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PART C

Social Security Uprating 1979

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Conservative Aspect (3)

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REGISTERED ON THE
REGISTRY SYSTEM

30.1.80

CONFIDENTIAL

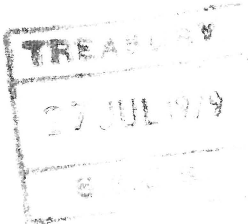
1. MR BAILEY

2. [illegible]

3. CHANCELLOR OF THE EXCHEQUER

Copies attached for:
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass

cc Mr Littler
Mr Butler
Mr Lovell
Miss Wheatley
Mr White
Mr Hadley
Mr Cardona
Mr Cropper



SAVINGS ON RETIREMENT PENSIONS

I attach a note which we have prepared by way of an initial comment on the Chancellor's recent remark about the desirability of reducing even by a small amount the prospective pensions bill, which we take to mean the long term pension benefits paid by DHSS mostly out of the National Insurance Fund and scored as public expenditure in Programme 12.

2. The note brings out the basic difficulties. Assuming that it is accepted, as we would think, that it is too soon to attempt to re-vamp the new state pension arrangements which have been put together with such difficulty on a bipartisan basis, there are only two ways of reducing the main pensions bill:-

a. To restrict eligibility for pension in some way, and

b. To limit the annual uprating of the basic flat rate state pension.

3. Theoretically both of these can be done, and the note suggests various approaches. But I do not have to say, of course, how difficult both are. So far as eligibility goes, apart from the sensitiveness of this subject in itself we have to note that under the contributory principle there are "expectations" which it is difficult to disappoint. Nevertheless savings could be made - eg raising the pension age for women from 60 to 65 would save £400 million by 1983-84.

CONFIDENTIAL

26/7

4. So far as limitation of uprating goes, the contributory principle is not perhaps such a problem. The difficulty is otherwise; anything less than prices uprating means that pensioners' standards of living fall absolutely. This would be difficult enough in itself, but it would also be contrary to recent statements that have been made (eg in the Budget Speech) and almost certainly will have to be made again in the context of the Social Security (No 2) Bill which will remove the earnings option on pensions. Nevertheless again the savings are there; each 1 per cent by which an uprating falls below price protection saves about £125 million in a full year. 1 per cent of the present single pension is about 20p per week.

5. Against the background of the size of this programme and the evident difficulties in reducing it or indeed holding back on its inherent growth tendencies, a very important point in the long term is to avoid extending or improving the existing provisions. Once a concession has been made on either eligibility for, or level of, benefits it is, as the note brings out, almost impossible to withdraw it. It is therefore very important indeed, in the interests of restraining the programme, that Ministers are robust in resisting creeping extensions.

6. If any of the thoughts in the attached note are to be pursued with DHSS, I do not think there is much point in our starting at official level. Although there are mechanical problems and differing approaches to this matter which could be discussed between officials, the essential issue is the political prospect of taking away from pensioners their entitlement to pension payments, whether by way of adjustment of qualification rules, additional means-testing, less generous tax treatment or less generous uprating than is available under the existing provisions. If the Chancellor wishes to pursue these proposals, therefore, what I would suggest is that he writes to the Secretary of State for Social Services, perhaps enclosing a copy of the attached note, and proposing either a small Ministerial meeting at which the question of whether or not any of these proposals should be pursued could be discussed, or asking Mr Jenkin's agreement that without commitment officials might pursue some of these proposals in some detail to see where they lead. We could, of course, provide a draft as appropriate.

7. You [illegible] note that this paper deals only with retirement pensions, which represent about £[illegible] billion of Programme [illegible]. There is a further £5 billion/£[illegible] billion in other benefits, mostly supplementary benefits (over £[illegible] billion) and child benefit (over £[illegible] billion). There are separate problems and possibilities here in reining back the growth of these areas, on which a separate note could be provided if need be.

E P KEMP
26 July 1979

SAVINGS ON SOCIAL SECURITY PENSIONS

This note considers the possibility of some saving on the prospective public expenditure bill for long-term pensions paid under the national scheme.

2. These benefits are paid by DHSS mostly out of the National Insurance Fund. They are scored as public expenditure under Programme 12. They are likely to amount to something around £12 billion in 1979-80 rising to almost £14 billion in 1983-84. Of these totals, the major element is retirement pension which accounts for £8.8 billion in 1979-80 rising to about £10 billion by the end of the Survey period.

3. The new pension scheme, providing the additional component for those contracted in to the state scheme, and the guaranteed minimum pension (GMP) for those contracted out of the state scheme, is now running in on a slow time-scale. Expenditure on additional components, the indexation of these components and the state liability to finance the indexation of GMPs payable under contracted out schemes will amount to about £35 million in 1983-84. But by the end of the next decade these commitments will add a further £1 billion to the cost of retirement pensions at present rates of benefit.

4. The new pension scheme came into operation in April 1978, operates in partnership with the insurance and pensions industries and is based on the bi-partisan legislation of 1975. Any major change either in the basis of the state additional component, the contracted out GMP or the state commitment to indexation of all second-tier pensions (additional components and GMPs) would create severe problems of adjustment for the insurance and pensions industries since the contracted out schemes have now been tailored to the new state arrangements.

5. If it is accepted that it is too soon to attempt to re-vamp the new state pension arrangements, there are only 2 ways of reducing the main pensions bill:

/(a)

(a) to restrict eligibility for pension in some way; and

(b) to limit the annual uprating of the basic, flat rate, state pension.

Both courses are clearly difficult. In the current public expenditure exercise both were rejected.

The contributory principle

6. The basic flat rate retirement pensions, and the additional components for those contracted in to the state scheme, as well as the GMPs payable for those contracted out are provided in return for contributions (or reduced salaries) payable during working life. To the extent that the contributions have been paid either under a state "insurance" scheme or a contributory occupational pension scheme, contributors have expectations related not only to the conditions under which pensions are payable but also to the amounts. The present provisions of the flat rate basic pension envisage retirement for women at 60 and for men at 65: any change in the retirement age would therefore be opposed as a reduction in expectations and it would be difficult to resist an argument that those who have contributed on the existing basis should have reserved rights to the original conditions. This argument is perhaps less valid in relation to the scale of the pension, particularly the extent of indexation.

Qualification

7. The Secretary of State for Social Services suggested raising the pension age for women from 60 to 65 over the next 5 years to save £400 million a year by 1983-84. A further raising of the pension age beyond 65 for both men and women would effect greater savings although possibly in part offset by some additional unemployment or sickness benefit. A variant might be to distinguish the "young old" and the "old old", providing that up to age, say, 70 a person would get only a proportion of his normal pension with the full amount thereafter. But the difficulties are evident.

Means testing

8. Another route might be to try to find some way of means-testing retirement pensions. But this would be extremely controversial and would involve great administrative cost. The one test at present operative in this area - the earnings rule - is to

/be

be phased out over the lifetime of this Parliament in accordance with the Manifesto commitment. This will cost about £450 million a year by 1983-84.

Impact on supplementary benefit

9. If either of these courses - a restriction of qualification or the introduction of means-testing - were adopted, it would be necessary, in addition, to impose comparable restrictions on the payment of supplementary benefit otherwise much of the saving on retirement pensions would be spent on additional supplementary benefit.

Taxation

10. Yet another alternative route would be to modify the existing arrangements for taxing retirement pensions. At present, in determining the level of the personal allowance, the single and married rates of retirement pension are taken into account to ensure that, where people are dependent on retirement pensions only, they do not pay tax. In addition there is provision for an age allowance after age 65. A more stringent approach to tax allowances in relation to people drawing retirement pensions could, in PSBR terms, curtail expenditure on retirement pensions at the cost of bringing more retirement pensioners into tax.

Uprating

11. On uprating, Ministers have taken virtually the only step realistically open to them: removing the earnings option in the annual uprating. This change will be valuable only as long as the temptation to give a margin on top of the minimum required by prices is resisted.

