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PART. A

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PO CH/GH/0170
PART. A

Pensions Payments and Social Security 1979 papers

Manuscript

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CHIEF SECRETARY

cc Chancellor of the
Exchequer
Financial Secretary
Sir A Rawlinson
Mr Bailey
Mr Butler
Mr Kemp
Mr Ridley
Mr A M White

Mr Taylor Thompson
(Inland Revenue)

H(79)7: SOCIAL SECURITY BILL

In this paper the Secretary of State for Social Services seeks the agreement of his colleagues to proposals for the payment of a Christmas bonus this December, provision for annual payments in subsequent years, and for freezing the dependency earnings rule for long-term benefits at its present level. Authority to draft a Bill covering these issues is sought accordingly.

Christmas Bonus

2. There is a Manifesto commitment to continuing the Christmas bonus. At discussions between Treasury Ministers and the Secretary of State last week, it was agreed that a bonus of £10 should be paid this December but there was a difference of view on the question of whether power should be taken now to provide for bonus payments in subsequent years. The Secretary of State has argued that this should be a regular feature of social security provision and wishes to include in the required legislation power to make payment in subsequent years under subordinate legislation. The Chancellor has taken the view that there is no commitment to paying a bonus each year and this issue is covered in the Secretary of State's paper C(79)9 on the uprating November 1979 which is to be considered by Cabinet on Thursday, 24 May.

3. Any political value rests in the Government's retention of discretion to pay a bonus or not in any particular year - as well as determining the level of payment. If this discretion is abandoned and statutory provision taken for an annual payment, at least £108 million will be added to public expenditure each year since it will be almost impossible to refuse to pay bonuses if statutory cover exists.

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4. The bonuses paid in previous years have not been taxed because the announcement of payment of a bonus has been made at a late stage and it has not proved possible to make arrangements to collect tax. If the bonus is to become a permanent feature - and indeed provided an announcement is made early (as is contemplated this year) - Revenue will wish to propose that arrangements are made for taxing the bonus even if the 1979 bonus is again covered by one-off legislation. (Inland Revenue are putting a submission on this issue to the Chancellor today.)

5. Since the question of whether Christmas bonuses should be made a permanent feature of social security provision is to be considered by Cabinet on Thursday, 24 May, the Chief Secretary will no doubt wish to reserve the Chancellor's position on the Secretary of State's proposal to allow payment in future years under subordinate legislation which would also include a power to increase the amount from time to time.

Uprating formula

6. The Secretary of State suggests that, if the forecasts on which this year's uprating will be based indicate that earnings are likely to run ahead of prices for the period November 1978 to November 1979, the opportunity of an early Bill on social security providing for the Christmas bonus should be taken to amend the law to remove the obligation to uprate in line with earnings. Final decision on the level of the uprating cannot be taken until forecasts are available in the light of the Budget decisions. Cabinet will no doubt approve the Secretary of State's proposals on the basis that the uprating should take account of the final Treasury forecasts of the movements of prices. Legislation may not be necessary for this November since on present information it is probable that prices over the relevant period will have moved ahead faster than earnings. No decision is therefore required on this specific point at this stage, although the Chief Secretary may wish to endorse the proposal that, if earnings are likely to move ahead of prices, the proposed Social Security Bill should be used to amend the uprating formula in the Social Security Act 1975 by removing the obligation to uprate in line with earnings.

Earnings rule for dependants of long-term beneficiaries

7. The UK is committed to implement by 1984 the EEC Directive on equal treatment of men and women in social security. The cost of providing equal treatment is expected to be of the order of £13 million and the changes required will be phased in during the next 5 years.

8. To finance these additional costs the Secretary of State hopes to secure offsetting savings by freezing the earnings rule used to determine whether long-term social security beneficiaries qualify for a full dependency increase for wives at the present level of £45. Dependency increases can be paid if wives are earning £45 a week and some increase may be payable when earnings are over this figure. By freezing the limit for this purpose at £45 now, savings will be generated immediately since it will not be necessary to make the automatic adjustment of the rule which would normally take place in the context of the November uprating. The extent to which savings from this source will accrue depends on the rate at which women's earnings qualify; an increase of 7% per annum should provide savings of £16 million by 1984-85.

9. There is a Manifesto commitment to abolish the earnings rule for retirement pensioners within the lifetime of this Parliament. The Chief Secretary will be aware that the Chancellor is now considering whether to announce in his Budget that a start is being made on implementing the Manifesto commitment. 7 The Secretary of State suggests that, although the dependency test is linked to the retirement pension earnings rule, the 2 rules are not the same. However, Ministers will want to consider whether the 2 earnings rules can be distinguished to avoid accusations of inconsistency. On expenditure grounds we recommend that the Secretary of State's proposal should be accepted. But it will not be possible to " earmark " savings to finance the equal treatment proposals since the savings will be taken into account as an estimating change whereas DHSS Ministers will have to put forward proposals for increased expenditure providing for equal treatment of men and women in social security which will have to be treated as a claim against the Contingency Reserve. However, no doubt credit can be

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given to the Social Security Ministers for offering downward adjustments in their programme flowing from the freezing of the earnings rule for dependants.

Recommendation

10. We recommend, therefore, that you:-

- (a) should reserve Treasury Ministers' position on the form of legislation for Christmas bonus since this issue is to be discussed at Cabinet on Thursday;
- (b) should accept that the proposed social security legislation may need to include provision to remove the obligation to uprate in line with earnings; and
- (c) provided that it is accepted that action on the earnings rule for dependants can be distinguished from possible action on the earnings rule for retirement pensioners, should accept the proposal to freeze the earnings limit for dependency benefits of long-term beneficiaries at its present level of £45.



