Part A

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PART A

Social Security Uprating 1979 SS

Conservative Aspects (2) 48/07

1979

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CHIEF SECRETARY

Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Anson
Miss Brown
Mr F E R Butler
Mr Kemp
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Miss Whalley
Mr A M White

SOCIAL SECURITY

Social security spending is a huge slice of public expenditure, and decisions will be needed soon on large potential additions, so that Treasury Ministers may wish to have a note on these now, as in Mr Kemp's minute attached.

2. In summary, our recommendations are:

(i) There should be early legislation to switch to prices-only uprating, as the Secretary of State for Social Services intends.

(ii) There is no need for any addition to the uprating, beyond what is required to match the forecast price increase (taking Budget changes into account); in particular, benefits should not be further increased to make up for the fact that last year's uprating underestimated inflation to last November.

(iii) The uprating should be announced in the Budget; there will inevitably be some delay in increased payments in November, but this should be tolerable (though the extra burden on staff, and the risk of dislocation if there are staffing problems, will be claimed by DHSS as a reason for exemption in whole or part from the squeeze on civil service numbers).

(iv) The legislation will also need to provide for payment of Christmas bonus (a Manifesto commitment), but this should be kept to £10, with no commitment for future years (but at most a power to renew if the Government so decides, at a figure which should remain discretionary not indexed).

(v) Child benefit should be indexed, as from its £4 level from April this year, the first increase to be paid from November 1980.

(vi) There should be no decision to repeat last year's winter fuel bonus.

(vii) The scope for further changes to keep the burden of social security payments in check (e.g. a switch from forecast to historical basis for uprating; some measure of discretion on "Rooker-Wise" lines) should be reviewed, if possible in time for the second tranche of legislation proposed.

3. The costs of these decisions are set out in Mr Kemp's paragraph 19; it is of course impossible to give the cost of the benefits uprating itself until the 'post-Budget' forecast is available.

AMB

A M BAILEY

11 May 1979

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1. ~~MR~~ BAILEY

2. CHIEF SECRETARY

Copies attached:

Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Anson

cc Miss Brown
Mr F E R Butler
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Miss Whalley
Mr A M White

SOCIAL SECURITY

The purpose of this submission is to draw your attention to a number of matters in the social security field on which Ministers will require to take early decisions. It is expected, in fact, that the Secretary of State for Social Services will be writing to a Treasury Minister in the very near future seeking agreement to a number of specific proposals which it is necessary should be considered by Cabinet at an early date.

Social Security benefits uprating

2. Under present legislation, long term ~~social security~~ benefits must be uprated next November by a percentage equal to the estimated increase in prices or earnings, whichever is the greater, between November 1978 and 1979. It is normal to announce the new rates in the Budget, not only because the figuring can affect the Budget arithmetic, but also because the rates need to be known well in advance in order to enable the mass of administrative tasks involved in the uprating to be carried out before November. This year, in fact, the decisions, and the announcement, will come a little late with the result that some beneficiaries will not get their additional entitlements on the due day (though they should get all their arrears by Christmas).

3. There are three matters for decision; first, whether the present rule to uprate on the better of earnings or prices should continue; second, whether the Government should make up the "shortfall" on the November 1978 rating; and

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third, what the percentage uprating should be. Each of these is considered below.

4. On the formula, there is much to be said for a shift to prices only uprating. By definition this would protect the pensioner against increases in the cost of what he actually spends his money on. An uprating based on the better of earnings and prices ineluctably, on the arithmetic, means that over time a pensioner does better than either, and increasingly improves his real position against the rest of the community - as evidenced by the fact that pensions have increased by 20 per cent in real terms since 1974. Social security benefits now take up about 25 per cent of total public expenditure, as compared with about 20 per cent in 1974. Part of this of course comes from an increasing number of beneficiaries (mainly the old, but also the unemployed) but a great deal comes from the increased real value of benefits, and if the programme is to be slowed up so it ceases pre-empting so much available resources, a change to a prices only uprating would be a start.

5. It should be noted that such an uprating will still protect the pensioner against increases in indirect taxes, since of course these increases enter into prices, and therefore enter the forecast of prices movements on which the uprating is based. It is true that there is necessarily a time lag (thus the forthcoming Budget measures would only affect in part the period November 1978 to November 1979) but over time the prices formula is not unjust to pensioners and other beneficiaries. Mr Jenkin is likely to propose a move to prices as from next November (for which legislation would probably be needed - see below), and we would recommend Treasury Ministers to agree.

6. The question of shortfall is potentially tricky. It arises because in April 1978 the previous Administration under-estimated the likely rise in ~~prices~~ earnings between November 1977 and November 1978, and consequently under-uprated benefits by about 1.8 per cent. There is no statutory or other legal obligation on the Government to make this good, but Mr Callaghan announced that the then Government, would do so next November. This was said in the context of his undertaking that pensions then would go up by around £4 per week for a married couple and £2.50 per week for a single person. In the House the next day the Prime Minister said that she would "honour the commitments announced yesterday". It can be argued that this statement refers not just to the £4 and the £2.50, but also

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to the making good of shortfall. It is for Ministers to consider whether or not this is so, but our reading of the Hansard, coupled with the Manifesto, seems to make it clear that there was no commitment to make good shortfall as such, but only to go to the £4 and £2.50. We do not know what line Mr Jenkin will take, but subject to any views which Treasury Ministers may wish to take of the Prime Minister's statement, we would recommend them to oppose the making good of shortfall as such, but simply to rest upon the need to provide increases of at least these figures. (Making good shortfall in full would cost some £90 million in 1979-80, which would have to be charged against the Contingency Reserve.)

7. Decision can be taken at an early date about whether to abandon the earnings option, and about whether shortfall ought to be made good. But no decisions can be taken on the actual percentage uprating until the final estimates of November on November price (and as maybe earnings) movements are available. Price movements will not in effect be available until final Budget decisions are taken, which means not much more than a few days before the Budget. This is not unworkable. Any excess cost of the uprating on this score is not chargeable against the Contingency Reserve; but adds to the PSBR nevertheless.

Christmas bonus

8. There is a Manifesto commitment to pay a Christmas bonus, which must be honoured. The outstanding questions are first whether this is just a bonus for 1979, or whether it should now be recognised as being in perpetuity; and second, what the 1979 rate should be and, if it is to become permanent, whether it should be in some ways indexed linked for future years.

9. As between one-off or continuous, the Manifesto commitment is open (although it seems to lean in the direction of continuity). From the public expenditure poir of view there are arguments both ways. If there is a genuine chance of the bonus not being continued, then it would be better to announce it as one-off for this year. But if, whatever is said, it is to become permanent (and with two year's gap it has been continuous since 1972) then it is better to recognise this and build it into public expenditure plans, rather than having year after year a charge against the Contingency Reserve. And if in political terms it is thought necessary to offer up some sweetener when getting rid of the earnings option on

uprating (see paragraph 3 above), there is no doubt a Christmas bonus in perpetuity, even indexed linked, would be far cheaper than retaining the earnings option, so a swap of one for the other would be a good bargain. Treasury Ministers will need to make up their minds on this in the light of Mr Jenkin's proposal.

10. So far as quantum, goes, the absolute minimum is £10, which would cost £108 million in 1979-80 (chargeable against the Contingency Reserve). This however is the 1972 figure, and a comparable figure today would of course be much higher. Again Ministers will want to make up their minds in the light of what Mr Jenkin proposes; unless it is felt that in political terms there is some quid pro quo for a higher figure (eg perhaps in relation to a fuel bonus - see below) we would recommend sticking to £10, if only on grounds of minimising 1979-80* expenditure. So far as indexation goes, it seems inevitable that if it is recognised that there is to be a bonus in perpetuity, then it must eventually reflect at least to some degree general price movements. This does not however mean that it need necessarily be fully price protected, and it may be that some other formula could be devised. Indeed in order to retain the "gratitude" element, it might be better not to have too straitjacketed an uprating formula, but simply to leave it to the Government to review its value annually and decide in the light of all the circumstances what the rate should be. Treasury Ministers will note that if Christmas bonus became a permanent feature then it would of course become taxable.

Child benefit

11. Child benefit was increased to £4 per week per child in April, and (with one or two exceptions) child tax allowances were withdrawn in last month's Finance Act. The switch over from tax allowances to cash benefit is now complete. The question for decision is whether, when and by how much child benefit should be further increased. There is no provision in public expenditure plans for any increase beyond £4, so anything done would be a charge against the Contingency Reserve.

12. Since the child benefit is now to be a permanent feature, it seems clear that it is going to have to be reviewed and uprated from time to time, in the same way as are other social security benefits. (This would also parallel what

* and later

would otherwise have happened to child tax allowances had they remained, but this is not an analogy which the Treasury would place any weight on at all, child tax allowances having vanished.) It would probably be best to uprate child benefit each November (the desirable operational date) by the same percentage that other benefits are uprated - that is, (in the future) prices November on November. But while, if Ministers agreed to such a policy, this could be announced now, there would seem little additional value in an uprating in November 1979. This would only add perhaps 25p to the benefit, and following on a £1 increase in April might seem derisory. On the other hand it would cost about £55 million against the Contingency Reserve; money which could certainly be used elsewhere. This would leave the £4 rate running until November 1980, when a meaningful increase (somewhere between 50p and £1, depending on prices movements) could take effect. This is what we would recommend to Treasury Minister

13. It is possible, judging by a recent report in the Guardian, that Mr Jenkin may still hanker after suggesting that a child benefit increase is not a charge against public expenditure, but is an off-set against tax revenues. We would recommend Treasury Ministers to oppose this argument if it is put forward. It is misconceived, in that as I say last month's increase to £4, and the withdrawal of child tax allowances, is deemed to have completed the changeover from a tax allowance to a cash benefit; it is important now to recognise that this is a straight cash benefit and to treat it as such in public expenditure planning. More fundamentally, such an approach has the risk of loosening discipline and thus making way for bigger increases than would otherwise be justified; and of setting precedents elsewhere. And it will be noted that howsoever the amount is scored, it all still adds to the PSBR.

