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SECRET
PART 1

Confidential Filing

Uprating of Social Security Benefits.

SOCIAL
SERVICES
Part 1 :
May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~24. 5. 79~~							
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PART 1 ends:-

TL to HMT 10.1.80

PART 2 begins:-

C(80)6 22.1.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
H (79) 7	18.5.79
C (79) 9	21.5.79
CC (79) 3rd Concs Min 4	24.5.79
H (79) 1st Mtg Min 2	23.5.79
LCA: CC (79) 3rd Concs	24.5.79
C (79) 14	29.5.79
CC (79) 4th Concs Min 3	31.5.79
LCA: E (79) 2nd Mtg Min 4	1.6.79
L (79) 16	8.6.79
L (79) 3rd Mtg Min 3	13.6.79
H (79) 33	12.7.79
H (79) 7th Mtg Min 3	17.7.79
L (79) 89	23.11.79
L (79) 13th Mtg Min 6	27.11.79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed R. Pornman Date 30 Oct 2012

PREM Records Team

CONFIDENTIAL

Social Services HS

cc: CO
Michael Alexander
Master set
Euro. Pol, Budget

10 DOWNING STREET

From the Private Secretary

10 January 1980

Dear Tony.

As you know, the Chancellor called on the Prime Minister this morning. The following points are worth recording:

(i) The Chancellor commented that the Prime Minister had effectively ruled out the de-indexation of retirement pensions in her weekend interview on television. He intended, nonetheless, to base the next pensions uprating on a relatively optimistic RPI forecast - just as the RSG settlement had been based on a low forecast of pay and prices. The Prime Minister agreed that there was scope for some savings from this approach, though the principle of indexation would have to be adhered to. The Prime Minister also suggested that it would be worth considering postponing the announcement of the new pension rates until June - rather than announcing them in the budget. With the inflation rate hopefully turning down by then, this would reduce the pressure for a larger uprating.

(ii) The Chancellor went on to say that if retirement pensions were not to be de-indexed, it would be necessary to look for major savings by not uprating other social security benefits in line with inflation. He mentioned in particular child benefit, where it would be possible to save £300m if the child benefit rate were increased by only half the inflation rate. There would be powerful opposition to this, both from the poverty lobby and from those who were concerned about the "income in and out of work" problem. But he felt that savings had to be secured from this source. The Prime Minister said that she agreed in principle; she also commented that, in order to prevent the "income in and out of work" problem from getting worse, it would be necessary to reduce the uprating of the child supplement on supplementary benefit.

(iii) The Chancellor reported briefly on his discussions in The Hague with Sir Ian Gilmour on the EEC budget. The Dutch Prime Minister had told them that the Dutch Government could perhaps support the UK in obtaining a reduction in our net contribution up to 900 mua. But he had also said that it would be necessary for Britain to provide some concession to the Germans and others in return, even though this could be of a symbolic or cosmetic nature. They appeared to have in mind something in the energy field. He (the Chancellor) did not suggest that we should give

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away anything substantive, but we ought to be in a position to offer something which our partners believed was a concession. Accordingly, he was asking Treasury officials to consider possible options. The Prime Minister agreed that this work should proceed, though she emphasised that we should not concede anything in the energy field of substance.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Yours ever,

Tim Lankester.

Tony Battishill, Esq.,
H.M. Treasury.

PM has seen

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I understand the Chancellor will want to raise the following points:

(i) Indexation of Benefits

The Chancellor was disappointed that you ruled out de-indexation of pensions so categorically in your Weekend World interview - as he was hoping to find public expenditure savings here. But there are other benefits that can be de-indexed, and I believe he wants to get a steering on these.

(ii) Taxation of Short-term Benefits

Papers were prepared for E on this, but the Ministers most closely concerned (the Chancellor, Mr. Prior and Mr. Jenkin) were unable to agree a common approach. There should be an agreed paper for E next week by the weekend. You will not want to commit yourself to any particular approach before seeing this paper.

(iii) Handling of the EEC Budget

The Chancellor was with the Lord Privy Seal in The Hague yesterday, and wants to give you his latest thinking on handling.

(iv) Appointments

The Chancellor will argue once again Mr. Ryrie's case.

/ If there is time,

If there is time, you might ask the Chancellor where the Treasury and Bank have got to on the consultation paper on Monetary Base Control; and also whether, in the light of the good money supply figures for December, he sees an early prospect of lowering MLR. (My own view is that we will need another good month's figures, and an ending of the steel strike, before a reduction would be safe).

TL

9 January 1980

AJ

Social Services 2

PRIME ~~MINISTER~~

To see. This might just be raised at Cabinet. Mr Jenkin is asking for a lot.

MS 5/xii

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 Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster
Privy Council Office
70 Whitehall
LONDON SW1

5 December 1979

Dear Norman,

Now that the Social Security Bill has received its formal First Reading with the Health Service Bill to follow on Friday, I am writing to you about the timing of the Second Reading debates.

As you know, we wanted Second Reading of both Bills before Christmas, but I understand the pressures you face on the Parliamentary timetable. Perhaps I could just register the fact that I stand ready to occupy any vacant slot which may be produced by last-minute changes of plan and that my priority would be the Health Services Bill. However, it is vitally important that if this does not materialise both Bills get their Second Reading as soon as possible after Christmas Recess and go immediately into Committee.

So far as Social Security is concerned you know that most of the supplementary benefit changes will be introduced at the November 1980 uprating. The Bill needs Royal Assent before the end of May so that the changes for which the Bill provides can be incorporated in the normal uprating programme. This programme will be even more complex than usual next year, and an early start is essential. Even if it had been possible to have Commons Second Reading before Christmas our timetable would have left us little time for the Committee Stages of this Bill which we know will be received with some hostility. I hope you can now agree to Commons Second Reading, immediately after the Christmas Recess.

As to Health Services, the timetable is even tighter - the GPFC is against its borrowing limit, we want powers to enforce cash limits on health authorities and above all we want to stop the phasing out of NHS private practice facilities. I hope that Lord Wigoder, Chairman of the Health Services Board will not feel bound to recommend further revocations of pay beds (which I would be statutorily obliged to implement) and I await his news on this ; if he does not, the result would be considerable embarassment to us.

63

With the Compliments of
the Private Secretary to
the Secretary of State

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

If the Board do co-operate it would be sensible to give the House an opportunity to debate the Royal Commission Report on the National Health Service before Second Reading of the Bill. Could we aim for a debate on Merrison in the first week and Second Reading of the Bill a week later (assuming we cannot fit this in before Christmas)?

I am copying this letter to the Prime Minister, the Chief Whip and Sir Robert Armstrong.

Yours ever

Patrick

Social Services 2.

10 DOWNING STREET

PRIME MINISTER.

The cost figure – your query below – is £26 m, and was set out in the policy approval paper at flag A. (H(79)33 of 12/7/79)

MAP 26/XI.

MT.

Social Services ✓ MS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1

1 November 1979

Dear Secretary of State

STATUTORY PROVISION FOR SUPPLEMENTARY BENEFIT UPRATING

Thank you for your letter of 16 October.

I am afraid that I still cannot agree with you that your Social Security (No 2) Bill should give formal statutory protection to supplementary benefit rates. Geoffrey Howe and my other Ministerial colleagues here are fully in agreement with me on this point. So, I see, is Norman Fowler.

As I see the argument, you are saying that since we shall always wish to behave as though supplementary benefit were statutorily price protected, there would be advantage, in the context of the controversial provisions in your Bill, in giving this statutory protection formally. However I would put this argument the other way round, saying that if we were indeed going to behave as though the benefit was statutorily protected then there would be no need for us to take this step, while if we were not it would be wrong to do so; so that statutory protection is either otiose or costs money.

I can see it might be helpful, in the context of your Bill, that you should be able to give this statutory protection. But I do not think we should over emphasise the advantages of this; I have seen no great public demand that this protection should be given, nor, in your Bill, will you be announcing any present intention to move from the long-standing customary practice. Against that, there are the positive risks which I see in giving statutory protection, in that this would be a closing of options which in the long run might work not only against our public expenditure policies, but also perhaps our work incentive policies.

The risk on public expenditure is that by giving statutory protection we must reduce our flexibility, which must risk adding to, or losing the opportunity to reduce, expenditure. Supplementary benefit is a "minimum living standard" means-tested benefit, which almost by definition implies a need for flexibility and a readiness quickly to adapt to changing social and other conditions. Statutorily to tie our hands - and in one direction only - does not make sense. And I have to say that there seems to me most certainly to be a risk that protection here could lead to pressures for statutory indexing of child benefit - you will have seen Malcolm Dean's comments in his article in the Guardian on 18 October.

Statutory indexing could also introduce inflexibility in our struggle to improve work incentives. The essence of this is the widening of the gap between in work and out of work income, and we have now commissioned a study by officials on this whole area. I do not want to prejudge our consideration of that study, but it is not impossible (and without wanting to harm the most vulnerable members of society) that we may conclude that there are circumstances in which supplementary benefit may be excessive in the context of work incentives, and a statutory provision might tie our hands unnecessarily in looking for solutions.

