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Social Security Uprating 1979

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SIR ANTHONY RAWLINSON

Copies attached for :

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of (L)

cc Mr Bailey (or)
Mr Butler
Mr Lovell
Miss Whalley
Mr A M White
Mr Ridley
Mr Unwin

SOCIAL SECURITY UPRATING

Following yesterday's discussion between the Chancellor and Mr Patrick Jenkin, it is at present proposed that the Cabinet should consider the social security on the basis of the paper by Mr Jenkin next Thursday. We have discussed a draft of this paper with DHSS officials, and are satisfied that what will be put to Mr Jenkin this evening is accurate as to figures and reflects the upshot of yesterday's discussion.

2. We have been considering, however, whether, a Treasury Minister - perhaps the Chief Secretary - should also put a paper on the table. There is a substantive point of disagreement (whether the Christmas bonus should be one-off or permanent) which might justify a note anyway; going on from there such a paper while not of course departing from what was agreed yesterday, could be useful in drawing to the attention of colleagues collectively the costs of what is being proposed, and putting these in the context of the much wider discussion about public expenditure. It would also emphasise the ambiguity in the commitment to shortfall. Such a paper could also be used to stress just how big the social security programme is, and how its growth tendencies need study if the Government's longer term plans for cutting public expenditure on a permanent basis are to be achieved. On the other hand, it could be argued that a paper by a Treasury Minister is unnecessary, in that these points (including opposition to a permanent Christmas bonus) could be made orally, on the basis of briefing. And there is the question of whether such a paper might not be regarded by Mr Jenkin as seeming to draw back from the various agreements which were reached yesterday evening.

3. This is a matter for nice judgment. On the whole, I think that in present circumstances a paper by a Treasury Minister on the lines indicated, to accompany Mr Jenkin's paper in Cabinet, would be desirable and in the Treasury interest. The draft of such a paper (which may need modification when we see the final version of Mr Jenkin's) is below, which you may like to consider; the last paragraph is optional (such a study will probably not be mentioned by Mr Jenkin) but nevertheless perhaps worthwhile.

E P KEMP

18 May 1979

UPRATING
DRAFT CABINET MEMORANDUM FOR THE CHIEF SECRETARY

I have seen the Memorandum by the Secretary of State for Social Services dated

2. As the Secretary of State indicates, I would prefer that we should not now accept the Christmas bonus as a regular affair. I do not think we are committed to anything beyond paying £10 this year. I think it would be preferable from all points of view, including the political impact and cost (a £10 bonus costs £108 million) to leave the matter open as it has been left in the past, and to decide each year whether or not a bonus should be paid, in the light of the resources available.

3. While I do not wish to oppose the Secretary of State's other proposals, they have, of course, important implications for public expenditure and the PSBR, both for 1979-80 and the future. We are currently considering these wider matters, and therefore, I would like to emphasise certain aspects of the present proposals.

4. On the question of shortfall, we must recognise that there is some ambiguity in the commitment that was made. On the basis of the sort of prices forecasts we are likely to have, it seems probably that pension increases will anyway, without the benefit of shortfall, exceed the £2.50 to which we most certainly are committed; and shortfall would add around 35p per week to whatever figure is reached. Nevertheless I do not disagree that there is a widely held view in public that we are committed to taking shortfall into account, nor that taken with the proposal, which I strongly endorse, to shift to prices only upratings for the future, there would be strong public hostility if we did not do so. I must, however, point out to my colleagues that the total cost of so doing is of the order of £80 million in 1979-80, chargeable against the Contingency Reserve, and the continuing cost is upwards of about £200 million per annum. And the Secretary of State's minor proposals (in respect of the one parent premium and mobility allowance) would together cost another £5 million against the Reserve.

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5. So far as legislation goes, my view is that the early legislation required anyway for the Christmas bonus (whether this be one-off or continuing) should be used to make the change from prices or earnings upratings to prices only, even if this is unnecessary next November because prices are anyway ahead of earnings. The change we propose is going to be inevitably controversial, and I think it would be desirable to get it onto the Statute Book as soon as possible after we have made and announced our decision, which will be in the Budget debate.

[6. For the longer term, there are in my view a number of aspects of the social security field which require studying. Perhaps the most important one of these is the question of the programme's massive size (currently about 25 per cent of public expenditure) and, even with a shift to prices only uprating, inherent growth tendencies. This is not something which, left alone, is going to help with our strategy of cutting public expenditure long term. I propose, therefore, that we should ask officials to consider how a study into these factors might be organised, and report back to myself and the Secretary of State.]

MR POLE

cc Mr Bailey
Mr Christie
Miss Whalley
Mr F Wood

SOCIAL SECURITY - THE "RATCHET"

Many thanks for your minute of 21 May, on which we had a brief word.

2. Treasury Ministers have now signed up on the proposal to shift now to a prices only uprating for long-term benefits. This was something which they had in effect decided on in Opposition, and now wish to proceed with.

3. However I suspect that it is not the last word. We have independently proposed to Treasury Ministers, who have agreed with DHSS Ministers, that there should be a longer term look at the whole role of social secu.ity and, amongst other things, what sort of uprating arrangements must be appropriate. It may well be that prices only is not the right long term solution. Indeed at a meeting the other day, the Chancellor asked why it was necessary to have any statutory formula at all; might it not be possible to go back to the early 1970's and earlier when pensions were simply uprated as and when the Government of the day thought necessary and/or appropriate in the light of the resources available. Politically, however, I do not see how they could now fail to stop off, so to speak, at a prices only stage; if only so as to be able to say, in the context of indirect tax increases, that pensioners remain protected as to their standard of living.

4. However as you pointed out, this begs two questions at least. First, is the starting point right? Price protection for all time from now implies that the level we are at the moment has some kind of absolute value, whether in terms of the weekly pension or in terms of the total going to pensioners all told, which may not be unchallengeable. Second, it begs the question as to whether pensioners' standards of living should be preserved, if as a question of fact the rest of the country were doing less well (if the rest of the country does better this does not matter so much, since Ministers can always give an uprating above the minimum required by prices). It is very possible, therefore, and even likely, that prices only is not the longer term solution;

but it is the alternative Ministers have chosen to go for in the immediate future.

5. I hope very much that we can associate you with the longer term work, which we shall have to carry out in conjunction with DHSS.

E P KEMP

21 May 1979

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CHANCELLOR OF THE EXCHEQUER

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

UPRATING FOR SOCIAL SECURITY BENEFITS - C(79)9

This Memorandum by the Secretary of State for Social Services makes proposals in respect of matters which need urgent decision both for administrative reasons in connection with next November's social security uprating, and in connection with the Budget. The proposals which are made follow your meeting with Mr Jenkin last Thursday, for which I briefed with my minute of 16 May; and contain no surprises. Paragraph 11 of the paper sets out these proposals in a convenient form, and this brief deals with each of them seriatim.

Uprating formula

2. Mr Jenkin proposes that the uprating commitment for long term benefits should be altered so as to be based on price movements only, rather than the better of earnings and prices, and that immediate legislation to give effect to this should be taken if necessary.

3. You have agreed with Mr Jenkin to support him in this. The existing formula which gives the better of earnings and prices inevitably means that benefits go up over time faster than either, and has fuelled the growth of this huge programme so that it now takes around 25 per cent of total public expenditure. Moving to prices only would help curb back this growth. It is not, however, necessarily the right long term solution, and you agreed with Mr Jenkin that officials should consider in slower time what longer term changes, if any, might be made. Meanwhile, a commitment to uprate on prices only as a minimum (to which of course Ministers could add if they so wished) will at least preserve pensioners standard of living.

4. There may be discussion as to whether at the same time a change should be made from the prospective basis of uprating to an historic basis. Longer term such a change would be desirable, so as to avoid the "shortfall" problem. But immediately we would recommend against it, because a change now to an historic basis would mean that your indirect tax increases proposed in the Budget would not be reflected in next November's uprating, which would seem difficult to defend. It is possible that any immediate legislation can be left open on this point.

Shortfall

5. Mr Jenkin proposes that last year's shortfall should be taken into account in next November's uprating.

6. You agreed not to oppose Mr Jenkin on this point, notwithstanding the fact that there is some ambiguity in the commitment which the Prime Minister made, and also the costs (around £80 million against the Contingency Reserve this year, and upwards of £200 million per annum subsequently).

7. You may like to note that in spite of our very clear recollection of what was agreed between yourself and Mr Jenkin, there is still some disagreement between us as to the formula on which the shortfall should be taken into account - hence the figure of "£80-£90" million quoted as cost; the higher end results from the DHSS preferred method. There is no need for this to be raised in Cabinet, but we certainly read the agreement in terms of a method which costs only £80 million this year.

Christmas Bonus

8. Mr Jenkin proposed that a Christmas bonus of £10 should be paid this year.

9. You agreed to support Mr Jenkin in this (it is the minimum to fulfil the Manifesto commitment), though there is disagreement over whether Christmas bonus should now be seen as permanent or otherwise - see below.

Child benefit and one parent premium

10. Mr Jenkin proposes that one parent premium should go up to £2.50 in November, but (although his paper is slightly unclear on this) there should be no increase in the year 1979-80 in child benefit proper.

11. You agreed to support Mr Jenkin on both these points. So far as a future increase in child benefit goes, there is no need for a decision to be taken on this now, but we would recommend you to go for November 1980, rather than April. Equally there is no need to take a decision now as to whether or not child benefit should be recognised as formally price protected, or increased on some other basis.

Mobility allowance

12. Mr Jenkin proposes that mobility allowance should be increased to £12 in November.

13. You agreed to support Mr Jenkin on this, albeit it gives a slightly greater increase than straight price protection would probably do.

Costs and the Contingency Reserve

14. Mr Jenkin proposes that provision is made for the total additional costs, including administration costs, to be borne by the Contingency Reserve.

15. This follows inevitably. The total cost for 1979-80, as quoted in Mr Jenkin's paper are £194.1 million, and for later years around £214 million (or £318 million if the Christmas bonus is to be continued). The charge for 1979-80 will be taken into account in the submission to be made on the possibilities for cutting the Contingency Reserve (in respect of which proposals have not yet, in detail, been put to Cabinet, since they must be made in the light of these decisions).

Legislation

16. Mr Jenkin invites his colleagues to consider whether even if legislation is not immediately necessary to change the uprating formula from the better of earnings or prices to prices only, it would nevertheless not be better to take action now, rather than leave it over.

17. It is really a matter for political judgment. On the one hand there has to be social security legislation anyway in respect of the Christmas bonus, and arguably it might be better to grasp the nettle and make the change to earnings only statutory at the earliest possible date even if (or perhaps especially if) it does not affect the November 1979 uprating. On the other hand deferring legislation might enable other aspects of the formula to be covered (eg historic versus prospective forecasts) and would give a clear run, so to

speak, to the Christmas Bonus Bill which is certainly needed. On balance I would recommend the Chancellor to argue in favour of making the change statutory now, regardless of whether or not it was needed, and so getting it out of the limelight at an early stage in this Parliament's life.

18. You may like to know that although the forecasts are not finalised and cannot yet be finalised, it looks as though prices forecasts will be ahead of earnings forecasts, so this question is a real one. It also, I understand, looks as though the prices forecasts will be in excess, and indeed substantially in excess, of the 12½ per cent or thereabouts necessary to give the minimum Manifesto commitment of pension increases of £4 and £2.50, which will therefore be reached without any help from shortfall; indeed shortfall will simply add to the excess over the quoted figures. This is illustrated by the figures in the Annex to this note.