14. There is also an argument that an increase in child benefit would be an incentive to take work, rather than stay in unemployment. This is based on the fact that there is at the moment a negative differential between the child dependency allowance paid to the unemployed, and child benefit. Certainly this is a matter to be looked at, perhaps in the context of a wider study of the interaction between tax, social security and work incentives. But the point has yet to be shown, and it would not be sensible to increase child benefit solely on this score in advance of such a study. More important child benefit is in any case a most unselective weapon, going to the children of all, rich or poor, and in or out of work, and cost-ineffective as a possible work incentive for a comparatively few recipients at the margin. (Indeed,

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in the longer term Treasury Ministers may wish to consider whether the child benefit is not too insensitive in other areas - eg for the relief of poverty; whether, bizarre as this may sound, sooner or later the benefit itself should be made taxable.)

15. It should also be noted that an increase in VAT is not of itself any reason to increase child benefit. Most of the expenditures which go directly to maintain a child (housing, food, fuel and clothing) are not subject to VAT anyway. It is true that there may eventually be some indirect effects as VAT increases in other areas creep into the price of non-VATable goods, but this would appear to be a distant argument in relation to child benefit.

16. As well as child benefit, Treasury Ministers will know that there is a premium of £2 per week payable to single parents in respect of their first child. Unless Ministers felt it necessary to do something special about one parent families (who were indeed mentioned specifically in the Manifesto), the right policy would seem to be to let this premium increase at the same time as, and in the same proportion as, child benefit proper increases.

Fuel bonus

16. For the last three years the previous Administration has given help to poor families with their fuel bills. This scheme was originally put in place to meet the very sharp rise in fuel costs which occurred following the events in the Middle East in 1973 and 1974, and the steps taken by the then Government to phase out subsidies to the nationalised fuel industries. This justification has now largely vanished, and officials (and not just in the Treasury) see very little justification for a continuing scheme. This is the more so in that it is very hard to devise a cost-effective scheme which is not very cumbersome administratively. A repeat of last year's scheme would cost about £50 million, to be charged against the Contingency Reserve. In the past this has been the responsibility of the Secretary of State for Energy, rather than of that for Social Services, and we do not know how Mr Howell (or indeed Mr Jenkin) feels about it, but nevertheless we would recommend that Treasury Ministers argue for its discontinuation. Many of those really in need will get the help they want through the supplementary benefit scheme. It may be that discontinuation of the fuel scheme will have to be "bought", perhaps by a Christmas bonus higher

than would otherwise be the case, but we would recommend arguing against this too (on the grounds, amongst other things, that if the Christmas bonus starts too high initially, and goes on in perpetuity, over time there is a very considerable additional cost against public funds).

Other social security grants and allowances

17. Most other social security grants and allowances are in effect indexed, whether by legislation or longstanding custom, on prices, and go up each November. There are some, however, which are more optional; these include mobility allowance and death and maternity grant. There seems little case for any increase in any of these now, but we shall have to see, what, if anything Mr Jenkin proposes.

Legislation

18. Some social security legislation will be necessary at an early date if only to authorise the Christmas bonus. This legislation could, however, also authorise the change in the uprating formula to one which is wholly prices based in time for November 1979 (although at the moment it looks as though the prices forecast may go ahead faster than the earnings forecast, which would make the point, for this year anyway, academic). Such legislation would, however, have to be put together too early to deal substantively eg with treatment of strikers and other matters, some of which are mentioned in the Manifesto. It seems likely, therefore, that Mr Jenkin will bid for two pieces of legislation in the 1979-80 Session; this seems sensible.

The Contingency Reserve

19. The decisions to be taken, discussed above, which could affect the Contingency Reserve for 1979-80, are summarised below:-

	£ million
a. Should shortfall be made good?- maximum cost	90
b. What should be the rate of the Christmas bonus? - cost per £10	108
c. Should child benefit be increased this November? - cost per 25p	55
d. Should there be a fuel bonus? - cost of a repeat of last year's scheme	50

20. It follows that a minimum charge to the Contingency Reserve is £108 million (a £10 Christmas bonus). A possible maximum charge (not of course the ultimate theoretical maximum) might be £355 million, being shortfall (£90 million), a £15 Christmas bonus (£160 million), a fuel bonus (£50 million) and 25p on child benefi (£55 million). These possibilities are, of course, very relevant to Mr Bailey's submission of 10 May on the Scope for Cuts, and underline the need for early decisions.

21. The PSBR effects involved in the social security decisions, however, go further than the Contingency Reserve effects. As paragraph 7 indicates, any excess cost arising from implementing a statutory uprating based on a prices (or as maybe earnings) forecast bigger than that anticipated when the plans were drawn up is treated as an estimating change, and is not chargeable against the Contingency Reserve. Nevertheless, the sums affect the PSBR. Very roughly, 1 per cent either way on the uprating will cost about £50 million in the part year 1979-80. And as well as the rates, there can be estimating changes arising from differing numbers of beneficiaries - thus if average unemployment goes 100,000 either way then roughly speaking, the social security programme varies by £100 million. It follow that many measures which are taken elsewhere to help with the PSBR (eg increase in indirect taxes or withdrawal of employment support measures) can have a partly offsetting adverse effect through the increases in the social security programme which follow, albeit these increases are not chargeable against the Contingency Reserve.

Conclusion

22. I apologise for the length of this note. Its purpose has been to indicate the sort of matters on which decisions must be taken shortly, not only for their own sake but also in the context of the scope for cuts in public expenditure. It is understood that Mr Jenkin will be writing shortly with his proposals, and a further (but I hope shorter) submission will be made when we know his mind. These matters will, of course, have to be settled finally in Cabinet, but we understand that Mr Jenkin is anxious that he should reach full agreement with Treasury Ministers beforehand. As this note makes clear we should want to recommend against <u>any</u> additions in 1979 expenditure which may be proposed with three exceptions only; these are (a) a general uprating based on November 1978/November 1979 price forecasts; (b) a £4 and £2.50 increase in retirement

pensions to the extent that this is not reached or passed by the operation of (a) (as it probably will be); and (c) a £10 Christmas bonus. These we would read as Manifesto commitments.

E P Kemp

E P KEMP

11 May 1979

11.12

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Anson
Mr Bailey
Miss Brown
Mr F E R Butler
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Miss Whalley
Mr A M White

SOCIAL SECURITY

Mr Hall's note of today to Mr Bailey referred to his minute of 11 May on Social Security, and asked for a short extra note on the distinction for uprating purposes between short and long term benefits.

2. Broadly speaking, the principal distinction is that while long term benefits are uprated annually on the basis of the movements in earnings and prices whichever is the greater, short term benefits are uprated annually on the basis of price movements.

3. There is a further broad distinction to be made between benefits which are uprated annually under statute, and benefits which are uprated by virtue of longstanding convention. Social security long term benefits, ie retirement, widows', disablement and invalidity pensions are covered by statute, as are short term benefits in respect of unemployment, sickness and injury. However, war pensions (disablement and widows) and supplementary benefits are uprated by non-statutory convention. There is no statutory or conventional obligation for the annual uprating of death or maternity grants, mobility allowance or child benefit, but there is a statutory obligation to review annually whether or not the level of these benefits have retained their value.

4. The attached table, which is necessarily simplified, seeks to set out the position.

E P KEMP

14 May 1979

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BENEFIT	Cost in 1979-80 (£b 1978 prices)	Uprating Formula	Obligation to uprate
NI Long term benefits	9.2	Greater of Prices or Earnings	Statutory
War pensions	0.3	- do -	non-statutory
Other pensions	0.3	- do -	- do -
Supplementary Benefit			
Long term	0.7	- do -	non-statutory
Short term	1.3	Prices	- do -
Child Benefit	2.7	Not applicable	Subject to annual review but no commitment to uprate
Sickness, Injury, Maternity, Unemployment, Widows allowance	1.4	Prices	Statutory
Maternity/Death grants, and Mobility Allowance	0.2	Not applicable	Subject to annual review but no commitment to uprate
	16.1		

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MR BAILEY

cc Chief Secretary
Financial Secretary
Minister of State (Lords)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Anson
Miss Brown
Mr F E R Butler
Mr Kemp
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Miss Whalley
Mr A M White

SOCIAL SECURITY

The Chancellor has seen his copy of your minute of 11 May to the Chief Secretary. He would like to include this on the Agenda of his morning meeting with Treasury Ministers at 9 a.m. tomorrow. He has asked for a short extra note on the distinction for uprating purposes between short and long term benefits.

M. A. HALL
14 May 1979

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CHIEF SECRETARY

~~cc~~ Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
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SOCIAL SECURITY

Social security spending is a huge slice of public expenditure, and decisions will be needed soon on large potential additions, so that Treasury Ministers may wish to have a note on these now, as in Mr Kemp's minute attached.