Finally there is a general point. Social security is far and away the largest public expenditure programme. The fact that many benefits are already indexed by statute - itself a "lunacy" according to the Economist - coupled with demographic factors, means that the programme has in-built growth tendencies. Sooner or later we are going to have to ask how far we can afford expenditure on this scale, let alone anything bigger given that it can only come from other expenditure programmes being lower than they would otherwise be, or from the living standards of those who actually create wealth. Even if you were to argue that extending statutory price protection to supplementary benefit does not risk adding very much, in proportionate terms, to the programme, it all points in the wrong direction in the light of our current public expenditure (and work incentives) policies, and could suggest that we lack determination to carry them through.

For all these reasons I do not think that your proposal is appropriate, and I hope you will be able to agree with me. If not, we shall have to discuss it again collectively.

I am copying this letter to the Prime Minister, members of H Committee and Sir Robert Armstrong.

Yours sincerely,

pp JOHN BIFFEN
(Approved by the Chief Secretary and signed in his absence)

✓ MS

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

1. October 1979

Dear John,

- will respeak if required

Thank you for your letter of 26 September. I am sorry I have not so far succeeded in convincing you of the importance of providing in the Social Security Bill this autumn for the uprating of supplementary benefits in line with prices. This is, I am sure, a point of some political importance on the presentation of a Bill which is going to be far from popular in itself and where we shall need wholehearted support from our own benches if we are to get through the major changes involved.

Dealing with your initial points I must say that the removal of the earnings link with pensioners does not seem to me to be inconsistent with a statutory provision to price protect supplementary benefit. Indeed I am seeking to have statutory cover for pensions and supplementary benefit on exactly the same basis ie both to be uprated only in line with prices. Nor would I really think that the pressure to uprate child benefit, which is certainly likely to intensify over the coming months, is going to be much influenced by a decision to give statutory cover to the long-standing uprating practices for supplementary benefit.

The nub of the matter is, as you rightly say, whether we should retain an escape hatch against the eventuality that one day a Government may be forced to defer or miss an uprating of supplementary benefit. As to that, if any Government should ever find itself in such parlous straights, they would naturally first look to the National Insurance benefits for economies in the uprating before turning to supplementary benefit savings. Since a Bill would be necessary to cut back on National Insurance benfits, should a decision be taken to hold back on supplementary benefits as well this could clearly be dealt with in the same Bill. I simply cannot envisage a Government, on the one hand, depriving supplementary benefit claimants of an uprating on grounds of economic difficulties but, on the other, permitting increases to be paid in full to National Insurance beneficiaries generally. The effect would of course be, to deprive the two million poorest pensioners - those whose pensions are being supplemented - of their increase.

This autumn's Social Security Bill contains a major re-structuring of the Supplementary Benefits Scheme in which existing legislation will be extensively revised. In this context, a failure to write in a commitment to uprate supplementary benefit at all (remembering that Clause 1 of the Bill will at the same time be restricting the uprating of National Insurance benefits to earnings only instead of the better of earnings and prices) seems likely to me immediately to arouse the suspicions of our opponents and worry our supporters, in a quite unnecessary way. We have, after all, every intention of protecting the poorest from the effects of higher prices. This is certainly not the time to add new public expenditure commitments. I agree with you there. My point is that there is no new public expenditure commitment involved, at all, in providing statutory cover for the supplementary benefit uprating.

I should be glad to come and talk about this issue if it would be helpful, and meantime I am copying this letter to members of H Committee and to Sir John Hunt.

Yours ever

Patrick

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Social Services

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10 DOWNING STREET

From the Private Secretary 15 October 1979

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).

TPL

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

CONFIDENTIAL

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

SH

cc Mr Hoskyns
Mr Wolfson

MG.

Prime Minister
This seems a reasonable explanation. Mr Heseltine (who raised the point in Cabinet) doesn't wish to comment, and Mr Biffen (Flag A) is content. Agree conclusion at X?
R 12/6

Prime Minister

IMPLEMENTATION OF SOCIAL SECURITY UPRATING

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.

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.

-2 OCT 1979

The Chancellor of the Duchy of Lancaster and Leader of the House of Commons (Mr. Norman St. John-Stevas): If arrangements are not in accordance with the general wishes of the House, we must re-examine them. I shall be willing to have discussions on this matter to see whether a solution satisfactory to everybody can be arrived at.

SOCIAL SECURITY BENEFITS (UPRATING)

The Secretary of State for Social Services (Mr. Patrick Jenkin): I will, with permission, Mr. Speaker, make a statement about the proposed increases in social security benefits to come into effect from the week beginning 12 November 1979.

Yesterday, my right hon. and learned Friend the Chancellor of the Exchequer announced the new rates of the national insurance retirement pension. The rate for a single person will go up by £3·80 from £19·50 to £23·30, and the rate for a married couple by £6·10 from £31·20 to £37·30. The same increases will apply to other long-term national insurance benefits. My right hon. Friend explained that these new rates are based on the forecast for the rise in prices over the 12 months between November 1978 and November this year, and also that they take account of the shortfall in the rates introduced last November by our predecessors.

Short-term benefits, we propose, should go up from £15·75 to £18·50 for a single person, and from £25·50 to £29·95 for a married couple.

War and industrial disablement benefits will be increased in line with other long-term benefits, together with comparable increases in the additional allowances which can be paid with these pensions.

Under the new arrangements for increasing public service pensions, the main increase—to be paid on pensions which were increased last December—will be 16·0 per cent.

The main supplementary benefit scale rates will be increased by the same cash amounts as those of the national insurance benefits to which they are related, but I must warn the House that, because this announcement comes some weeks later than the usual date, due to the election, in some areas the new rates will not be in payment until a few weeks after 12 November. We will do our best to get the increases to everyone as quickly as possible but, with the best will in the world, it will not be feasible to complete the process by the due date. We will, of course, pay any arrears from the due date.

The Government are well aware of the problems of mobility for the disabled, and as my right hon. Friend mentioned yesterday, we propose that the rate of mobility allowance should go up in November from £10 to £12, a 20 per cent. increase.

Although child benefit went up to £4 in April, the premium for working lone parents was not increased. Accordingly, the premium will go up by 25 per cent. in November—from £2 to £2·50.

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

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

The full-year cost of the benefit uprating, including FIS, mobility allowance, and the Christmas bonus will be about £2·7 billion—a substantial sum by any standard. The great bulk of this falls to be met out of the National Insurance Fund. As is customary, I shall be reviewing the income bands and the percentage rates of contributions in the autumn, when I have received the necessary report from the Government Actuary, and the resulting changes will take effect next April.

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

The House will appreciate that we have honoured our commitment which we gave in the election to raise pensions in November in line with prices. It so happens that this is in accordance with the existing statutory requirements but, as the House now knows, in the light of experience in the last three years and other factors, we have been driven to the conclusion that the statutory obligation to uprate long-term benefits each year in line with either prices of earnings, whichever is the higher, is not sustainable in the long term. Much has been written about the so-called

[Mr. Jenkin.]
"ratchet effect". In years when earnings exceed prices, the real value of pensions increases. When prices exceed earnings, and when the living standards of the working population fall, the real value of the pension is maintained. It has been pointed out that the result over a period of years is that the proportion of the national income absorbed by pensions, and correspondingly, the proportion absorbed by the contributions necessary to pay those pensions, must inevitably rise, throwing an ever heavier and heavier burden on the working population.

I remind the House that between 1970 and 1974, pensions in fact kept closely in line with earnings, though there was no statutory requirement that they should do so. Conversely, in 1976 and 1978, both years in which the statutory obligation was in force, the increase paid fell short of what the Labour Party had led people to expect. The guarantee that really matters is the guarantee against rising prices. I shall therefore be introducing legislation shortly to amend the provision relating to the uprating of benefits, so as to provide that pensions and long term benefits, as well as short-term benefits, should be increased at least in line with the movement of prices.

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

Mr. Ennals: I congratulate the right hon. Gentleman on the occasion of his first appearance at the Dispatch Box in his present office. He holds a great responsibility and I do not underestimate the problems that he will face.

I wish that his first appearance had been in happier circumstances. The country will be forced to pay for the folly of a savagely inflationary Budget—especially those for whom he bears particular responsibility. What help will income tax cuts be to those whose income is below tax level—including millions of pensioners? What help will be given to those forced on to the dole queue by the increase in unemployment which will inevitably flow from cuts in public expenditure?

I welcome the pension increase in November. It represents an increase of about 20 per cent. According to the right hon. Gentleman, it is linked with his expectation of the prices increase at that time. The inflation rate is expected to be not far off that figure.

Mr. William Clark: On a point of order, Mr. Speaker. I hope that you will give the same latitude to Back Benchers when they rise to ask questions so that they also can make speeches.

Mr. Speaker: Order. We all know that the right hon. Gentleman is leading up to his questions.

Mr. Ennals: I am grateful to you, Mr. Speaker. I have three main points—[HON. MEMBERS: "Ah!"] I have three main questions that I should like to put to the right hon. Gentleman. By his decision today, he is widening further the gap between short- and long-term benefits. What are his proposals to alleviate that gap, which will become increasingly serious as the number of unemployed increases? What is his estimate of the rate of inflation in November? Is it the 16 per cent. figure given in one paragraph of the Budget Statement, or is it the 20 per cent. figure to which he referred elsewhere? What does he propose to do to help the long-term unemployed, still stuck on short-term benefits and now to be penalised by Budget measures?