MISS K WHALLEY

22 May 1979



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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 Jenkins' 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 (HC 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

CHIEF SECRETARY

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

H(79)7: SOCIAL SECURITY BILL

I refer to Miss Whalley's brief of yesterday for the H meeting this morning.

2. Miss Whalley recommends (her paragraph 10(b)) that you should accept that the proposed early social security legislation may need to include provision to remove the obligation to uprate in line with earnings. This is most certainly true; if earnings look like being ahead of prices early legislation must be taken. But there is the further question as to whether, even if prices are ahead of earnings, early legislation to make the change to prices only should not be sought in any case.

3. This is a matter which will come up in Cabinet tomorrow in discussion of Mr Jenkin's paper C(79)9, on which I briefed yesterday. On that point I suggested that whether or not Ministers went for early legislation regardless of whether or not prices were ahead of earnings was a matter for political judgment; on the one hand it might be better to grasp the nettle now and make the change to ^{Prices}~~earnings~~ only statutory at the earliest possible date even, 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 later and would give a clear run, so to speak, to the early Bill which is certainly needed for the Christmas bonus anyway. I recommended that on balance Treasury Ministers might prefer to go for early legislation regardless.

4. At the H meeting today you will no doubt wish to refer to the fact that Mr Jenkin's paper raising (inter alia) the question of whether or not there should in any case be legislation on this point is to be taken at Cabinet tomorrow, and decisions must therefore wait on that. But you may like to add that there are some quite powerful arguments in favour of early legislation.



E P KEMP

23 May 1979



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PS/INLAND REVENUE

cc Chancellor
Chief Secretary —
Financial Secretary
Minister of State (L)
Sir Douglas Wass
Sir Lawrence Airey
Sir Anthony Rawlinson
Mr Littler
Mr Lovell
Mr Kemp
Mr Corlett
Miss Whalley
Mr de Wall - Parliament-
ary Counsel

CHRISTMAS BONUSES FOR PENSIONERS

The Minister of State has considered your minute of 23 May concerning the tax treatment of the proposed Christmas bonus to pensioners. He feels that the Government could not possibly tax the Christmas bonus this year against a background of increased VAT. He accepts that if Christmas bonuses are to become a regular feature of the payments to pensioners then there may be a case for taxing them, but he thinks that this should be considered in the context of taxing short term benefits, currently being looked at by the Minister of State (Lords).

With regard to legislative provision for this year's payment, if it is necessary to specifically exempt the bonus to ensure that it is not taxed the Minister of State would prefer the necessary legislation to be included in the Social Security Bill as in previous years.

R J BROADBENT
30 May 1979



PS/MINISTER OF STATE - COMMONS

cc Chancellor of the Exchequer
Chief Secretary —
Minister of State - Lords
Sir D Wass
Sir L Airey
Mr Littler
Mr Lovell
Mr Corlett
Mr Ridley
Mr Cropper
Mr de Waal - Parliamentary
Counsel

PENSIONERS' CHRISTMAS BONUSES

The Financial Secretary has seen the Revenue minute of 1 June, which suggests that the Minister of State should consider charging the pensioners' Christmas bonus to tax on a permanent basis in this year's Finance Bill.

The Financial Secretary has commented that the argument against any provision in this year's Finance Bill is overwhelming. He suggests that it ^{would} be more sensible to bring the Christmas bonus into charge ^{to tax} at the same time as taxation of unemployment benefit is introduced.

PCD

P C DIGGLE
4 June 1979



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister For Social Security

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

5 June 1979

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CHIEF SECRETARY	
DATE	5 JUN 1979
Miss Whalley	
PPS PS1/ST	
PS1MST PS1MST(4)	
Sir A Rawlinson	
Mr Bailey	
Mr Kemp	

John Biffen

CHRISTMAS BONUS : FINANCIAL PROVISION

1. I note from Cabinet minutes (CC(79)3rd Conclusions - Minute 4) that the question has been raised whether the cost of the Christmas bonus should be met from the National Insurance Fund. I understand this was the arrangement for the 1972 and 1973 payments, ie where qualification arose from receipt of a NI pension or benefit the cost of the bonus was met from the NI fund, but that the switch was made to the Consolidated Fund by the Labour administration in order to avoid amendments being put down seeking to increase the bonus by drawing upon the NI Fund. By making the bonus payments payable from Voted monies, it was possible to draft the Money Resolution tightly and exclude such amendments.
2. Now that the bonus is to be made permanent and, after this year, is to be dealt with by means of affirmative order - and hence the amount is not open to amendment - I consider we should revert to the previous arrangement. It is wholly appropriate for the NI Fund to bear its appropriate share of the cost since the bonus will in future be, in effect, a permanent addition to benefit. The allocation of costs would be of the order of 90% to the NI Fund and 10% to the Consolidated Fund.
3. We propose to provide accordingly in the Social Security Bill now being drafted, and I shall be grateful for your agreement.

*Yours
Reg*
REG PRENTICE

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cc Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr L J Taylor
Mr A M White

CHIEF SECRETARY

CHRISTMAS BONUS: FINANCIAL PROVISION

The Minister for Social Security wrote on 5 June about the possibility of meeting some part of the cost of the Christmas bonus from the National Insurance Fund. This proposal was raised at Cabinet when it was agreed that permanent provision should be made for the payment of a Christmas bonus.