2. In summary, our recommendations are:

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(iii) The uprating should be announced in the Budget; there will inevitably be some delay in increased payments in November, but this should be tolerable (though the extra burden on staff, and the risk of dislocation if there are staffing problems, will be claimed by DHSS as a reason for exemption in whole or part from the squeeze on civil service numbers).

(iv) The legislation will also need to provide for payment of Christmas bonus (a Manifesto commitment), but this should be kept to £10, with no commitment for future years (but at most a power to renew if the Government so decides, at a figure which should remain discretionary not indexed).

(v) Child benefit should be indexed, as from its £4 level from April this year, the first increase to be paid from November 1980.

(vi) There should be no decision to repeat last year's winter fuel bonus.

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3. The costs of these decisions are set out in Mr Kemp's paragraph 19; it is of course impossible to give the cost of the benefits uprating itself until the 'post-Budget' forecast is available.

AMB

A M BAILEY

11 May 1979

48/07

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CHIEF SECRETARY

cc Financial Secretary
Minister of State (Commons)
Minister of State (Lords)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr Anson
Mr F E R Butler
Mr Kemp
Miss Whalley
Mr Ridley
Mr Cropper

CALL BY MR JENKIN

The Chanceller has agreed to see the Secretary of State for Social Services at 16.30 in the Treasury on Thursday 17 May, to discuss a letter - expected shortly from Mr Jenkin - on the uprating of social security benefits. He would be glad if you could also be present. He would be grateful if Mr Kemp could provide briefing in due course, and for advice on who else should be present at the meeting.

M. A. HALL
15th May 1979

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Sir D. Wass
PS
Mr Kemp
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
Sir F. Atkinson
Sir A. Rawlinson
Mr Anson
Mr Bailey
Miss M.P. Brown
Mr F.E.R. Butler
Mr Lovell
Mr Shepherd
Mr Unwin
Miss Whalley
Mr Ridley

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

15 May 1979

Dear Geoffrey,

SOCIAL SECURITY UPRATING 1979

I would welcome an early discussion with you about the uprating proposals, which I assume you will wish to cover in your Budget Statement.

Benefit Rates

The new rates must, by law, take effect from 12 November. As the law stands, pensions and other long-term benefits have to be increased in line with the better of earnings or prices; short-term benefits, such as sickness and unemployment benefit, in line with prices. The forecasts used for the November 1978 uprating were 1.9 per cent (earnings) and 1 per cent (prices) short of the actual movements in earnings and prices; and the previous Government announced on 28 March that, although there is no statutory obligation to make good this shortfall, they intended in the uprating to take account of the shortfall. They quoted as illustrative pension rates "about" £22 for a single person and "about" £35 for a married couple. The Prime Minister, speaking the following day, said that she wished to "make it quite clear that we shall honour the pensions commitments that he (the then Prime Minister) announced yesterday". I am advised that this was widely taken to include making up the shortfall.

On the other hand, we are not committed to increases in line with earnings (if higher than prices) plus making good the shortfall - which may have been what a new Labour Government would have done. I accept therefore that if the forecasts put earnings markedly ahead we shall have to consider legislating immediately to remove the requirement to uprate in line with earnings. But if we make up the shortfall this will help to make our uprating policy more acceptable and will reduce the pressures in succeeding years to allow a costly safety margin at each uprating in case the forecasts should prove wrong again.

Christmas Bonus

We have promised to continue the Christmas Bonus. So far, the bonus has been £10 on each occasion. It would need to be about £25 to match the value of the first bonus, which was in 1972; but I am not asking that the bonus should exceed £10 this year. I propose that we should provide for this in the Bill and also that we should take power to pay a bonus under subordinate legislation in subsequent years. It would be helpful to be able to budget in our public expenditure programme for periodic increases which, over time, would maintain the £10 in real terms - while avoiding insignificant increases in particular years. The Bill might provide for the Secretary of State to consider in each year whether the bonus should be increased, having regard to the national economic situation as a whole, the general standard of living, and such other matters as he thought relevant (the 1975 Child Benefit Act formula). I would not propose to take power to extend the scope of the bonus.

Child Benefit

To improve work incentives, simplify the social security system, and save staff (about 250), we must aim, as soon as we can, to increase child benefit sufficiently to subsume the child dependency increase paid with unemployment and sickness benefit. And we must in any case ensure that in any package of tax cuts we do not ignore working families with children, who can only be helped through child benefit. I should therefore like to see an increase in child benefit this November which at least restores its real value, and to do the same for the premium for one-parent families. This would mean increasing child benefit to around £4.25 and the premium to around £2.25. I recognise, however, that you might prefer to delay the increase till next April and then go beyond price protection so as to make a start on subsuming the National Insurance dependency increases. I would very much hope that any such increase could be announced in your forthcoming Budget statement.

Mobility Allowance

Mobility allowance was increased to £10 in July 1978, and has not been increased since. I would find it hard to justify a rate of less than £12 in November 1979; this would be consistent with our general policy on disablement. Although, so far only a minority of mobility allowance beneficiaries make use of the Motability Scheme to obtain cars, their number is significant and growing, and we want it to grow further. The cost of a minimum Motability deal is something we shall have to keep in mind in future - not least if we are to continue to avoid a very expensive direct involvement in hardware.

No doubt you will also have in mind some longer-term mobility issues. These include the effects of VAT on the Motability scheme - on which we shall face even greater pressure if VAT is increased. Also if petrol is in future to carry the revenue costs currently borne by Vehicle Excise Duty, we have to take this into account. Last year we successfully amended the Social Security Act 1975 so as to require the Secretary of State, when determining the rate of mobility allowance, to take into account "any change in taxation which directly affects the costs of motoring for a person in receipt of mobility allowance". Finally, and simply as a marker for the future, taxation of mobility allowance sits uneasily with general taxation conventions (attendance allowance is not taxed).

Costs

Leaving aside the uprating of child benefit (and the child benefit (increase) paid to one-parent families), which, as we agreed in Opposition, merits special treatment under the public expenditure conventions, there are two major items which would amount to a claim on the contingency reserve. These are making good the shortfall (£90 million in 1979/80 and £220 million in 1980/81), and the cost of a £10 Christmas Bonus (£105 million plus £3 million additional administrative costs) - all costs are given in 1979 survey prices. Putting mobility allowance up to £12 instead of simply price-protecting it would run to only about £2 million in 1979/80 and £6 million in 1980/81. I realise there will be other calls on the contingency reserve. But I do not think the ones I am suggesting for social security could be regarded in any way as excessive.

I suggest that we meet to discuss these matters as soon as possible (I gather that our offices have already been in touch). I am copying this letter to John Biffen and to Sir John Hunt.

Yours ever

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cc Chief Secretary
Financial Secretary
Sir A Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Caff
Mr Ridley

1. MISS WHALLEY
2. MR KEMP
3. CHANCELLOR OF THE EXCHEQUER

SOCIAL SECURITY UPRATING

In his letter of 15 May the Secretary of State for Social Services puts forward, for discussion with the Chancellor and other Treasury Ministers on 17 May, his proposals for additional items to be included in the November 1979 benefits uprating package, and raises certain points on the future growth of the social security programme. The proposals for this November's uprating would represent a claim on the Contingency Reserve of some £260 million in 1979-80 and some £450 million in 1980-81. The suggestion that in the longer term child benefit should subsume child tax allowances would add a further £850 million to the cost of this programme.

2. Briefing on the main social security policy issues was contained in Mr Kemp's and Mr Bailey's minutes of 11 May. The following paragraphs discuss the proposals made in the Secretary of State's letter and recommend a line for the Chancellor to take in discussion.

The main uprating decision

3. The Secretary of State recognises that this will be announced in the Budget debate and will be based on Treasury forecasts. He is also determined, by immediate legislation if that is required, to move to price protection only for uprating long-term benefits. All this is sensible and can be welcomed. However, he also proposes that additionally uprating of benefits this November should contain a margin over and above the increase needed to provide price protection sufficient to make good the shortfall on the previous Government's last uprating in November 1978. There is no provision for this in existing expenditure plans; it would cost some £90 million this year and £230 million in a full year. Although the Prime Minister committed the Government to

/matching

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matching the figures announced by the previous Government of about £22 (single) and £35 (married couple) (see A and B below) these figures did not necessarily include shortfall, although Mr Callaghan did commit his Government to making good shortfall. The Government's policy is to price protect only, leaving improvements in the real value of long-term benefits to be made when resources are available. It would therefore be inconsistent, when all efforts are being made to reduce public expenditure, to make good shortfall on an earnings forecast which even in its defective form provided an increase in real terms of over 3 per cent. The Chancellor is therefore recommended to resist the Secretary of State's proposal which would add £90 million to public expenditure this year.

Christmas bonus

4, The proposal is to pay a £10 bonus this year and take powers to pay a bonus, at levels to be determined by the Secretary of State, but which over time maintains its value, in subsequent years. The Christmas bonus contributes little to the planned development of social security policy. Any political value rests in the Government's retention of discretion to pay a bonus or not in any particular year - as well as determining the level of payment. If the bonus is to become a permanent feature, consideration will have to be given to making it taxable (Inland Revenue have acquiesced so far in not taxing the payment primarily because of the timing problems for taxing). The Manifesto included a commitment to continuing the bonus but the Chancellor has taken the view that there is no commitment to paying a bonus each year. Accordingly, he may wish to accept the proposal to pay £10 this year at a cost of £108 million but resist the proposal that powers should be taken now to make payments in subsequent years. If provision for payment is on the statute book it will be almost impossible to refuse bonuses each year.