My second point—[HON. MEMBERS: "Ah!"] My second question is: how can the right hon. Gentleman defend his decision not to proceed with the increase of 50p in child benefit, to which the Labour Government were committed? Is he aware that the Prime Minister has said that the Conservative Government would view further improvements in child benefit as part of their plans to increase personal tax allowances? What has happened to that proposition? In view of the fact that there are now no child tax allowances, why does not the right hon. Gentleman come before the House with a proposal that would increase family support?

What has happened to the arguments that have been used by the right hon.

Gentleman in the House about incentives to work? What has happened to the arguments about the Conservative Party being the party of the family? If family support is to be a casualty of public expenditure cuts why was there no honesty about that during the election?

My third question—[HON. MEMBERS: "Ah!"]—is this. I hope that the right hon. Gentleman will go further in seeking to justify the decision that was announced yesterday and repeated today to deny to pensioners the right to share in rising living standards by linking their benefit to earnings as well as to prices. If he feels that that should be done, why does he believe that it is necessary to bring this legislation before the House? Is he aware —[HON. MEMBERS: "Ah!"]—that there will be vigorous opposition from the Labour Front and Back Benches to the denial of that right to pensioners which was given four years ago?

Mr. Jenkin: I start by thanking the right hon. Gentleman for his kind words to me at the outset of his remarks.

Mr. Cryer: A long time ago.

Mr. Jenkin: I had almost forgotten. At the end of his remarks the right hon. Gentleman said that there would be a change in the law and that the uprating rule would be opposed from both the Labour Front and Back Benches. We look forward to hearing from him—as I understand it, from the Back Benches—in this Parliament.

The right hon. Gentleman asked first about short-and long-term benefits. In the uprating, we have followed the pattern that he followed last year and we have increased them in line with the higher of prices and earnings—in this case, prices. The widening of the gap is a process that has been going on for a number of years. It is something to which attention should be paid in the future and I recognise the disquiet about the matter.

On the question of inflation, the increase is 19·4 per cent. That is not a forecast of the rise in prices for November to November. We have to take account of the 1·9 per cent. shortfall in the uprating that was announced by the right hon. Gentleman last year. The 1·9 per cent. from 19·4 per cent. leaves the November-to-November price forecast at 17½ per cent.

It is our clear intention to provide, this time round, help to those in the greatest need of child benefit. Child benefit was increased to £4 last April. This time, we have increased the child dependency additions to the social security benefits, the family income supplement for the very poor at work and the child benefit for single working parents. Those are the three categories in greatest need.

The right hon. Gentleman asked me why I did not honour the Labour Government pledge on child benefit. It is interesting that the right hon. Member for Leeds, East (Mr. Healey), when he opened his Budget on 3 April this year, although he said something about child benefit, was exceedingly careful not to commit himself to a figure. The only figure appeared in the Labour Party manifesto. When we came to office we found that there was no provision whatever for an increase—there was nothing in the estimates. A 50p increase in the level of child benefit would have cost £285 million. We were faced with the honouring of our pledge to the pensioners against rising prices and we could not contemplate a further expenditure of that amount.

Lastly, the right hon. Gentleman asked about the change in the basis of uprating. It has been widely accepted—not least by some of the political advisers of the previous Government, and I shall refer to this in tomorrow's debate— that the long-term "ratchet effect" of an automatic annual guarantee of an increase in benefits in line with either prices or earnings is not sustainable in the long term. We have grasped that nettle. There were a number of Labour Members who recognised that at some stage it would have to be grasped.

A commitment was given by my right hon. and learned Friend the Chancellor yesterday—and I repeat it—that it is our intention that pensioners should share in the rising standards of living which my right hon. and learned Friend's Budget will eventually make possible.

Mr. Paul Dean: I welcome my right hon. Friend's statement. Will he indicate how much greater are the long-term benefit increases which he has announced compared with those envisaged by the previous Government? Secondly, will he give an assurance that the priority for the

[Mr. Dean.]
long-term beneficiaries, those most in need—pensioners, widows and the disabled—will be continued by the Government? Finally, can he give some indication of what increase in contributions will be required to meet these substantial and welcome increases in benefits?

Mr. Jenkin : I can best answer my hon. Friend's first question by saying that before the Budget the figures of the present Leader of the Opposition indicated a 12·8 per cent. increase. Our increases, including the shortfall, total 19·4 per cent.

On the second point, it is recognised on all sides that there is real advantage, for a variety of reasons, in the long-term benefits having a substantial premium over the short-term benefits. As I indicated earlier to the right hon. Member for Norwich, North (Mr. Ennals), obviously it is a question for judgment each year as to what the exact gap should be.

On my hon. Friend's third point about contributions, it is not possible for me to say at this stage what the increase in contributions will be. Of course, for employed people contributions are on a percentage and earnings-related basis. It will be necessary to increase the lower and upper band income levels to which the percentage figure applies. The same is true of the flat-rate figure for class 2 contributions. However, those decisions must await estimates later in the year and the advice of the Government actuary.

Mr. J. Enoch Powell : Will the right hon. Gentleman consult his right hon. Friend the Secretary of State for Northern Ireland in order to ensure that, in accordance with the new arrangements made in February, the statutory instruments bringing these changes into force will be made simultaneously in Great Britain and Northern Ireland?

Mr. Jenkin : I certainly take note of what the right hon. Gentleman has said and I will consult as he asks.

Mr. Sproat : Does my right hon. Friend accept that there will be great and widespread approval of the increases that he has announced, particularly those for the pensioners and the disabled? Is he aware, however, that there is a widespread belief that too much social security is still going not where it should—to those in real need—but to those who merely know how to fiddle their way round the system? Can my right hon. Friend give the House some details of the Chancellor's welcome reference yesterday to the new measures that he proposes to take to cut out waste, fraud and abuse in social security?

Mr. Jenkin : I am grateful for my hon. Friend's welcome, which I know will be widely echoed in the country. I know that fraud and abuse greatly concern citizens of this country and I have already indicated that we intend to strengthen the measures against them.

Let me give an indication of the sort of thing that we can hope to achieve. An unemployment review officer, whose total cost may be about £5,500, may expect to save about £100,000 to £120,000 of benefit simply by calling people in and questioning them. The right hon. Member for Norwich, North will know that when questions are asked, about 15 per cent. of beneficiaries stop claiming at once. When people are asked to come in for an interview, a further 15 per cent. to 20 per cent. stop claiming after the first interview. That is the sort of thing on which it is sensible to deploy manpower in order to save benefits and to strengthen the integrity of the system.

Mr. George Cunningham : Does the Secretary of State remember all the enthusiastic speeches he made about child benefit back in 1976? Does he accept that now that child tax allowances have been phased out, it is right and inevitable that increases in child benefit should be made in November each year and that we are therefore talking of a gap between the last increase and the next, now that he has dropped the Labour proposal for a 50p increase in November, of 18 months? In light of the $17\frac{1}{2}$ per cent. inflation figure from November to November, which he so quietly mentioned a few minutes ago, child benefit will have been eroded by about 25 per cent. before it is increased at the next likely date of November 1980. Is the right hon. Gentleman satisfied with that?

Mr. Jenkin : I am sure that the hon. Gentleman will recognise that I cannot say anything about next year's Budget.

Mr. McCrindle : I warmly welcome the announcement of these upratings, but I should like to put to my right hon. Friend the question that I have put to all his predecessors over the past 10 years. If it is possible to pay announced tax reductions in July and October respectively, why does it remain impossible to pay pension upratings before November and then, at least on this ocasion if I understood my right hon. Friend correctly, only with some difficulty? Can he indicate whether computerisation of benefits is sufficiently far forward that future upratings may not have to be awaited for quite so long?

Mr. Jenkin : I remember my hon. Friend putting that question to the present Secretary of State for Industry five or six years ago, and on coming to office I was mildly surprised to find that the position is exactly the same as it was five years ago. No steps appear to have been taken to speed up the payment of benefits and to shorten the gap between the announcement and the payment of benefit. It really requires six months, but we shall do our best to get the great majority of payments in payment in five months' time.

The reason for the delay is the same as that which I am sure my predecessors have given my hon. Friend. The uprating of supplementary benefits requires individual assessment of about 3 million separate cases. That is done by hand in about 550 local offices. That is what takes the time.

Mr. Canavan : Yet the Government intend to sack more civil servants.

Mr. Jenkin : No doubt the hon. Gentleman will be able to make his case. In fact, there have been no sackings in the local offices ; nor will there be. It is the work to which I have referred which takes the time. Of course, the answer is computerisation and the Government will press ahead with the introduction of computers with rather more vigour.

Mr. Penhaligon : Did the Secretary of State inform the House a moment ago that there is a possibility that child benefit will be ignored next year as well? Secondly, can he tell us what the pensioners are supposed to do between now and November?