2. When the Christmas bonuses were first introduced in 1972, the cost was met from voted moneys. In 1973, when it was again agreed that a Christmas bonus should be paid, where qualification arose from receipt of a social security pension or benefit financed from the National Insurance Fund it was decided that the cost should be met from the National Insurance Fund. The cost of Christmas bonus for those who qualify by reason of receipt of non-contributory benefits continued to be met from voted moneys. When the previous Administration agreed to the payment of Christmas bonuses in 1977 and 1978, however, the full cost of paying bonuses to all recipients was again financed from voted moneys. An advantage of payments from the Consolidated Fund was that the Money Resolution could be drafted tightly to exclude amendments increasing the level of the bonus in relation to the one-off Bills passed in 1977 and 1978 to cover bonus payments.

3. Since it has now been accepted that a Christmas bonus should be paid each year and, after this year, payment will be covered by means of an Affirmative Order, when the amount will be open to amendment, it is proposed to revert to the 1973 arrangement and to provide for payment from the National Insurance Fund of bonuses where qualification arises from receipt of contributory pensions. The allocation of costs will be of the order of 90% to the National Insurance Fund and 10% to the Consolidated Fund.

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4. The proposal will have the advantage of using some of the substantial surpluses in the National Insurance Fund - although if bonuses are now treated as a benefit expenditure from the Fund, cost will have to be taken into account each year when the Government Actuary reports on the position of the Fund when contributions are reviewed every autumn. The change will have no impact on public expenditure since payments from the National Insurance Fund count as public expenditure. But we see no objection to the proposal put forward by the Minister for Social Security and you may therefore like to reply on the lines of the draft below.



MISS K WHALLEY

7 June 1979

M type

WRITE TO:

Robert Reginald Pearce MP
The Minister for Social Security

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CHRISTMAS BONUS: FINANCIAL PROVISION

Thank you for your letter of 4 June about the financing of the Christmas bonus.

2. I understand that, although the Christmas bonus in 1972 as well as the bonuses paid by the previous Administration in 1977 and 1978 were financed from the Consolidated Fund, in 1973, where qualification arose from receipt of a contributory pension or benefit, the cost was met from the National Insurance Fund.
3. I recognise that since the bonus is now to be a permanent feature and, after this year, will be authorised by Affirmative Order - and therefore the amount will not be open to amendment - we shall in any event lose the advantage of a tightly drafted Money Resolution in relation to the possibility of amendments seeking to increase the amount of the bonus. In these circumstances I am content that in future the National Insurance Fund should bear an appropriate share of the cost since the bonus will be, in effect, a permanent addition to benefit. This will mean that for this year and in the future about 90% of the cost of the bonus will fall to the National Insurance Fund and 10% to the Consolidated Fund.
4. I agree that you should provide accordingly in the Social Security Bill which is now being drafted.

John Biffen

13 29

CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Sir Anthony Rawlinson
Mr Bailey
Miss Whalley
Mr White
Mr Dyer
Mr Ridley

SOCIAL SECURITY NO 1 BILL - CHRISTMAS BONUS ETC

DHSS are now arranging for the draft of their Social Security No 1 Bill which will include, amongst other things, provision for Christmas Bonus on a permanent basis on the lines recently agreed by Cabinet. The draft of this Bill is expected to go to Legislation Committee sometime next week.

2. We have, as usual, been consulted throughout, and we have come on two points of disagreement which I think are sufficiently important for us to draw to your attention. Both concern the Christmas Bonus.

3. The first point is that the draft Bill proposes ^{that} the provisions relating to the Christmas Bonus shall be mandatory, rather than permissive. That is to say, it provides that the Secretary of State "must" proceed, rather than "may". Second, the Bill will provide for a £10 Christmas Bonus this year, and then for power to "increase" it in future years, not "vary" it.

4. There is no justification for either of these views in the Cabinet minutes, which in particular talks only about the amount being "varied". Taken together, the two points mean that unless further legislation was passed we are committed inevitably, whatever the economic situation may be, to paying out at least £100 million per annum, and possibly more, for all time.

5. Apart from that, and the way it seems to go beyond the Cabinet minutes, on both points the DHSS' view seems unsound. On the first, it is argued that for presentational reasons a mandatory rather than a permissive motion is necessary. This seems weak; and one can envisage circumstances in which it

might be desirable not to pay a bonus - either because the economic situation did not stand it or, perhaps more likely and more desirably, because as a matter of policy it was decided to terminate the bonus as part of a different approach to social security - as you yourself said at your meeting this morning the bonus is really only a gimmick. On the second point, it is true, as DHSS argue, that unless there is to be bonus at all in any year, one cannot imagine it being less than £10, but one can imagine a situation in which for one reason or another the bonus went up to £20, and Ministers wished to pull it back to say £15 the next year - inclusion of the word "increase" would not be helpful here.

6. There is of course the point that if, as we understand it, removal of the earnings link is now to be included in the first Social Security Bill along with Christmas Bonus, then Mr Jenkin may argue that he wants all the "goodies" he can lay his hands on in order to get this very unpalatable measure through, and that it is just too much for him to have to admit in any given year a bonus of less than £10 might be paid. But this of itself is not conclusive, and unless you feel that the overall political atmosphere is such that Mr Jenkin's approach must be adopted, then we would recommend you write to him on the lines
.... of the draft below, taking up these points.

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E P KEMP

7 June 1979

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DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO

Mr. Hon. Patrick Tensie MP
Secretary of State for Social Services

SOCIAL SECURITY BILL NO 1 - CHRISTMAS BONUS

Your people have been in touch with mine about the drafting of the Social Security Bill No 1, and in particular the provisions relating to the Christmas Bonus. I understand that it is proposed that the Bill should make payment of a bonus mandatory rather than permissive; and, what is more, that it should provide that the initial amount of £10 can be "increased", rather than "varied" in future years.