Child Benefit

5. (a) Long-term objectives. To improve work incentives, simplify the social security system and save about 250 staff, Mr Jenkin suggests that the Government should adopt as an objective raising child benefit to subsume the child dependency

/addition

addition paid with unemployment and sickness benefits. The present lead of child dependency additions over child benefit is 85p. The disincentive effects for those with large families and low earnings are therefore relatively small. An alternative method of tackling this problem would be to tax short-term benefits and no decisions on the timing of this prospect have been taken. The child benefit solution would be costly, involving over £850 million in a full year and would provide only disproportionate small gains in work incentives for a limited number of those with low earnings capabilities. The Chancellor is therefore recommended to avoid any commitment and to suggest that consideration of the future levels of child benefit is deferred.

(b) Price Protecting Child Benefit. The Secretary of State proposes that child benefit should be protected against rises in prices. Since this benefit was increased to £4 last month, price protection to November 1979 would provide only an increase of about 25p a week. This increase might be regarded as derisory (even though it would cost about £60 million this year and £120 million in a full year). We recommend that, although the Chancellor should accept that price protection seems sensible in the longer term for a benefit which is the main contribution towards the cost of raising children, a 25p increase in November (following an increase of £1 in April) would seem both niggardly and unnecessary. Given the pressures on public expenditure and the borrowing requirement, a more generous increase would not be practicable. Given the role child benefit now plays, we recommend the Chancellor to accept price protection from 1980, since there are no real grounds for the Secretary of State's fallback proposal of an increase in April 1980 now that child tax allowances have been generally withdrawn. There is no objection to announcing price protection of child benefit from November 1980, but since any increases will be deferred for 16 months it might be wise to delay the announcement for the time being.

(c) The treatment of expenditure on child benefit. The Secretary of State intends to raise the questionof whether child benefit should be regarded as public expenditure or treated as tax forgone or a form of tax credit. In this connection,

/Mr Jenkin

Mr Jenkin may refer to the Chancellor's support for an Early Day Motion in July 1977 (Annex C) and the references made to child benefit in a speech made on 24 March (Annex D). However, child benefit represents a cash transfer from the public to the private sector, it is voted by Parliament as public expenditure and so treated in the national accounts. Alternative treatment would create major problems and in any event the cost of child benefit has to be taken into account for the PSBR calculations. This question need not be decided before decisions are taken on the 1979 uprating package and the Chancellor may therefore wish to suggest that the Secretary of State should pursue this question separately. For the purpose of the immediate discussions, however, the present public expenditure treatment of child benefit will have to be applied.

Mobility Allowance

6. The Secretary of State has proposed an uprating of this allowance by £2 to £12 in November 1979. There is no statutory obligation to uprate the allowance, but the Social Security Act 1979 requires the Secretary of State to review it each year. The previous Government had indicated that they would price protect the benefit with effect from November this year. It is probable that a rate of £11.50 or less will be justified rather than the figure of £12 proposed by Mr Jenkin. Even this increase to £12 would cost about £2 million this year and £6 million in a full year. The Chancellor is recommended to resist the proposal and to accept that mobility allowance should be price protected by the appropriate amount - when forecasts are available.

7. The Secretary of State has also raised a number of points relating to mobility allowance, including the effects of VAT on Motability, the organisation which leases cars to the disabled. Mr Jenkin suggests that mobility allowance ought to be linked to changes in leasing charges by Motability and has raised the question of the impact of the abolition of VED as well as the possibility of exempting the allowance from tax. These issues do not have to be settled at this stage and we suggest that the Chancellor should propose that they should be considered further by officials - including Customs and Excise and Inland Revenue -

/with

with a view to further reference to DHSS and Treasury Ministers in due course. The only immediate decision required is the level of mobility allowance and on this it should be possible to reach agreement on straightforward price protection.

Conclusions

8. The Secretary of State has raised a number of issues but immediate decisions are required only on:-

(a) the basis of the November 1979 uprating, including whether or not some provision should be made for the November 1978 shortfall;

(b) Christmas bonus and the possibility of legislation covering payments in future years;

(c) the treatment of child benefit, including the timing of the next increase;

(d) the level of mobility allowance from November 1979.

9. There is no need for immediate decisions on the question of the treatment of child benefit for public expenditure purposes or on the more general questions raised on mobility allowance. It is unlikely that the Secretary of State will wish to raise now the possibility of either medium-term or long-term studies on the role of social security, but if this point is mentioned the Chancellor will no doubt wish to indicate that he would be glad to have the Secretary of State's views on how this question should be handled. But for the immediate issues, we recommend that:-

(i) the Chancellor should agree to uprating next November on the basis of price forecasts only, and if necessary this should be covered by early legislation;

(ii) reject the proposal to make good shortfall;

(iii) aceept price protection for child benefit but with effect from November 1980 at the earliest;

(iv) accept price protection for mobility allowance, thus providing a rate lower than £12 this November.

A M White

A M WHITE

16 May 1979

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CONFIDENTIAL

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Ridley
Miss Whalley
Mr A M White

MEETING WITH MR PATRICK JENKIN - THURSDAY 17 MAY 4 30 PM
SOCIAL SECURITY UPRATING

I am afraid a sentence was left off the end of paragraph 2(e) of my minute of earlier today. This should have read :-

> "... take place in November 1980. Decisions as to any real terms increases should await the outcome of the Study of Incentives etc referred to in paragraph 3(a) below".

2. I should be grateful if you would carry this correction into my minute.

E P KEMP
16 May 1979

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Caff
Mr Ridley
Miss Whalley
Mr A M White

MEETING WITH MR PATRICK JENKIN - THURSDAY 17 MAY 4 30 PM
SOCIAL SECURITY UPRATING

Mr White's brief below discusses the proposals which Mr Jenkin makes in his letter of 15 May, and sets out the full background to them. I agree generally with these recommendations, and in particular with the point that immediate decisions are only required on the comparatively limited number of points, and that it is both possible and indeed sensible to leave a number of others over for further consideration.

2. Summarising overall, and taking account of one or two additional points, our recommendations are as follows:-

a. You should agree that the main lines of social security uprating proposals will be announced in your Budget Speech. Mr Jenkin will make a more detailed statement on the Wednesday or Thursday following.

b. Next November's uprating - and all upratings thereafter - should be on the basis of prices forecasts only, rather than (for long term benefits) the better of earnings or prices. Legislation may not be necessary for this next November, since prices may be moving ahead faster than earnings; but you will want to consider with Mr Jenkin whether or not early legislation should anyway be taken to get the change properly made as soon as possible. On balance this may be desirable.

c. There is no commitment to make good shortfall as such next November, and Mr Jenkin should be opposed on this point (save insofar as something over and above the statutory uprating may be necessary to reach the £4 and £2.50 increases in retirement pensions which are a commitment.) (This in fact would only be necessitated if the price rise is less than about 12½ per cent, which seems unlikely.

d. You should agree to a £10 Christmas bonus (and the necessary legislation) for this year only, with no commitment at all to the future.

e. You should agree that child benefit should now be recognised as price protected, but press for the next increase (protected as from April 1979) to take place in November 1980.

f. You should oppose Mr Jenkin on "losing" child benefit out of public expenditure totals. You might, however, wish to agree that the whole net/gross presentation picture, which goes much wider than just child benefit, should be studied; meanwhile child benefit increase should continue to score gross.

g. You should oppose Mr Jenkin specific proposal to put mobility allowance up to £12, but agree that it should be price protected.

h. Mr Jenkin does not mention a fuel bonus and it need not be raised. But if it does come up we recommend opposing it as a regular affair, and also for this year, but agreeing that it could be kept open for some future year if circumstances warranted it (eg if the Government were looking for abnormally big increases in gas and electricity prices.)

3. These are the immediate decisions that are needed. But you may also like to agree with Mr Jenkin that there are two areas where officials should be asked to do further work. These include:-

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a. Incentives etc, and the role of social security here. This is likely to arise on the question of child benefit and Mr Jenkin's discussion of the need to subsume the child dependency increase paid with unemployment and sickness benefit. But such a study might go wider than just this, and meet some of the Manifesto commitments to examine the whole area of social security and work incentives (including taxing of short term benefits).

b. Various aspects of mobility allowance, as discussed in paragraph 7 of Mr White's brief.

4. Both these arise on Mr Jenkin's letter. But more widely, from Treasury Ministers point of view, it would be desirable to set in hand an examination of the role of this whole massive social security programme, which covers 25 per cent of public expenditure and has inherent growth tendencies. On present arrangements - even if we move to a prices only uprating - it seems likely increasingly to pre-empt other programmes. A longer term examination might therefore be in order to see what could or should be done to curb its growth in the light of the longer term constraints. We hope Mr Jenkin will agree.

5. The cost of these recommendations against the Contingency Reserve for 1979-80 is £108 million for the Christmas bonus. Mr Jenkin's other proposals (shortfall, November child benefit, and mobility allowance) which we recommend opposing, would add £147 million more to this, and would of course greatly reduce the scope for cutting the Reserve now.

6. We assume that the next step, after your meeting, is for these matters to go to Cabinet on Thursday 24th, for which you may like to agree with Mr Jenkin that DHSS drafts and clears with us a suitable paper reflecting the discussion.