Mr. Jenkin : On the question of child benefit, I do not know where the hon. Gentleman got that idea. I simply said that I cannot anticipate next year's Budget. I am sure that he will accept that. On the question of what is to happen to the pensioners between now and November, this is the biggest ever pension increase, it includes the shortfall on last year's uprating, and it is a bigger increase than the Labour Party proposed.

I also remind the hon. Gentleman that VAT is not paid on food, fuel, housing and children's clothes. Whereas the proportion of family income spent on zero-rated products in the average family is 50 per cent., for low-income families it is 60 per cent., and the figure for low-income pensioners is 63 per cent. Therefore, if VAT adds $3\frac{1}{2}$ per cent. to the rise in the cost of living this year, and if pensions and other benefits are being increased fully in line with prices, it follows that the increase in pensions will be somewhat higher than the rise in prices affecting pensioners and low-income families because of the lower impact of VAT on what they buy.

Mr. Peter Bottomley : May I put to my right hon. Friend in a slightly different way the question put by the hon. Member for Truro (Mr. Penhaligon) of a future increase in child benefit? My right hon. Friend referred to administrative difficulties and the previous Government not having gone into this matter. How long does it take to introduce an increase in child benefit? Do such increases have to wait for a Budget?

Mr. Jenkin : I must make it clear that my earlier remarks about the length of time did not refer to child benefit. Child benefit went up only in April—incidentally, at the beginning of a financial year. Therefore, we felt it right to increase that part of child benefit which had not been increased by the previous Government—namely, the addition for lone parents. My right hon. Friends and I are of course examining the question of the machinery, and so on, for the future of child benefit, but I cannot add anything to my previous remarks.

Mr. Carter-Jones : Is the right hon. Gentleman aware that his right hon. Friend the Prime Minister is a patron of Motability? Is he aware that, for example, VAT, with its double incidence, will increase the cost of purchasing and hiring a car and that the increase in the minimum lending rate will also cause a

[Mr. Carter-Jones.]
great disability to the scheme? Will he give an undertaking that Motability will not be put at risk as a result of the Chancellor's Budget?

Mr. Jenkin: Not only is my right hon. Friend a patron of Motability; I, too, am a patron, and am proud to be so. Of course I am aware of the points that the hon. Gentleman has made. I regard them with great sympathy. We shall do our best to see how we can help Motability to continue to provide the essential service of making vehicles available for disabled people.

Mr. Eldon Griffiths: May I revert to the question of my hon. Friend the Member for Brentwood and Ongar (Mr. McCrindle) about the delays between the announcement and the payment of benefits? One understands my right hon. Friend's disappointment that nothing has been done to improve the system during previous years. However, because there is a great deal of public dissatisfaction, particularly among elderly people, in comprehending the delay, will he give two undertakings: first, that he has personally satisfied himself that there can be no improvement at all this time; secondly, that he has set in motion within his Department a crash programme to do better next year, given the new mechanical facilities that are available to Departments?

Mr. Jenkin: I am very well seized of the public anxiety over the length of time that there is repeatedly between the announcement and the uprating. I would not be looking to any more frequent uprating than once a year. I think that that is part of the developing pattern in paying increases and everything else as well. Indeed, I am satisfied that the payment cannot be made more quickly. As my hon. Friend will remember, I have already had to warn the House that we may not be able to get every supplementary benefit in payment by 12 November. We are engaged on an urgent study of the review of supplementary benefits, which was published last year under the title "Social Assistance". We shall be bringing forward proposals to the House. This will involve a considerable simplification of the system of supplementary benefits. It should make easier the question of uprating and the more rapid increase of benefits when this is called for. I cannot promise anything too specific by next year. These are complex matters involving millions and millions of citizens and thousands and thousands of civil servants.

Mr. Rooker: Can the right hon. Gentleman tell us how the Chancellor's statement on car leasing affects Motability, a matter which was not included in the right hon. Gentleman's answer to my hon. Friend the Member for Eccles (Mr. Carter-Jones)? That must have an impact on the Motability scheme. If the pensioners' real increase is 17½ per cent., excluding the 1·9 per cent., how is it that the public service pensioners will receive only 16 per cent? Is this a move away from the previous Tory Government's proposal to index public service pensions? Will the right hon. Gentleman confirm the Chancellor's Budget Statement yesterday that the costs of the social security changes will largely be met from the existing social security programme? He implied to one of his hon. Friends that this Government had suddenly found a pot of gold that was not there before.

Mr. Jenkin: I can add nothing to what was intended to be a reasonably reassuring statement to the hon. Member for Eccles (Mr. Carter-Jones) about Motability. The answer to the hon. Gentleman's second question is that I was rather careful to stress that under the new arrangements the increase in public service pension is to be paid in November. The hon. Gentleman may not have been a member of the Standing Committee that considered the last Government's Social Security Bill under which the increase in public sector pension payments was transferred from December to November. Therefore, the 16 per cent. figure refers to an 11-month period for this year's public sector increase, because it was paid in December last year. The hon. Gentleman is quite right on the question of the cost. There is no crock of gold. All these payments must be paid for, and paid for largely by higher National Insurance contributions by employers and employees, with the Treasury supplement on top. What I said was that this would fall to be assessed during the course of the year and that any increased contributions would be paid next year. I can tell the House with some satisfaction that at least we are not lumbering employers with any increase in National Insurance surcharge this year.

Sir Brandon Rhys Williams: Will my right hon. Friend bear in mind that if there is heavy pressure in the course of the coming year to help the lowest paid, as seems likely, it will place far less pressure on the economy if the Government increase child benefit, thereby dealing with the problem selectively, than if employers give blanket increases in wages?

Mr. Jenkin: My hon. Friend has been a long-standing supporter of child benefit, and I recognise his commitment to what he has just said.

Several Hon. Members *rose*——

Mr. Speaker: If hon. Members will co-operate with me, I propose to call all those who have been rising.

Mr. English: Does the right hon. Gentleman, as an ex-Treasury Minister, agree that it is very difficult for people to understand why some three-quarters of a million points can be required to increase VAT within a few days when he has to delay for weeks the expenditure of money? This sort of ploy, like a bankrupt company, of doing one's collections first and one's expenditure later is a fine thing, except for the people involved.

Mr. Jenkin: I am sure that the hon. Gentleman will recognise that the operation of increasing VAT and introducing higher rates is a relatively simple administrative one, although of course it imposes burdens on traders. I have indicated that our uprating will involve manually adjusting the assessment of 3 million individual beneficiaries.

Mr. Rooker: Change the system.

Mr. Jenkin: I have already indicated to my hon. Friend the Member for Brentwood and Ongar (Mr. McCrindle) that we are urgently examining ways of simplifying the supplementary benefits system on the basis of the report "Social Assistance" and introducing computerisation.

Mr. Meacher: Does the right hon. Gentleman accept that as a result of the last Government's statutory increase in pensions according to the rise in prices or wages, whichever is the greater, the pension for a married couple today is about £5 more than it would otherwise have been? Is it not therefore the case that this is about the measure of the cut that he is proposing to impose on pensioners over the next five years?

Mr. Jenkin: I do not accept that for one moment. The hon. Gentleman will remember the assurances that my right hon. Friends and I have given that it is this Government's intention to do as we have done before and see that pensioners share in the country's rising standards of living.

Mr. James Callaghan: Is the right hon. Gentleman aware that the calm complacency with which he admits that Government measures will lead to an inflation rate of 17½ per cent. within the next few months is totally outrageous, that we see no sign that the Government intend to fight this, and that in view of the rapidity with which they are leading us to the abyss of a price inflation he had better get out his toothbrush again and start looking to see whether there is a gleam in the dark?

Mr. Jenkin: It is a little sad that the right hon. Gentleman should continue to stoop to the level of the lowest cartoonist. May I make it clear to the right hon. Gentleman, as he obviously did not understand it yesterday from my right hon. and learned Friend the Chancellor, that an increase in VAT which this year adds three and a half percentage points to the rise in the cost of living is a once-for-all addition—[HON. MEMBERS: "Oh."]—as the right hon. Member for Leeds, East (Mr. Healey) discovered when he put VAT down by two percentage points in 1974. May we remember 8·4 per cent. on the basis of one quarter's movements? Of course, it did not go on, did it?

Mr. Callaghan: Is the right hon. Gentleman aware that, on any basis and with regard to any analogies that he cares to make, a rate of inflation of 17½ per cent., whether it is once for all or not, is totally insupportable, and the Government should be ashamed of themselves?

Mr. Jenkin: It is substantially less than the rate of 29 per cent. achieved under the last Government.

Mr. Harry Ewing: Does the right hon. Gentleman understand that those who use the services of Motability depend largely

[Mr. Ewing.]
on the level of the mobility allowance? His announcement this afternoon of an increase in the mobility allowance from £10 to £12, against the background of an increase in petrol and all other costs for all modes of transport, will not be acceptable to the disabled. Can he therefore be surprised if the disabled now feel that the importance of bringing them out into the community has taken a step backwards rather than forwards?

Mr. Jenkin: The increase in the mobility allowance is as high as that of any other benefit in the Budget, and higher than most.