It seems to me that these provisions go further than we agreed in Cabinet, and are not necessarily desirable. It is clearly possible that in any given year we might want not to pay the bonus - whether because the economic situation did not justify it or because we had found an alternative approach to social security which enabled us to dispense with the bonus. And on the second point, while I agree that if there is to be a bonus at all in any given year it is most unlikely we should ever want to pay less than £10, it is surely not impossible that over time as the bonus moves up we may occasionally wish to pull it back, though not so as to fall below £10 - in this case the inclusion of the word "increase" rather than "vary" would seem to me to be unhelpful.

I appreciate the presentational points involved, which of course are accentuated if you do carry in your No 1 Bill the removal of the earnings link. Nevertheless, I am not convinced that the bonus provisions should be drafted as you propose, and it may be you would like to think about these again before the Bill reaches legislation Committee.

John Biffen



Financial Secretary
Minister of State (C)
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr L J Taylor
Miss Whalley
Mr A M White

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Treasury Chambers, Parliament Street, SW1P 3AG

8 June 1979

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

Dear Minister,

CHRISTMAS BONUS: FINANCIAL PROVISION

Thank you for your letter of 4 June about the financing of the Christmas bonus.

I understand that, although the Christmas bonus in 1972 as well as the bonuses paid by the previous Administration in 1977 and 1978 were financed from the Consolidated Fund, in 1973, where qualification arose from receipt of a contributory pension or benefit, the cost was met from the National Insurance Fund.

I recognise that since the bonus is now to be a permanent feature and, after this year, will be authorised by Affirmative Order - and therefore the amount will not be open to amendment - we shall in any event lose the advantage of a tightly drafted Money Resolution in relation to the possibility of amendments seeking to increase the amount of the bonus. In these circumstances I am content that in future the National Insurance Fund should bear an appropriate share of the cost since the bonus will be, in effect, a permanent addition to benefit. This will mean that for this year and in the future about 90 per cent of the cost of the bonus will fall to the National Insurance Fund and 10 per cent to the Consolidated Fund.

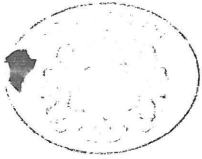
I agree that you should provide accordingly in the Social Security Bill which is now being drafted.

Yours sincerely,

John Biffen

JB JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]



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QUEEN ANNE'S GATE
LONDON SW6 1AT

9 June, 1979

Administrative Cost of the
1979 Christmas Bonus

Thank you for your letter of 4th June, in which you propose an amendment to the minutes of H Committee's discussion on 23rd May of the Social Security Bill.

I agree that the amendment which you have suggested would help to clarify the position in respect of a D.H.S.S. claim on the Contingency Reserve. Your assurance about seeking offsets where possible would, of course, still stand. I have therefore instructed the Secretaries of H Committee to circulate a corrigendum to the minutes on these lines.

I am sending a copy of this letter (together with a copy of your letter) to Christopher Soames and John Biffen, and to Sir John Hunt.

Miss Whalley
PPS PS/FST
PS/MST PS/MST(L)

Sir A Raulinson

Mr Bailey
Mr Kemp

The Rt. Hon. Reg Prentice, M.P.

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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-427 5522

From the Minister For Social Security

The Rt Hon William Whitelaw MC MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
London SW1

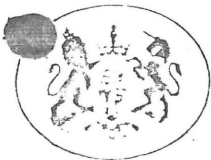
4 June 1979

Dear Willie,

At the meeting of the Home and Social Affairs Committee on 23 May, I gave an assurance that the administrative cost of £3.5 million for paying a Christmas Bonus to pensioners etc in 1979 would so far as possible be contained within the Department's current cash limit. As recorded in the minutes this is being interpreted by officials as meaning that the necessary staff resources, which are essential to undertake the work, as well as the financial cost has to be found within existing resources, whereas what was intended by my assurance was that my department would not necessarily draw on the Contingency Reserve if in the event savings emerged during the year which enabled the cost to be contained. However, for the purpose of securing the necessary staff resources to undertake the work and to earmark the necessary funds from the Contingency Reserve should they be required perhaps the minutes could make the position clear on this point. This could be done by the insertion of the phrase "which would be a charge on the Contingency Reserve" after "concerned" in line 6 of the summing up.

Reg

REG HANFORD



Minister of State

FINANCIAL SECRETARY	
REC.	11 JUN 1979
ACTION	Miss Whalley ^{AMW}
COPIES TO	PPS
	PS/CS
	PS/MS C
	PS/MS L

MR AM WHITE

NOTES

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HERN IRELAND OFFICE
EAT GEORGE STREET,
LONDON SW1P 3AJ

11 June 1979

Rt Hon Lord Hailsham of Saint Marylebone CH
Lord Chancellor
House of Lords
London
SW1

Sir Anthony Davidson
Mr. Bailey
Mr. Kemp
Mr. R. Jones

Dem Quintin, ^{Mr. Dyer} PS/IR

NON

I have seen Patrick Jenkin's memorandum on a Pensioners' Payments and Social Security Bill (L(79)16) which is to be considered at Legislation Committee on 13 June. I should like to make one point about the means by which that part of the Bill dealing with pensioners' payments is applied to Northern Ireland.