E P KEMP

16 May 1979

30

cc Chief Secretary
Financial Secretary
Sir A Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Caff
Mr Ridley

KW

1. MISS WHALLEY
2. MR KEMP
3. CHANCELLOR OF THE EXCHEQUER

SOCIAL SECURITY UPRATING

In his letter of 15 May the Secretary of State for Social Services puts forward, for discussion with the Chancellor and other Treasury Ministers on 17 May, his proposals for additional items to be included in the November 1979 benefits uprating package, and raises certain points on the future growth of the social security programme. The proposals for this November's uprating would represent a claim on the Contingency Reserve of some £260 million in 1979-80 and some £450 million in 1980-81. The suggestion that in the longer term child benefit should subsume child tax allowances would add a further £850 million to the cost of this programme.

2. Briefing on the main social security policy issues was contained in Mr Kemp's and Mr Bailey's minutes of 11 May. The following paragraphs discuss the proposals made in the Secretary of State's letter and recommend a line for the Chancellor to take in discussion.

The main uprating decision

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/matching

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matching the figures announced by the previous Government of about £22 (single) and £35 (married couple) (see A and B below) these figures did not necessarily include shortfall, although Mr Callaghan did commit his Government to making good shortfall. The Government's policy is to price protect only, leaving improvements in the real value of long-term benefits to be made when resources are available. It would therefore be inconsistent, when all efforts are being made to reduce public expenditure, to make good shortfall on an earnings forecast which even in its defective form provided an increase in real terms of over 3 per cent. The Chancellor is therefore recommended to resist the Secretary of State's proposal which would add £90 million to public expenditure this year.

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/with

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with a view to further reference to DHSS and Treasury Ministers in due course. The only immediate decision required is the level of mobility allowance and on this it should be possible to reach agreement on straightforward price protection.

Conclusions

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(c) the treatment of child benefit, including the timing of the next increase;

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A M White

A M WHITE

16 May 1979

Reference.. 35

28 March 79

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ANNEX A

" What about the pensioners? During the Conservatives' term of office pensioners' living standards fell behind those of the population who were working. By contrast, this Government have steadily improved the real position of the pensioner year by year, by increasing the pension by whichever has been the higher of the forecast earnings or the forecast prices. That is now a statutory responsibility. It has improved the standard of life of the pensioner after he or she retires, by comparison with the wage earner.

Let me give the figures. When the Conservative party left office the pensioners' proportion of the net earnings of a married male manual worker was 40 per cent. Today the pensioners' proportion of the same net earnings of the male married manual worker is 50 per cent.—an increase in real standards. We shall fulfil our statutory obligations again this year.

This is the season of estimates and revenue. Yesterday we debated expenditure on the Armed Forces for the coming year. Today I should like to inform the House of the estimate of the Chancellor of the Exchequer for old-age pensions for the coming year. First, he has provided for a correction to the underestimate in the forecast made this time a year ago—a question that has been raised on a number of occasions by hon. Members on both sides, but mainly from Government supporters, I grant. Let us associate the Conservatives with this. Do not let them escape their share of the responsibility.

Earnings last year rose faster than the forecast on which the Chancellor based his uprating at that time. He has taken account of this in the new increase that will operate for the next pension year from November. For a marired couple, therefore, he has provided for an increase in the pension next November of about £4 a week to around £35, and for a single person of about £2·50 per week, to about £22. That is provided in the Estimates. That will be one more important step to reduce the gaps that still exist in our society—to remedy the injustices, to erase the class divisions and racial bigotry, to attack poverty and the lack of opportunity that still face many of our citizens. The difference between the Opposition and the Government is that we know that these problems will not be solved by a return to those policies of 1970 or by soup-kitchen social services. They will be overcome only if we harness the energy and the ideals of our people to build a fairer and more just society.

Let need, not greed, be our motto. Our purpose as a Government and as a party is to present a bold, Socialist challenge to all these problems as we face these tasks. I ask for the confidence of the House and of the country so that we may continue with our work. [*Interruption.*] "

Mr. Speaker: Order. I think that hon. Members have conveyed their message.

Mr. John Stokes (Halesowen and Stourbridge): On a point of order, Mr. Speaker. I have just received a message that—[*Interruption.*]

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JDE 18-77

29 March 1979
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ANNEX B

of Rochester and Chatham, Plymouth, Devonport and Portsmouth, North?

The Prime Minister: I fully realise that electoral matters are at the top of the hon. Gentleman's mind, but we have made clear our position and policy on these issues and we intend to stick to them. We rely on the good sense of the country in these matters. If either side were to engage in a Dutch auction in giving excessive and unjustifiable wage increases to those who demand them, the future of this country would be very bleak. If we had been willing to do that, we would not, perhaps, be having some of the industrial troubles through which we are passing.

Mr. Ashton: Will my right hon. Friend find time today to consider the Opposition's attitude to the Civil Service strike? Is he aware that the Leader of the Opposition has not been calling civil servants thugs or bully boys or saying that they are holding the country to ransom? Could that be because she thinks that most civil servants vote Tory or live in marginal constituencies? Does my right hon. Friend agree that if the right hon. Lady gets to be Prime Minister she will bring in such huge public expenditure cuts that most of them will not have a job anyway?

The Prime Minister: I regret very much the industrial disruption taking place in the Civil Service. I understand that an offer was made which was unacceptable because it is much below the assessment that the unions place on the result of the exercise in comparability. The Cabinet considered the matter this morning and we are ready to make a further offer to the Civil Service unions which will be more in accordance with what we think is appropriate, although I think that it will be far less than the unions are demanding. Of course, if Conservative Members would like the strike to continue—and perhaps they would—no doubt they will say so.

Mrs. Thatcher: As the Prime Minister mentioned his dislike of Dutch auctions in connection with what may occur during the next three or four weeks, may I make quite clear that we shall honour the pension commitments that he announced yesterday?

16 Q 17

The Prime Minister: I am grateful for the right hon. Lady's support. It will make the passage of our Finance Bill after the election that much easier.

Mr. Heffer: As the right hon. Lady has said that she will honour pledges, will my right hon. Friend spare a moment to think about the statement of the right hon. Member for Leeds, North-East (Sir K. Joseph) that Merseyside has no special problems, even though the Government made it a special development area? May we therefore assume that the status of Merseyside as a special development area, with grants and assistance for industry, will be withdrawn if the Conservative Party wins the next election—which it will not anyway?

The Prime Minister: My hon. Friend need not worry unduly. I do not think that the Conservative Party will be in a position after the election to help or to hinder in this matter. I am grateful to my hon. Friend for drawing to my attention the fact that one of our newest hon. Members, the hon. Member for Knutsford (Mr. Bruce-Gardyne), in an interesting article in *The Daily Telegraph* today has told us that if, by chance, the Conservative Patry were returned to power, it should get rid of regional development grants, aid to industry, index-linking for old-age pensions and a great many other measures. The right hon. Lady the Leader of the Opposition has gained an important recruit to her cause and one with whom, no doubt, she finds herself in great sympathy.

Mr. Dykes: Is it true that along with his many other meetings today, the Prime Minister is to have a meeting with his colleagues to admonish them for singing "The Red Flag" last night, since that ultimately reminds us all of what the Labour Party is really about?

The Prime Minister: The hon. Member for Shrewsbury (Sir J. Langford-Holt) will remember that when I first came into the House in 1945, that anthem rang round the rafters of the House. Somehow the building still stands firm and secure.

Mr. Mellish: My right hon. Friend will probably be discussing some time today the allocation of television time during the forthcoming election campaign. May I plead with him not to be

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ANNEX C

ANNEX C

420 *CHILD BENEFIT INCREASE*

Mrs Helene Hayman
Mrs Barbara Castle
Mr George Cunningham
Miss Jo Richardson
Mr Andrew Bennett
Mr Phillip Whitehead

★ 78

Mr Dennis Canavan
Mr John Wakeham
Mr Kevin McNamara
Mr Jack Ashley
Mr Raphael Tuck
Miss Joan Lestor
Mr Greville Janner
Mr Sydney Bidwell
Mr Mike Thomas
Mr Ron Thomas
Mr Eddie Loyden
Mr Hugh Jenkins
Mr John Ellis
Mr Max Madden

That this House regrets the announcement that there will be no increase in child benefit in November, notes the increasing burden of inflation on families with children, and calls on Her Majesty's Government to ensure a substantial increase in the level of child benefits next April over and above that which will be achieved through the next stage of the phasing out of child tax allowances.

As Amendments to Mrs Helene Hayman's proposed Motion (Child Benefit Increase):

Sir Geoffrey Howe
Mr Patrick Jenkin
Mr David Howell
Mrs Lynda Chalker
Mr Robert Boscawen
Mr Anthony Newton

★ 6

Line 1, leave out from 'House' to 'notes' in line 2.

Sir Geoffrey Howe
Mr Patrick Jenkin
Mr David Howell
Mrs Lynda Chalker
Mr Robert Boscawen
Mr Anthony Newton

★ 6

Line 2, leave out from 'children' to end and add 'at all income levels, condemns the continuing child benefit fiasco which ensures that an increase in child benefit could be made neither in the Budget because child benefit is regarded as a social security benefit, nor in next November's social security uprating because child tax allowances can only be changed in a Budget; and calls on Her Majesty's Government to ensure that increases in child benefit are treated in the same way as tax cuts, so that the switch from child tax allowances to child benefit can be completed in April 1978 instead of 1979, and that there can be an improvement in the real value of child benefit as part of an overall reduction in the burden of direct taxation and a shift to indirect taxation.'.