Is the Christmas Bonus one-off or permanent?

19. Mr Jenkin seeks his colleagues' views as to whether the Christmas bonus should be recognised as permanent, and legislation so drafted, or should continue to be regarded as one-off and the subject of annual decision.

20. You disagreed with Mr Jenkin on this, and proposed that it should be regarded as one-off. We recommend you continue to press this line. The bonus has little or no value in terms of social welfare, and its worth only lies in its random nature. On the other hand it costs over £100 million per year, and there may be years when resources simply do not run to this. To treat the bonus as one-off would not prevent Ministers giving a bonus if resources did permit, but to take permanent legislation (even if such legislation theoretically permitted the bonus to be skipped in any year) would make it very difficult not to pay a bonus; and, moreover, a bonus which would find itself inevitably increasing with time. If however it is agreed that the bonus is to be recognised as permanent, we recommend that you press for the legislation not to provide (or imply) that it must be increased over time; and also for it to include a power to skip payment if need be.

Other points

21. These points arise on Mr Jenkin's paper. There are one or two other points which may come up:-

a. Curbing back the programme. The suggestion may be made that even with a shift to prices only uprating this programme is just too big and has too many growth tendencies to be accommodated comfortably within longer term public expenditure containment strategy. As you know you agreed with Mr Jenkin that officials should begin to look at what longer term changes might be appropriate in the light of these considerations, and this we will be putting in hand as soon as possible.

b. Announcement. You agreed with Mr Jenkin that the social security uprating should be announced in your Budget statement, with the Secretary of State making a detailed statement the following Wednesday or Thursday. It will be for decision whether your Budget statement announces the change to prices only uprating, or whether this privilege is left to Mr Jenkin; on the whole it would seem tidier for you to make the announcement in your Budget statement.

c. The uprating proper. This of course depends on final estimates of prices movements over the period 1978-79, which will not be available until shortly before the Budget. These estimates, and the detailed figures for the uprating, will be settled bilaterally between yourself and Mr Jenkin at that time.

E P KEMP

22 May 1979

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£ per week		Single	Married	
November 1978 Rate		19.50	31.20	
Minimum Rate promised in Manifesto		22.00	35.20	
Rate in November 1979 without shortfall if prices forecast increase (November 1978-November 1979) is:-	%			
	10	21.45	34.32	(in practice amounts would be rounded to 5 or 10p)
	11	21.64	34.64	
	12	21.84	34.94	
	13	22.04	35.25	
	14	22.23	35.57	
	15	22.43	35.88	
	16	22.62	36.19	
	17	22.82	36.50	
Shortfall would add about		.35p	.55p	

£ million

Total costs	1979-80	1980-81
Making good shortfall (charge against Contingency Reserve and PSBR)	80-90	200-220
For each 1 per cent extra on the uprating (not charged against Contingency Reserve, but adds to PSBR nevertheless) (about)	50	140

48/07

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Mr Lovell
Mr Unwin
Miss Whalley
Mr White
Mr Ridley

UPRATING OF SOCIAL SECURITY BENEFIT - C(79)9 - SUPPLEMENTARY BRIEF

I let you have a full brief yesterday on Mr Patrick Jenkin's paper which is for discussion tomorrow, and this is by way of a follow up.

2. It relates to the statement made by the Prime Minister in the House yesterday (copy attached), where she said in relation to pensions "As the hon gentleman is already aware, we have undertaken to implement the November increases in full. He is already aware that in the previous year his Government had a shortfall on their calculations. This is being made up this November. We announced it and we shall honour it."

3. This seems to ensure that Mr Jenkin's proposal in relation to shortfall must now go ahead, unless some other way of making good the commitment can be found. (As you know, the cost problem is not so much how it affects the current year, although that is important, but rather the way it enters into the base line for pension uprating for future years, and thus increasingly adds to future costs).

4. However there is an important point of wording to be watched. Mr Callaghan's undertaking was that shortfall would be "taken into account", and Mr Jenkin's Cabinet paper carefully uses the same expression. However the Prime Minister's remarks yesterday say that the shortfall is "being made up". There is a subtle but real (and expensive) difference which could be made here. The expression "taking account" is taken to mean that next November's increase will be calculated on a more generous basis than the straight rules would require, so

"taking account" of the shortfall and ensuring that pensions as from next November onwards are greater than they would otherwise be. However the expression "making good" could imply that as well as doing this, the Government would give to pensioners the additional amounts which, had the previous Administration got the figures right, they would have received over the period November 1978 to November 1979, being of the order of 35p per week for a single person and 55p per week for a married person, or perhaps £200 million in total. This is very clearly not what is meant, and we would recommend you strongly to resist any proposal (not perhaps that one is all that likely) to so interpret yesterday's statement.

5. On one further point, we understand that DHSS officials may be advising Mr Jenkin quite strongly to challenge the interpretation of the manner in which shortfall should be taken into account. There are a variety of formulae, one of which costs us £90 million and the other, which we thought you had agreed with Mr Jenkin should be adopted, which costs us about £80 million (all with corresponding reductions in future years). The figure of £194 million as this year's charge against the Contingency Reserve implies the less expensive formula, and we would recommend that you seek to ensure that this is the figure which is adopted.

E P KEMP

23 May 1979

15

would return to local authorities the freedom to choose how to run their schools and that we would take back places in independent schools. However much the hon. Gentleman may disagree, the electorate agreed with our view.

PRIME MINISTER (ENGAGEMENTS)

Q1. **Mr. Clinton Davis** asked the Prime Minister if she will list her official engagements for 22 May.

The Prime Minister (Mrs. Margaret Thatcher): In addition to my duties in this House I shall be holding meetings with ministerial colleagues and others. This evening I hope to have an Audience of Her Majesty The Queen.

Mr. Davis: That is very interesting. Will the right hon. Lady take the opportunity today, or at least at an early stage, to explain to pensioners why her Government refuse to link the pension with earnings or prices, whichever is the higher? When will she say something about the electricity discount scheme? In replying to all questions will she please not be too strident?

The Prime Minister: As the hon. Gentleman is already aware, we have undertaken to implement the November increases in full. He is already aware that in the previous year his Government had a shortfall on their calculations. That is being made up this November. We announced it and we shall honour it.

Mr. McCrindle: Will my right hon. Friend consider preparing a list of the trade union leaders who, since 3 May, have uttered dire threats of what will happen if the Government dare to carry out the policy endorsed by the electorate on 3 May?

The Prime Minister: The vast majority of trade union members, being believers in democracy, believe that policy is made by a Government and is implemented by the House. The vast majority of them —I hope all of them—will agree to implement that policy. Otherwise it is the end of democracy.

Mr. Charles R. Morris: Will the right hon. Lady take time during a busy day to allay the anxieties of those who question merging responsibility for the disabled with ministerial responsibility for social security? Will she seek to relieve the anxiety of those who believe that that proposition will lead to a reduced provision for the disabled? Finally, will she bear in mind that the nation is perplexed —certainly her Back Benchers are perplexed—that she should appoint a politically disabled Minister to make provision for the physically disabled?

Mrs. Thatcher: The hon. Gentleman is less than generous in his last strictures. I have appointed a Minister with special responsibility for the disabled in addition to his other responsibilities. I am happy that he will carry that out as well as the hon. Gentleman did.

RHODESIA

Q2. **Mr. Michael Latham** asked the Prime Minister whether she will pay an official visit to Salisbury, Rhodesia.

The Prime Minister: I have no plans to do so.

Mr. Latham: Although clearly there must be full and proper consultation with our allies and partners on this matter, will the Prime Minister at least confirm that British diplomacy will no longer be tilted towards the Patriotic Front and that the final decision on the legality of Rhodesia's future Government rests with the British Parliament and no one else?

The Prime Minister: British policy on Rhodesia is to do our very best for the people of Rhodesia. We adhere, as we believe the Opposition adhere, to the six principles. There is only one final principle to be decided. The question is whether the fifth principle was decided by the results of the elections. If it was, the six principles will have been honoured. It will be our duty to bring Rhodesia back to legality.

We accept that the responsibility for Rhodesia rests with this House. We shall do our best to honour it.

Mr. David Steel: Is the Prime Minister aware that her Government are correct to proceed much more cautiously on this matter than did her party in the general election, and that it would be wrong to recognise a regime which came to power

after the banning of two of the [illegible]
tical parties in Rhodesia? Will s[illegible]
fore give advice to the new Go[illegible]
in Rhodesia that they, internall[illegible]
seek reconciliation and a ceasefi[illegible]
ment with those political parti[illegible]
exist but which were barred fro[illegible]
part in the election?

The Prime Minister: We sh[illegible]
bring other countries along with
policy that we adopt towards [illegible]
However, I ask the right hon. [illegible]
to remember that the regime in
was made illegal on the bas[illegible]
principles and six principles on[illegible]
principles are no longer releva[illegible]
be our duty to bring Rhodesi[illegible]
legality, as the six principles [illegible]
been honoured.

My noble Friend the Foreign [illegible]
is sending an emissary to ha[illegible]
sions with the front-line Pesi[illegible]
to consult with them on ho[illegible]
proceed.

Mr. Biggs-Davison: Is it n[illegible]
that some of the Governm[illegible]
critical of the Rhodesian electi[illegible]
States in which there have bee[illegible]
tions at any time? When will
sible for the report of the obse[illegible]
the Conservative Party to be pla[illegible]
the House?

The Prime Minister: I agre[illegible]
hon. Friend that democracy
what the people inside a cou[illegible]
The elections in Rhodesia we[illegible]
the basis of one person, one vo[illegible]
ing four different political par[illegible]

The report of my noble F[illegible]
Boyd will be published. We a[illegible]
ing it up in any way. It will b[illegible]
to the House as soon as it [illegible]
the printers.

Mr. James Callaghan: We [illegible]
the intention to send an emiss[illegible]
sult with the front-line Presid[illegible]
sure that they will have som[illegible]
opinions to offer. I welcom[illegible]
that an emissary from the Fo[illegible]
has been to see Bishop Muz[illegible]
the intention of the Governm[illegible]
an emissary to see Mr. Muga[illegible]
Nkomo, who are both essent[illegible]
to peacemaking in that part o[illegible]

The Prime Minister: I [illegible]
announcement or statemen[illegible]
about that point.

FINANCIAL SECRETARY TO THE TREASURY

CHIEF SECRETARY

cc Chancellor of the Exchequer
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Kemp
Miss Whalley
Mr Ridley
Mr A M White
Mr Taylor-Thompson (Inland Revenue)

SOCIAL SECURITY BILL

I have seen Miss Whalley's submission of 22 May on which I have a number of comments.

Removal of the earnings link is clearly vital. It would also cause a storm and I would therefore favour getting it over with as soon as possible. In other words, I would strongly favour legislation this year, even if the relative movement of earnings and prices does not make it strictly necessary.

While the position taken on the Christmas Bonus is, I am sure, right taken in isolation, it seems to me that it may be sensible to accede to Patrick Jenkin's request and include in the same bill, as a sweetener, power to pay the bonus in subsequent years by order. I cannot in practice believe that there is likely to be any public expenditure cost as it seems to me that we are almost bound to pay the bonus each year anyway.