The draft of the Bill dated 7 June enables an Order in Council corresponding to the Bill to be made for Northern Ireland subject to negative resolution. This device has been used in the past on several occasions and is a valuable weapon in our legislative armoury during direct rule. It has proved acceptable to Unionist Members - but they forego the normal affirmative resolution for the Order in Council only on the strict understanding that its substance will correspond precisely with that of the Bill. On this occasion, however, it has proved necessary for Clause 5(1)(a) of the Bill to provide that the Order in Council need not correspond precisely to Clause 4(3) of the Bill. This acceptance in the Bill that there need not be "correspondence" on all matters between the Bill and the Order in Council would, in my view, almost certainly bring protests from Unionist Members (who are carefully monitoring the use of negative procedure Orders in Council). If this happened the general progress of the Bill might be impeded; and we would also be jeopardising our future use of the "negative resolution" procedure device.

My officials have therefore been in touch with Patrick Jenkin's and have agreed that Clauses 1 - 4 of the Bill should extend directly to Northern Ireland, thus eliminating the need for Clause 5. Making UK-wide provision on this subject is wholly consistent with past practice when Christmas bonuses have been authorised by Bills extending throughout the United Kingdom.

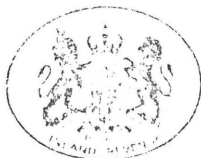
I regret that this change in the Bill is necessary at such a late stage. However I hope that it is acceptable to Legislation Committee. The substance of the Bill's provisions is unaffected.

I am copying this letter to members of L Committee and Sir John Hunt.

Your ever
Michael Alison

MICHAEL ALISON

SECRET



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

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12 June 1979

FINANCIAL SECRETARY

LEGISLATION COMMITTEE : PENSIONERS'
PAYMENTS AND SOCIAL SECURITY BILL

We understand that you will be attending tomorrow's meeting of Legislation Committee when this draft Bill will be discussed. From our point of view the one item of interest in the Bill is the Christmas bonus for pensioners which is to be put on to a permanent footing.

2. The Minister of State (Commons) (as recorded in his Private Secretary's minute of 5 June) has taken the view that the bonus should be exempt from tax this year and that the exemption should, as in previous years, be included in the Social Security Bill, rather than in the Finance Bill, so as to indicate that no final view on the question has been reached.

3. The exemption of the bonus is provided for in Clause 1(5) of the Bill - which is based on past legislation - and refers in terms only to this year's payment. The procedure for future years (set out in Clause 4) entails an Order which would vary the date, and could vary the amount, of the bonus, but would simply re-activate the exemption by reference to the exemption in this year's Bill. Given that the exempting provision is in similar terms to those used before, it does not carry any implication that the future taxability of the bonus has been

cc Chancellor of the Exchequer
Chief Secretary
Minister of State (Lords)
Minister of State (Commons)
Miss Whalley
Mr Corlett
Mr Dyer (Parliamentary Clerk)

Sir William Pile
Mr Green
Mr Adams
Mr Taylor Thompson (origin)
Mr Boyles (2)
Mr Painter
Mr Houghton
Mr Gracey
Mr Rogers
Mr Newcombe

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under consideration and it should not therefore provoke unwelcome questions. If the bonus is to be taxed at some future time, then the changing legislation would have to be in a Finance Bill.

4. Our advice, therefore is that the exemption as phrased in this Bill is acceptable. We suggest, however, that you might let it be known that the question of taxing bonuses is still open and that DHSS Ministers should not give any assurances or promises as far as future years are concerned.

Private Secretary.

CONFIDENTIAL



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

CHIEF SECRETARY
13 JUN 1979
Miss Whalley
PPS Ps/FST
PS/MST PS/MST
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

13 June 1979



SOCIAL SECURITY NO 1 BILL - CHRISTMAS BONUS

I was surprised to receive your letter on the eve of Legislation Committee! My own understanding of what we had agreed (CC(79) 3rd Conclusions Minute 4) is clear, and very different from yours. If we were to follow the line you suggest we would, apart from this year's bonus, be doing no more than indicate that some time we might pay another bonus and that it might be even less than £10. It would be better to say nothing about the future than to say this.

The line of my argument at Cabinet - one with which colleagues seemed to agree - was that in the context of a very negative Bill, and given our Manifesto commitment, we must make more of the Christmas bonus than the Labour Government has done. Although that might well have implied restoring the value of the bonus, I stuck to the minimum advance: an annual bonus with power to increase it from time to time. That minimum advance had already been written into the provisional outline of our plans and the tentative costings of them we had drawn up before the Election.

I cannot interpret the terms 'permanent' and 'continuing' which were used at Cabinet as meaning anything as vague as some bonus some time. Nor do I think that we could expect our own supporters to accept this interpretation. In a Bill which takes away the present statutory guarantee of enhanced living standards for pensioners, and freezes the dependency earnings limit, the Christmas Bonus provisions have more than merely presentational importance - they must have some substance.

As you have not copied your letter more widely, I am also restricting the correspondence to one between ourselves.

CONFIDENTIAL



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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

CHIEF SECRETARY
15 JUN 1979

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

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 Unwin
Mr Ridley
Mr Dyer
Mr White

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 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} ^{to} certainly 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.

agmond etc

SD.



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

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Treasury Chambers, Parliament Street, SW1P 3AG

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.

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This brings me to a second point. 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.

Yours sincerely
R. W. H. B.

PP JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

19 June 1979

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

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.