★ *The figure following this symbol gives the total number of names of Members appended, including those names added in this edition of the Notices of Questions and Motions.*

ANNEX D 38

Conservative Central Office

Extract from a speech by the Rt. Hon. Sir Geoffrey Howe QC, MP, (East Surrey), Shadow Chancellor of the Exchequer, to the Central Council meeting of the National Union of Conservative and Unionist Associations at Solihull on 24th March, 1979.

Our tax and social security system has gone very badly awry.

Of course, there are some cases - too many - of fraud and abuse. And we shall authorise far more vigorous and effective action to see that these are rooted out.

But in many more cases idleness and scrounging are the result of the system itself.

Far too many people are now better-off on social security than when they are at work. For many more the incentive to work has almost disappeared.

Income tax now starts at such low levels of income that many poor people are now being taxed to pay for their own benefits. Since Labour came to office, more than 2 million low-paid workers have been drawn into the income-tax net for the first time.

This has grotesque consequences. For as a man's income rises, he not only starts paying tax, he loses means-tested benefits as well. He very often finds himself paying an effective marginal "tax rate" of seventy, eighty or even over one hundred per cent.

Take the case of a married man, earning £30 a week gross, who has his gross pay increased by £25 a week, to get £55 a week. The net benefit to him, after taking account of tax, national insurance and loss of means-tested benefits, is only £2 a week. If his gross pay is increased from £30 to £75 a week - he is only £10 a week better off.

If a man can be almost as well-off, digging his allotment in the morning and watching TV in the afternoon, as he can by facing long journeys to and from a dull or heavy job, who can blame him if he stays at home?

There is a simple principle that will guide us out of this mess. We shall reform the system. Very simply, we must make it pay to work.

Has the Tax Credit scheme any part to play in this? I want to take this opportunity of bringing you up to date with our thinking about that.

No-one should be under any doubt about my own position. I made my maiden speech, in 1964, in support of the tax credit principle - although it was then known as Negative Income Tax: Receive As You Need, alongside Pay As You Earn.

So I was a warm supporter of Tony Barber's 1972 Green Paper. In the General Election of October 1974, as the Party's Spokesman on Social Services, I firmly renewed our commitment to the scheme. And when "The Right Approach", in 1976, restated our commitment, I supported that as well.

Take the case of a married man, earning £30 a week gross, who has his gross pay increased by £25 a week, to get £55 a week. The net benefit to him, after taking account of tax, national insurance and loss of means-tested benefits, is only £2 a week. If his gross pay is increased from £30 to £75 a week - he is only £10 a week better off.

If a man can be almost as well-off, digging his allotment in the morning and watching TV in the afternoon, as he can by facing long journeys to and from a dull or heavy job, who can blame him if he stays at home?

There is a simple principle that will guide us out of this mess. We shall reform the system. Very simply, we must make it pay to work.

Has the Tax Credit scheme any part to play in this? I want to take this opportunity of bringing you up to date with our thinking about that.

No-one should be under any doubt about my own position. I made my maiden speech, in 1964, in support of the tax credit principle - although it was then known as Negative Income Tax: Receive As You Need, alongside Pay As You Earn.

So I was a warm supporter of Tony Barber's 1972 Green Paper. In the General Election of October 1974, as the Party's Spokesman on Social Services, I firmly renewed our commitment to the scheme. And when "The Right Approach", in 1976, restated our commitment, I supported that as well.

At that time, of course, the Labour Government had rejected the Child Benefit Scheme (Child Benefit was simply another name for a key part of our tax credit proposals), in favour of what we described in "The Right Approach" as "a very feeble extension of family allowances".

The scene changed dramatically very shortly after that. For, as a result of intense pressure from our Social Service team, led by Patrick Jenkin, Labour decided, after all, to go ahead with Child Benefit. And that, very central, part of the Tax Credit scheme will be in operation on 5th April this year.

Provided the child benefit level and the basic level of insurance benefits, when and so far as economic resources allow, are brought into line with each other, and thereafter kept in line, most families will receive the same amount of financial support for their children whether the breadwinner is in work or unemployed. The most important social purposes of the tax credit scheme will then have been fulfilled.

This does not, of course, completely solve what has come to be known as the "Why work?" problem. For that requires us to do two other things.

First, we need to raise tax thresholds, so as to let more low-income earners out of paying income tax. That we shall do, as far and as fast as resources allow.

And second, we need to ensure that those short-term benefits, notably unemployment and sickness benefits, that are not at present subject to tax, are made to count as part of total annual income for tax purposes. Until that is done, there will still be people who work and live on wages for only part of a year; and, for the rest of their time, find it worthwhile getting by on untaxed benefits and tax rebates.

We now believe that we have found a way of achieving that result, which does not depend either on a new computer system or on massive increases in the Civil Service. If that is right, we shall press ahead with those changes as soon as possible. I cannot stress too strongly that the Labour Government agrees with that objective. Only practical difficulties have held them back so far.

If we can achieve that, then we shall have achieved virtually everything that could have been achieved by the original tax credit scheme, so far as it affected the working population and their families.

Quite apart from tax credits, of course, we want to achieve complete computerisation of the main personal tax system as quickly as possible. This is essential if we are to cut back the soaring cost of tax administration. The Staff of the Inland Revenue has grown from 53,000 in 1951 to 85,000 today: that is four times as many tax collectors per head as in the computerised Internal Revenue Service of the United States.

Once computerisation is complete it would, of course, be possible to provide for all those at work, if we wished, a simpler non-cumulative system, which would enable all income (including short-term benefits) to be brought within the tax net. And that computerised system would still be capable, if we wished, of adaptation to a negative income tax, or tax credit, system. But, for the reasons that I have explained, there would be little point in making that change.

There is, therefore, no substance in the argument (which I do sometimes hear) that we have dreamed up "computer delays" as an excuse for backing away from tax credits.

But those delays, I fear, are very real. For the Labour Government deliberately held up the Inland Revenue's computer programme, so that it is only within the last year or two that the matter has come to life again. And, according to a recent Inland Revenue Report, there is now no prospect of the [illegible] system being established before 1985/86.

We shall not, of course, accept that statement without question. We shall want to move faster if we can. We shall take urgent and independent advice from experts about the possibility of speeding up the programme.

But it would be foolish for anyone, out of office and without access to the facts, to make any pledge to move faster than is at present planned. As I have explained, however, delay is not likely to make any difference to the speed at which we can achieve our original tax credit objectives for the mass of the working population.

There remains the question of pensioner credits. For one other important objective of the tax credit scheme was to reduce the number of pensioners who were dependent on supplementary benefit. This is certainly a real problem. For at any one time about half of those claiming supplementary benefit are retirement pensioners.

We have not discarded our search for a way of applying the tax credit principle to them. Our chances of doing that do not depend on an Inland Revenue computer, but on computers already in existence with the Department of Health and Social Security at Newcastle.

The proposal gives rise to certain technical problems, mainly concerned with the difference in pension ages between men and women. But these should not be insoluble.

Far bigger problems do arise, however, over the likely cost of pensioner credits in today's circumstances. For Britain is relatively less prosperous and much more heavily taxed than at the time when we drew up our original plans, now seven years ago. And the relative value of benefits and tax allowances has changed, and will change, a great deal since that time.

The arithmetic must, therefore, be re-examined. For it certainly would not be wise, in the economic circumstances that are likely to confront the next Conservative Government, to give any final or open-ended pledge on this front. All I can responsibly say at this stage is that we shall certainly wish, as soon as economic conditions allow, to examine the scope for making further progress, so far as pensioners are concerned, towards our original tax credit objectives.

And it is after all the objectives that are important. We want to care as well as we can sensibly afford for all of our fellow citizens who are in genuine need and who cannot care for themselves. But we must also ensure that, in trying to do that, we do not stifle the nation's capacity to create the wealth on which they depend as much as everybody else.

Those were the principles on which Iain Macleod and Tony Barber built the original tax credit scheme. And they are the principles by which we shall continue to be guided.

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Mr Kemp
PS/CST
PS/FST
PS/MST(C)
PS/MST(L)
Sir F. Atkinson
Sir A. Rawlinson
Mr Bason
Mr Bailey
Miss M.P. Brown
Mr F.E.R. Butler
Mr Lovell
Mr Shepherd
Mr Unwin
Miss Whalley
Mr Ridley

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

15 May 1979

Dear Geoffrey,

SOCIAL SECURITY UPRATING 1979

I would welcome an early discussion with you about the uprating proposals, which I assume you will wish to cover in your Budget Statement.

Benefit Rates

The new rates must, by law, take effect from 12 November. As the law stands, pensions and other long-term benefits have to be increased in line with the better of earnings or prices; short-term benefits, such as sickness and unemployment benefit, in line with prices. The forecasts used for the November 1978 uprating were 1.9 per cent (earnings) and 1 per cent (prices) short of the actual movements in earnings and prices; and the previous Government announced on 28 March that, although there is no statutory obligation to make good this shortfall, they intended in the uprating to take account of the shortfall. They quoted as illustrative pension rates "about" £22 for a single person and "about" £35 for a married couple. The Prime Minister, speaking the following day, said that she wished to "make it quite clear that we shall honour the pensions commitments that he (the then Prime Minister) announced yesterday". I am advised that this was widely taken to include making up the shortfall.

On the other hand, we are not committed to increases in line with earnings (if higher than prices) plus making good the shortfall - which may have been what a new Labour Government would have done. I accept therefore that if the forecasts put earnings markedly ahead we shall have to consider legislating immediately to remove the requirement to uprate in line with earnings. But if we make up the shortfall this will help to make our uprating policy more acceptable and will reduce the pressures in succeeding years to allow a costly safety margin at each uprating in case the forecasts should prove wrong again.