Mr. Stoddart: Does the right hon. Gentleman agree that families with children on average or below-average earnings are virtually being cheated as a result of his announcement and of the Budget, in the first place because their tax reliefs are lower than the single person's on the same level of salary; secondly, because they have lost the £205, if they have two children, in tax-free advantages that they had last year; and thirdly, because child benefit has not been uprated in line with what they would have got had there not been child benefit but a continuation of child tax allowances?

Mr. Jenkin: Most people recognise that the tax reductions announced yesterday will be of the utmost value, particularly at the lowest end of the scale, because it is at the lowest end, as the hon. Member for Birkenhead (Mr. Field) pointed out in his previous incarnation, that there are those who earn their poverty. The tax threshold got lower and lower in real terms under the Labour Government and there is no doubt that the situation was one of the principal causes of the poverty trap. My right hon. and learned Friend the Chancellor of the Exchequer has taken a notable step towards removing it.

Mr. McNally: Will the right hon. Gentleman clarify how it is that, within 24 hours of calculating the rate of inflation at 16 per cent., the Government are calculating it at 17½ per cent.? Will he accept that the intention of the Labour Government's legislation was to abolish the indignity of poverty in old age? Will he not now come clean and confess that this Government have abandoned that objective?

Mr. Jenkin: I can understand why there has been some misunderstanding on the first point raised by the hon. Gentleman. The figures in the Red Book deal with the period from the third quarter of last year to the third quarter of this year. I am required under the Act to make an estimate of the rise in prices from November to November. The figure that I have quoted—and I have to do the exercise honestly—is 17½ per cent.

Secondly, surely the hon. Gentleman recognises that the biggest single long-term step towards removing poverty from old age, an aim that all of us share, is the introduction of the second pension scheme and the progressive increase of the second pension—the additional component—which will progressively over the years raise the level of pension of those in retirement to a level that bears a closer relation to what they were earning in work. That is the way to do it. Meantime, I repeat our commitment to our determination to see that our pensioners share in the rising standards of living as a whole. It is a travesty to say of our policy that we have abandoned any idea of pensioners getting off the poverty line.

Mr. Foulkes: Will the right hon. Gentleman explain to the House and to many thousands of disappointed pensioners why he has made no announcement about an increase in the death grant, despite the many representations that he has received? Will he further explain why the Christmas bonus is still to be at the level of £10 whereas, in real terms, to keep up with its value when it was introduced, it should be in excess of £24?

Mr. Jenkin: The answer to the question about the death grant is that this is simply a matter of priorities. The death grant, at a level of £30, costs about £16 million in revenue. To restore the 1967 value would add a further £38 million. With the Government's present constraints on public spending we found, just as our predecessors found, that such an increase could not be afforded. I realise that the hon. Gentleman is a new Member, but I remind him that he campaigned on the Labour Party manifesto, which said nothing whatever about the Christmas bonus. We are going to pay it.

Following is the information:

MAIN INCREASED CONTRIBUTORY AND NON-CONTRIBUTORY BENEFIT RATES

	Existing weekly rate £	*Proposed weekly rate* £
Standard rate of retirement*, invalidity, and widow's pensions, and widowed mother's allowance:		
Single person ...	19·50	23·30
Wife or other adult dependant ...	11·70	14·00
Earnings limit for retirement pensioners ...	45·00	52·00
Standard rate of unemployment and sickness benefits:		
Single person ...	15·75	18·50
Wife or other adult dependant ...	9·75	11·45
Widow's allowance (first 26 weeks of widowhood) ...	27·30	32·60
Maternity allowance ...	15·75	18·50
Invalidity allowance payable with invalidity pension:		
Higher rate ...	4·15	4·90
Middle rate ...	2·60	3·10
Lower rate ...	1·30	1·55
Attendance allowance:		
Higher rate ...	15·60	18·60
Lower rate ...	10·40	12·40
Retirement pension for persons over pensionable age on 5 July 1948 and for persons over 80*:		
Higher rate ...	11·70	14·00
Lower rate ...	7·05	8·40
Non-contributory invalidity pension, invalid care allowance ...	11·70	14·00
Increase of non-contributory invalidity pension and invalid care allowance for a wife or other adult dependant ...	7·05	8·40
Mobility allowance ...	10·00	12·00
Guardian's allowance, child's special allowance, increases for children of widows, invalidity, non-contributory invalidity and retirement pensioners, and invalid care allowance beneficiaries ...	5·35	7·10
Increases for children of all other beneficiaries ...	0·85	1·70
New Child Benefit Rates for One-Parent Families:		
First Child ...	6·00	6·50
Each other child ...	4·00	4·00

* An age addition of 25p is payable to retirement pensioners who are aged 80 or over.

MAIN INCREASED INDUSTRIAL INJURIES BENEFIT RATES

	Existing weekly rate £	*Proposed weekly rate* £
Injury benefit*† ...	18·50	21·35
Disablement benefit (100 per cent. assessment)* ...	31·90	38·00
Unemployability supplement‡ ...	19·50	23·30
Special hardship allowance (maximum)...	12·76	15·20
Constant attendance allowance (normal maximum), exceptionally severe disablement allowance ...	12·70	15·20
Industrial death benefit:		
Widow's pension during first 26 weeks of widowhood ...	27·30	32·60
Widow's pension now payable at £20·05 rate ...	20·05	23·85
Widow's pension now payable at £5·85 rate ...	5·85	6·99

* The rates for beneficiaries not over the age of 18 will also be increased.

† Increases for adult dependants and children will be the same as those payable with unemployment and sickness benefits.

‡ Invalidity allowances and increases for adult dependants and children will be the same as those payable with invalidity pensions.

MAIN INCREASED SUPPLEMENTARY BENEFIT RATES

	Existing ordinary weekly rate	Existing long-term weekly rate*	Proposed ordinary weekly rate	Proposed long-term weekly rate
Ordinary scale:	£	£	£	£
Husband and wife	25·25	31·55	29·70	37·65
Person living alone	15·55	19·90	18·30	23·70
Any other person aged:				
18 and over	12·45	15·95	14·65	18·95
16–17 years	9·55	—	11·25	—
13–15 years	7·95	—	9·35	—
11–12 years	6·55	—	7·70	—
5–10 years	5·30	—	6·25	—
Under 5 years	4·40	—	5·20	—
Blind scale:				
Husband and wife:				
If one of them is blind	26·50	32·80	30·95	38·90
If both of them are blind	27·30	33·60	31·75	39·70
Any other blind person aged:				
18 and over	16·80	21·15	19·55	24·95
16–17 years	10·45	—	12·15	—

No specific rates for blind persons less than age 16.

	Existing weekly rate	Proposed weekly rate
	£	£
Non-householder rent allowance	1·45	1·70
Attendance requirements:		
Higher rate	15·60	18·60
Lower rate	10·40	12·40
Discretionary additions to supplementary benefit:		
Heating additions	0·85	0·95
	1·70	1·90
	2·55	2·85
Dietary additions	0·95	1·05
	2·25	2·50

* Where the claimant or a dependant is aged 80 or over a further 25p is added to these long-term rates.

MAIN INCREASED WAR PENSION RATES

All ranks receive the same increases, officers' rates being expressed in pounds per annum

PART I: DISABLEMENT BENEFITS

	Existing weekly rate	Proposed weekly rate
	£	£
Disablement pension for private at 100 per cent. rate	31·90	38·00
Unemployability allowances*:		
Personal allowance	20·75	24·70
Increase for wife or other adult dependant	11·70	14·00
Comforts allowance:		
Higher rate	5·40	6·60
Lower rate	2·70	3·30
Allowance for lower standard of occupation (maximum)	12·76	15·20
Constant attendance allowance:		
Special maximum	25·40	30·40
Special intermediate	19·05	22·80
Normal maximum	12·70	15·20
Half and quarter day	6·35	7·60
Age allowance with assessments of:		
40 and 50 per cent.	2·20	2·65
Over 50 and not exceeding 70 per cent.	3·40	4·10
Over 70 and not exceeding 90 per cent.	4·80	5·90
Over 90 per cent.	6·80	8·20
Exceptionally severe disablement allowance	12·70	15·20
Severe disablement occupational allowance	6·35	7·60

	Existing annual rate £	Proposed annual rate £
Clothing allowance:		
Higher rate	43·00	51·00
Lower rate	27·00	32·00

* Invalidity allowances and increases for children will be the same as those payable with invalidity pensions.

PART II: DEATH BENEFITS

	Existing weekly rate £	Proposed weekly rate £
Widow's pension—private's widow; widower's pension:		
Standard rate	25·30	30·20
Childless widow under 40	5·85	6·99
Rent allowance	9·60	11·50
Age allowance for elderly widows:		
Between age 65 and 70	2·40	2·95
Over age 70	4·80	5·90
Adult orphans	19·50	23·30

ORDERS OF THE DAY

WAYS AND MEANS

Order read for resuming adjourned debate on Question [12 June].