[Handwritten signature]

FROM:

THE RT. HON. LORD

HAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

265/63
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HOUSE OF LORDS,
SWIA 0PW

CONFIDENTIAL

20 June 1979

~~Miss Whalley~~
P/S PST/ST
PS/MS/ST PS/MS/ST (-)
Sir D. Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp

Miss Whalley
✓ spoke to
Mr Pinnic. letter
to S of S now
dispatched
Mr Dyer AMW
22/6

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:

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

CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr A M White
Mr Dyer

SOCIAL SECURITY LEGISLATION

The Secretary of State's letter of 19 June explains that the confusion over the home for the change in the uprating provisions has been resolved. The provision will be included in the second Social Security Bill. Although there has been no confirmation from the Lord Chancellor's Office, we understand that a letter will be sent shortly.

2. The Secretary of State also confirms some of the outstanding points which have been covered in recent exchanges. The assurances given are satisfactory on the question of the possibility that Royal Assent to the second Bill might not be given by next April. It is proposed that an announcement should be made at Budget time of a prices uprating with a reference to the legislative provisions then before the House. The Uprating Order would then not be introduced until a time when the Bill had received Royal Assent and therefore the Secretary of State would not be in breach of the statutory requirement. On the dependency earnings test, the Opposition are expected to agree to the inclusion of this provision, but in any event the Secretary of State is prepared to go ahead with the proposed freeze on this test.

3. However, Mr Jenkin's written assurances on increases for Christmas bonus are not wholly in line with the assurances which we thought had been given by DHSS. Our understanding is that the Bill will include provision for a cash payment of £10 in 1979 and that power to increase this amount by Order will also be taken in the Bill. Our interpretation of the Cabinet decisions on Christmas bonus is that at present there is only approval for a cash payment of £10 and that any proposals for increasing this amount, whether by indexation or an improvement in real value, would have to be

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considered in the light of priority for public expenditure at the time. This view is shared by the DHSS Finance Division who have already included in their expenditure figures provision on this basis. However, Mr Jenkin could be read as implying in the fifth paragraph of his letter that the £10 amount will be indexed in some way or other. To avoid any misunderstanding you may like to write on the lines of the draft below which spells out the public expenditure implications on the basis of the Cabinet decision. The draft incorporates in square brackets in paragraph 1 a reference to confirmation from the Lord Chancellor about the inclusion of the change in the uprating provisions in the second Social Security Bill; perhaps the letter should issue only after written confirmation on this point has been received.

kw

MISS K WHALLEY

20 June 1979

cc. Lord Chanc.
Home Sec.
Leader of the House

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A type

DRAFT LETTER TO: SECRETARY OF STATE FOR SOCIAL SERVICES

SOCIAL SECURITY LEGISLATION

Thank you for your letter of 19 June. ~~The~~ 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 ~~4~~

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 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 the £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 than £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.

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

John Biffen



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 Chambers, Parliament Street, SW1P 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 than £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

cc. Chancellor of the Exchequer
Financial Secretary
Sir Anthony Rawlinson
Mr Bailey Mr Kemp
Miss Whalley
Mr White
Mr Dyer
Mr Ridley



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Treasury Chambers, Parliament Street, SW1P 3AG

June 1979

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

SOCIAL SECURITY BILL NO 1 - CHRISTMAS BONUS

Your people have been in touch with mine about the drafting of the Social Security Bill No 1, and in particular the provisions relating to the Christmas Bonus. I understand that it is proposed that the Bill should make payment of a bonus mandatory rather than permissive; and, what is more, that it should provide that the initial amount of £10 can be "increased", rather than "varied" in future years.

It seems to me that these provisions go further than we agreed in Cabinet, and are not necessarily desirable. It is clearly possible that in any given year we might want not to pay the bonus - whether because the economic situation did not justify it or because we had found an alternative approach to social security which enabled us to dispense with the bonus. And on the second point, while I agree that if there is to be a bonus at all in any given year it is most unlikely we should ever want to pay less than £10, it is surely not impossible that over time as the bonus moves up we may occasionally wish to pull it back, though not so as to fall below £10 - in this case the inclusion of the word "increase" rather than "vary" would seem to me to be unhelpful.

I appreciate the presentational points involved, which of course are accentuated if you do carry in your No 1 Bill the removal of the earnings link. Nevertheless, I am not convinced that the bonus provisions should be drafted as you propose, and it may be you would like to think about these again before the Bill reaches Legislation Committee.

JOHN BIFFEN

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FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Minister of State (C)
Minister of State (L)
PS/IR
Sir A Rawlinson
Mr Bailey
Mr Kemp

L(79)16 SOCIAL SECURITY BILL NO 1 - CHRISTMAS BONUS

1. There are two main points of Treasury interest:
 - (a) the formulation of the Bill on the award of bonuses in future years;
 - (b) the proposed modification of the statutory obligation to uprate State retirement pensions.

2. On the first point the Chief Secretary wrote to the Secretary of State yesterday (copy attached) saying that the drafting went beyond what Cabinet had agreed. By making the bonus mandatory it would limit the Government's freedom - in years of particular difficulty a bonus might not be justified, and developments in Social Security (particularly the move towards half pay pensions under the new State pension scheme) may mean that the Government would wish at some future date to discontinue the bonus. Both these options would be closed by making the bonus mandatory. He also pointed out that by talking in terms of "increasing" the bonus in future years, rather than "varying" it the draft Bill further limited the Government's discretion - in that once the level of the bonus had been raised in any future year subsequent reversion to a lower level would be made more difficult.

3. Whilst there is a commitment to continue the bonus, it is not a central element of social provision. At £10 it will cost £108 million this year, for which provision has only been made with considerable difficulty and at some cost to the main policy objective of reducing public expenditure. There is no need for the Government to shackle itself to a mandatory and increasing bonus.