Christmas Bonus

We have promised to continue the Christmas Bonus. So far, the bonus has been £10 on each occasion. It would need to be about £25 to match the value of the first bonus, which was in 1972; but I am not asking that the bonus should exceed £10 this year. I propose that we should provide for this in the Bill and also that we should take power to pay a bonus under subordinate legislation in subsequent years. It would be helpful to be able to budget in our public expenditure programme for periodic increases which, over time, would maintain the £10 in real terms - while avoiding insignificant increases in particular years. The Bill might provide for the Secretary of State to consider in each year whether the bonus should be increased, having regard to the national economic situation as a whole, the general standard of living, and such other matters as he thought relevant (the 1975 Child Benefit Act formula). I would not propose to take power to extend the scope of the bonus.

Child Benefit

To improve work incentives, simplify the social security system, and save staff (about 250), we must aim, as soon as we can, to increase child benefit sufficiently to subsume the child dependency increase paid with unemployment and sickness benefit. And we must in any case ensure that in any package of tax cuts we do not ignore working families with children, who can only be helped through child benefit. I should therefore like to see an increase in child benefit this November which at least restores its real value, and to do the same for the premium for one-parent families. This would mean increasing child benefit to around £4.25 and the premium to around £2.25. I recognise, however, that you might prefer to delay the increase till next April and then go beyond price protection so as to make a start on subsuming the National Insurance dependency increases. I would very much hope that any such increase could be announced in your forthcoming Budget statement.

Mobility Allowance

Mobility allowance was increased to £10 in July 1978, and has not been increased since. I would find it hard to justify a rate of less than £12 in November 1979; this would be consistent with our general policy on disablement. Although, so far only a minority of mobility allowance beneficiaries make use of the Motability Scheme to obtain cars, their number is significant and growing, and we want it to grow further. The cost of a minimum Motability deal is something we shall have to keep in mind in future - not least if we are to continue to avoid a very expensive direct involvement in hardware.

No doubt you will also have in mind some longer-term mobility issues. These include the effects of VAT on the Motability scheme - on which we shall face even greater pressure if VAT is increased. Also if petrol is in future to carry the revenue costs currently borne by Vehicle Excise Duty, we have to take this into account. Last year we successfully amended the Social Security Act 1975 so as to require the Secretary of State, when determining the rate of mobility allowance, to take into account "any change in taxation which directly affects the costs of motoring for a person in receipt of mobility allowance". Finally, and simply as a marker for the future, taxation of mobility allowance sits uneasily with general taxation conventions (attendance allowance is not taxed).

Costs

Leaving aside the uprating of child benefit (and the child benefit (increase) paid to one-parent families), which, as we agreed in Opposition, merits special treatment under the public expenditure conventions, there are two major items which would amount to a claim on the contingency reserve. These are making good the shortfall (£90 million in 1979/80 and £220 million in 1980/81), and the cost of a £10 Christmas Bonus (£105 million plus £3 million additional administrative costs) - all costs are given in 1979 survey prices. Putting mobility allowance up to £12 instead of simply price-protecting it would run to only about £2 million in 1979/80 and £6 million in 1980/81. I realise there will be other calls on the contingency reserve. But I do not think the ones I am suggesting for social security could be regarded in any way as excessive.

I suggest that we meet to discuss these matters as soon as possible (I gather that our offices have already been in touch). I am copying this letter to John Biffen and to Sir John Hunt.

Yours ever

Patrick

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CONFIDENTIAL

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Ridley
Miss Whalley
Mr A M White

MEETING WITH MR PATRICK JENKIN - THURSDAY 17 MAY 4 30 PM
SOCIAL SECURITY UPRATING

I am afraid a sentence was left off the end of paragraph 2(e) of my minute of earlier today. This should have read :-

> "... take place in November 1980. Decisions as to any real terms increases should await the outcome of the Study of Incentives etc referred to in paragraph 3(a) below".

2. I should be grateful if you would carry this correction into my minute.

E P KEMP
16 May 1979

SM

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

N Sanders Esq
Private Secretary
10 Downing Street

17 May 1979

Dear Nick,

You asked for a note tonight on the statutory provisions relating to the uprating of social security benefits. A note, approved by the Solicitor's Office, is attached.

I am sending a copy to Martin Hall (Treasury) and Martin Vile (Cabinet Office).

Yours sincerely

Stephen

S H F HICKEY
Private Secretary

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THE CURRENT STATUTORY PROVISIONS RELATING TO THE UP-RATING OF SOCIAL SECURITY BENEFITS

National Insurance and Industrial Injury Benefits

1. Sections 124, 125 and 126 of the Social Security Act 1975, as amended, provide that, in each tax year, the Secretary of State shall review the rates of the main national insurance and industrial injuries benefits to determine whether they have retained their value in relation to the general level of earnings or prices. If they have not, he is required to lay a draft Order, subject to the affirmative procedure, increasing those benefits "at least to such extent as he thinks necessary to restore their value". Basic pensions and other long-term benefits have to be increased in line with the movement of earnings or prices, whichever is more advantageous to beneficiaries. Graduated pensions, the earnings-related additional components under the new pension scheme and short-term benefits, such as sickness and unemployment benefit, have to be increased in line with the movement of prices.

2. The new rates of benefit have to come into force not later than 12 months after the date on which the current rates came into force. This year, they must come into force not later than week commencing 12 November. A copy of the relevant sections is attached.

The method of determining the new rates of national insurance and industrial injury benefits

3. The Courts have held* that in order to restore the value of benefits, it is necessary for the Secretary of State to make a forecast of the likely percentage movements in earnings and prices between the previous up-rating date and the date of the intended up-rating - on this occasion, November 1978 and November 1979 - and to increase the rates of benefits at least by the appropriate percentage. The Courts made clear that the Secretary of State is not in breach of his statutory duty if the

* (see Metzger v. DHSS [1977] 3 All E.R. 444, Megarry V-C; [1978] 3 All E.R. 753, CA)

actual movements of earnings and prices turn out to be less than the forecast movements (as occurred in 1978) and that, whilst he has power to rectify any resulting shortfall in the restoration of values, he is under no statutory duty to do so.

Supplementary Benefit and War Pensions

4. There are no statutory provisions relating to the increase of these benefits but, by convention, war pensions are increased in line with industrial injury benefits and supplementary benefits go up by the same cash amount as the corresponding national insurance benefits.

Child Benefit

5. There is no statutory requirement to up-rate child benefit but the Secretary of State is required by the Child Benefit Act to consider in each year beginning on 4 April whether the rates should be increased, having regard to the national economic situation as a whole, the general standard of living and other such matters as he thinks relevant.

Mobility Allowance

6. There is no statutory requirement to increase mobility allowance but the Secretary of State is obliged to consider in each tax year whether the rate of mobility allowance should be increased having regard to a variety of factors such as changes in taxation which directly affect motoring costs. Under the Social Security Act 1979, he is obliged to lay before Parliament a formal statement "as soon as is reasonably practicable" giving his conclusion on the rate of mobility allowance and his reasons for that conclusion.

Family Income Supplement

7. There is no statutory requirement to review or increase Family Income Supplement. In practice it has been up-rated at the same time as other benefits.

The present position

8. The review of the rates of NI and II benefits for 1978-79 was carried out in March 1979 by the then Secretary of State who, having regard to the then known movement of earnings and prices since November 1978, found that the rates of benefits had not retained their value. (This review had of course to be carried out before the end of the 1978-79 tax year.) The necessary determination of the increase of rates of benefit to be introduced in November 1979 under the present statutory provisions, and the laying of the Order, must now await the firm Treasury estimates of the movements of earnings and prices over the 12 months to November 1979 which, if they are to take account of the effect of the Budget proposals, will not be available until shortly before the Chancellor's Budget statement in June.

The proposal to link pension increases to prices

9. The present Government's proposal to do away with the link between earnings and the rates of pensions and other long-term benefits will require main legislation. If the June forecasts of the movements of earnings and prices reveal that prices are likely to exceed earnings, no problems will arise since the up-rating Order can be laid, increasing all benefits in line with prices, without the need for main legislation (apart from that needed for the proposed freezing of the earnings rule limit for the dependent wives of retirement and invalidity pensioners to the sum introduced in November 1978). Amending legislation will of course be necessary for future up-ratings.

10. If however the movement of earnings over the 12 months to November 1979 is likely to exceed that of prices, main legislation will be needed urgently to amend the existing statutory provisions so that the proposal to increase pensions and other long-term benefits in line with prices can be carried out.

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Up-rating of benefits

Power to increase rates of benefit.

124.—(1) The Secretary of State may by order increase any of the sums specified in—

(*a*) Schedule 4 to this Act;

(*b*) Schedule 6 to this Act, paragraphs 3(1)(*a*)(i) and (ii) (calculation of earnings-related supplement and addition); and

(*c*) sections 2(6)(*c*) and 7(2)(*b*) of the Old Cases Act;

(*d*) sections 30(1) . . .[2], 45(3) . . .[2] and 66(4) . . .[2] of this Act (earnings rules).

(2) No order shall be made under this section unless a draft of it has been laid before, and approved by a resolution of, each House of Parliament.

(3) The Secretary of State shall lay with any draft order under this section a copy of a report by the Government Actuary giving the latter's opinion on the likely effect on the National Insurance Fund of the making of the order.