On the earnings rule, I feel sure that it is perfectly possible to distinguish the rule for dependents from the rule for OAPs. I seem to recall that this was implicit - if not explicit - in the very full study of the earnings rules published by the DHSS a few months ago (H C 697, 24 October 1978). However, I find it impossible to take seriously the commitment to implement by 1984 the EEC directive on equal treatment of men and women in social security. For example the EEC sixth directive on VAT was meant to be implemented by 1 January 1978 yet Germany and Luxembourg have still not implemented.

23 May 1979

NIGEL LAWSON

48/07

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Mr Lovell
Mr Unwin
Miss Whalley
Mr White
Mr Ridley

TREASURY
-5 DEC 1979
S.S.C.S.

SOCIAL SECURITY UPRATING - C(79)14

This Memorandum by the Secretary of State for the Social Services follows up last week's discussion on this year's social security uprating, and deals with two points which Mr Jenkin was asked to consider further.

Restriction to long term beneficiaries of taking account of the shortfall in last year's uprating

2. Mr Jenkin was asked to consider whether it might not be possible only to correct, next November, last year's shortfall so far as long term beneficiaries went; and not to do this for short term beneficiaries. Mr Jenkin points out that this would save about £10 million in 1979-80 and £30 million in the following year, but argues against it on a number of grounds; apparent inconsistency with the Prime Minister's undertakings on shortfall, and making it more difficult to get the change to prices only uprating and to increase the "waiting days", which are proposed.

3. This is really a matter for political decision. On the one hand, there is quite a lot in what Mr Jenkin says about the controversy the proposal would arouse. And in a way he fails to make the most of his best point, which is that not to give short term benefits a complete price protection now would be inconsistent with one of the arguments in favour of moving to price protection only for all benefits, which is that at the least this prevents beneficiaries' standards of living from falling. (Mr Jenkin does touch on this point in the third sentence of his paragraph 3, though not too clearly and with the implication that if he does not take shortfall into account this year, he will have to do so next year.) It may be difficult for the Government to argue that prices only is an adequate protection overall if shortfall is specifically not taken into account now for short term beneficiaries.

4. On the other hand, the restriction proposed would save £10 million in 1979-80 and £30 million in 1980-81. These are not negligible amounts. Moreover, to take this opportunity of reining back on sickness and unemployment benefit, and facing the controversy of so doing, would be a step - if only a small step - in the direction of the Government's stated aim of making it more worthwhile to work than not to work.

5. On balance, as long as Ministers are satisfied that it would not jeopardise the shift to prices only so far as long term benefits go, it would seem worthwhile going for the savings and not agreeing with Mr Jenkin. But there would undoubtedly be a row.

An earlier date for the uprating

6. Mr Jenkin was asked to see whether the gap between the Budget announcement of new social security rates and their introduction could be shortened. He points out that to bring forward the operational date this year would cost about £160 million (which might be reduced if it enabled the uprating to be reduced), and that a half-way house, separating out long term benefits from short term and supplementary benefits would be publicly and presentationally very difficult. To cap it all, he then says that the whole proposal is not possible operationally. He adds, however, that he will be seeking more flexibility for the future and will keep colleagues informed.

7. We think that Mr Jenkin makes out a very good case for no change now. There is no reason at all to doubt his statement that it would not be operationally possible. There is a theoretical attraction in that a shift might make a lower uprating possible (November 1978 on October 1979 could be 1 per cent or so lower than November 1978 on November 1979) and while this might keep programme costs down in future years it is uncertain, and we would not want to advise you to agree to a proposal which, even allowing for this, added sums of possibly £100 million to public expenditure, chargeable against the Contingency Reserve in this year of all years, even if it were operationally feasible. We recommend you agree with Mr Jenkin that we should stick to November for this year's uprating. The feasibility (and financial pros and cons) of a shift to October for future years can be looked at in the present review of the uprating formula generally.

EPK

E P KEMP

30 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

Mr Kemp
CST
FST
MST (C)
MST (L)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Lovell
Mr Unwin
Miss Whalley
Mr Ridley

31 May 1979

Martin Hall Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

Dear Martin,

There are a couple of points on the note of the meeting held by the Chancellor of the Exchequer on 17 May, copied to me, which my Secretary of State would like to clarify for the record. The major issue, how the "shortfall" in the social security uprating last year should be put right, has, of course, been disposed of.

In paragraph 6 my Secretary of State is recorded as saying that whilst he would wish to put forward from time to time proposals to uprate child benefit he had no wish to bind himself to any formal commitment to annual price protection. More precisely the point which he made was that he was not asking for price protection to be enshrined in legislation; this would be better reflected if the relevant sentence could be amended to read:-

> "The Secretary of State said that he did not ask to see price protection for child benefit incorporated in a legislative provision so that there was formal commitment to annual price protection, even though he considered the benefit needed to be price protected over a period."

The other point is at paragraph 9 where in the last sentence my Secretary of State is said to have accepted that a longer term and wide ranging study of the whole role of the social security programme should be undertaken. There was no specific commitment to a study in these terms (which indeed might not be the most profitable approach given the number of reviews of various sectors of the social security scheme that are already in hand) and I would suggest the last sentence might be amended to read:-

> "The Secretary of State agreed that officials should be asked to consider what was the most profitable approach to the study of the issues raised by the scale of the social security programme."

Yours sincerely,

Stephen

S H F HICKEY
Private Secretary

SECRET

1. SIR ANTHONY RAWLINSON

2. ~~CHANCELLOR OF THE EXCHEQUER~~
CHIEF SECRETARY

Copies attached:
~~Chief Secretary~~ Chancellor of the Exchequer
Financial Secretary

cc Mr Bailey
Mr Butler
Miss Whalley
Mr Ridley

SOCIAL SECURITY UPRATING

As you know, Ministers have decided to change the formula for the uprating on long term social security benefits so that instead ofdepending on forecast of increases in prices or earnings whichever is the greater, it should depend on forecasts of prices increase only. Legislation is required for this. DHSS have two Bills in mind for the current Session, and it is necessary to settle whether the change in the formula should figure in the first or the second Bill. (It will be announced, of course, in the Budget).

2. Fundamentally this is a matter for DHSS, and we understand that Mr Jenkin would prefer to seek this change in the formula in the second Bill, rather than the first. His principal argument for this, we understand, is that it is necessary to get the Christmas Bonus Bill through in order to justify the payment of the bonus this year, and he wishes to give this a clear run and not weigh it down with this controversial proposal to change the formula.

3. There is a lot in this argument; and, in addition, there is the further point that although it looks simple, the proposal to change the formula may throw up detail problems which require study - and which, if not dealt with properly could give trouble for the future. This also points to taking our time. On the other hand, there is the argument set out, for instance, in the second paragraph of the Financial Secretary's minute to the Chief Secretary of 23 May that since removing the earnings link will cause a storm and it might be better to get it done quickly; the Financial Secretary says " .... I would therefore favour getting it over with as soon as possible. In other words I would strongly favour legislation this year even if the relative movement of earnings and prices does not make it strictly necessary".

4. This is a matter for political judgment. As I say we take the view that this is fundamentally a matter for DHSS, and Mr Jenkin has apparently judged that it would be better to leave this bit of legislation over until later in the Session. We should be grateful to know whether Treasury Ministers are content that he should so proceed, or would wish to represent to him the case for the alternative, speedier, approach.

E P KEMP

4 June 1979

I would agree that this is fundamentally for Mr Jenkin and not press this point further.

4/6

CST
FST
MST(C)
MST(L)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Lovell
Mr Unwin
Mr Kemp
Miss Whalley
Mr Ridley

CONFIDENTIAL

MR HALL

NOVEMBER 1979 UPRATING

In his letter of 31 May the Private Secretary to the Secretary of State for Social Services suggested two amendments to the note I produced of the Chancellor's meeting of 17 May.

Neither of these points causes any great policy difficulty but I would not recommend that an amendment be circulated. This would only encourage DHSS to seek formally agreed notes of future meetings which at best would be undesirable.

I recommend that you simply let Mr Hickey's letter lie on the record as an expression of DHSS views and do not send any reply to it. As this letter points out the major issue before the meeting - shortfall - has already been settled.

A M WHITE
5 June 1979

CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Minister For Social Security

Miss Whalley
PPS PS/FST
PS/MST PS/MST(L)
Sir A Rawlinson
Mr Bailey
Mr Kemp

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
London SW1

5 June 1979

Dear John,

?

SOCIAL SECURITY UPRATING 1979:
FAMILY INCOME SUPPLEMENT

We have inherited a difficult position on Family Income Supplement (FIS). In brief last year's uprating was inadequate and numbers have fallen alarmingly and will continue to fall. With your agreement, we should therefore like to announce, as part of the main social security uprating statement, that we shall restore the value of the scheme and bring numbers back up to the level obtaining early in 1978. This will improve work incentives and concentrate help on poor working families. We can finance our proposal within our existing programme totals. I am sorry to have to trouble you with this at this late stage but it is an issue on which our officials are unable to agree.

What this amounts to is, on this occasion, rather more favourable treatment for FIS than other Social Security benefits in the November uprating. An uprating in line with other benefits would lead to a continuing drop in the numbers on FIS and to severe criticism. What we would like to see, instead, is an uprating which restores FIS to the level of around 90,000 beneficiaries. I shall not trouble you with the details now - and indeed these cannot be finalised until we have the budget forecasts of earnings and price movements - but the more generous uprating required to do this is likely to be about 3 per cent above that for other Social Security benefits for the basic prescribed amount and somewhat higher for the other parameters. While this would not fully restore the FIS load to the early 1978 level, it would make it quite plain that we were doing all we could - given current restraints - to help poor working families.

We believe there is a compelling social and political case for our proposals. In brief:

- FIS was a scheme created to help poor working families. Despite early hostility, the Labour Administration continued it. If we sought savings by reducing the value and scope of the scheme, we should be accused of being both inconsistent and mean. And our meanness would be plain from the published figures;

CONFIDENTIAL

- we are committed to "bringing more effective help to those in greatest need". While the budget may well help to some extent those FIS beneficiaries who pay tax, it has to be recognised that by definition and in fact FIS serves the poorest of the working poor. The working poor will get no help from a child benefit uprating this November; social security beneficiaries will, however, get more help from their children; and

- another perhaps even more important Manifesto commitment for social security policy is our strategy on "restoring the incentive to work". FIS does much to help here and accordingly is the benefit to which informed observers look in this context.

We did not press for a child benefit uprating this autumn, although as you know we should have liked to have increased it. But a corollary of this is that we must do what we can for poor working families. We really cannot afford to cut back - and moreover be seen to be cutting back - at the expense of those preferring to work for low wages rather than rely entirely on social security benefits. Our supporters would not be able to understand if we allowed the devaluation of FIS and the erosion of work incentives to continue. And instead of helping us to meet criticism that there was no child benefit uprating, it would attract further criticism. Accordingly, we attach considerable importance to making our position plain in the uprating announcement and the subsequent debates.

FINANCIAL EFFECTS

The provision in our programme for FIS is such that our proposal for a more generous uprating can be accommodated without requiring an additional bid - indeed there will be an underspending of about £5 million in 1979/80. One might argue (as your officials have done) that the room for this more generous uprating is created by reduced numbers - and so should be treated as an estimating change. This ignores the fact that provision for FIS is not and has never been constructed on the same basis as provision for other benefits. We are in no doubt that we should take advantage of the existing provision and restore the value of FIS. To do otherwise, it is true, would yield a small saving (in addition to the £5 million underspend in 1979/80) of about £3 million in 1979/80 and about £6 million in 1980/81 - but as I have explained it would be politically unacceptable and short sighted to make that saving.