12. Any formula for uprating pensions by less than prices means that pensioners' standard of living would fall absolutely. While this is theoretically conceivable, and was indeed put forward by DHSS in the first round of the insurance options exercise, it does not look a likely political starter. Each 1% by which an uprating falls below price protection would save some £50 million in the first year and £125 million in a full year on long-term benefits at 1979 prices.

Varying the indices

13. Conceivably the indices used might be changed. Currently the RPI is used. The new index currently being devised to show the effect on the standard of living of direct tax concessions might be considered, but there are obvious difficulties. The change would only save money as long as that index was below the RPI. Since the bulk of pensioners do not pay tax, it would not be convincing to argue that their standards of living are maintained by using this index. In any case this index may specifically exclude pensioners, which is already a point of concern because it might bring pressure to use for pension uprating the existing pensioners' index, which is consistently ahead of the RPI and would then add to costs.

14. A separate submission is coming to Ministers shortly on the question of the historic versus the forecast method of uprating. Having looked at this more closely, both Treasury and DHSS officials are persuaded that there is no financial, and little other, advantage in shifting back to the historic basis.

Varying the dates

15. Advancing the date of the uprating is now being studied by DHSS. If the date is advanced by a month or so, in the first year there would be a once-for-all saving on the cost of not covering the full 12 month period in the uprating. If the change in date operates at a time of rising inflation, there would be a further marginal saving in all subsequent years. But to the extent that the uprating date is brought forward to the late summer or early autumn there would be risks of increased pressure for bigger Christmas bonuses or even a second uprating in the early spring.

Frequency of uprating

16. Less frequent upratings might be contemplated: say every 2 years instead of every year. This would defer the gross cost of a year's uprating (probably over £2 billion) every other year; the incidence of reduced expenditure would be spread across financial years. In effect, this arrangement would be "borrowing" from the pensioners. It would be difficult to maintain in these circumstances that pensioners were being protected against price rises. It would be extraordinarily controversial and difficult to achieve, unless inflation was low and stable.

/17.

17. A variant might be found operating to give full price protection, but only every other year, with provision of small interim uprating in the intervening years. Thus, if inflation was running at 10% a year, 5% might be given at the end of year 1, 15% at the end of year 2, 5% at the end of year 3, and so on; the arithmetic would be more complicated because of compounding. But this arrangement would be highly contentious.

PSBR versus public expenditure

18. The foregoing discussion concerns ways of making savings in public expenditure as defined. The effects on the PSBR would not necessarily be the same, quite apart from the question of reductions in tax take resulting from pensions lower than they might otherwise be, or increases resulting from the sort of idea discussed in paragraph 10 above. The point is that the great majority of the retirement pensions discussed here, although adding to public expenditure and figuring in Programme 12, are actually paid not from Votes but from the National Insurance Fund, which itself is fed by contributions from employers and employees. If pensions paid are lower than they would otherwise be and the Fund remains approximately in balance, it is not the PSBR that benefits but the level of contributions. A PSBR saving would only result if contributions were held at a higher level than was necessary and the surplus on the Fund was allowed to grow. On the other hand, if a steady balance is maintained on the Fund, the lower contributions resulting from lower pensions could be seen as part of the policy of reducing direct imposts on business and citizens.

Legislation

19. Virtually all these options would require legislation which would be highly controversial.

Conclusion

20. If money on any scale is to be saved on pensions expenditure, it would be necessary to grasp the nettle either of restricting eligibility or giving less than full annual price protection. The latter may be preferable, and paragraph 17 might be a way to do it. But the political problems are huge.

8

CHIEF SECRETARY

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 Shepherd
Mr Unwin
Mr White

SOCIAL SECURITY BENEFIT UPRATING METHODOLOGY - "HISTORIC" AND "FORECASTING" METHODS

You will recall that under present arrangements social security benefits are uprated each November by an amount not less than the movement in the RPI between the preceding November and the November in which the uprating is to take effect. The decision on this has to be taken, and announced, in April or May - it has been customary for the announcement to be made in the Budget, and this practice was followed this year. However this approach to uprating, which involves forecasting in effect inflation between April and May and the next November (hence the name the "forecasting method") has some drawbacks simply because such a forecast has to be made and announced; the announcement of itself can be controversial and by its nature the forecasts need not be right resulting in "over" or "under" paying of beneficiaries. Earlier this summer, therefore, we were asked to look at the advantages and disadvantages of a move to a method of uprating based on events that at the time of the decision have actually occurred - eg inflation up to the April of the announcement; this is known as the "historic method".

2. In consultation with DHSS we have now prepared a joint paper on this matter, which is attached. This paper does not come to any recommendation as such, but its general thrust and argumentation is in favour of maintaining the status quo - the forecasting method. DHSS Ministers have agreed with this conclusion, and I recommend that you so agree.

3. In brief, the paper concludes that the historic method only has two advantages over the forecasting method; first it is based on past events and does not require future forecasts, and second on the face of it it ensures that the subsequent uprating is "right". Both these advantages

are, however, arguable; precedent makes it difficult to withhold price forecasts for the Industry Act forecasts, in future forecasts of earnings will not be required for the social security uprating, and providing the Industry Act forecasts and the uprating forecasts cover the same period no additional figures need be put on the table. Difficulties arose this year, but this was because the periods were not the same; this may not be the case in future years either because the FSBR forecast goes back to fourth quarter or because the social security uprating is brought forward by a quarter - a possibility which DHSS have been asked to investigate, (though it may not get far). And as for getting the uprating "right", the difficulty here is that people are now used to the forecasting method and would be unhappy with anything else - thus it is inconceivable that Ministers would have got away with the historic method alone this year, reflecting inflation between April 1978 and April 1979, when in the same Budget the Chancellor was announcing an increase in the VAT rate to 15 per cent which was not reflected in the April on April forecast and therefore would not be reflected in the subsequent November upratings. The forecasting method, on the other hand, is more nearly related to the period in respect of which it is to be used (instead of terminating six months before it begins) and while it is true that if the forecast leads to a shortfall there will always be pressures to make this good in a subsequent uprating (as indeed Ministers chose to do this year), when in reverse beneficiaries would always be allowed to keep any "longfall", the additional costs of this seem unlikely to be more, and possibly indeed less, than the "bit over the top" which would almost certainly always have to be added to the figure given by the historic method in any kind of inflation period.

4. Then there are the costs. In a period of increasing inflation, the forecasting method is more expensive than the historic method (though as I say if we tried to move back to the historic method now we should almost certainly always have to add something over the top which would tend to nullify this). Per contra, when inflation is falling the forecasting method is cheaper than the historic method; so if we take as a basis for present policy the assumption that inflation will fall, we should stick to the forecast method. There would also very likely be a big one-off cost in a shift now to the historic method, in that it would be claimed that the £500 million or so "stolen" from beneficiaries in 1976 when the previous Administration moved from historic to forecast at a time when

inflation was expected to fall, should be restored. Certainly it might be very difficult to get the legislation required to move back to the historic method through the House without some kind of gesture in that direction, particularly given the recorded attitude of many present Conservative members and indeed members of the Government to the 1976 change.

5. So it appears to be the case that the forecasting method is not only the status quo (with the convenience this brings), and almost certainly less expensive to the Government, but also, perhaps parodoxically but truly likely to be fairer and more acceptable to the beneficiary.

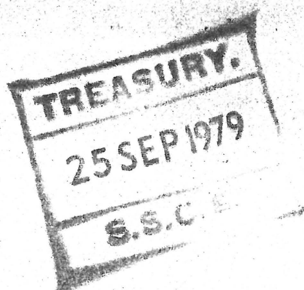
6. The attached paper also discusses two other points - the so-called "base line" method and the "historic/forecast" method. It concludes that neither have much to say for them, and I agree. (The baseline method ought to be attractive but runs into the problem (a) of peoples' short memories and hence the difficulty in any one year of uprating by less than either historic or forecast inflation and (b) arguments about the "base" and pressures to increase it.) The only option the paper does not discuss is the possibility of standing down any statutory requirement whatsoever as to uprating, and simply going back to the pre-1970's position when benefits were uprated not necessarily regularly nor by reference to any particular indexing requirement, but simply as the Government of the day thought fit. You may feel, however, that the world has moved on since then and such a shift back is not now worth pursuing - at least not until inflation is well below double figures.