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4. I recommend that you press the Secretary of State to amend the draft Bill to make his power to award bonuses permissive rather than mandatory and to leave himself clearly and unequivocally free to vary rather than increase the amount of the bonus in future years, drawing on the arguments in paragraph 2 above.
5. On the second point, the timing of the legislative change on the uprating provision is largely a matter of political judgement. The Secretary of State sets the arguments out concisely and fairly in the fourth paragraph of his paper. We would not wish to deter Ministers from grasping this nettle at the earliest opportunity but a few months delay, while it would allow opponents of the proposed change to mount a sustained campaign against it, might also allow time to consider whether the change might be more simply expressed (Annex 2 to the paper is not the most lucid draft) and to consider whether other changes eg a change in the method of price protection should be attempted at the same time.
6. However, as the second Bill proposed by Mr Jenkin for later in the Session will give an opportunity for further consideration of these and other points, I recommend you to endorse the proposal to include this change in the present Bill.



A M WHITE

12 June 1979

CONFIDENTIAL

SSCS PA 40
CHIEF SECRETARY
AWAY

6261702 SE
AND 57384



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(C)
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

13 June 1979

SOCIAL SECURITY NO 1 BILL - CHRISTMAS BONUS

I was surprised to receive your letter on the eve of Legislation Committee! My own understanding of what we had agreed (CC(79) 3rd Conclusions Minute 4) is clear, and very different from yours. If we were to follow the line you suggest we would, apart from this year's bonus, be doing no more than indicate that some time we might pay another bonus and that it might be even less than £10. It would be better to say nothing about the future than to say this.

The line of my argument at Cabinet - one with which colleagues seemed to agree - was that in the context of a very negative Bill, and given our Manifesto commitment, we must make more of the Christmas bonus than the Labour Government has done. Although that might well have implied restoring the value of the bonus, I stuck to the minimum advance: an annual bonus with power to increase it from time to time. That minimum advance had already been written into the provisional outline of our plans and the tentative costings of them we had drawn up before the Election.

I cannot interpret the terms 'permanent' and 'continuing' which were used at Cabinet as meaning anything as vague as some bonus some time. Nor do I think that we could expect our own supporters to accept this interpretation. In a Bill which takes away the present statutory guarantee of enhanced living standards for pensioners, and freezes the dependency earnings limit, the Christmas Bonus provisions have more than merely presentational importance - they must have some substance.

As you have not copied your letter more widely, I am also restricting the correspondence to one between ourselves.

[Handwritten signature]

CONFIDENTIAL



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Minister For Social Security

41
CLERK SECRETARY
12 MARCH 1980
Mr CD Butler
PPS PS1FST
PS1MST PS1MST(4)
Sir D Wass
Sir A Rawlinson
Mr Bailey
Mr Kemp.

The Rt Hon John Biffen MP
Chief Secretary to Treasury
HM Treasury
Parliament Street
LONDON
W1P 3HP

12 March 1980

Dear John,

SOCIAL SECURITY ADVISORY COMMITTEE

As you know, the executive functions of the Supplementary Benefits Commission will be transferred to the Secretary of State by the present Social Security Bill. The advisory functions of the Commission will be transferred to a new Social Security Advisory Committee (SSAC), which will also take over the responsibilities of the National Insurance Advisory Committee.

There has been substantial pressure, both outside and within the House, to make the new Committee a strong and independent body, and a number of amendments were put down to give the Committee a much wider remit, to ensure it receives adequate support and full access to Ministers, and to require it to produce an Annual Report.

There is no doubt that the Opposition will return to the attack on Report, and will press, at the very least, for an undertaking that the Secretary of State will write to the Chairman of the new body (Mrs Castle wrote to Professor Donnison when he took over the SBC) in terms that will give the Committee substantial freedom. A flat refusal would lay us open to the charge that we were trying to set up a tame poodle, and I feel a minor concession could do a lot to disarm criticism.

During the debates in Committee, Lynda Walker undertook to consider the possibility of a declaratory provision in the Bill to the effect that SSAC's duty to advise the Secretary of State would be "in pursuance of a reference under the Act or otherwise". Such a provision would not, of course, in itself make any difference to the powers of the Committee, but would serve a valuable cosmetic purpose by making explicit a power of initiative which already exists.

The Chairman of SSAC would still be expected to consult with the Secretary of State about possible amendments and we would expect him to be guided by the Secretary of State's views on the work which the Committee should undertake.

I would welcome your agreement to this amendment. As Report stage is on 18 and 19 March, I should be grateful for an urgent reply.

Yours,
Reg
REG PRENTICE

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CHIEF SECRETARY

cc Chancellor
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr White
SSCS

SOCIAL SECURITY ADVISORY COMMITTEE

Mr Prentice's letter of 12 March asks you to agree as a matter of urgency that the Government should put down an amendment at Report stage of the Social Security Bill to the effect that the new Social Security Advisory Committee would have a duty to advise the Secretary of State "in pursuance of a reference under the Act or otherwise".

2 The Bill revises the legal structure of Supplementary Benefit to give the responsibility for deciding policy to Ministers and Parliament, rather than the non-elected body - the Supplementary Benefits Commission. The payment of benefit will be under regulations rather than by the wide powers of discretion given to the present SBC. The determining authority for individual benefit claims will be supplementary benefit officers in place of the SBC. This will remove the two main executive functions of the SBC and leave only a residual advisory role.