I am copying this letter to Humphrey Atkins who is of course responsible for the parallel FIS scheme in Northern Ireland and to Jim Prior because of his interest in work incentives.

Yours,

Reg

REG PRENTICE

CONFIDENTIAL

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MR KEMP

cc. Chancellor of the Exchequer
Financial Secretary
Sir A Rawlinson
Mr Bailey
Mr Butler
Miss Whalley
Mr Ridley

SOCIAL SECURITY UPRATING

The Chief Secretary has seen your minute of 4th June on which Sir Anthony Rawlinson minuted in manuscript:-

> "I would agree that this is fundamentally for Mr Jenkin and not press the point further".

2. The Chief Secretary agrees that the decision should be left to the DHSS.

R J T WATTS
6th June 1979

SECRET

42/07

26

FINANCIAL SECRETARY TO THE TREASURY

CHIEF SECRETARY

cc Chancellor of the Exchequer
Mr Bailey
Mr Butler
Mr Kemp
Miss Whalley
Mr Ridley

SOCIAL SECURITY UPRATING

I have seen Mr Kemp's minute of 4 June and still strongly favour the view I expressed in my minute of 23 May, quoted in Mr Kemp's paragraph 3. This is, as Mr Kemp says, a matter of political judgement - but a most important one. The fact that it has now been decided to mention the change in the Budget seems to reinforce the case for the quick kill.

NL

NIGEL LAWSON
6 June 1979

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SECRET

cc Chief Secretary
Financial Secretary
Mr. Bailey
Mr. Butler
Miss Whalley
Mr. Ridley

MR. KEMP

SOCIAL SECURITY UPRATING

The Chancellor has seen your minute of 4th June. His own inclination is to favour inclusion of the change of formula in the second rather than the first Bill. But he is not strongly committed to this view.

MAH

(M.A. HALL)
7th June, 1979

SECRET

YDS

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CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister For Social Security

Miss Whalley
PPS PS/FST
PS/MST PS/MST(L)
Sir A Rawlinson
Mr Bailey
Mr Kemp

TREASURY
-5 DEC 1979
S.S.C.S.

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
London SW1

7 June 1979

Dear Chief Secretary

SOCIAL SECURITY UPRATING 1979

FAMILY INCOME SUPPLEMENT

Our decision this morning that we cannot make any provision in the Contingency Reserve for relief from fuel costs this coming winter makes even stronger the case for the FIS uprating option which I put to you in my letter of 5 June. We would be able to stress the value of the FIS uprating in meeting criticism on the fuel front as well as the attack we are bound to face for not increasing child benefit. Moreover, we must be careful to preserve an equitable balance between the poor in and out of work and not worsen work incentives. We know that fuel costs are going to hit the poor hardest. Those in receipt of supplementary benefit may be eligible for relief with heating bills - and this relief goes up as part of the annual uprating package - but there will be no equivalent provision for families on FIS. Our FIS uprating ought to help to put this right. The fact that the uprating factor for other benefits will be so high in no way affects our view that we ought to go for something better than prices for FIS.

I am sorry to have to press you at this time but, as you know, Patrick Jenkin and I consider it imperative that the FIS option we favour should be a sweetener in an uprating package which will not be to the taste of many of our supporters. The case for announcing this option as part of the package next Wednesday is, in our view, overwhelming.

I am copying this letter as before to Humphrey Atkins and Jim Prior.

Yours sincerely

R J Paley

pp REG PRENTICE
(approved by the Minister and signed in his absence)

CONFIDENTIAL

CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Miss Whalley
Mr White

TREASURY.
-5 DEC 1979

SUPPLEMENTARY BENEFIT REVIEW

The letter from Mr Prentice of 31 May refers to the Review of the Supplementary Benefit Scheme set up by the previous Administration in 1976, and encloses a copy of the response by the Supplementary Benefits Commission to the Report "Social Assistance" which was the name under which a Report by officials carrying out the Review was published. Mr Prentice says that the SBC intend to publish their response in accordance with the arrangements made by the last Administration, which allowed them freedom to comment publicly on issues of policy and priorities.

2. Mr Prentice points out that there are in effect three courses the Government could take. It would be possible (a) to try to stop publication, (b) to seek to modify the document in some way prior to publication and (c) to stand aside and let the Commission publish their response as it is, while making it clear that this response neither commits the Government nor represents its views.

3. As Mr Prentice says (a) is just not on (b) will probably not get us very far; comments were made by the previous Administration on the draft, some but not all of which, Mr Prentice says, are reflected in the present document, and it would be both time consuming and ultimately unsatisfactory to try to get further changes made. This leaves (c) - letting the Commission proceed to publication as soon as maybe - as the remaining possibility, which is what Mr Prentice suggests.

4. We recommend that you agree to this. There is no point in course (b), given that the present Government's approach to supplementary benefits and to the Supplementary Benefits Review is likely to be substantially different

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from the approach of the previous Administration which of course informed the document "Social Assistance". Nevertheless, we would attach great importance to Mr Prentice's point that in any reaction which the Government needs to give at the time of publication (expected for mid-June) it must be firmly emphasised that the document neither represents Ministers' views nor commits Ministers, and that the Government's own approach to the Review of the Supplementary Benefits scheme will be framed in the context of the new Government's wider economic and financial policy.

5. A draft letter for you to send to Mr Prentice is below. If you are in agreement with this recommendation, however, it would be helpful if your office could telephone Mr Prentice's office in advance, as we gather there are printing deadlines in question.

E P KEMP

7 June 1979

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DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO

Minister for Social Security

SUPPLEMENTARY BENEFIT REVIEW

Thank you for your letter of 31 May.

I am in agreement with your proposal that the Supplementary Benefit Commission's response to "Social Assistance" should be published without further comment or intervention by ourselves. As you say, we shall be approaching the Supplementary Benefit Scheme with a very different attitude to that of our predecessors, and I am sure you are right in saying that it will be as well to have the Commission's response published and disposed of before we get on with settling our own proposals for change.

However I have to add that I do attach great importance to what you say in your penultimate paragraph about our reaction at time of publication. It is clearly most important that at that stage we should emphasise very firmly that, as you say, the document neither represents our views nor commits us. Perhaps yourofficials could be in touch with mine over the drafting of any public response which may be needed.

I am copying this letter to those who had copies of yours.

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Miss Brown
Mr Butler
Mr Lovell
Mr Shepherd
Mr Unwin
Mr Evans
Miss Whalley
Mr White
Mr Ridley

SOCIAL SECURITY UPRATING - FORECASTS

As you know from my minute of earlier today we need to settle with DHSS the prices forecast to be used for the social security uprating next November. This work must be put in hand very soon now, if the fairly considerable administrative work necessary to calculate the figures to go into your Budget Speech and Mr Jenkin's detailed uprating statement the next day can be properly completed in good time.

2. I understand that Mr Shepherd will be putting forward this evening the revised fourth quarter 1978 on fourth quarter 1979 estimates of prices increase of $17\frac{1}{2}$ per cent, reflecting a very recent policy change in respect of mortgage interest. His figures also imply an earnings forecast over the same period of around 14.7 per cent.

3. On the assumption that there are to be no further policy changes, and that you will approve these figures, a draft letter which you may wish to send to Mr Jenkin is below.

E P KEMP
6 June 1979

DRAFT LETTER FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO

Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
SE1

SOCIAL SECURITY UPRATING

For the purpose of estimating the uprating of the social security benefits next November, and thus to enable me to complete my Budget Speech and you to complete the statement you will be making next Wednesday, we require to agree between us forecasts of prices and earnings increases between last November and next November.

I write now to let you know that my estimate is that prices over this period will increase by 17.5 per cent, and earnings by 14.7 per cent, account in both cases being taken of the measures I shall announce in my Budget on Tuesday.

I hope that you will agree that the uprating should, therefore, proceed on the basis of the prices forecast of 17.5 per cent, coupled of course with shortfall to the extent that Cabinet has agreed this.

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48/07

CH/EX. REF. NO. B(79) 35
COPY NO. 3 OF 3 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 June, 1979

Dear Patrick

SOCIAL SECURITY UPRATING

For the purpose of estimating the uprating of the social security benefits next November, and thus to enable me to complete my Budget Speech and you to complete the statement you will be making next Wednesday, we require to agree between us forecasts of prices and earnings increases between last November and next November.

I write now to let you know that my estimate is that prices over this period will increase by 17.5 per cent, and earnings by 14.7 per cent, account in both cases being taken of the measures I shall announce in my Budget on Tuesday.

I hope that you will agree that the uprating should, therefore, proceed on the basis of the prices forecast of 17.5 per cent, coupled of course with shortfall to the extent that Cabinet has agreed this.

Yours ever,

Geoffrey

(GEOFFREY HOWE)

The Rt. Hon. Patrick Jenkin, M.P.

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CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Miss Whalley
Mr White

SOCIAL SECURITY UPRATING 1979 - FAMILY INCOME SUPPLEMENT

The Minister for Social Security wrote to you on 5 June with proposals concerning the Family Income Supplement (FIS) and the uprating which the DHSS would like to be able to announce next week along with other improvements in social security benefits.

2. Mr Prentice's letter is an exceedingly bad one, and manages thoroughly to confuse two wholly separate issues. First, there is the argument as to whether if FIS is improved beyond the increase which will result from ordinary price protection, whether or not this should count as a charge against the Contingency Reserve. Mr Prentice argues that because the numbers on FIS are falling, therefore he has current savings in total which can in effect be distributed to the remaining FIS beneficiaries, thus improving what they receive.

3. This is of course quite wrong. If the numbers of beneficiaries were falling any saving here counts as an estimating change, and cannot be used to finance real improvements in rates. One only has to ask what Mr Prentice would say if we applied the principle in reverse, so that when numbers of beneficiaries went up the unit rate went down so that the same sum of money still went round! There is no doubt at all that if it were to be agreed to go beyond price protection this is a real change the cost of which should score against the Contingency Reserve.

4. Having cleared that out of the way, and we hope (and expect) that Mr Prentice will agree with this, there is the substantive point as to whether or not FIS should in fact be improved beyond simple price protection. Mr Prentice's

arguments relate to the need to be seen to be helping those in work (FIS is for the working poor) as well as, or indeed rather more than, those out of work. This is a matter which Ministers may wish to judge. Our view, however, is that it would not necessarily be effective, nor gain great credit presentationally, to take FIS out ahead of price protection (at least ahead of a proper look at the in work/out of work problems); and the repercussions could be quite great for other classes of beneficiaries if the general rule about price protection were to be abandoned. (It is true that marginally we have already done that this year for mobility allowance, but only effectively to a degree which affects the roundings.) And there is the question of the cost of around £5 million in this year which will be chargeable against the Contingency Reserve; this is not perhaps a very large amount by some standards but it is quite large in relation to the very thin Contingency Reserve which is likely to be left after the Budget cuts. The uprating later this year is anyway going to be more generous than Mr Prentice perhaps thinks, and many FIS recipients will also benefit from the direct tax cuts.

5. All in all we recommend that you do not agree to the proposal. A draft letter for you to send to Mr Prentice is below.

E P KEMP

7 June 1979

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DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO

Minister for Social Security

SOCIAL SECURITY UPRATING 1979 - FAMILY INCOME SUPPLEMENT

Thank you for your letter of 5 June.

I think there are two points at issue here; first the workings of the public expenditure system and whether or not the cost of what you propose is charged against the Contingency Reserve, and second the substantive issue as to whether FIS should be improved as you suggest.