7. To summarise, the thrust of the attached paper, and our recommendation, is that we stick to the status quo; namely the forecasting method. The only real drawback this has is the possibility that from time to time (and indeed it happened this year) the uprating forecast does not cover the same period as say the FSBR forecast. But this may not recur, and if it recurs at a time of forecast falling inflation it would not be harmful. In view of the potential cost involved, and other difficulties of moving to the historic basis, it seems a risk worth taking.

EPK

E P KEMP
21 September 1979

CHIEF SECRETARY



48/07

cc Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Mr Caff
Mr White
Mr Daykin
Mr Ridley

BILATERALS - DHSS - MEETING WITH MR JENKIN 25 SEPTEMBER 1979

This note is intented to supplement the briefing prepared for Cabinet in respect of Mr Jenkin's three programmes; Social Security, Health, and Personal Social Services.

Social Security

2. We understand that Mr Jenkin is not disposed to argue with the proposals set out at Annex B to the Chief Secretary's paper for Cabinet. He is, however, likely to point out that one of the biggest savings there (abolition of earnings related supplement, which gives £260 million per annum from 1981-82 onwards) was considered and rejected by colleagues earlier this year in the context of 1980-81, and would be extremely controversial. He is likely to say, however, that he himself is prepared to see it go, and to take on his back the problems of abolishing it; but he would want to be assured that Cabinet as a whole were aware of what they were doing and were behind him. He has Mr Prior particularly in mind. He will thus be happy for Treasury Ministers to keep the proposal in as "agreed" as between Treasury and himself, but he will want the Chief Secretary's report back to Cabinet to ensure that Cabinet colleagues are aware of what they have agreed to.

3. The arguments of substance relating to ERS were set out in our earlier brief. In short, the case for abolition, apart from the savings to be realised, turns on the incentives argument in relation to the levels of support available for those out of work as compared with those in work. Against this there are arguments about "entitlements" - ERS is a contributory benefit - and also that ERS still has a role to play in the functioning of the labour market in that it encourages the skilled man who goes out of work to pause before hastening to take the first available, possibly unskilled, job. On the whole we think the

arguments for abolition have the day. [You will recall that in the context of MISC 15 Ministers are likely to commission a study of the whole question of incentives for the lower paid, under Treasury Chairmanship; the case of ERS is, however, only marginal to this study because ERS does not go to the really poor.]

4. On Social Security Mr Jenkin may also refer to his proposal to make employers responsible for the first six weeks of sickness pay. This is a proposal which will go to H Committee shortly, and on which Sir Keith Joseph has apparently recently written expressing some doubt. Again Mr Jenkin may take the line that he is very happy to push this proposal, which in fact has quite a lot to be said for it, but he will want colleagues collectively to be aware of what is afoot.

Health

5. Again Mr Jenkin is unlikely to object to the proposals in Annex B to the Cabinet paper. He is, however, likely to comment on the proposal that net expenditure will not rise between 1982-83 and 1983-84. He is likely to say that this would represent a real cut in standards, because changing demographic patterns mean that more money has to be provided in the Health Service just to stand still. The answer to this, as Mr Jenkin is aware, is that gross spending can still rise through increased charges and other income beyond that already assumed, and also that resources going to the direct care of patients ought to be capable of improvements through increased efficiency, etc, in the Health Service as a whole. Mr Jenkin is, however, likely to suggest that officials might be asked to study some way in which if his Department can think of new ways of raising money, whether for 1983-84 or earlier, there should be some kind of "sharing" arrangement so that some part of it goes into increasing the gross amount available for the National Health Service and some part of it in effect comes back to the Treasury. Such an arrangement, in fact, might seem only fair, and certainly continuation of the years up to 1982-83, when in effect the Treasury took 100 per cent credit for the additional revenue which the Department offered to raise, does not really put any proper incentive on the Department to seek out further revenues. If the point comes up, therefore, we suggest you express sympathy with the proposition and agree that officials should examine the possibilities.

Personal Social Services

6. Here Mr Jenkin is likely to disagree strongly with your proposals. He is likely to say that the reductions proposed will inflict hardship in a number of worthy and sensitive areas (eg old peoples' homes), just at a time when demographic pressures call for more, not less, expenditure in this area. He is likely to compare what he regards as the harsh treatment he is receiving with what he thinks is the less harsh treatment being meted out to education.

7. There is really no logical basis for any particular reduction in this programme. Your proposal implies a cut of about 9 per cent in 1983-84 below the 1978-79 level. A way forward might be to ask Mr Jenkin what sort of level of reduction below the 1978-79 level he would find tolerable. He may say that he cannot accept any reduction at all. More likely, he may make some kind of offer - eg 5 per cent reduction. Whatever it is, you will want to seek to get him to agree to the maximum possible figure anyway, and report back to Cabinet as to the unagreed balance.

pp E P KEMP

24 September 1979

TREASURY.
-3 OCT 1979
S.&C.S.

MR KEMP

cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Shepherd
Mr Unwin
Mr White

SOCIAL SECURITY BENEFIT UPRATING METHODOLOGY - "HISTORIC" AND "FORECASTING" METHODS

The Chief Secretary has seen your minute of 21st September and agrees with the recommendation that uprating should continue to be calculated by means of the "forecasting" method.

R. Watts

R J T WATTS
1 October 1979

1. [illegible] Billing
2. Mr McGinnis
3. Mr Otton
4. Mr Stewart - if Parliamentary Secretary approves,
5. Mrs Paley

THE SOCIAL SECURITY BENEFITS UP-RATING (AMENDMENT) ORDER 1979

1. I enclose for Minister's approval a proof copy of the draft Amendment Order and of the explanatory Memorandum which will be made available, with the Order, for the information of Members.

2. As Minister will recall, due to an unfortunate error, the main 1979 Up-rating Order, which was made on 3 August, revoked the whole of the 1978 Up-rating Order, including the provision fixing the earnings limit for the wives of certain pensioners at £45.

3. It is therefore necessary to amend the revocation provisions of the main 1979 Order so as to maintain that limit at £45. The effect of the draft Amending Order is explained in more detail in the explanatory memorandum.

4. Since the Amending Order must take effect from the same date as the main Order, 12 November, it will be necessary for it to be debated as soon as possible after Parliament reassembles. The intention is that it should be laid on Tuesday 23 October and considered by the Joint Committee on Tuesday 30 October, so that the debates can be held later that week or during the week beginning 5 November. The date of coming into operation of the Amending Order is 10 November. This is merely to ensure that when the main Order comes into operation on 12 November it is in its amended form.

5. To allow time for printing etc I should be grateful for Minister's approval of the draft Order by 5 October, or earlier if possible.

Joan Richards

JOAN RICHARDS
B2B AFH
A608 Ext6332

1 October 1979

ENC

cc Mr Oglesby o/r
Mr Parsons
Mr Brereton
Mr Langmaid
Mr Canlin o/r
Mr Cocksedge A1
Miss Barnes A2
Mr Brown A3
Mr Whitelaw B1
Mr Lichtenstein B1
Mr Chislett FC1
Mr Johnson FC1(3)
Mrs Banks C1
Mr Warner MSC1
Mr Hanson RD3
Mrs Reeve L2
Mr Bridges SB1
Mr Whiteley K
Mr Atkinson B2D
Mr Hunter B2C
Mr King CPB
Mr Robson CPB
Miss Sanders Parly
Mr Shewring Sol
Mr May GAD
Mr Sloane - N Ireland
Mr Cain IOM

DRAFT SOCIAL SECURITY BENEFITS UP-RATING (AMENDMENT) ORDER 1979

Explanatory Memorandum

1. This draft amendment Order amends The Social Security Benefits Up-rating Order 1979, which was made on 3 August 1979 and which comes into effect on 12 November 1979.