AMENDMENT OF THE LAW

That it is expedient to amend the law with respect to the National Debt and the public revenue and to make further provision in connection with finance; but, without prejudice to any authorisation by virtue of any other Resolution, this Resolution does not extend to the making of—

(*a*) any amendment with respect to value added tax so as to provide—

(i) for zero-rating or exempting any supply;

(ii) for refunding any amount of tax;

(iii) for reducing the rate at which tax is for the time being chargeable on any supply or importation otherwise than by reducing that rate in relation to all supplies and importations on which tax is for the time being chargeable at that rate; or

(iv) for any relief other than relief applicable to goods of whatever description or services of whatever description; or

(*b*) any amendment relating to the surcharge imposed by the National Insurance Surcharge Act 1976 and applying to some only of the persons by or in respect of whom the surcharge is payable.—[*Sir Geoffrey Howe.*]

Question again proposed.

BUDGET RESOLUTIONS AND ECONOMIC SITUATION

4.16 p.m.

Mr. Denis Healey (Leeds, East): I must start by thanking the Chancellor of the Exchequer for his kind words about myself yesterday. I would like to reciprocate by congratulating him on the style, structure and brevity of what was by any standard a quite exceptional Budget Statement. As he is now joining a small but select fraternity of Finance Ministers—an office which in all countries under all parties at all times is one of the most difficult and testing—I would like to start by saying one or two things on which I agree with what he said.

First, I think that the right hon. and learned Gentleman was right to consider our national problems in a longer perspective than is offered by the immediate past or even by the past 25 years. He was right also to emphasise, as I myself did so often, that our economic troubles are very largely home made, and that we must find a cure for them at home. He was right, too, to make no more than a perfunctory but ritual attack on the legacy that I bequeathed him. He could scarcely have done more without contradicting the opening sections of his own Financial Statement, which list the achievements of the British economy in the last 12 months, and comparing them with the appalling prospect in the first year of the Conservative Government. Indeed, he could have done no more than he did without undermining the credibility of the Chief Secretary to the Treasury, who has never hidden his admiration for the Labour Government's economic responsibility.

I must criticise the Chancellor, however—and this will be the main burden of my speech—for what I believe to be his obstinate refusal to learn any lessons from the past, particularly from the experiences of the last Conservative Government, of which he was a member—a Government elected on the same policies as this Government and who attempted, with the same reckless dedication to the same election rhetoric, to carry out those policies with the same blind indifference to social and political realities, bringing about catastrophic consequences both for themselves and for the nation as a whole.

Nothing that the Chancellor said yesterday gave us any reason to believe that the consequences of this new diversion to pre-war Conservatism will be any different from those which followed on the last occasion. Indeed, the circumstances in which the Chancellor is repeating the experiment attempted by the right hon. Member for Sidcup (Mr. Heath) are far less propitious than those in 1970.

As the Chancellor himself pointed out in his review of the past year, average earnings increased by 14 per cent. in the 1977-78 pay round, and rather faster in manufacturing industry. Indeed, in that round the whole excess over the Government's guidelines took place in the private sector. In the countries which compete with us, increases then ranged from $7\frac{1}{2}$ per cent. in France to only 2 per cent. in West Germany, with a severe loss in the competitiveness of the goods we have to sell, both at home and abroad.

SM

SECRET

Prime Minister 5 1

Are you content with this?

Yes . TL

12/6

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

Told DHSS that PM content

TL

13/6

Tim Lankester
Private Secretary
10 Downing Street

12 June 1979

Dear Tim

STATEMENT ON UPRATING OF SOCIAL SECURITY BENEFITS

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

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

Yours sincerely

Don Brereton

D BRERETON

HB

THE NOVEMBER 1979 UPRATING OF SOCIAL SECURITY BENEFITS

STATEMENT BY SECRETARY OF STATE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

But our forecasts could go wrong too! Better to leave out.

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

FILE

Social Services VLB

cc HMT
DHSS

10 DOWNING STREET

THE PRIME MINISTER

6 June 1979

Dear Mr. Sirs,

Thank you for your letter of 20 May.

I do of course share your concern about long-term unemployment. As you say, the main burden of it is borne by the unskilled, the more elderly, and the less fit. Apart from this, it is an appalling waste for people to be unemployed when they might be in work and adding to the country's wealth. One of the Government's overriding objectives, as you know, is to create a more thriving, efficient economy which will enable employment to expand. Only in this way will the problem of the long-term unemployed be tackled at its root.

As for the rate of benefit for the long-term unemployed, you will not expect me to anticipate what the Chancellor of the Exchequer and the Secretary of State for Social Services will be saying about Social Security benefits generally in the Budget Debate next week.

Yours sincerely

Margaret Thatcher

W. Sirs, Esq.

VLB

10 DOWNING STREET

PRIME MINISTER

You said you would reply to this letter from Bill Sirs about benefit rates for the long-term unemployed. I attach a draft, based on a draft provided by DHSS.

The draft is pretty guarded, because we will not of course be getting rid of the discrepancy between the benefit rate for the long-term unemployed and the rate which other long-term claimants are eligible for.

T.

5 June 1979

LMS

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

T P Lankester Esq
Private Secretary
10 Downing Street
London SW1

4 June 1979

Dear Tim,

Thank you for your letter of 24 May, addressed to Don Brereton, enclosing a letter of 20 May from Mr Bill Sirs. (Your letter in fact only reached us on 30 May). I enclose a draft reply for the Prime Minister's consideration.

I am sending a copy of this letter and enclosure to Martin Hall (HM Treasury).

Yours sincerely

Stephen

S H F HICKEY
Private Secretary

Encs:

LMS

DRAFT LETTER FOR PRIME MINISTER

Thank you for your letter of 20 May. I do of course share the concern about long-term unemployment. As you say, the main burden of it is borne by the unskilled, the older, and the less fit. Apart from this, it is ~~a~~ an appalling waste for people to be unemployed when they might be in work and adding to the country's wealth.

The Government's primary approach to long-term unemployment is to cure the disease in preference to simply easing the symptoms. Our aim is to get the economy working at much fuller capacity. This will reduce the level of unemployment directly. More employment, more wages, and higher wages will in turn mean that we shall be able to maintain and improve not only our standard of living but also our social services.

In the meantime ~~we~~ we will, of course, fulfil ~~our~~ our commitments to those dependent on social security benefits. You ~~would~~ will not expect me to go into further detail about our specific ~~instructions~~ intentions at this time.

~~The Government~~

One of ~~our~~ the Government's overriding objectives, as you know, is to create ~~the right economic environment~~

~~to enable~~

~~which will create businesses~~ ~~to expand~~

a more thriving, efficient economy which will create employment to expand. Only in this way will the problem of the long-term unemployed be tackled at its root.

PRIME MINISTER

PUBLIC EXPENDITURE, SOCIAL SECURITY, etc.

(Item 4 for E Committee, 1 June)

Cabinet this morning decided that an increase in the 'waiting days' from 3 to 6, at a saving of £3 million, was politically unattractive. You had already rejected the main alternative of an increase in prescription charges (£40 million). You therefore asked Mr. Jenkin to discuss further alternatives with Mr. Prior and Mr. Biffen. But you said that if the result was still a recommendation in favour of 'waiting days', the final decision was reserved to Cabinet.

The three Ministers discussed the matter again this evening and Mr. Jenkin has since written (31 May) to set out his own proposals. I understand that three alternatives were considered:

1. Go back to prescription charges. Mr. Jenkin still prefers this, despite the RPI problem. He stresses the very large classes of exemptions, including children, pregnant women, etc. (the mothers would not be clobbered).

2. Waiting days. Mr. Jenkin's second preference. (It saves only £30 million; the remaining £10 million would come from failing to make good the uprating shortfall on short-term benefits.) Mr. Prior says this is political dynamite, and he will resist it.

Flag A

3. Mr. Jenkin's third package, now set out in his letter. He says these are not 'straw men' but the best he personally can find, after crawling over the programme. The main elements are

- abolition of death grant	£5 m
- hold back child dependency allowance	£5/10 m
- align SB and NI main rates	£12 m
- keep FIS uprating to minimum	£2/3 m
- balance from NHS	X
	£30 m

Prescription charges 45 –
Dental charges –

(A variant of this would involve increasing dental charges only, at a saving of £7 million.)

He and Mr. Prior believe this means four political rows instead of one, and would therefore agree that it is the worst of all options.

Mr. Biffen apparently expressed no preference, simply reminding the others of your insistence that £40 million be found from somewhere, without adding to the RPI.

This will have to be resolved, either at E tomorrow morning (when it is tentatively down as item 4) or subsequently. Although you said that Cabinet would have the last word, you may be prepared to regard E as an adequate substitute. There is no full Cabinet scheduled until 11 June - too late for the Budget.

P. MOUNTFIELD

Cabinet Office

31 May 1979

1

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

31 May 1979

Dear Chief Secretary,

At Cabinet this morning colleagues expressed considerable doubts as to whether it would be possible to get through the House proposals to extend from three days to six days the number of waiting days which a person has to serve before becoming entitled to sickness or unemployment benefit. The matter was to be considered further at Committee E tomorrow and I am therefore circulating this letter to colleagues in advance of the meeting.

I attach a note about this proposal: despite all the obvious difficulties, it remains my view that this is the best available option, if savings of this order have to be achieved this year on the social security side. If colleagues are not able to accept that we should go forward with this proposal, then I have to say that it will be extremely difficult for me to find substantial savings - of the order of £30m - in this financial year, if the possibility of increased NHS charges for prescriptions and dental work is also excluded. (I am assuming that Cabinet's decision not to make good the shortfall in the 1978 uprating for those on short-term benefits which will save £10m in 1979-80 counts towards my overall target of £40m).