On the first, there is no question but that the savings arising from reduced numbers of beneficiaries must come to credit as an estimating change, and the increased cost of what you propose charged against the Contingency Reserve. In this respect FIS is no different from any other social security scheme; and I might add that I think it is perhaps not necessarily in your Department's interests to argue otherwise, against the background of the fact that it is much more often the case that beneficiaries increase in number rather than fall.

On the substantive issue, I appreciate the general point about in work versus out of work, but I do not think that this justifies your present proposal in advance of a fuller look at this difficult area. By abandoning straight price protection we would create a precedent which would be difficult and expensive in other areas, which would need careful consideration. FIS will be uprated very generously later this year by reference to a price increase forecast which will take account of Budget changes in indirect tax, while on the other hand a great many FIS recipients will also benefit from increased take-home pay through the proposed changes in direct taxation. And your proposal would, as I say, create a charge on the Contingency Reserve of around £5 million. In all the circumstances I do not think this would be justified, and am therefore unable to agree to what you propose.

I am copying this letter to Humphrey Atkins and James Prior.

cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Mr Kemp
Miss Whalley
Mr White

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Reginald Prentice, MP
Minister of Social Security
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

296/79

11th June 1979

SOCIAL SECURITY UPRATING - FAMILY INCOME SUPPLEMENT

Thank you for your letters of 5 and 7 June.

I think there are two points at issue here; first the workings of the public expenditure system and whether or not the cost of what you propose would be chargeable against the Contingency Reserve, and second the substantive issue as to whether FIS should be approved as you suggest.

On the first, there is no question but that the savings arising from reduced numbers of beneficiaries must come to credit as an estimating change, and the increased cost of what you propose would be chargeable against the Contingency Reserve. In this respect FIS is no different from any other social security scheme; and I might add that I think it is perhaps not necessarily in your Department's interest to argue otherwise, against the background of the generally increasing rather than decreasing numbers of beneficiaries.

On the substantive issue, I appreciate the general point about in work versus out of work, but I do not think that this justifies your present proposal in advance of a fuller look at this difficult area. By abandoning straight price protection we would create a precedent which could be difficult and expensive in other areas, which would need careful consideration. FIS will be uprated very generously later this year by reference to a price increase forecast which will take account of Budget changes in indirect tax, while on the other hand many FIS recipients will also benefit from increased take-home pay through the proposed changes in direct taxation. On the fuel point, the uprating will of course take account of expected fuel price changes; and as I pointed out at our meeting yesterday will anyway itself exceed what we think these increases are likely to be. So far as our supporters go, we are offering the most generous cash increases in benefits ever, a severance of the earnings link, a token of our commitment to the in work out of work problem through not making good shortfall on short term benefits, and a Christmas Bonus; as a package I do not think this needs any further sweetening for the benefit of our people. Your proposal would, as I say, create a charge on the Contingency Reserve of around £5/£6 million. In all these circumstances I do not think this would be justified, and I am afraid I cannot agree to it.

I am copying this letter to Humphrey Atkins and James Prior.

JOHN BIFFEN

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TREASURY.
- 2 AUG 1979
S.S.C.S.

CH/EXCHEQUER	
REC.	13 JUN 1979
ACTION	PS/C+E
COPIES TO	Mr Griffith

10 DOWNING STREET

From the Private Secretary

11 June 1979

Dear Martin

I attach a copy of a letter the Prime Minister has received from Frank Field, M.P. about the Government's economic policy.

The Prime Minister would like to reply herself, and would be grateful to have a draft immediately after the Budget. Could you therefore, in consultation with DHSS, let us have a draft by close of play on Thursday, 14 June?

I am sending a copy of this letter and its enclosure to Don Brereton (Department of Health and Social Security).

Yours ever

Nick Sanders

Martin Hall, Esq.,
HM Treasury.

From: Frank Field MP

R f/ h

48

HOUSE OF COMMONS
LONDON SWIA OAA

6th June, 1979

Dear Prime Minister

Over the past couple of weeks there have been a number of indications that your Government intend to reneague on election promises to the poor. Already you seem set to act against them.on three different fronts.

1. Indirect taxation

Throughout the election campaign your spokesmen were quite honest in stressing a future Conservative Government's intention to cut direct taxation and raise some of the lost revenue by increasing VAT.

As you know, the distributional effects of switching to VAT are different from those of increasing other forms of indirect taxation. You assured voters that, because of VAT's exemptions and zero rating, the impact of these changes on those on lower incomes who do not pay direct taxation would be limited, and that anyway these groups would be compensated by increases in benefits.

Once Tory ministers were installed a rather different story began to be put around. We were told that this Tory Government intended to raise all indirect taxes. If this is so, this will mark the first dishonest act by your Government. As you know, an increase in VAT will place a larger burden of tax on low income groups. But the switch to all indirect taxes will mean that some poor families will pay even more heavily for the tax cuts which will favour higher income groups.

2. Compensation

During the campaign, the poor were assured that the effects of an increase in VAT would be compensated for by increases in benefit. I therefore tabled Parliamentary Questions to Treasury and DHSS Ministers asking how this commitment would be honoured. In particular I asked how ministers were caluclating the distributional impact of a change to VAT and other indirect taxes. I also asked what these formulæ would mean as far as benefit increases are concerned.

HOUSE OF COMMONS
LONDON SWIA OAA

6th June, 1979

I have now received a reply from both departments and have been told that such calculations could only be carried out at disproportionate cost. If you intend to honour your word you will instruct ministers to undertake these calculations immediately. Moreover, the Chancellor must use these calculations to determine what additional increase in pensions and other benefits is necessary to protect the poor's living standard when switching from direct to indirect taxation.

3. Pensions uprating

It now looks as though your first cuts in public expenditure will be aimed at pensioners and other groups on benefit. Before the election, the last Government announced benefit increases for this November. It was doubtful then whether these increases were adequate to fulfil the Government's statutory duty to raise long term benefits in line with earnings or prices and short term benefits in line with prices.

It is now clear that these increases are inadequate. First, they do not compensate beneficiaries for the 1.8 per cent shortfall in last year's benefit up-rating. Further, this year's calculation of a rise in wages of 12.8 per cent and in prices of 12.2 per cent are now clearly wide of the mark. Earnings are expected to rise by about 15 per cent on a November to October basis. To this needs to be added a 1.8 per cent shortfall in last year's calculations together with a compensatory increase for the switch to indirect taxation which you promised. At a conservative estimate, this would require an extra 2 per cent increase in benefits.

This means that pensions should be raised by about 19 per cent this year - increasing a single person's pension from £19.50 to £23.20 and a married couple's pension from £31.20 to £37.10.

So far your Government is sticking to a rise in pensions of £22 and [illegible] respectively for single and married pensions. If you do not agree to [illegible] so further the increase in pensions and other benefits then it is [illegible] that your first act will have been to hit at pensioners and other [illegible] people on benefit. You will have reduced their pensions by £1.20 for [illegible] single person and £2.10 for a married couple on what each would have

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HOUSE OF COMMONS
LONDON SWIA OAA

6th June, 1979

received had your commitment to beneficiaries been met in full.

At the beginning of your premiership you quoted - or rather misquoted - a phrase of St. Francis. "Where there is discord may we bring harmony" and "where there is error may we bring truth" we were assured would be the characteristics of your Administration. If what we so far know of how you intend to fulfil your election promise to the poor then, sadly, nothing could be further from the truth.

Yours sincerely
Frank Field

The Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London, S.W.1.

SECRET

44

MR KEMP

cc. Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Miss Whalley
Mr White

-5 DEC 1979
297/79
C.S.O.S.

SOCIAL SECURITY UPRATING - FAMILY INCOME SUPPLEMENT

The Chief Secretary has seen your submissions of 7 and 8 June relating to Mr Prentice's letters of 5 and 7 June respectively.

2. He has approved the revised draft reply to Mr Prentice, and has commented:-

> "Unpalatable it may be - but we <u>must</u> staunch the flow of welfare payments."

A C PIRIE
11th June 1979

SSC8 182/6

48/67 51

65

CONFIDENTIAL

CHIEF SECRETARY

c.c. Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. F. Jones
Mr. Bailey
Mr. Monck
Mr. F. E. R. Butler
Mr. Wicks
Mr. Kemp
Miss Whalley
Mr. Ridley

The Chancellor has seen the letter from the Secretary of State for Social Services to him dated 7th June. He awaits advice, but has commented that this letter underlines the case for looking at the <u>whole</u> mix of benefits to pensioners in a poor society; free transport, free television, free fuel etc. all add to the cost, in a way which leaves some at least quite well off.

MAH

(M. A. HALL)
Private Secretary
11th June, 1979.

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Mr Kemp Sent PAN 12/6
CST
FST
Sir D Wass
Mr Bailey
Mr A Rawlinson
Mr F E R Butler
Miss Whalley
Mr Ridley

SM

299/79

SECRET

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

Tim Lankester
Private Secretary
10 Downing Street

12 June 1979

Dear Tim

STATEMENT ON UPRATING OF SOCIAL SECURITY BENEFITS

I attach a copy of the statement which the Secretary of State proposes to make in the House of Commons tomorrow. It will be followed by a Press Conference in this Department.

I am copying the statement to John Stevens (Office of the Duchy of Lancaster) Richard Prescott (Paymaster General's Office) Martin Hall (Treasury) Kenneth McKenzie (Scottish Office) and George Craig (Welsh Office).

Yours sincerely

Don Brereton

D BRERETON

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THE NOVEMBER 1979 UPRATING OF SOCIAL SECURITY BENEFITS

STATEMENT BY SECRETARY OF STATE

1. I will, with permission, Mr Speaker, make a statement about the proposed increases in social security benefits to come into effect from the week beginning 12 November.

2. Yesterday, my Rt Hon Friend the Chancellor of the Exchequer announced the new rates of the National Insurance Retirement Pension. The rate for a single person will go up by £3.80 from £19.50 to £23.30, and the rate for a married couple by £6.10 from £31.20 to £37.30. The same increases will apply to other long-term National Insurance Benefits. He explained that these new rates are based on the forecast for the rise in prices over the 12 months between November 1978 and November this year, and also that they take account of the shortfall in the rates introduced last November by our predecessors.

3. Short term benefits, we propose, should go up by £2.75 from £15.75 to £18.50 for a single person, and from £25.50 to £29.95 for a married couple, representing increases of 17.5 per cent, in line with the price forecast.

4. War and Industrial Disablement Benefits will be increased in line with other long term benefits, together with comparable increases in the additional allowances which can be paid with these pensions.

5. Under the new arrangements for increasing public service pensions, the main increase - to be paid on pensions which were increased last December - will be 16.0 per cent.

6. The main Supplementary Benefit scale rates will be increased by the same cash amounts as those of the National Insurance Benefits to which they are related, but I must warn the House that because this announcement comes some weeks later than the usual date, due to the Election, in some areas the new rates may not be in payment until a few weeks after 12 November. We will do

our best to get the increases to everyone as quickly as possible but, with the best will in the world, it will not be feasible to complete the process by the due date. We will of course pay any arrears from the due date.

7. The Government is well aware of the problems of mobility for the disabled, and as my right hon Friend mentioned yesterday, we propose that the rate of mobility allowance should go up in November from £10.00 to £12.00, a 20 per cent increase.