2. Article 8 of the Social Security Benefits Up-rating Order 1979 revokes the corresponding 1978 Order. The purpose of the present draft amending Order is to preserve one provision of the 1978 Order.

3. The amendment Order would be effective from the same date as the main Order, that is, 12 November 1979.

The provisions of the amending Order are as follows:

Article 1 is formal.

Article 2 substitutes a new article 8 for article 8 of the main Order. The effect is to preserve from the 1978 Order Article 6 (and the Article 1 definition of the relevant Act) in so far as it relates to the earnings limit applicable to the wives of certain pensioners. The effect is to maintain at £45 the amount of weekly earnings which must be exceeded before the increases payable with retirement pensions, invalidity pensions and unemployability supplement in respect of certain wives are reduced.

17

PROOF

Draft Order laid before Parliament under the Social Security Act 1975, section 124(2), for approval by resolution of each House of Parliament.

DRAFT STATUTORY INSTRUMENTS

1979 No.

SOCIAL SECURITY

The Social Security Benefits Up-rating (Amendment) Order 1979

Laid before Parliament in draft
Made - - - 1979
Coming into Operation 10*th November* 1979

Whereas a draft of the following order was laid before Parliament and approved by resolution of each House of Parliament:

Now, therefore, the Secretary of State for Social Services, in conjunction with the Treasury(a), in exercise of the powers conferred upon him by section 124 of the Social Security Act 1975, and of all other powers enabling him in that behalf, hereby makes the following order:—

Citation and commencement

1. This order may be cited as the Social Security Benefits Up-rating (Amendment) Order 1979 and shall come into operation on 10th November 1979.

Substitution of Article 8 of the Social Security Benefits Up-rating Order 1979

2. For Article 8 of the Social Security Benefits Up-rating Order 1979(b) there is substituted—

"*Revocations*

8. In the Social Security Benefits Up-rating Order 1978(c) there are hereby revoked Articles 2 to 5, the reference in Article 6 to section 30(1), Articles 7 and 8 and the Schedule".

1979. Secretary of State for Social Services.

1979. Two of the Lords Commissioners of Her Majesty's Treasury.

(a) See section 166 (5) of the Social Security Act 1975 (c.14). (b) S.I. 1979/993.
(c) S.I. 1978/912.

Aitalics

[S.S 79/694]

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order substitutes for Article 8 of the Social Security Benefits Up-rating Order 1979, which provided for the revocation of the Social Security Benefits Up-rating Order 1978, a new Article 8. This excludes from the revocation Article 1 (citation, commencement and interpretation) and so much of Article 6 as increased to £45 the amount of weekly earnings which must be exceeded before increases of benefit payable with retirement pension, invalidity pension and unemployability supplement in respect of certain wives are reduced by reference to the wives' earnings. £45 thus remains the relevant amount for this purpose.

In accordance with section 124(3) of the Social Security Act 1975, a copy of a report by the Government Actuary (Cmnd.) was laid before Parliament with the draft Order.

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B

PS/CHIEF SECRETARY

Principal Private Secretary
PS/Minister of State C
PS/Minister of State L
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Shepherd
Mr Unwin
Mr Kemp
Miss Whalley
Mr White

SOCIAL SECURITY BENEFIT UPRATING

The Financial Secretary was interested in Mr Kemp's note of 21 September discussing the difference between the historic and forecasting methods of uprating.

He has commented that the difference between the two methods is essentially a function of the time that elapses between the announcement of the increases and the actual uprating. He wonders whether it might be worth considering a possibility not discussed in the paper, namely reducing the length of this period (which would in itself be politically helpful), either by bringing forward the date of uprating or by delaying the announcement, or both.

On a more detailed point the Financial Secretary is puzzled by the comment (paragraph 10 of the note attached to Mr Kemp's minute) that it is inherently improbable that any uprating may take place on a basis which over-estimates the rate of inflation.

PCD

P C DIGGLE
1 October 1979

20

Prime Minister

IMPLEMENTATION OF SOCIAL SECURITY UPRATING

S.S.C.S.

Cabinet asked me on 31 May to consider and report back on the possibility of reducing the time taken to implement social security upratings, once decisions have been announced. It has been a recurring cause of complaint for many years that "pensioners have to wait so long for their increases": it is widely believed -

a. that if we could do the job quicker, pensioners would get their extra money sooner; and

b. that the amount of the increase announced in the Spring is badly eroded by inflation by the time it is received in November, and that pensioners never catch up.

Both beliefs are wrong. Taking them separately -

a. GETTING THE MONEY SOONER

This belief is a relic of days when pensions were only uprated irregularly. It was then a matter for great criticism that increases which had been so long waited for should be delayed still further by administrative processes - particularly as there was no certainty about how long pensioners would have to wait for the next increase.

But we are now fixed on an annual uprating cycle. Pensioners are assured by law of an annual review and of inflation-proofing as a minimum once a year. Current practice is to uprate each November. There is nothing in law to hold us to that month, but in practice it has proved convenient -

i. it allows adequate operational time, following a Budget announcement in the Spring, during a period when other seasonal pressures on local office staff are at their heaviest;

ii. it puts extra money into pensioners' pockets at the beginning of winter.

The administrative task for DHSS is to implement the annual uprating as economically as possible, and it is strictly immaterial to pensioners, and the amount they receive, how long the Department takes over it. Even if we could uprate quicker, we still would not wish to pay the increases any sooner because of the extra cost of paying higher pensions from an earlier date.

If we wanted for some reason to shift the uprating to another month this could be done without legislation, but only by making the uprating earlier than November, because the law requires an uprating at least once a year, and the change could not therefore be made by delaying the uprating beyond November. This shortening of the gap between upratings at the time the change was made would have a significant public expenditure cost.

CHIEF SECRETARY
- 3 OCT 1979

Mr Kemp
PPS
PS/FST
PS/MST
PS/MST(L)
Sir D Wass

Sir A Rawlinson
Mr Bailey
Miss Whalley

21

b. MAINTAINING THE VALUE OF THE PENSION AGAINST INFLATION

I am obliged by law to increase pensions and other benefits each year "at least to such extent as [I think] necessary to restore their value" - which means that the amount fixed for next November must be aimed at restoring its value then to at least what it was last November. In other words, the law provides for inflation-proofing over the whole twelve-month period, and there is no erosion or loss during the period between announcement and implementation - a forecast is made of inflation over that period, and it is allowed for.

This process does not of course protect pensioners against the impact of price rises as they occur between one November and the next - it compensates for them after an interval. This is a difficulty which is particularly acute this year, when large VAT increases in May will not be compensated for until November. But the only solution available would be to have more frequent upratings, and this is ruled out on grounds of cost alone.

Thus the two main grounds for complaint about the time taken to implement an uprating are misconceived; and we should try to meet criticism by explaining this, rather than by apologising for the time taken. There are in fact good reasons for the time taken, and I attach a note of explanation. The uprating process at present requires virtually the whole of the interval between a Spring Budget and November. The possibility of reducing this time has been examined many times in the past, in particular by a team led by Sir Richard Meyjes of Shell when he headed the group of businessmen that advised the 1970-74 Conservative Government on efficiency. No-one has been able to come up with a cost-effective solution: a quicker uprating can only be achieved at a higher cost in staff and other administrative expenses.

A shorter uprating period would offer two theoretical advantages:

i. we would have more flexibility to uprate more often than once a year if we wished. But expenditure constraints rule that out anyway;

ii. we should be able to reduce the period between announcement and implementation, and so shorten the period for which we had to forecast the rate of inflation. This would reduce the risk of error in the amount of the uprating. But in practice it has always been the wish of Chancellors in recent years to make the announcement at Budget time.