I have nonetheless considered in detail what savings could be made and I list below propositions which, to my mind, are frankly less acceptable than going for six waiting days but which are the only alternatives I can offer:-

(a) abolish death grant. This would save £5m in 1979/80 and £16m in 1980/81. One could argue that those in financial difficulties with funeral expenses could claim supplementary benefit, as indeed they do at the moment. But: this would be fiercely opposed in Parliament, where all the recent pressure has been to increase the grant.

(b) hold down on the uprating of child dependency allowances. If the increases in the child dependency allowances are restricted so that child support for those on national insurance benefit goes up only by the amount needed to inflation proof the dependency allowances themselves and not by the amount needed to inflation proof the total support for each child (including the child benefit element), as is provided for in

SECRET

E.R.

the public expenditure programme, £10m would be saved in 1979/80 and £26m in 1980/81. If, more realistically, only the child dependency allowances paid with sickness and unemployment benefit were so restricted the savings would be about £5m and £12m respectively. But: this would be a subterfuge, yielding a much less generous level of child support. Coming on top of our decision not to uprate child benefit this November, it would be very damaging to our claim to concern for the family.

(c) align supplementary benefit and national insurance main rates. The principal scale rates for married and single persons on supplementary benefit are slightly ahead of the principal national insurance rates (£31.55 for a married couple compared with £31.20 and £19.90 for a single householder compared with £19.50). If those rates were aligned with the new pension rates there would be a saving of £12m in 1979/80 and £30m in a full year. But: this would mean that supplementary pensioners got less than price protection in November, which would be inconsistent with our undertakings.

(d) hold the uprating of family income supplement to the minimum. It would be possible to shave £2-£3m off the FIS uprating, final details of which have yet to be arranged. But: a "mean" FIS uprating is inconsistent with colleagues' aims to encourage people to stay in work rather than fall back on social security benefits.

Nonetheless these are the only immediate savings I can offer if colleagues do not wish to go ahead with the proposal to increase waiting days from three to six. Beyond these areas one moves into impracticable propositions such as attempting yet again to withhold unemployment benefit from occupational pensioners.

I have looked again at the possibility of making savings in the HPSS programme but the only way to secure such savings while not cutting expenditure would in fact be to increase charges. I am still ready to pursue this if colleagues so wish. I have considered but rejected the possibility of charging for family planning supplies or of curtailing the present welfare milk scheme. Reductions in health authority expenditure are ruled out by our Manifesto commitment; and the most I could do would be to make some comparatively small savings in centrally financed services, which cover for example research, training and grants to voluntary bodies. I may be able to save in all up to £5m spread over a number of sub-heads, which I am urgently reviewing.

For myself I would prefer to go ahead either with the extended waiting days or with the increased charges rather than put together a package of the kind I have outlined above, which would attract criticism on a number of fronts out of all proportion to the savings achieved.

Yours sincerely

SHF Hidey

pp PATRICK JENKIN
(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

EXTENSION OF WAITING DAYS

Proposal

1. It is proposed that the 3 days for which unemployment, sickness and injury benefit are not paid at the beginning of a spell of unemployment or incapacity should be extended to 6 days.

Savings

2.	Gross	Full year Net of Supp. Ben.
Sickness Benefit and Injury Benefit	£63m	£60m
Unemployment Benefit	£15m	£10m

Only very rough estimates are possible. The latest available figures relating to claims for benefit show that in 1976/7 the total number of sickness benefit claims was 10 million, while the total number of unemployment benefit claims in 1978/9 was 4½ million.

Effect on claimants

3. Beneficiaries would lose 3 days flat-rate benefit: £7.88 for a single person; £12.76 for a married couple; £14.46 for a married couple with 2 children.* Perhaps 70% of men would be likely to have some sick pay cover for those 6 days and a rather higher proportion of women. The unemployed would receive no continuing payments from their employers but a considerable proportion receive an extra week's payment (a week in hand) when they are discharged and a number of them would have redundancy etc payments.

Historical

4. The waiting period for receipt of unemployment benefit when the scheme commenced in 1911 was 6 days. During the 1920s the period varied between 6 and 3 days; but it has been 3 days since 1937. From 1948 waiting days became payable retrospectively after there had been 12 days of sickness, unemployment or injury during a period of interruption of

*benefit values at current (1978/9) rates employment. In 1968 the Labour Government tried to make the 3 waiting days absolute but had to withdraw their proposals in the face of backbench pressure and Conservative opposition. In 1971, the Conservative Government made the 3 waiting days absolute in the face of very strong opposition from the Labour benches (3 mornings were spent on this subject in Committee).

In favour of the proposal

5. It would result in considerable savings (see para 2. above). It could be argued that since the period of 3 waiting days was last introduced the background has changed a great deal. Increasingly employers have provided sick pay for employees who are temporarily incapacitated. The Contracts of Employment and Redundancy Payments Scheme have increased considerably the provision made for a worker who becomes unemployed; and the number of workers who receive a week's wages in hand on the termination of their employment has also increased. The rates of national insurance benefit are now much higher than in 1948 and earnings and savings have also gone up considerably since then, and with them the ability of people to manage on their own resources during short interruptions of earnings.

Against the proposal

6. a. Many claimants would be worse off particularly those who are low-paid and those working in heavy industries such as coal mining, engineering and shipbuilding where the incidence of sick pay is not ~~as~~ great. Considerable opposition could therefore be expected from the Labour benches and from the TUC.

   b. The fact that benefit will not be payable for the first 6 days of sickness will mean that many employers with sick pay schemes would either have to pay their employees an additional 3 days' benefit or re-negotiate the private insurance cover they have for sick pay schemes. The CBI would therefore be likely to oppose the proposals also.

c. More claimants would need to have recourse to supplementary benefit. It has been estimated that 14% of those becoming unemployed claim supplementary benefit during the first week of unemployment and 26% during the second week. A change to six absolute waiting days would mean an increase in these numbers.

d. Increasing the number of waiting days would be contrary to the ILO conventions on sickness and unemployment benefit. There could be difficulties for us in relation to the EEC, as none of the EEC countries has more than three waiting days for sickness benefit and only one (Italy) has more than three waiting days for unemployment benefit.

Administrative implications

7. The payment of unemployment benefit is mainly computerised and, because of the need to re-programme the computers, the change could not be made until January 1980. The sickness benefit rules could however be changed with effect from September 1979, assuming legislation is through before the summer recess. This would mean an awkward 4 months' period during which two benefits which have run in close parallel for 30 years had different rules and would be a complication which would be unwelcome to staff and beneficiaries alike. But it would not be operationally impossible to begin the new arrangements on different dates. On this basis the benefit saving in 1979/80 would be £40 million net.

Ref: A09670

CONFIDENTIAL

PRIME MINISTER

Social Security Uprating
(C(79) 14)

BACKGROUND

This memorandum deals with two points arising from last Thursday's Cabinet:-

(a) Should the "shortfall" in the 1978 uprating of Social Security payments be restricted to pensions and other long-term benefits, excluding short-term payments such as sickness and unemployment benefits?

(b) The prospects for shortening time between announcing changes in benefits and their implementation.

HANDLING

2. The two issues here are not directly connected and you may wish to discuss them separately.

3. Payment of Shortfall to Recipients of Short-Term Benefits: You will want the Secretary of State for Social Services to speak to his paper and then to ask the Chancellor (or Chief Secretary) and the Secretary of State for Employment to comment. A saving of £10 million in 1979-80 and £30 million in 1980-81 would be possible if the shortfall was not made up for those on short-term benefits. Holding down the real value of these benefits might, as was argued in Cabinet last week, have some marginal effect on discouraging the "work shy". Your commitment in the House on 22nd May to make up the shortfall referred only to pensioners, as did the undertaking given by your predecessor on 28th March. In the context of the need to make a start on cutting public expenditure this year the £10 million, though small, is obviously attractive (it does not figure in the Chief Secretary's paper on public expenditure reductions (C(79) 13) because the cost of making up the shortfall whether for all or just for some recipients, will fall on the Contingency Reserve) Mr. Jenkin argues however that the savings would not be worth the controversy involved, particularly having regard to the other unpopular steps Cabinet have

attached

agreed on Social Security (breaking the pensions uprating link with earnings and holding the child benefit at £4) and the separate proposal to save £40 million this year by making people wait 6 days rather than 3 days before they are entitled to unemployment or sickness benefit. The decision is essentially one of political judgment.

4. Shortening the time between announcing changes in benefits and their implementation: Again you will want the Secretary of State for Social Services to open and then have comments from the Chancellor and the Home Secretary (who raised the question in Cabinet last week). Mr. Jenkin's paper assumes that it is essential to announce the uprating in the Budget statement and that shortening the time of implementation, therefore, necessarily involves bringing forward the date of payment - which would be both very expensive and, Mr. Jenkin claims, operationally impossible. The key question therefore is whether the announcement has to be made at Budget time. If so Mr. Jenkin is right and no change can be contemplated this year. If, however, a delayed announcement is possible you will want to explore the latest operational date by which it must be made.