8. Although Child Benefit went up to £4.00 in April, the premium for working lone parents was not increased. Accordingly, the premium will go up by 25 per cent in November - from £2.00 to £2.50.

9. Family income supplement will also be increased in line with other benefits.

10. We will pay a Christmas Bonus of £10 this year, and take powers to pay it in subsequent years, fixing the amount by Order. I hope to introduce the necessary legislation shortly.

11. The full-year cost of the benefit uprating, including FIS, Mobility Allowance, and the Christmas Bonus will be about £2.7 billion - a substantial sum by any standard. The great bulk of this falls to be met out of the National Insurance Fund. As is customary, I shall be reviewing the bands and percentage rates of contributions in the autumn, when I have received the necessary Report from the Government Actuary.

12. For the convenience of the House I am circulating details of the new rates of benefit in the Official Report, and copies will be available in the Vote Office.

13. The House will appreciate that we have honoured to the letter the commitment which we gave in the Election to protect pensioners in full against rising prices. It so happens that this is in accordance with the existing statutory requirements, but it is right that I should tell the House that in the light of experience in the last three years and other factors, we have been driven to the conclusion that the statutory obligation to uprate long term

benefits each year in line with either prices or earnings, whichever is the higher, is not sustainable in the long term. Much has been written about the so called "ratchet effect". In years when earnings exceed prices, the real value of pensions increases. When prices exceed earnings, and when the living standards of the working population fall, the real value of the pension is maintained. It has been pointed out that the result over a period of years is that the proportion of the national income absorbed by pensions, and correspondingly, the proportion absorbed by the contributions necessary to pay those pensions must inevitably rise, throwing an ever heavier and heavier burden on the working population.

14. I would remind the House that between 1970 and 1974, pensions in fact kept closely in line with earnings, though there was no statutory requirement that they should do so. [Conversely, since 1975, in two years out of the three in which the statutory obligation was in force, the increase announced and paid fell short of what the Party opposite had led people to expect. There does not seem to us to be much point in retaining a statutory obligation which those who put it on the Statute Book found themselves in the event unable to comply with.] I shall therefore be introducing legislation shortly to amend the provision relating to the uprating of benefits, so as to provide that pensions and long term benefits, as well as short term benefits, should be increased at least in line with the movement of prices.

15. I would like to make it clear however, that it remains the Government's firm intention that pensioners and other long term beneficiaries can confidently look forward to sharing in the increased standards of living of the country as a whole. That has always been the intention and the achievement of Conservative Governments. It remains the intention of the present Government.

Lions?

50

SECRETARY OF STATE FOR EMPLOYMENT

8 ST. JAMES'S SQUARE LONDON SW1Y 4JB
Telephone Direct Line 01-214 6025
Switchboard 01-214 6000

Rt Hon Regionald Prentice MP
Minister of State
Department of Health and
Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1

12 June 1979

Jan Reg

SOCIAL SECURITY UPRATING 1979: FAMILY INCOME SUPPLEMENT

You copied to me your letter to the Chief Secretary of 5 June proposing an uprating of the value of Family Income Supplement so as to bring numbers benefitting back up to the early 1978 level.

I would very much support this proposal as a means of helping the working poor and increasing the incentive to work rather than to receive supplementary benefit. In particular such a move would help one parent families who are endeavouring to stand on their own feet.

I am copying this letter to John Biffen and Humphrey Atkins.

Love

Jim

Miss Whalley
PPS PS/FST
PS/MST PS/MST(L)
Sir A Rawlinson
Mr Bailey
Mr Kemp

CONFIDENTIAL

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SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

CHIEF SECRETARY
REC 13 JUN 1979

Miss Whalley
PPS PS/BST
PS/MST PS/MST(L)
Sir D. Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

13 June 1979

Dear John,

SOCIAL SECURITY UPRATING 1979: FAMILY INCOME SUPPLEMENT

The case put forward by Reg Prentice in his letters of 5 and 7 June for a more generous increase this year in FIS than in other social security benefits is in my view very convincing, both on social and political grounds. Although uprating in line with other benefits would lead to a saving I believe it would cost us dearly in terms of credibility in view of our commitment to restore work incentives.

In Northern Ireland 90% of all FIS awards are made to two-parent families, compared to just over 50% in Great Britain, a reflection of the lower wage levels and larger families in this part of the United Kingdom. This means that the larger increase would have a correspondingly greater impact here in helping families where the head of the household is in low-paid employment. But there is also a strong case for helping single parent families and I would also welcome the additional help for them.

The Supplementary Benefits Commission for Northern Ireland are strong supporters of improvements in the FIS scheme. In their response to the Supplementary Benefits Review the Commission referred to public concern about the minority of claimants who are better-off out of work and advocated more generous FIS rates as a means of assisting the low-paid and restoring work incentives.

It is not possible to say at this stage whether the proposed enhancement could be fully met from the existing allocations for FIS in Northern Ireland. The indications are that we shall not have shortfall to the

CONFIDENTIAL

same extent as in Great Britain, but as in Great Britain the numbers on the register have been falling. Any addition needed would however be minimal in national terms, and I take it that it would be made available to us on a parity basis.

I am copying this to Reg Prentice and Jim Prior.

Yours ever

Humphrey

CONFIDENTIAL

RE

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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

14/6

Mr Kemp
CST
FST
MST(C)
MST(L)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr Jordan-Moss
Mrs Hedley-Miller
Mr Ashford
Mr Ridley
Mr Dyer

The Rt Hon The Lord Hailsham of
St Marylebone CH FRS DL
Lord Chancellor
House of Lords
London SW1

Quer Chaos

14 June 1979

I have been considering the effect on our legislative programme of Legislation Committee's decision yesterday that the contentious provision for pensions and other long-term social security benefits to be increased in line with prices, instead of with prices or earnings, whichever is the more beneficial, cannot be included in the Pensioners' Payments and Social Security Bill, if we are to have Royal Assent before the Summer Recess.

I fully appreciate the reasons for this decision, particularly in view of the likely dates of the Recess, but it places us in some difficulty.

We need to carry through the change in the up-rating provisions this session. It may well be needed before next year's up-rating. The Chancellor announced our intention to make this change in his Budget statement on Tuesday and, in my view, we should do it as soon as possible.

It was originally my intention that the amendment should go into a second Bill which we shall be introducing after the Summer Recess. That Bill will deal, amongst other matters, with changes to the supplementary benefit scheme and will include provisions to enable us to comply with the EEC Directive on Equality for Women in Social Security.

However, last week, Future Legislation Committee decided that the up-rating change should not be included in that Bill but in the Pensioners' Payments and Social Security Bill. They took the view that, since the change was very contentious, it was unlikely that Royal Assent could be obtained before April next year. (We had taken the view that Royal Assent was necessary before that date to ensure that my review of benefits next year, which I must carry out before 6 April, was under the amended provisions). It was because of the Committee's decision that we included the provisions in the Pensioners' Payments and Social Security Bill.

However, I now propose to ask Future Legislation Committee to reconsider their decision and allow this proposal to go into our second Bill. Whilst Royal Assent by April is certainly advisable, we could anticipate the passage of the Bill in the Budget statement about the up-rating. I am therefore copying this to Home Secretary as Chairman of the Future Legislation Committee so that they can reconsider their decision.

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However there is another lesser difficulty arising from yesterday's meeting. I understand that, because of the very full legislative timetable before the Summer Recess, it is the intention of the Chief Whip to attempt to secure a very quick passage of the Pensioners' Payments and Social Security Bill, perhaps getting it through the Commons in one day. This would, of course, need the co-operation of the Opposition. I foresee no difficulty about obtaining that for the Christmas Bonus itself. But the Bill also contains a provision to freeze the earnings limit for the dependent wives of retirement and invalidity pensioners at its present level of £45. This provision must become law for this year's uprating if we are not to forego savings of £1 million in 1979-80 and £3-4 million in subsequent years. It may be possible to obtain the Opposition's co-operation on this also - they indicated when in power that they too thought that the limit was too high. If we cannot obtain their co-operation, we shall be faced with the option of dropping the provision relating to the freezing of the dependant's earnings rule, at the cost referred to in the previous paragraph or finding more time for the Bill than we had intended.

I therefore propose, unless you indicate to the contrary urgently, to take soundings of the Opposition and, if they are willing to co-operate, to introduce the Bill as soon as possible. If I can get agreement by midday Friday, we can present and publish the Bill on Monday.

I am also copying this letter to the Chancellor, the Home Secretary, the Chief Secretary, the Leader of the House and to Sir John Hunt.

(sgd) PATRICK JENKIN

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CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Bailey
Mr Ridley — Mr Unwin
Mr Dyer
Mr White

TREASURY
- 5 DEC 1979
S.S.C.S.

SOCIAL SECURITY LEGISLATION

The letter from the Secretary of State for Social Security to the Lord Chancellor of 14 June sets out the silly situation which now exists over social security legislation this Session.

2. From the Treasury point of view the most important thing is to ensure that the change in the uprating formula is effective for the 1980 pensions uprating. If it is not, it could cost us well over £100 million per annum, depending on forecasts of earnings and prices. The views of Treasury Ministers varied as to whether this provision should go in the first or second Bill; my own preference would have been to grasp the nettle and see it in the first Bill. What we never contemplated, however, was that Ministers would succeed in getting themselves in the position where it is in neither Bill. If, as seems likely, it is now not possible - regardless of merits - to get it in the first Bill, then I recommend you support Mr Jenkin strongly in ensuring that it is in the second Bill. Meanwhile it is clearly important that Mr Jenkin does not rush ahead and publish his first Bill before we are assured that this is so.

3. Meanwhile there are a couple of other points. First, there is the question of the freezing of the dependency earnings limit. If the Opposition do not agree to take this with the Christmas Bonus Bill I recommend that you seek more time so that the change can nevertheless be made. If it is not made not only will it cost money, but it will also mean re-opening Mr Jenkin's uprating package announced on Wednesday - and this would not only look odd but could be dangerous in terms of cash. Secondly, there are the outstanding points on the Christmas Bonus Bill. Much of Mr Jenkin's argument falls to the ground, of course, if the uprating formula is taken in the second Bill. Nevertheless, you may think it is not worth fighting this point further, given Mr Jenkin's evident very strong feelings on the matter, and might wish to rest solely on an assurance that automatic increases in the bonus onwards and upwards for all time are not contemplated.

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4. A draft letter for you to send to Mr Jenkin is below. This should, I think, go urgently.

EPK

E P KEMP
15 June 1979

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO:

The Secretary of State for Social Services

SOCIAL SECURITY LEGISLATION

Geoffrey Howe and I both have a copy of your letter to the Lord Chancellor of 14 June.

This is a pretty silly situation we have got ourselves into. It also has, as I see it, serious potential dangers for public expenditure. Clearly if we are going to change the uprating formula (and if we fail to do this we shall depending on next year's forecasts of earnings and prices add upwards of £100 million per annum to public expenditure) we must have legislation in one or other of your Social Security Bills for this Session. What is more, this legislation must be on the statute book in good time to be operative for the November 1980 operation.