With our present systems a shorter uprating period involves a higher cost in staff time: but computerisation of the payment of incapacity and supplementary benefits, for which we are preparing a pilot scheme, may help us to do the job quicker and more economically in the future. That lies some years ahead, and in the meantime we shall have to operate on the present timetable. As I have explained, this does not penalise pensioners in any way, and it is the cheapest and most efficient way of doing the job.

I am copying this to Cabinet Colleagues and Sir John Hunt.

PJ

2 October 1979

TIME TAKEN TO UPRATE BENEFITS

The uprating process has to cover all social security benefits - not merely pensions - because they interact on one another. The time needed overall is therefore determined by the benefit that requires the most complicated and time-consuming work ("the slowest ship in the convoy"). This is supplementary benefit, where every case has an individual assessment which is affected by changes in other social security benefits. There is no alternative to examining and reassessing three million supplementary benefit cases individually at each uprating. This is a complicated task and has to be done by experienced staff in addition to normal work.

After reassessment, payment documents at the increased rates have to be prepared and sent to beneficiaries. Most supplementary benefit payments are made by order books lasting for 26 weeks, and each case is reviewed once every 26 weeks. The most economical way of paying uprating increases is to include them when cases come up for renewal in the normal course. They can then be "taken in stride" without any extra staff time spent on special and expensive additional payment measures. This also spreads the examination and reassessment work over a 26 week period, and keeps to a minimum the extra staff time required for the uprating.

The work of renewing an order book has to start three weeks before the old book expires, to allow for the renewal process of identifying and examining cases, preparing books, and sending them through the post to beneficiaries. Further, more than half supplementary benefit cases are pensioners, and before uprating calculations can start in local offices the individual pension rate for each case (under the new pensions scheme) has to be worked out by computer at Newcastle Central Office and sent to the appropriate local office. This takes about four weeks.

Thus the time needed to uprate supplementary benefits in the most economical way is:-

	26 weeks (examination and reassessment during payment renewal cycle)
	plus
	3 weeks (to ensure arrival of order books before first payment dates)
	plus
	4 weeks (calculation and notification of retirement pension increases)
Total	33 weeks

This can just be accommodated in the interval between an early Budget announcement and a November uprating. It is possible to uprate in less than 33 weeks by applying extra staff time, but the cost of doing so rises for each week by which the period is shortened. For example to shorten the uprating period from 33 to 20 weeks would require the reassessment of supplementary benefit cases to be completed in 13 weeks instead of 26; 2100 extra staff would be needed for those 13 weeks, and there would be substantial other expenses, eg higher Post Office charges of more than £1 million. Leaving aside considerations of cost, it would be most unlikely that such an amount of extra staff time could be found for a short period in the year.

48/07

23

3 OCT 1979

PS/FINANCIAL SECRETARY

cc Principal Private Secretary
PS/Chief Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr F E R Butler
Mr Shepherd
Mr Unwin
Miss Whalley (or)
Mr White

SOCIAL SECURITY BENEFIT UPRATING

May I just comment on the two points the Financial Secretary raised on my note of 21 September, recorded in your minute of 1 October.

2. First, the Financial Secretary's point recorded in your second paragraph about the awkwardness of the long delay between the announcement of an uprating and that uprating taking effect is a good one. This is a matter which Cabinet earlier this year asked Mr Jenkin to look at, and I understand that he now has a paper which he may be circulating to his colleagues shortly. (This exercise is in fact referred to in paragraph 3 of my covering minute). In advance of our getting that paper I will not go into the various considerations in detail; they are however complex turning on the administrative task involved in an uprating, the problems of the timing of the uprating announcement with other announcements usually made at the time of the Budget, and indeed the Budget arithmetic, the fact that November is, in social terms, a good date to make an uprating, and the more gritty fact that to bring the date of the uprating back can be a very expensive business in the year in which the change is made. However I understand that Mr Jenkin's paper will deal with all these considerations and Ministers will have a chance to discuss them.

3. On the Financial Secretary's second point about the remark in our note that it is "inherently inprobable that any uprating may take place on a basis which over-estimates the rate of inflation" I think we have to plead guilty to a touch of cynicism. Of course in theory forecasting is an objective science, and one should be as likely to make an excessive estimate of what actually happens as an under-estimate. In real life, however, it seemed to us that a combination of a belief in (or fear of) self-fulfilling prophesies, coupled with a natural wish to assume that policies will succeed, would - and in fact does - lead to a tendency to under rather than over estimate inflation.

EPK

E P KEMP

24

I would recommend, however, that the point should be made in general terms, without any overt reference to possible developments affecting the timing of the uprating decisions. A Private Secretary response would seem all that was required and a draft is attached.

A H WHITE

11 October 1979

gs

1. MR KEMP
2. PS/CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Anthony Rawlinson
Mr Bailey
Mr Unwin Mr Ridley

25

IMPLEMENTATION OF SOCIAL SECURITY UPRATING

In his minute of 2 October to the Prime Minister the Secretary of State for Social Services meets a request raised in Cabinet on 31 May during its consideration of the November 1979 uprating of benefits. That question, familiar from constituency post bag, was whether it would be possible to reduce the time taken to implement social security upratings once they have been announced.

2. The Secretary of State argues that the present gap between announcement in the Spring and implementation in the Autum is required to enable Supplementary Benefits to be put in payment at the due uprating date. (Some 3 million cases have to be manually increased, this year, when the announcement of the uprating was delayed by the timing of the Election, it is almost certain that a significant number of supplementary beneficiaries will not get their uprating until well into December).

3. He also points out that if for some reason it was desirable to shift the uprating to some other month this could only be done without legislation by bringing <u>forward</u> an uprating. This would be costly - at present benefit rates bring forward an uprating by one month would cost some £150 million in the year in which it was done.

4. Looking to the future the Secretary of State points out that computerisation of supplementary benefit, for which a pilot scheme is in preparation, should put DHSS in a position to do the job of uprating more quickly and economically in future, but that this lies some years ahead.

5. We are generally content with the Secretary of States memorandum. However, given the interest of Treasury Ministers in the current consideration of how the main economic decisions on tax and expenditure might be brought together, it would seem sensible to comment briefly on the Secretary of State's suggestion that the uprating exercise might in future be shorter (and therefore more flexible).

DRAFT ~~MINUTE~~ Letter FOR PS/CHIEF SECRETARY TO SEND TO :

Private Secretary
No 10.

IMPLEMENTATION OF SOCIAL SECURITY UPRATING

The Chief Secretary has seen the Secretary of State for Social Services' minute to the Prime Minister of 2 October, and agrees that the present uprating timetable must remain at least for now.

However, he notes that while for the immediate present the need ~~manually~~ to uprate Supplementary Benefit manually dictates the broad timetable, this may not necessarily be so in the future. Clearly the application of computer based techniques should in the longer term lead to quicker and more economical implementation of uprating decisions. Any additional flexibility which these developments might afford the Government in the handling of one of the main expenditure decisions would be valuable and no doubt the possibilities will be kept under review. The Chief Secretary would like to be kept in touch with developments.

I am copying this to the Private Secretaries of members of the Cabinet and to Sir John Hunt.

CONFIDENTIAL

cc Principal Private Secret
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr Unwin
Mr Kemp
Mr White
Mr Ridley

Treasury Chambers, Parliament Street, SW1P 3AG

T P Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AL

12 October 1979

Dear Tim,

IMPLEMENTATION OF SOCIAL SECURITY UPRATING

The Chief Secretary has seen the minute of 2 October by the Secretary of State for Social Services to the Prime Minister, and agrees that the present uprating timetable must remain at least for now.

