tax threshold applicable to their family circumstances will be receiving such existing benefits, they will gain little or nothing. The net benefit to families will thus accrue largely to those with incomes from around the tax threshold upwards, except that higher rate taxpayers above a certain point (depending on family size and income level) will as now receive no net benefit, and will be better off if they disclaim family allowances entirely.
3. The later move to a system of universal child benefits (CBs), paid in cash and free-of-tax, will take the process further by extending the payment to cover all children, and increasing its amount so that it represents all or most of the value at the basic rate of the child tax allowance. This further move will favour small families, and particularly one-child families who will effectively receive a benefit of the family allowance type for the first time. How far the change will involve a further redistribution towards families as a whole depends on the size of child benefits that can be afforded.

4. Because the new child benefit scheme will be superimposed on the existing system of social security the cash gain to families with children will vary widely with income, family circumstances and eligibility and take-up of existing benefits.

5. The main cost of the scheme will arise from the extension (in whole or in part) of family allowances to first and only children. On the basis of the planning figures adopted for public expenditure which allows for a CB rate of £2.16 a week in 1977, this will give a two child family paying basic rate tax a cash gain of 60p or about 16% of the net value of family allowances and child tax allowances in 1975-76. These net gains will be reduced by 4p for each additional child since the CB rate of £2.16 would be 4p less than the net value of the present tax allowance for a child under 11 and family allowance at £1.50 for which children after the first will be eligible from next April. These figures take account of the extra tax which the husband will pay when child tax allowances are absorbed into child benefits - see paragraph 9 below.

6. Considerably larger net cash gains would go to the minority of families below the tax threshold who do not at present receive other social security benefits. This would apply to less than 20% of such families (about 150,000). The maximum cash gain for a two child family in this small group would be £2.82 a week, but only families with incomes so far below the tax threshold that they do not use the child tax allowances at all at present would get as much as this.
7. As with the FAM increase, however, over 80% of the families at present below the threshold would get little or no cash gain when child benefits are introduced, since the other social security benefits they already receive would be simultaneously reduced by amounts which largely or wholly offset the value of the CBs. The offset would be complete for the 52% of such families on supplementary benefit and the 21% receiving short-term national insurance benefits. For the 7% of such families receiving family income supplement the offset might be only 50%.

8. Thus from the point of view of income distribution between families the child benefit scheme with the rate set at £2.16 would mean:

(a) a general increase in child support: the extension of FAM for the first child would give a cash gain to all families (the size of the gain would decrease - by 4p a child per week - with the size of family)

(b) a minority of the poorest below the tax threshold would gain substantially i.e those who are not already drawing other social security benefits.

(c) most families below the tax threshold would substitute child benefits for means tested or other benefits with little or no net gain in family income.

The effect of child benefits on the take home pay of fathers

9. Child benefits will be paid to mothers: fathers' take home pay will be lower than it otherwise would be since their tax thresholds will be lower as a result of the abolition or drastic curtailment of child tax allowances. This would be a big extension of what already happens to fathers of children eligible for FAM since both clawback and ordinary tax represents offsets to the value of child tax allowance. For example the effective tax allowance for a child under 11 eligible for FAM will not be at the present rate of £240 a year but only £110. On the assumptions that the rates of tax and child
allowances were those in force for 1974-75, that family allowances had been in payment at the April 1975 rate of £1.50 a week, and that residual CTAs were retained, the tax threshold of a father of two dependent children would fall when child benefits were introduced by about £350 so that he would pay £2.22 a week in extra tax (and 70p a week for each additional dependent child). His wife would get an increase in weekly benefits of that amount plus the 60p mentioned in paragraph 5 above. It is difficult to foresee what impact the reduction in the pay packet, as distinct from family disposable income, would have on wage claims and settlements. Much would depend on other personal tax allowances as well as recent experience of real personal disposable income. But there is clearly a risk that the reduction in tax allowances, which families with children would experience at the same time in April of the year in which CB was first paid, could come at an awkward time and add to the normal pressure for higher wages.

Fiscal policy

10. The replacement of child tax allowances (CTAs) and FAM by child cash benefits will have important implications for fiscal policy. At present a decision to change CTAs (and the other personal tax allowances) depends on a variety of considerations, including demand management, counter-inflation policy, equity and administrative convenience, and is taken in the light of the Budget judgement as a whole. In some years no change is made in the tax allowances even though their real value may have fallen over a preceding period (and the same is true of FAM). When child cash benefits are introduced it can be assumed that there will be heavy pressure to raise them at least in line with prices, even though their level may be decided in a budgetary context and without any commitment as to the timing of upratings or the basis for them. There is a strong presumption therefore that the Chancellor's budgetary flexibility will be significantly reduced. For example, a decision to uprate child cash benefits, assuming for illustrative purposes a benefit of £2.16 and a rate of inflation of, say 10 per cent, would cost about £150 million, equivalent to the yield of about 5p in the basic rate of income tax. Additional strain will also be put on the tax system to finance public expenditure. This is particularly important, given the Government's
intention to raise public expenditure over the period to the late 1970s at a rate significantly faster than the growth of total resources available for public expenditure and private consumption combined which implies an appreciable increase in the burden of taxation in any event.

The basis of the planning figures agreed in the Public Expenditure Review

11. The agreed planning basis was that child benefits would be introduced in 1977 at a rate of £2.16 per child per week.

12. This rate reflected the need to limit the additional cost of the Exchequer at the point of introducing the scheme in the following ways:

(a) residual child tax allowances for children over 11 would be retained, so avoiding giving parents of younger children the same benefits that older children now get.

(b) despite the cash gains for the family as a whole (see paragraph 5), the rate is a little less in cash terms than the combined value to the basic rate taxpayer of the present child tax allowance for children under 11 and of FAM at £1.50 payable for second and later children.

13. Conventional assumptions were adopted about uprating. No allowance was made for increases in child tax allowances in 1975-76 or 1976-77 or for increasing FAM in 1976-77. After the introduction of child benefits in 1977, however, it was assumed that the rate would be increased at half the rate of increase in prices.

14. Every increase of 10% in child tax allowances in the period before 1977 costs about £120 million at 1974-75 income levels in terms of net Exchequer cost and will increase public expenditure correspondingly when CBs are introduced. An increase in FAM would also raise the cost of CBs. A further FAM increase of 50p would itself cost the Exchequer some £100m, and if CBs were fixed at a rate which would give the first child the full benefit the additional increase in the cost of CBs would be a further £100m. These costs are in money terms.