My view had been that on the whole it might have been better to grasp the uprating formula nettle in the first Bill, and make sure we got it on the statute book in good time. But this now seems to be ruled out, not least because you have presumably been conducting negotiations with the Opposition on the basis of the first Bill containing only the Christmas Bonus provision and the freezing of the dependency earnings limit. If the Opposition are prepared to agree to a quick Bill containing both these provisions, well and good; but I clearly cannot accept that you should publish such a Bill (and it may be your intention to do it on Monday) unless we have a firm assurance from Future Legislati Committee that we can have definitely the uprating change in the second Bill, and, what is more, we have your confirmation that even if you do not have Royal Assent by April we are certain be able to conduct the 1980 uprating on prices only and we shall not be held up in some way - eg through the poverty lobby taking us to the courts for anticipating powers we have not got. Only when we know that Future Legislation Committee is content, and we have your confirmation on these lines, should we publish your Bill.

point.
This brings me to a second. As I say I hope very much the Opposition will agree to taking the dependency earnings limit with the Christmas Bonus. But if they do not, I myself could not agree to dropping the proposal in respect of the earnings limit. Apart from the cost, it seems to me it would make us look foolish, and it would be dangerous, to allow the uprating package which you announced on Wednesday to be re-opened. If the Opposition do not agree to the proposal, therefore, I fear we should simply have to find more time for the first Bill.

Finally there is the question of the Christmas Bonus provisions themselves. I have your letter of 13 June. If I may say so, to a great extent the grounds on which you objected to my proposal have now vanished, in that the uprating change is to be taken in the second Bill. Nevertheless I do not wish to pursue my points, and would only ask for your assurance that it is not just permitted by the statute, but also recognised as permissible and feasible in practice, either not to increase the Bonus in any given year, or indeed to reduce it although not to go below £10, and that nothing would be said during the passage of the Bill to make people think that the size of the Bonus must go onwards and upwards for ever.

I am copying this letter to the Lord Chancellor, the Home Secretary, the Leader of the House and to Sir John Hunt.

MR BATTISHILL

Chancellor
As requested
18/6

cc Mr Bailey
Mr White

BUDGET DEBATE THIS EVENING

You asked for a brief paragraph summarising the recent improvements in social security benefits etc which the Chancellor might use this evening. This is attached, together with another paragraph indicating the vulnerable areas which he may wish to keep away from.

2. On another point, you asked about exemptions from prescription charges. The exempt classes are set out in Budget Brief M.15. In 1978 out of 365 million prescriptions dispensed, about 230 million were exempt - this is about 61 per cent, or, in very rounded terms, two-thirds. In 1977 the figure was about 63 per cent.

E P KEMP
18 June 1979

AGE ALLOWANCES SUBSTANTIALLY INCREASED.
TAX ON INVESTMENT INCOME DRAMATICALLY REDUCED.
WAR WIDOWS PENSIONS FREED from TAX.

BUDGET DEBATE
ACHIEVEMENTS IN THE SOCIAL SECURITY FIELD

We shall be putting up retirement pensions by over £6 to over £37 per week for a married couple and by nearly £4 to over £23 for a single persons. These are the biggest cash increases that have ever been given, and take the pension to a record level in both real and money terms. ~~And these figures reflect the honouring of our promise to take full account of the underestimate which the last Government made in calculating the previous increase~~ ~~long-term benefits~~. Short-term ~~Other~~ social security benefits will be going up too, by 17½ per cent, which will fully protect beneficiaries against increases in prices, including the increase in VAT which I have announced. We shall honour our promise to pay a Christmas Bonus of £10. We shall put up the lone parent premium by 50p next November, and mobility allowance by £2, from £10 to £12. These measures are worth about £1,100 million in 1979-80 and £2,700 million in a full year, and are largely provided for.

2. /Vulnerable areas/. We do not propose to put up child benefit this November. This was increased by £1 to £4 per week only two months ago, and in the present situation a further increase now is not warranted. It is worth pointing out that the main expenditures involved in keeping a child - housing, fuel, food, clothes, are not subject to VAT. We are well aware of the inwork/out of work problem, but we shall want to examine this on a wider front and we are not sure that increasing child benefit will be the most overall and effective way of tackling it. Family Income Supplement (FIS) will be going up by 17½ per cent, which will help ~~the~~ many families on low pay ~~d~~ who will benefit less than others from my income tax reductions. A proposal to alter the uprating formula so it is based on prices only rather than the greater of earnings or prices is something we regard as right and necessary in present economic circumstances in order to secure justice as between pensioners and the rest of the community. But as I said in my Budget Speech and as the Secretary of State said later this will remain a minimum requirement and I am confident that our economy improves it will be possible to do more so that pensioners can share in the increase in national prosperity.

Confide

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir Anthony Rawlinson
Mr Bailey
Mr Unwin
Miss Whalley
Mr White
18.6.79

SOCIAL SECURITY UPRATING FORMULA

In the light of the "Lombard" article in the Financial Times today (copy attached) you may in advance of this evening's debate like to have a note about the social security uprating formula.

2. Mr Brittan's article does not deal with the proposal in your Budget Speech that the formula should be changed so as instead of pensions increases being dependent on earnings or prices whichever is the greater, it should be dependent on prices only. It deals instead with the question of whether the earnings or prices increases (or, for the future, prices only) should be historic or prospective.

3. At the moment, the system provides that pensions will go up next November by the Government's estimate, made now, of the increase in prices between last November and next November. This we describe as the prospective basis. This year, the prices increase that is forecast is, of course, the famous $17\frac{1}{2}$ per cent, and pensions will be uprated by this figure plus the allowance for the last Administration's shortfall. The alternative approach - the "historic" method, would update pensions next November by an actual increase in prices - perhaps April 1978 to April 1979.

4. Up to 1975-76 the historic method was used. But at that date the previous Administration switched over to the prospective method. Because inflation was estimated to be falling, this was widely attacked as a trick and cheating pensioners out of the part of the increase to which they were due, and the decision of Ministers was challenged in the courts. However the courts held that the prospective method was the right one. Any change back now would require legislation.

5. On merits, there are arguments for and against each method, but on balance the historic method seems preferable. It has the great advantage of certainty, and of avoiding not only the problem of shortfall (as we had this year) and, possibly, in some years longfall, but also the need for the Government to lay a November on November price increase forecast on the table in addition to eg the third quarter on third quarter figure which was also published this year. You and Mr Jenkin agreed, therefore, at your meeting on uprating generally which was held on 17 May that in principle the formula should be altered to the historic basis, and officials were asked to consider and advise on the appropriate timing of such a change.

6. There are a number of strands in this timing point, which are tricky. One problem in moving to the historic basis is that this year, for instance, the formula alone would not have provided in the November 1979 pension increase for your VAT increases, and it probably would not have been tolerable to allow pensions to run until November 1980 without reflecting these at all. Another point in relation to the timing of a change lies in the remit to Mr Jenkin from Cabinet to look at the advantages and disadvantages and practical aspects of bringing forward the uprating from November, or at least of reducing the gap between announcement and implementation of the annual increases. Yet another matter which might have to be borne in mind is the work being carried out by Mr Byatt on the RPI and possible tax inclusive cost of living index. And finally there is the gritty point that at a time when inflation is expected to be falling, as the forecasts now have it, a shift over to the historic basis costs us money (indeed, broadly speaking, it is the same money which the previous Administration saved and pensioners were "cheated" out of at the move to the prospective basis in 1975-76.) *

7. Nevertheless we are putting in hand this examination with DHSS, and hope to be able to report to you and Mr Jenkin on the timing of a change in due course. Meanwhile, if the matter comes up this evening it would seem undesirable, because of the potential costs involved, to give any hint at all that a shift back to the historic basis might be in early prospect. You may wish just to say that the Government is aware of the position and will be studying it.

E P KEMP

18 June 1979

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LOMBARD

How not to run a railroad

BY SAMUEL BRITTAN

IT IS pretty controversial for a Government to embark on a policy, which according to its own best estimate will lead to an increase in the Retail Price Index of 17½ per cent in the year up to next November. But to allow this fact to slip out incidentally in the course of Supplementary Answers by Mr. Patrick Jenkin, the Secretary of State for the Social Services in relation to a pensions increase is scarcely credible.

For some reason I happened to hear the Parliamentary exchanges on this occasion which were interrupted by a familiar, heavy, portentous voice: "Is the right hon. Gentleman aware that the calm complacency with which he admits that Government measures will lead to an inflation rate of 17½ per cent within the next few months is totally outrageous, that we see no sign that the Government intend to fight this . . .?"

Outrage

By now I think I can recognise the different Callaghans: this was not the machine manipulator, nor the opportunist. It was the ex-Prime Minister expressing genuine outrage at the inflation prospect and the way it was being handled.

Nor is there any point in blaming the unfortunate Mr. Jenkin, who has so often been the fall guy of Conservative Administrations. The Government is legally obliged to adjust pensions by the estimated increase in retail prices over the year to next November; and anyone could have done the calculation. Indeed Mr. Jenkin mentioned his figure mainly to rebut a suggestion that the Government's inflation forecast was really 19.4 per cent—some 1.9 per cent of the pension increase was compensation for an underestimate in the Labour Government's last pension rerating.

The difference between the Jenkin 17½ per cent and the 16 per cent increase in the retail price index estimate in the of the inflation rate while unions are formulating their next season's wage claims and employers are thinking about their riposte.

It is no use Ministers expressing scepticism about forecasts, if they can be shown to be acting on them. If they did not believe the official 17½ per cent estimate, it would surely have been possible to base the pensions increase on a lower estimate, making up the difference after the event. The whole episode brings out the unwisdom of indexing pensions to an inflation *forecast*, while tax starting points are indexed to *actual* inflation in the past calendar year.

If this way out was impossible or rejected, then at the very least the point should have been anticipated and fully covered in the Budget Speech, which can be too short as well as too long. Every government needs someone whose nose is not attached to a Ministerial grindstone, who can stand back and look at the total impact of government policies, in broad policy areas. Such a person can be a Minister without portfolio, but an effective head of the "Think Tank" might do the job as well.

Churchill

But I do not want to conclude on mere presentation. An economic Churchill or de Gaulle—even if he had accepted the desirability of a switch from direct to indirect taxes last year when Conservative strategy was formulated—would have realised that the deterioration in both the world and the British inflation prospects which took place largely over the election period itself made necessary a dramatic switch of priorities from playing with tax switches to countering inflation.

It is not too late for Sir Geoffrey Howe to begin repairing the damage by announcing tonight in his winding-up speech in the Budget debate, longer-term and declining monetary targets for later financial years. The excuse that it is first necessary to estimate future borrow-

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr Unwin
Miss Whalley
Mr White

SOCIAL SECURITY UPRATING FORMULA

In my minute of earlier today under this heading I noted that the Chancellor and the Secretary of State for Social Services had agreed in principle that a move from the present prospective basis to the historic basis of uprating should in principle remain, but had asked officials to consider and advise on the timing of any change. I pointed out that one of the problems in making a change was that at a time when inflation was falling, a shift to the historic basis costs us money.

2. We have now done some sums on this. If there is no change, the next uprating will be based on an estimate made in April 1980 of the November 1979 on November 1980 price movement, which is currently forecast at $13\frac{1}{2}$ per cent. If we move to the historic basis, it would be based on the April 1979 to April 1980 actual price movement now forecast at some 19 per cent. There is thus a difference of $5\frac{1}{2}$ per cent. Each percentage point costs us around £150 million per annum, so on these figures a change next year could add getting on for £1 billion per annum to public expenditure. This is intended to illustrate that no matter how desirable in principle a shift to historic basis may be, its timing will need very careful study.