However, he notes that while for the immediate present the need to uprate Supplementary Benefit manually dictates the broad timetable, this may not necessarily be so in the future. Clearly the application of computer based techniques should in the longer term lead to quicker and more economical implementation of uprating decisions. Any additional flexibility which these developments might afford the Government in the handling of one of the main expenditure decisions would be valuable and no doubt the possibilities will be kept under review. The Chief Secretary would like to be kept in touch with developments.

I am copying this to the Private Secretaries to members of the Cabinet and to Sir John Hunt.

Yours sincerely,

Alistair Pirie

A C PIRIE

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CONFIDENTIAL

TREASURY.
18 OCT 1979
S.S.C.S.

10 DOWNING STREET

From the Private Secretary

15 October 1979

Mr Kemp
PPS PS/FST
PS/MST PS/MST
Sir D. Wass
Sir A Rawlinson
Mr Bailey
✓ Miss Whalley

Dear Don,

Implementation of Social Security Uprating

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 2 October on the above subject, and she has also read the Chief Secretary's comments as recorded in Alistair Pirie's letter of 12 October.

In the light of the explanation set out in Mr. Jenkins' minute, the Prime Minister agrees that the present uprating timetable should continue for the time being - at least until computerisation makes it possible to operate a shorter timetable.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet and to Martin Vile (Cabinet Office).

Yours ever,

Tim Lankester

Don Brereton, Esq.,
Department of Health and Social Security.

CONFIDENTIAL

CONFIDENTIAL

PS/FINANCIAL SECRETARY

cc Principal Private Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Shepherd
Mr Unwin
Mr Kemp
Miss Whalley
Mr White

SOCIAL SECURITY BENEFIT UPRATING

This is to confirm that the Chief Secretary has seen Mrs Diggle's minute of 1 October and Mr Kemp's of 3 October, and that he was content with Mr Kemp's explanations.

A C PIRIE
23 October 1979

CONFIDENTIAL

48/07

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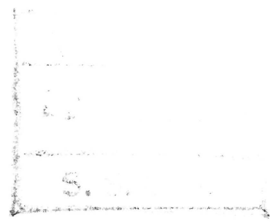
CHANCELLOR OF THE EXCHEQUER



cc Chief Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
Sir Douglas Wass
Sir Lawrence Airey
Sir Fred Atkinson
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Bailey
Mr Unwin
Miss Brown
Mr Shepherd
Mr Middleton
Miss Whalley
Mr Ridley
Mr Cropper
Mr Cardona
Mr Folger

SOCIAL SECURITY UPRATING - YOUR MEETING THIS AFTERNOON

In paragraph 5 of his minute of yesterday Mr Hall records your request that in advance of your meeting of this afternoon we should look at :-

i. Varying the basis of benefit uprating by the TPI or some equivalent, and

ii. Abandoning indexation in the area of social security benefits.

2. My notes of 26 July and 21 September discussed in detail the possibilities of making savings, or at least reining back the growth in, this immense social security programme. The conclusion, generally speaking, was that worthwhile savings could only come about either by restricting eligibility to benefit (eg raising womens pension age) or uprating less generously than at present. Your present request deals with the latter.

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3. The real question is whether, and if so in respect of which benefit, Ministers are prepared to abandon price protection as represented by the RPI. Anything less than such protection reduces beneficiaries' standards of living absolutely. This, of course, is not necessarily inconceivable. The question is one of "absolute" versus "relative" poverty. The original Beveridge concept was one of absolute need, so that, 35 years on, one would expect to see a great deal less spent on this programme. But since Beveridge and perhaps more importantly in recent years, the concept has turned into a relative one; the poor are not people who in absolute terms cannot acquire the necessities; they are the bottom (say) 10 per cent in terms of income of the population. Thus they are "always with us"; the concept is dynamised. Its justification (as set out, for instance, the recent annual report of the Supplementary Benefits Commission) is that people "must have an income which enables them to participate in the life of the community" - which carries with it, inescapably, the notion that as standards and the community as a whole increase so benefits payable to the poor should increase to enable them to keep step. And present Ministers, in the context of the plan to restrict statutory requirement to uprate pensions in line with prices rather than the better of prices or earnings, have said that it is the intention to enable pensioners and other long term beneficiaries (but not, be it noted, short term beneficiaries) to share in the increased living standards of the country as a whole.

4. I conclude that while not impossible it would be very difficult for Ministers to move away from RPI price protection, but this might be less difficult (though still very far from easy) in the case of short term benefits rather than long term benefits. Against this background I comment on your two possibilities.

5. Use of the TPI. There seems to me to be very little logic in using the TPI for uprating any benefits except, possibly, child benefit. The TPI is designed with tax payers in mind, and specifically excludes people who do not pay tax. Therefore it cannot logically be presented as maintaining standards of living in relation to price movements (as can the RPI, though with imperfections) and for benefits other than child benefit if it were wished to uprate by less than the RPI using the TPI does not seem to be the best approach. It would be better to be quite illogical

6. For child benefit (nearly £3 billion per annum) the arguments may be rather different. Most child benefit recipients do pay tax. Moreover child benefit has been excluded from the scope of the TPI, so in logic if one wishes to leave

it neutral so far as standards of living go, it ought to be uprated only by the TPI. And there is, of course, no statutory or customary practice or undertaking to uprate child benefit by any particular measure, or indeed at all. However the difficulty in uprating by less than the RPI lies not in the 90 per cent odd of the recipients who pay tax, but in the 10 per cent or so who do not, and for whom child benefit is a most important strut of income support. Uprating by less than the RPI would lead to accusations that the standard of living of these people was being eroded. However this is something which could be tackled. Under present rules, indeed, the level of child benefit is immaterial to those on sickness, unemployment and supplementary benefit, because the difference is made up through the child dependency allowance. I conclude that if Ministers wanted to uprate child benefit by less than the RPI it might be possible to use the TPI, but again it would be preferable to "go illogical".

7. Abandoning indexation. This brings me to your second point. Subject to the political constraints I discuss above, it would be very easy to abandon indexation and simply go back to the pre-1972 days when upratings were decided ex gratia by the Government of the day. The change to formula was made with the objective of "taking pensions out of politics" but it is arguable how far it has succeeded even in this and certainly it is likely to have been pretty costly in money and, possibly, work incentives. If one did abandon indexation completely, increases could of course still be given from time to time; these might be based on the "absolute" need approach discussed above, or on the sort of idea which Mr Ridley floats in his note of yesterday, so as to give beneficiaries collectively a certain fixed proportion of national earnings, or possibly of public expenditure, and distribute it within that total. The difficulties in the approach are obviously immense, but it would at least rein back the proportionate increase in the programme.

8. Alternatively semi-indexing might be possible. Thus one might uprate every other year instead of annually; this would retain a vestage of price protection, albeit not too convincingly. Or one could uprate fully every other year, but give some kind of (small) interim increase in the intervening years. Other approaches might be devised.

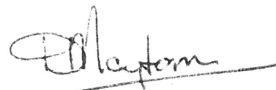
9. At the end of the day, however, the difficulty probably lies more in the will than in the way. The poverty lobbies are articulate and well organised. Ministers have already taken one very big step in deciding to remove the earnings link so far

CONFIDENTIAL

as pensions and long term benefits go, which is going to be pretty controversial as it goes before Parliament in the next few months. In the context of that proposal undertakings have had to be given - and will most certainly have to be repeated - that at least price protection will remain. There is more than one way, as I say, of interpreting the phrase "price protection", but to go for anything other than annual price protection using the RPI will be very contentious indeed. But this is not to say, of course, they could not be opened up with Mr Jenkin; the draft letter submitted to you on Friday was, however, framed on my understanding that you did not think the time was quite right for this. Short term benefits could be slightly less difficult; and indeed the possibilities here will be examined in the course of the work Ministers have commissioned on work incentives and the lower paid.

10. You will know, of course, that so far as contributory benefits are concerned cutting or slowing up the growth in outgoings, though it helps reduce public expenditure, does not help with the PSBR. This is because contributions would fall too. On the other hand, the "taxable capacity" left by the reduced contributions could be used to support increased taxation elsewhere - or indeed could be left as an absolute advantage to employer and employee in its own right.