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[1] Words added by Social Security (Miscellaneous Provisions) Act 1977 (c. 5), s. 3(7)(a).
[2] References omitted by the Social Security (Miscellaneous Provisions) Act 1977 (c. 5), s. 5(1).

125.—(1) The Secretary of State shall in the tax year 1975-1976 and each subsequent tax year review the sums specified in—

Duty to increase rate of certain benefits.

(*a*) [[1]Parts I, IV and V of Schedule 4 to this Act and paragraphs 1 to 3, 4 and 5 of Part III; and]

(*b*) sections 2(6)(*c*) and 7(2)(*b*) of the Old Cases Act;

[[2](*c*) sections 30(1), 45(3) and 66(4) of this Act, excluding paragraphs (*a*) and (*b*) of those provisions],

for the purpose of determining whether those sums have retained their value in relation to the general level of earnings or prices obtaining in Great Britain.

(2) For the purposes of any such review the Secretary of State shall estimate the general level of earnings and prices in such manner as he thinks fit and shall have regard either to earnings or prices according to which he considers more advantageous to beneficiaries, except that he shall have regard only to prices as respects the sums specified in—

(*a*) Part I of Schedule 4 to this Act, paragraphs 1 and 4, and Part IV of that Schedule, paragraphs 1(*a*) and 3 (unemployment and sickness benefit and maternity allowance); and

(*b*) Part V of that Schedule, paragraphs 1, 9, 11 and 15(*b*) (injury benefit and lower rate allowance in respect of deceased's children),

[[3]and shall have regard only to earnings as respects the sums specified in the provisions mentioned in subsection (1)(*c*) of this section.]

(3) If on any such review the Secretary of State concludes that any of the sums in question have not retained their value as mentioned above, he shall prepare and lay before each House of Parliament the draft of an up-rating order increasing those sums at least to such extent as he thinks necessary to restore their value.

(4) If a draft order laid before Parliament in pursuance of this section is approved by resolution of each House, the Secretary of State shall make the order in the form of the draft.

126.—(1) If on a review under section 125 above the Secretary of State determines that he is not required to prepare and lay the draft of an up-rating order, he shall instead lay before each House of Parliament a report explaining his reasons for arriving at that determination.

Supplementary provisions as to up-rating.

(2) The Secretary of State shall with any report under subsection (1) above lay a copy of a report by the Government Actuary giving the latter's opinion on the likely effect on the National Insurance Fund of the Secretary of State's determination that no order is required.

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[1] Paragraph substituted by Social Security Pensions Act 1975 (c. 60), s. 65, Sch. 4, para. 51.
[2] Paragraph added by Social Security (Miscellaneous Provisions) Act 1977 (c. 5), s. 3(1).
[3] Words inserted by the Social Security (Miscellaneous Provisions) Act 1977 (c. 5), s. 7(2).

(3) Section 125(3) above shall not require the Secretary of State to provide for an increase in any case in which it appears to him that the amount of the increase would be inconsiderable.

(4) The Secretary of State may, in providing for an increase in pursuance of section 125(3), adjust the amount of the increase so as to secure that the sums specified for any particular benefits continue to differ from each other by the same amount, or so as to round any sum up or down to such extent as he thinks appropriate having regard [[1], in the case of a sum specified in a provision mentioned in section 125(1)(*a*) or (*b*),] to the nature and the rate or amount of the benefit in question.

(5) A draft order prepared under section 125(3) shall be framed so as to bring the increase of any sum to which it relates into force not later than the expiration of the period of 12 months [[2]or, in the case of the first increase by order of a sum specified in a provision mentioned in section 125(1)(*c*), the prescribed period] beginning with the date on which the provision fixing the current amount of that sum came into force; but if since that date there have been laid before Parliament under subsection (1) of this section one or more reports, or one or more draft orders not increasing that sum, that period shall be extended by a further 12 months for each such report or draft order.

(6) Schedule 14 of this Act has effect with respect to benefit under this Act or the Old Cases Act, where rates of benefit are altered—

(*a*) by an Act subsequent to this Act, or by an up-rating order; or

(*b*) in consequence of any such Act or order altering any maximum rate of benefit.

NOTE OF A MEETING HELD BY THE CHANCELLOR OF THE EXCHEQUER AT H M TREASURY ON THURSDAY 17 MAY.

Present:

Chancellor of the Exchequer
Chief Secretary
Sir Anthony Rawlinson
Mr A M Bailey
Mr E P Kemp
Mr A M White

Secretary of State for the Social Services
Sir Alec Atkinson
Mr R E Radford
Mr P R Oglesby
Mr D C Ward

The Chancellor of the Exchequer said that the purpose of the meeting was to discuss the decisions which had shortly to be taken in the Budget context on next November's social security uprating. The Secretary of State for Social Services had written to him on 15 May 1979 in this matter, and he suggested, and Mr Jenkin agreed, that the meeting should consider the points made in that letter.

Timing of November 1979 uprating announcement

2. The main lines of the uprating would be included in the Budget Speech, with details being announced by the Secretary of State at an appropriate point in the Budget debate.

Uprating formula

3. The uprating formula, which for long term benefits required increases based on forecasts of earnings or prices whichever was the greater, should be amended immediately so as to become prices based only. In addition, so as to avoid the recurrent problem of "shortfall" or "longfall", in principle the formulae should be altered so as to become historic based rather than forecast based, and officials

were asked to consider and advise on the appropriate timing for such a change. Legislation would be needed for both these alterations, but it was noted that if for November 1979 prices forecasts were ahead or approximated to, earnings forecasts, it was not required immediately, Nevertheless, there was a feeling that there might be advantage, even in such circumstances, of grasping this nettle now; and it was agreed that if earnings looked like being materially ahead of prices, then legislation should certainly be introduced.

Shortfall on the November 1978 uprating

4. It was agreed that whatever the Treasury forecast indicated it was at least necessary to match the target rate of increases of about £2.50 and about £4 which the former Prime Minister had announced, and to which the Government had a clear commitment. The Chancellor felt, however, that there was some ambiguity as to whether it was necessary to take account of the shortfall on the November 1978 uprating in full on top of whatever the forecast gave, even if forecast by itself gave £2.50 and £4. The Secretary of State said that he felt that there was no ambiguity on this point, and, moreover, that it was widely taken that the Government was committed to so doing; in addition, the change from earnings or prices to a prices only forecast was going to be of itself extremely controversial, and he did not think it would be right to add to the difficulties by ignoring shortfall. After discussion the Chancellor agreed to this, noting however that it would mean an additional charge of some £90 million against the Contingency Reserve in this year, and continuing amounts of upwards of £200 million per year in future years. In further discussion it was agreed that in order to reduce the cost by about £10 million shortfall would be taken into account by adding a margin to the Treasury forecast, rather than applying this forecast to a "corrected" November 1978 pension rate.

Christmas Bonus

5. It was agreed that a bonus of £10 for this Christmas should be included in the uprating announcement. There was disagreement as to whether or not the Government had committed itself by its Manifesto to a permanent bonus, and this matter would have to be resolved with colleagues. Such a commitment would be costly, and its very regularity would reduce its political impact. It was noted that if the bonus was recognised as regular, consideration would have to be given to taxing it.

Child benefit

6. It was agreed that while the lone parent premium should be increased by 50p this November, there should be no increase in child benefit itself in November 1979. The Chancellor said that he hoped that it would be possible to hold the present £4 rate until November 1980. The Secretary of State said that while he would wish to put forward from time to time proposals to uprate the benefit he had no wish to bind himself to any formal commitment to annual price protection. He was concerned about the possible work incentive effects of the gap between child benefit and child dependency additions, and urged the long term objective subsuming these additions within child benefit so as to remove the incentive problem. It was agreed that the possible work incentives effect of changes in child benefit and child dependency additions should be taken into account when reviewing the question of a taxation of short term benefits and work incentives (see below).

Presentation of expenditure on child benefit

7. The Chancellor said that in his view, given the way the presentation of Government expenditure and tax expenditure had developed, it would be difficult to treat child benefit as anything other than public expenditure. However he would ask officials to consider this question, taking account of the wider implications, when preparing advice on the question of gross versus net presentation of the cost of the benefit in the Survey context.

Mobility allowance

8. Although it was unlikely that price protection would provide for the full £12 that the Secretary of State proposed, the Chancellor accepted that in the context of his overall Budget package there would be presentational advantage in going to such a figure in November. As to the other long term points which the Secretary of State had raised, it was agreed that there was no need for any immediate decisions, and in the first instance officials should explore the problem and report back.

Studies by officials

9. As well as the study of incentives and taxation of short term benefits, and of various points on mobility, both referred to above, the Chancellor suggested that a longer term and wider-ranging study might be in order of the whole role

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of the social security programme. He pointed out that it currently absorbed about 25 per cent of public expenditure, and, even with the switch to prices only uprating, had inherent growth tendencies. There was a quite simple question as to whether we could afford this. The Secretary of State agreed that such a study should be put in hand, and that officials should be asked to consider how this might best be done.

Conclusion

10. In conclusion it was agreed that these matters would now have to be brought to the attention of colleagues collectively. Even though there was a difference of view only on one specific point (the Christmas bonus), the points at issue were difficult and controversial, notably the proposed change to prices only uprating, and it was right that colleagues should be collectively involved.

Circulation:

PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Lovell
Mr Ridley
Miss Whalley

PS/Secretary of State for Social Services

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