3 It was agreed between officials in Treasury and DHSS last year that the powers of the new Committee would be modelled closely on those of the NIAC rather than the SBC. These powers made no explicit reference to the possibility that the SSAC would be able to take initiatives to review policy and report. It was also agreed that the way in which the new body would approach its task would be very much a matter for discussion between the Secretary of State and the new chairman. There was no intention of giving him the wide-ranging remit to comment on Government policy generally that the SBC had been encouraged to do. The Secretary of State would expect the new Committee to consult him about any questions which they felt they wanted to study or any report they wanted to make.

4 The proposed amendment would thus make explicit a power which had hitherto been assumed to be implicit. The reason for making the change, as Mr Prentice says, is that the Opposition had mounted a vigorous campaign during the Committee Stage of the Bill to make the new Committee a strong and independent body with a wider remit to report and comment on Government policy in the social security area. At Committee Stage Mrs Chalker undertook to consider the possibility of meeting the Opposition's wishes.

5 We dislike this suggestion for the following reasons:

- (a) The Advisory Committee will have responsibility for a much wider range of benefits than the SBC. Its powers to investigate e.g. child benefit, could be a mine of explosive material;
- (b) An explicit recognition of its power would be much more dangerous than an implicit power. It would provoke questions from MPs on what investigations had been conducted; if none, why not?
- (c) With a wide-ranging remit the Advisory Committee would become inevitably another pressure group for increases in public expenditure. The SBC proved an embarrassment to successive administrations. The Advisory Committee, with a wider remit, could be worse.

6 On the other hand it has to be said that there are no direct public expenditure implications from the proposal. As Mr Prentice says it is a cosmetic change. And what matters is the relations that the Secretary of State of the day has with the chairman. Provided that it is made clear to the new chairman that his ability to investigate and report at his own initiative will be circumscribed by the need to consult the Secretary of State, serious harm may be avoided. Finally, given the difficulties the Government has experienced over this Bill (you will be aware of the pressures on child benefit and death grant) and the likely difficulties it may experience on the new Social Security (No 2) Bill, it is perhaps not sensible to attempt to win all the battles.

7 We therefore recommend you to reply to Mr Prentice, in a somewhat grudging tone so that our doubts about the wisdom of the concession are fully on record, on the lines of the attached draft.

C.D.

C D BUTLER

13 March 1950

~~M type~~
DRAFT LETTER TO: Rt Hon Reginald Prentice ^{J.P.} M.P.,
~~The Minister for~~ Social Security, ~~DHSS~~

SOCIAL SECURITY ADVISORY COMMITTEE

Thank you for your letter of 12 March.

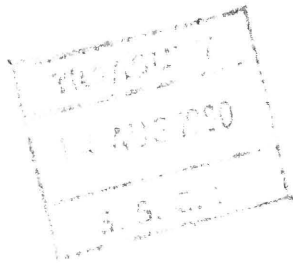
2 I do not like the proposed concession. It was I think clearly agreed between our Departments that the new Social Security Advisory Committee would be severely restricted in its remit and that its powers to undertake reviews and investigations at its own initiative would be carefully circumscribed. We do not want to repeat the mistake that was made by our predecessors when the Supplementary Benefits Commission was established of allowing a non-elected body, appointed by the Government, a completely free hand to comment and criticise Government policy. The reports by the SEC have been a thorn in the flesh of successive administrations and the embarrassment of having another pressure group for increased public expenditure, however worthy, is not one we should wish to repeat.

3 Furthermore, the difficulties we should face from the SSAC could be greater than from the SEC, because of its wider remit. The thought of having a Government sponsored body with the ability to interfere, for example in the present child benefit debate, is an unwelcome one.

4 Nevertheless, I can see the reason for responding to the pressure on this front in view of the other difficulties you have

experienced over the passage of this Bill. I would therefore, reluctantly, be prepared to agree that you should table the amendment you propose on the clear understanding that, when the new Chairman is appointed he shall be in no doubt that his freedom of action to initiate reviews will be restricted by the need to consult the Secretary of State on any such initiative, and he would be expected to be guided by the Secretary of State's views on the work the Committee should undertake. In the last resort I would expect you to refuse publication facilities for any report which threatened to be embarrassing for the Government of the day.

J B



cc - Chancellor of the Exchequer
Financial Secretary
Minister of State (C) 47
Minister of State (L)
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mr C D Butler
Mr White

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Reginald Prentice JP MP
Minister for Social Security
Department of Health and Social
Security
Alexander Fleming House
Elephant & Castle
SE1 8BY

13 March 1980

Dear Minister

SOCIAL SECURITY ADVISORY COMMITTEE

Thank you for your letter of 12 March.

I do not like the proposed concession. It was I think clearly agreed between our Departments that the new Social Security Advisory Committee would be severely restricted in its remit and that its powers to undertake reviews and investigations at its own initiative would be carefully circumscribed. We do not want to repeat the mistake that was made by our predecessors when the Supplementary Benefits Commission was established of allowing a non-elected body, appointed by the Government, a completely free hand to comment and criticise Government policy. The reports by the SBC have been a thorn in the flesh of successive administrations and the embarrassment of having another pressure group for increased public expenditure, however worthy, is not one we should wish to repeat.

Furthermore, the difficulties we should face from the SSAC could be greater than from the SBC, because of its wider remit. The thought of having a Government sponsored body with the ability to intervene, for example in the present child benefit debate, is an unwelcome one.

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undertake. In the last resort I would expect you to refuse publication facilities for any report which threatened to be embarrassing for the Government of the day.

Yours sincerely

R. W. F. A. s

TP JOHN BIFFEN
[Approved by the Chief Secretary
and signed in his absence]

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