11. Legislation would of course be needed if there were to be any widespread departure from RPI price protection. As you know so far as supplementary benefit goes, however, Mr Jenkin currently proposes to move in the opposite direction so as to make price protection statutory where it is not so at the moment.



pp E P KEMP

30 October 1979

Note: Mr Kemp has not seen this minute due to his absence at a meeting.

66

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Douglas Wass
Sir Fred Atkinson
Sir Anthony Rawlinson
Mr Anson
Mr Bailey
Miss Brown
Mr Butler
Mr Lovell
Mr Shepherd
Mr Unwin
Miss Whalley
Mr A M White
Mr Scott

NOVEMBER 1979 UPRATING OF SOCIAL SECURITY BENEFITS

I am afraid that in preparing the attachments to my minute of earlier today we have somewhat over-simplified some of the arithmetic. The table attached to the minute is correct so far as the pounds and pence go, but it is not correct to get at the effective uprating for long term by adding 12.2 per cent to 1.9 per cent, or for short term by adding 12.2 per cent to 1 per cent. The way we have to proceed is to rebase the November 1978 pension taking account of the 1977-78 shortfall, and then uprate the resulting figure by 12.2 per cent being the 1978-79 forecast; the calculation is thus more complex than straight addition. The figure of 14.1 per cent and 13.2 per cent are slightly understated.

2. In the light of this the footnote to the table should read:-

"These rates include correction of November 1977 - November 1978 forecasts, and thus provide for an increase of about 14.3 per cent (12.2 per cent for this year coupled with 1.9 per cent shortfall) for long term benefits, and about 13.3 per cent (12.2 per cent coupled with 1 per cent shortfall) for short term benefits".

4. At the same time paragraph 5 of the draft letter should be amended to read:-

"In the light of the Cabinet conclusions, therefore, the November uprating should provide for increases which reflect the agreed allowance for shortfall, and 12.2 per cent uprating for both long and short term benefits".

5. I have conveyed the gist of this to Mr Hall already.

E P KEMP
26 November 1979

CHANCELLOR

cc: Sir Anthony Rawlinson
Mr Bailey
Mr Kemp
Mr Ridley
Mr Hall

LINE FOR PRIME MINISTER TO TAKE IN WEEKEND WORLD INTERVIEW: 6TH JANUARY

After discussion today with officials, you decided that the Prime Minister should be recommended to take the following line in Sunday's Broadcast if pressed on the question of bringing the recipients of short-term social security benefits into tax and/or of raising these benefits and pensions in November by less than that suggested by the increase in the RPI:-

(i) Recipients of short-term benefits were not currently subject to taxation;

(ii) The Government regarded it as quite legitimate to look at bringing short-term benefits into tax;

(iii) If pressed on the question of whether the Government would continue to protect fully pensions and/or short-term benefits: the Government had done so in the past, and would endeavour to do so in the future, though this must depend on the success of the Government's policies and the strength of the economy.

2. I communicated this to Mr. Sanders at No.10 who said he would bring it to the Prime Minister's attention. He said that if the Prime Minister were to adopt and be forced to deploy this line it would almost certainly be interpreted as representing a movement from the current position, as expressed in the

36

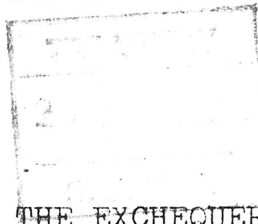
Social Security Bill. He recognised that though such a change might in the event be required if the social security programme were to yield the savings assumed in the current Public Expenditure exercise, the Prime Minister might well judge it inappropriate to hint at any movement in the Government's position at the present juncture.

3. You may judge it appropriate to speak directly to the PM before Sunday.

R.I.T.

R. I. TOLKIEN
4th January 1980

170/230/03



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19.1.80

DRAFT MEMORANDUM BY CHANCELLOR OF THE EXCHEQUER AND SECRETARY OF STATE FOR SOCIAL SERVICES

THE NOVEMBER 1979 UPRATING OF RETIREMENT PENSIONS AND OTHER LONG-TERM BENEFITS

Background

1. Legislation required that the uprating in November 1979 of retirement pensions and other long-term benefits (eg invalidity benefit for the long-term sick) should be in line with an estimate of the higher of the rise in earnings or the rise in prices over the 12 months from November 1978. Our estimate was that prices (at 17.5 per cent) would run ahead of earnings. The figures now available show that in fact earnings went ahead of prices: 19.2 per cent (provisional) compared with 17.4 per cent.

2. We in fact increased pensions by 19.5 per cent, but this included a 1.9 per cent increase to fulfil our campaign promise to make good the shortfall in Labour's 1978 uprating. But the Opposition have already said that the earnings figure shows a further "shortfall" and are pressing us on our intentions.

3. We need to decide what to do and when to announce our decision.

Consideration

4. There is no legal requirement to make good a shortfall due to an under-estimate of prices or earnings movements. We have no statutory or political commitment to take action. To make good would cost £165 million in a full year and add significantly to our problems in bringing public expenditure under control.

5. Long-term benefits do not lose value as a result of the "shortfall" since the rise in prices over the 12 months to November 1979 was 17.4 per cent. The uprating has therefore met our pledge to price-protect pensioners.

/6.

6. We are removing the link with earnings in the Social Security Bill now before Parliament, as we announced in the Budget last June.

7. Our view is that, particularly in view of the public expenditure implications, we should not make good the 1979 "shortfall."

8. We could defer an announcement until the full details of this year's uprating are given at the time of the Budget statement. But the Social Security Bill is now in Committee and the debate on the provisions relating to uprating (Clause 1) will lead to pressure to declare our intentions. There is in fact an Opposition amendment which would require shortfalls to be made good.

9. The Chancellor and I are in favour of an announcement as soon as possible to get the matter out of the way.

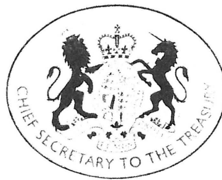
Conclusion

10. Colleagues are invited:

(a) to agree that we do not make good the shortfall in the November 1979 rates of long-term benefit; and

(b) to agree that we announce this decision as soon as possible.

39



MR KEMP

cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr Butler
Miss Whalley
Mr White
Mr Ridley
Mr Cardona
Mr Davies (IDT)

SOCIAL SECURITY - NOVEMBER 1979 UPRATING - POSSIBLE PRESSURE TO RESTORE SHORTFALL

The Chief Secretary has seen your minute of 17 January. He has noted and agrees with your advice and the line being taken in briefing for no 10.

A C PIRIE
21 January 1980

433 21/1

48/07

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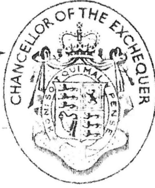

cc: Mr. Kemp
Miss Whalley
Mr. C.D. Butler

MR. WHITE

NOVEMBER 1979 UPRATING OF LONG TERM BENEFITS

The Chancellor has seen the draft memorandum for him to submit jointly with the Secretary of State for Social Services to the Cabinet, which was passed to me yesterday. He is broadly content with the draft, subject to one point. That is that the Government's response to the Opposition amendment should be confined to saying nothing more than that the Government would not make good the shortfall. This would leave the Government's hands free for decisions about the future.

2. We agreed that the addition of the following sentence to paragraph 8 would adequately reflect this point:-

"In resisting the amendment DHSS Ministers would make it clear that our pledge to protect the pension against increases in prices was a minimum commitment and we would retain the discretion to do more when circumstances permitted."

R.I.T.

(R.I. TOLKIEN)
22nd January, 1980

CONFIDENTIAL

TREASURY
9 MAY 1980
S. S. C. S.