3. Perhaps I could take this opportunity of making another point on the Lombard article. In criticising our use of the $17\frac{1}{2}$ per cent, Mr Brittan asks why it would not have been possible for Ministers to have based the pensions increase on a lower estimate, and made up the difference after the event. The trouble with this is that it would not have accorded with the statute, which requires Mr Jenkin to estimate the increase in prices (and earnings) since the last uprating, and increase pensions accordingly; $17\frac{1}{2}$ per cent was his estimate of this. Under these circumstances anything less - even if made up after the event - would not have accorded with the

statute and, more basically, would have left pensioners for a year not fully protected against the price rises forecast. The alternative of bringing forward the uprating to say September, so the 16 per cent figure could have been used, would have cost us money this year (increased pensions would have taken effect much earlier); more basically, this was in fact considered by Cabinet and rejected on the simple grounds that administratively it was not feasible. Mr Jenkin was, however, asked to examine the possibilities of an earlier uprating in future years, and this is one of the factors we shall be taking into account in examining the timing of a change to the historic basis.

E P KEMP
18 June 1979

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MST(C)
MST(L)
Mr Bailey
Mr Unwin
Mr Ridley
Mr Kemp
Mr Dyer
Mr White

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

.RY.
- 5 DEC 1979
S.S.C.S.

The Rt Hon Patrick Jenkin MP
Secretary of State
Department Of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

18th June 1979

Dear Secretary of State

SOCIAL SECURITY LEGISLATION

Geoffrey Howe and I both have a copy of your letter to the Lord Chancellor of 14 June.

This rather confused situation has, as I see it, serious potential dangers for public expenditure. Clearly if we are going to change the uprating formula (and if we fail to do this we shall, depending on next year's forecasts of earnings and prices, add upwards of £100 million per annum to public expenditure) we must have legislation in one or other of your Social Security Bills for this Session. What is more, this legislation must be on the statute book in good time to be operative for the November 1980 operation.

My view had been that on the whole it might have been better to grasp the uprating formula nettle in the first Bill, and make sure we got it on the statute book in good time. But this now seems to be ruled out, not least because you have presumably been conducting negotiations with the Opposition on the basis of the first Bill containing only the Christmas Bonus provision and the freezing of the dependency earnings limit. If the Opposition are prepared to agree to a quick Bill containing both these provisions, well and good; but I clearly cannot accept that you should publish such a Bill (and it may be your intention to do it on Monday) unless we have a firm assurance from Future Legislation Committee that we can definitely have the uprating change in the second Bill, and, what is more, we have your confirmation that even if you do not have Royal Assent by April we are certain to be able to conduct the 1980 uprating on prices only and we shall not be held up in some way - eg through the poverty lobby taking us to the courts for anticipating powers we have not got. Only when we know that Future Legislation Committee is content, and we have your confirmation on these lines, should we publish your Bill.

Rec'd 19.6.79.

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SECRET

PS/FINANCIAL SECRETARY

cc Principal Private Secretary
PS/Chief Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Douglas Wass
Sir Lawrence Airey
Sir Fred Atkinson
Sir Anthony Rawlinson
Sir Ken Couzens
Mr Anson
Mr Bailey
Mr Byatt
Mr Littler
Mr Brideman
Mr Odling-Smee
Miss Brown
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Mr Bottrill
Mr Ridley
Miss Whalley
Mr White
Mr Butler

THE PSBR AND THE FSBR - SOCIAL SECURITY UPRATING FORMULA

I refer to the Financial Secretary's minute to the Chancellor yesterday about the proposal to change from the historic to the forecast (or prospective) basis for social security uprating. This crossed with my two notes to the Chancellor yesterday on this matter, and you agreed that it would be of interest for me now to give those two minutes the same circulation which the Financial Secretary's note had.

2. The short point is this. The Chancellor and Mr Jenkin have taken a decision in principle that there should be a change from the prospective to the historic basis of uprating. There are, however, difficult problems of the timing of the change and, if it were made when inflation is expected to be falling, a risk of very considerable cost. It may or may not be possible to devise some comparatively cost-free way of shifting in a period of falling inflation, and this is certainly something we are studying urgently with the DHSS, with an eye to making any necessary statutory changes in the Social Security Bill already planned for later this Session in which it is proposed to remove the earnings option from the formula so far as long term benefits go. We will keep Ministers informed.

EPK

E P KEMP
19 June 1979

SECRET

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2/3/79

FINANCIAL SECRETARY TO THE TREASURY

TREASURY.
23 AUG 1979
S.S.C.S.

MR KEMP

cc Principal Private Secretary
PS/Chief Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir D Wass
Sir L Airey
Sir F Atkinson
Sir A Rawlinson
Sir K Couzens
Mr Anson
Mr Bailey
Mr Byatt
Mr Littler
Mr F E R Butler
Mr Bridgeman
Miss Brown
Mr Lovell
Mr Monck
Mr Shepherd
Mr Unwin
Mr Bottrill
Mr Odling-Smee
Miss Whalley
Mr Ridley
Mr White

THE SOCIAL SECURITY UPRATING FORMULA

The Financial Secretary was grateful for your note of earlier today, and has commented that, now that the decision to revert to the historic basis has been made in principle, he feels it important that the legislation necessary to implement the decision should be in the same bill as the legislation removing the link between the uprating formula and the earnings growth path. He thinks that the rules relating to uprating should be changed only once, and perferably sooner rather than later, which would point to using the Pensioners' Payments Bill if at all possible; but if this is impossible he would prefer to see both measures in the Social Security Bill planned for later in the session. He sees the former as a useful douceur for the latter.

263 20/6

The Financial Secretary has also asked me to say that, while he appreciates that there is a potential cost in this legislation, he hopes that the timing of implementation could be selected so as to avoid this being too heavy: this may mean deferring implementation ~~for~~ of return to the historic basis, and perhaps of the break with the earnings link, until 1981. In any case, the Financial Secretary believes that some once for all cost to the Exchequer would be a price well worth paying for the long term benefits involved. In so far as the cost of returning to the historic basis cannot be zero so long as inflation is falling, he accepts - and indeed hopes - that the change will not be costless.

PCD

P C DIGGLE

19 June 1979

SECRET

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FINANCIAL SECRETARY TO THE TREASURY

MR KEMP

cc Principal Private Secretary
PS Chief Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir D Wass
Sir L Airey
Sir F Atkinson
Sir A Rawlinson
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PCD

P C DIGGLE

19 June 1979

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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

Miss Whalley
PPS PS/FST
PS/MST PS/MST(L)
Sir D. Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr Dyer

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON SW1

19 June 1979

Dear John,

SOCIAL SECURITY LEGISLATION

The confusion over the home for the change in the uprating provisions is, I hope, now being resolved: the measure will go into the second Bill. I understand that Lord Chancellor's Office are dealing with this, and no doubt a letter from that direction will set the record straight. You are looking to me for confirmation of related points on which our officials have already been in touch.

First, the situation if we do not have Royal Assent to the second Bill by next April. This will be a presentational awkwardness, but it will not prevent us going ahead with the uprating on a prices basis if the forecasts show that prices are running behind earnings. We would announce at Budget time rates based on prices, and refer to the legislative provisions then before the House. We ought to have the Second Reading behind us before we do this, but that should cause no problems. The Uprating Order itself would not be introduced until a point in July by which the Bill had received Royal Assent.

By not introducing the Uprating Order until the Bill had become law, we would not be in breach of statutory requirements, and there would therefore be no danger of court action against us.

Second, the dependency earnings test. I expect Stan Orme to confirm his provisional agreement. In the unlikely event that I hear this evening to the contrary, we ought, I agree, nevertheless to go ahead with the Bill as it stands.

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Third, increases in the Christmas bonus. As you recognise, the legislation as drafted sets a floor of £10. I accept that we may not want to increase the bonus every year; and I accept that if an increase in one year is sufficiently large to allow a lower bonus to be paid in the next or some subsequent year without paying less than the then current equivalent of £10 we would be under no moral obligation to pay at or above the level of the previous bonus. I word this cautiously because I do not think that it would be acceptable to drop back in terms of the value of £10 in order to pay a bonus below the level of the previous one. I imagine that you would not dissent from this. I am content that we should avoid any promises of a bonus escalating in real value with the passage of years.

I am copying this as for the previous correspondence.

Yours ever

Patrick

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

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LORD CHANCELLOR

CH/EXCHEQUER
REC. 21 JUN 1979
ACTION MR. KEMP
Seen 21/6
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
SIR D. WASS
SIR A. RAWLINSON
MR. A.M. BAILEY
MR. JORDAN-MOSS.

HOUSE OF LORDS,
SW1A 0PW

20 June 1979

cc MRS. HEDLEY-MILLER
MR. ASHFORD
MR. RIDLEY
MR. DYER.

CONFIDENTIAL

My dear Patrick:

Social Security Legislation

Thank you for your letter of 14 June about the scope of our two Social Security Bills: I have also seen a copy of the Chief Secretary's letter to you of 18 June.

I understand that in the light of your consultations with the Opposition, and after discussion with the Treasury and the Government Whips' Office, you are proceeding with the introduction of the Pensioners' Payments and Social Security Bill, with the intention that it should be taken through all its stages in the House of Commons on one day (probably 29 June) so that it can then be taken through Lords and presented for Royal Assent before the Long Recess. The Bill will contain the Christmas bonus and dependency provisions, but not the uprating provisions which will have to be deferred until your later Social Security Bill.

I have confirmed with the Home Secretary as Chairman of QL Committee that he is content for the uprating provision to be included in the later Bill, and with the Leaders and Chief Whips in both Houses that they will do everything possible to ensure that the later Bill is enacted in time for the uprating in November 1980. I understand that the Chief Secretary is content for the Pensioners' Payments and Social Security Bill to be introduced in its present form on that understanding, so I hope our immediate problems have been resolved.

I am copying this letter to the Home Secretary, the Leaders of the two Houses and the Chief Secretary, and, for information, to other Members of QL and L Committees, and to Sir John Hunt.

Yours:

Q.

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON SE1 6BY

cc PPS
PS/FST
PS/MST(C)
PS/MST(L)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp
Miss Whalley
Mr A M White
Mr Dyer

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TREASURY
-5 DEC 1979
S.E.C.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
London SE1

21 June 1979

Dear Patrick,

SOCIAL SECURITY LEGISLATION

Thank you for your letter of 19 June. The Lord Chancellor has now confirmed in his letter of 20 June that the change in the uprating formula will be covered in a second Social Security Bill which should receive Royal Assent before April.

2. I am also grateful for your assurance that, even if the second Bill has not become law by April, you are content that by the procedural device of delaying, not your announcement but the Order which would give effect to it, you can avoid a breach of your statutory obligation even if Royal Assent has not been given by July.

3. On the Christmas bonus there is still some difficulty. I have accepted that there should be provision for a £10 cash bonus this year within our expenditure plans. Since it is unlikely that payment of a lower cash amount will be made in future years, you should include provision in the Survey plans for payment at £10 cash rate. Although power will be taken in the Bill to enable the Secretary of State to increase the amount by Order, any proposal that you might wish to put forward in any future year to increase the bonus to more that £10 - whether to maintain the real value or to permit a real improvement - would count as an additional claim on resources and would have to be considered in the context of our priorities at that stage. Accordingly it would follow that during discussion of the Bill you should not be drawn into implying either that the £10 bonus would be indexed or that there is a prospect of an improvement in real value over time and emphasise only that the clause would empower the Secretary of State to change the rate of bonus in future years.

I am sending a copy of this letter to the Lord Chancellor, Home Secretary, Leader of the House and Sir John Hunt.

John Biffen

JOHN BIFFEN

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