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 Littler
Mr Butler
Miss Whalley
Mr White

THE NOVEMBER 1979 UPRATING OF RETIREMENT PENSIONS AND OTHER LONG TERM BENEFITS C(80)6

This is a joint paper by yourself and the Secretary of State for Social Services. It discusses the situation that has arisen now that the provisional earnings figure for November 1978 and November 1979 at 19.2 per cent has turned out to be higher than the forecast of prices made at the time of the Budget (17.5 per cent), so that had the outturn been correctly forecast the long term social security uprating would have been based on 19.2 per cent rather than 17.5 per cent as it was. (In fact, of course, an uprating of 19.5 per cent was given but this included a special increase to make good the shortfall in Labour's 1978 uprating.) The question for decision is whether this "shortfall" should be made good in the 1980 uprating. You and Mr Jenkin point out that there is no legal or other obligation on the Government to make this good; the commitment to price protect pensioners has been fulfilled (in fact slightly over fulfilled - the uprating was 17.5 against actual 17.4 per cent) and that in present public expenditure circumstances there is no justification at all for an increase of the order required which would cost £165 million in a full year. You propose that an early announcement should be made of this, and that the announcement should indicate the Government's discretion to increase by more than price protection when circumstances permitted - which, implicitly, they do not at present.// It seems unlikely that anybody will challenge your proposals. But if they do you may wish to draw on the following arguments :-

a. The Government's position is that pensioners should be price protected. They have been price protected.

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b. The decision to remove the earnings link was made and announced at Budget time last year at the same time as the November 1979 uprating was announced. This was based on collective agreement beforehand. There is no need now to go back on that agreement.

c. The Social Security Bill now before Parliament removes the earning link. It would be perverse if at the same time the Government acted as though the earnings link was still there.

d. Making good the "shortfall" would add substantially to public expenditure at a time (as the same Cabinet will know) when every effort is being made to hold it back. You are putting forward no proposals in the public expenditure operation that would give retirement pensioners less than price protection, so there is no "sweetener" required. Indeed your proposals let retirement pensioners off lightly compared with some other groups.

e. The making good of the Labour Government's 1978 shortfall is no precedent: that arose from an explicit quasi pledge made by Mrs Thatcher before the Election, which does not arise now.

f. There are sound reasons, from the point of view of long term public expenditure control, not to create any precedent or expectation that shortfalls of this sort are made up. Where we have the "forecast" method of uprating (whether for social security benefits, student grants, or whatever) shortfalls and long-falls will always arise. But it is the nature of the thing that while Government will always be pressed to make up short-falls, they will always find it extremely difficult to claw back long-falls. If the short-falls are made up but the long-falls not clawed back a ratchet effect emerges, so that the benefits inevitably take off over time. This must be avoided.

2. The question of the timing of an announcement is for political decision. You and Mr Jenkin propose an announcement as soon as possible. This seems right; the longer the matter is left outstanding the more attention will be aroused and the more pressure will be created. It would be better to scotch the suggestion quickly.

E P KEMP

23 January 1980

9 JAN 1980
S. S. C. S.

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 Littler
Mr Butler
Miss Whalley
Mr White

NOVEMBER 1979 UPRATING RETIREMENT PENSIONS AND OTHER LONG TERM BENEFITS - C(80)6

This is a joint paper by yourself and the Secretary of State for Social Services proposing that nothing should be done in respect of the "shortfall" which might be claimed to have arisen on the November 1979 long term benefits uprating due to the fact that as it turned out the November 1979 on November 1978 earnings increase at 19.2 per cent was bigger than the forecast of prices increase (17.5 per cent) made at the time of the Budget.

2. This was on the agenda for Cabinet last week, and my note of 23 January contained briefing. I am not quite clear why it is up for discussion again. I had thought that the matter had been settled; and indeed in a written Answer on 25 January (copy attached) the Secretary of State made it clear that the Government did not propose to make good this shortfall. We had hoped that this closed the matter. The only relevance it might have for tomorrow is in connection with any suggestion that might be made, in the current public expenditure operation, that after all retirement pensioners should be given less than full price protection. This is an option which your Cabinet paper discards, principally in the light of the various commitments that have been given. The refusal to make good the earnings shortfall does not, of course, in any way break a pledge that pensioners should be price protected, but it might have some relevance to any attempt by other Ministers to reopen that matter, in that although the savings cannot in anyway be scored in the current public expenditure operation, it could be said (and indeed has been said in the House), that this refusal is a form of public expenditure cut aimed at retirement pensioners.

E P KEMP

30 January 1980

Dr. Vaughan: I have no plans at present for such a visit.

Hospital Beds

Mr. Butcher asked the Secretary of State for Social Services how many hospital beds are available in the National Health Service currently compared with 1974 and 1970.

Sir George Young: The average daily number of beds available in National Health Service hospitals in England in 1978, the latest date for which figures are available, was 369,235 compared with 396,235 in 1974 and 423,621 in 1970.

Kidney Transplants (Dulwich Hospital)

Mr. Churchill asked the Secretary of State for Social Services what is the latest position following the suspension of kidney transplant operations at Dulwich hospital up to 1 April.

Dr. Vaughan: I refer my hon. Friend to my replies to the right hon. Member for M[illegible] we (Mr. Morris) [illegible] Discussions are tak[illegible] he British Kidney Patients Association and the commissioners for the Lambeth, Southwark and Lewisham health area.—[Vol. 976, c. 657-8.]

Action Overleaf

Consultants

Mr. Churchill asked the Secretary of State for Social Services if he will publish a list giving the numbers of consultant medical and dental staff in each region of the United Kingdom, and the figures for each expressed in terms of consultants per 1,000 of population.

Sir George Young: I only have these figures for Great Britain, and they are set out in the table attached. Numbers of consultants are expressed in whole time equivalents as at 30 September 1979. More detailed figures for 1978 for England and Wales are in the regional tables in the Library, and I will be placing the 1979 tables there as soon as they are available.

HOSPITAL MEDICAL AND DENTAL CONSULTANTS, AND SHMOs AND SHDOs WITH ALLOWANCE IN GREAT BRITAIN ANALYSIS BY REGION SHOWING WHOLE-TIME EQUIVALENTS (W.T.E.) AND W.T.E./100,000 POPULATION† AS AT 30 SEPTEMBER 1979

	Medical w.t.e.	*w.t.e./100,000 population*	*Dental* w.t.e.	*w.t.e./100,000 population*
England and Wales	11,243·4	22·9	394·2	0·8
London Post-Graduate Teaching Hospitals ...	313·6	Not applicable	19·6	Not applicable
Northern	729·1	23·5	24·7	0·8
Yorkshire	749·3	21·0	29·6	0·8
Trent	823·3	18·2	28·6	0·6
East Anglia	428·8	23·3	10·5	0·6
North West Thames	909·8	26·5	18·3	0·5
North East Thames	959·1	26·0	33·8	0·9
South East Thames	889·9	25·1	35·1	1·0
South West Thames	650·8	22·8	22·3	0·8
Wessex	591·1	22·1	17·3	0·6
Oxford	472·5	21·0	13·9	0·6
South Western	615·7	19·3	25·5	0·8
West Midlands	1,056·4	20·5	42·8	0·8
Mersey	524·1	21·3	18·4	0·7
North Western	915·8	22·7	34·4	0·9
Wales	614·1	22·2	19·5	0·7
Scotland‡	1,708·8	33·2	56·2	1·0

Footnote:

* Figures include permanent paid whole time and part time honorary staff in post at 30 September.

† Population figures relate to mid 1978 estimates (later figures not yet available).

‡ Figures for Scotland are provisional.

Pensions and Benefits

Mr. Peter Lloyd asked the Secretary of State for Social Services whether the Government proposed to make good the shortfall in the November 1979 uprating of retirement pensions and the other long-term benefits arising from the under-estimate of the rise in earnings in the year to November 1979.

Mr. Patrick Jenkin: No. There is no legal obligation to make up this shortfall which, it is estimated, would cost £195 million in a full year. We fully complied with the statutory requirements when uprating retirement pensions and other long-term benefits in November 1979.

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