CONCLUSIONS

5. Subject to the discussion you will want to guide the Cabinet to agree:-

(i) Either that the shortfall in social security benefits should be made up for long-term recipients only or for all recipients.

(ii) Either that the announcement of the changes in benefits, this year, has to be made in the Budget so that no shortening of the period before payment is possible or that the announcement of the uprating should be delayed as long as is operationally possible.

John Hunt

30th May 1979

Extract from a speech by the Prime Minister (Mr Callaghan) in the House of Commons - 28 March 1979.

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

Hansard extract - 29 March 1979.

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

16 Q 17

Hansard Extract 22 May 1979

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

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

File

CF.

10 DOWNING STREET

From the Private Secretary

24 May 1979

The Prime Minister has received the enclosed letter from Mr. Bill Sirs on the question of long term rates of benefit for the long term unemployed. I would be grateful if you could let me have a draft reply for her to send, to reach me by Thursday 31 May. The Prime Minister is in no doubt that her answer will have to be in the negative.

I am sending a copy of this letter and enclosure to Martin Hall (HM Treasury).

T. P. LANKESTER

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

Ref: A09623

CONFIDENTIAL

PRIME MINISTER

Uprating of Social Security Benefits
(C(79) 9)

Mr. Jenkin's paper has been agreed with the Chancellor and the Chief Secretary, following correspondence. Decisions are needed well before the Budget. Among other things, they affect the size of the Contingency Reserve for the remainder of the year.

HANDLING

2. You may want to ask Mr. Jenkin to introduce his paper in general terms, but thereafter it will be best to go through the points one by one. The main difficulties arise over the first sections;

(a) The main rates. A number of decisions are needed here. Thus:-

(i) Prices or Earnings. The present legislation, now three years old, requires pensions to be uprated by reference to the movement in prices or earnings whichever is more favourable to the pensioner. It is now proposed to move over to a prices-only basis in the long term. This requires legislation. The case for prices-only indexation is that it protects the pensioner, while limiting the Government's commitment. It is in line with the existing treatment of tax allowances and with the index-linking of public service pensions where the relevant index is that of prices. It leaves the Government the option of more generous treatment in years when this can be afforded. But it does not guarantee the pensioner a share in the increasing prosperity of the country. There is no manifesto commitment either way. A political decision is needed, either now or before next year.

(ii) Timing of Legislation. It is not yet clear that legislation will be needed this year. The Budget forecasts, making full allowance for the Chancellor's tax changes, will not be available until just before Budget day. It seems likely, but not certain, that they will predict prices increasing faster than earnings in the year to November. The likely extent of increases in indirect taxes makes this more probable. In that event, legislation is not essential: the present Act would require the prices basis to be taken. If, unexpectedly, the Budget forecast shows earnings moving ahead faster than prices (i.e. wage inflation running ahead of price inflation) and the Government nevertheless wanted to use a prices basis this year, legislation would be needed before November - which means introducing it before the Summer Recess. But in any event the Chancellor favours "grasping the nettle" now and legislating for the prices basis probably in the proposed Social Security Bill dealing with Christmas bonus (see below). This would of course turn the Social Security Bill into a much more controversial piece of legislation, for which time would need to be allowed.

(iii) Forecasts or Historic Data? The paper is silent on the content of the legislation, and a policy decision is needed either in Cabinet or in Home Affairs before drafting can proceed. Given the change from an "earnings or prices" basis to a "prices only" basis, there are three possibilities: to require a statutory forecast of the movement in the index; to make the change retrospective, by reference to movement over, say, the past 12 months; or for the legislation to remain silent. The present Act is in fact silent on the point: the practice of basing the uprating on the forecast of movements is extra-statutory and has been endorsed by the courts as a valid interpretation of the present law. There is a lot to be said for putting the matter beyond doubt and legislating firmly for the historic basis. But this is not a good year to do so, because it could not take account of the big increase in prices still to come partly attributable to the indirect tax changes in this Budget. We know that for this reason the Chancellor favours silence on this point, relying for the moment on existing practice and the Court decision, both pointing to the 'forecast' method. You might ask Mr. Jenkin which course he proposes: and if he is not ready to answer, you might ask that Home Affairs should look at the problem again before drafting proceeds. It would, of course, be possible to provide for the historic basis as the statutory minimum and still do more in a particular year.

(b) Shortfall. While the basis remains a forecast, there is always a danger that it will be wrong. It was wrong last year, and as a result, the pensioner did not get the full increase to which he was "entitled". You confirmed in the House on Tuesday the Government's election commitment to make good the shortfall. The Cabinet need do no more than take note of the position the cost of which (£80-£90 million) has been agreed between Mr. Jenkin and Treasury Ministers.

(c) Christmas Bonus. The Manifesto says that "Christmas Bonus, which the last Conservative Government started in 1972, will continue". (Though it does not say for how long.) The legislative authority has so far been renewed each year. Mr. Jenkin now proposes to put it on to a permanent footing, allowing payment in later years under subordinate legislation with provision to increase the amount by Order if and when the Government so decides. This particular point was discussed in H Committee yesterday without a conclusion being reach. Opinion was divided as to the relative merits of permanent or annual legislation and Cabinet will need to decide the issue.

(d) Another point which may arise here is the future of the "winter fuel scheme" or "electricity discount" which has operated for the last four years: you may want to ask Mr. Howell to say whether he

Mr. Howell has suggested there should be a separate Ministerial discussion. See letter in this folder (Flag A) proposes to continue this. (There is no provision in the PES for it). If so, a secondary issue is whether the necessary legislation should be incorporated with that on Christmas bonuses; you could invite him to pursue this point urgently with Mr. Jenkin.

(e) Child Benefit. The proposal here is to make no further increase in November. Given the public expenditure position, there is unlikely to be any objection. There is no Manifesto commitment to increase child benefit. The long term aim is to replace it by tax credits, but the Manifesto makes clear that this will take some years. There is a minor proposal, costing only £3 million, to increase the premium for one-parent families, which should not be controversial.

(f) Mobility Allowance. This proposal costs only £2 million and is unlikely to be attached.

CONCLUSIONS

3. Subject to the course of discussion, you should be able to record conclusions on each of the points listed in Mr. Jenkin's paragraph 11, and on some additional points, as follows:-

(i) That the uprating commitment should be related to prices only in future.

(ii) That, if the Budget forecasts confirm that the earnings basis is more favourable, legislation should be taken immediately to opt for the prices basis.

(iii) That if the forecast shows that the prices basis is more favourable, either:-

(a) legislation to move to the prices base should be postponed until later in the session; or

(b) nevertheless, opportunity should be taken to introduce legislation immediately, probably in the Bill now being prepared to deal with Christmas bonuses.

(iv) either:

(a) that the legislation should provide for uprating to be made by reference to past movements in the price index; or

(b) that it should provide for uprating by reference to forecast;

(c) that the legislation should be silent on the point, relying on the past rulings of the court that forecasts are a valid method; or

(d) that this issue of the basis of uprating should be referred to the Home Affairs Committee by policy decision before drafting proceeds.

(v) That last year's shortfall should be taken into account in calculating this year's uprating.

(vi) That the Chief Secretary, Treasury, should make proposals for the Contingency Reserve for the remainder of this year on the basis of this decision.

(vii) That a Christmas Bonus of £10 should be paid this year.

(viii) either:

that legislation should be taken to put the Christmas Bonus on to a permanent statutory footing, with power to proceed by Order and to increase the bonus if and when the Government decides; or

that the Christmas Bonus legislation should be renewed for one more year.

(ix) That the one-parent family premium should be increased to £2.50 in November.

(x) That the mobility allowance should be increased to £12 in November.

(xi) That the total additional costs of all these measures should be charged to the Contingency Reserve.

John Hunt

23rd May 1979

EXTRACT FROM HOUSE OF COMMONS
HANSARD DATED 28 MARCH 1979

married manual worker is 50 per cent.—an increase in real standards. We shall fulfil our statutory obligations again this year.

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

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

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

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

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

EXTRACT FROM HOUSE OF COMMONS
HANSARD DATED 29 MARCH 1979

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

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

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

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

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

16 Q 17

1

PRIME MINISTER

This letter from Bill Sirs asks that the long-term unemployed should be made eligible for long-term benefit rates. His figures are correct. The previous Government considered this proposal, but decided against - both on public expenditure grounds (£35 million in a full year) and because it would have weakened incentives.

I am sure the answer must be negative. Shall we ask Mr. Jenkin to reply?

Answer negative.
(I shall have to reply)

It must.

23 May 1979

 NBPM

Qa 04110

To: MR STOWE

From: SIR KENNETH BERRILL

Overtaken by PM's answer to PQ on 22/5 TL 23/5

Uprating of Social Security Benefits

1. I think the Prime Minister will wish to consider very carefully whether Mr Jenkin's proposals on retirement pensions in C(79)9 fully meet the need for public expenditure savings both this year and in the longer term.

2. The present pension is £19.50 a week for a single person and £31.00 a week for a married couple. The real value of the pension has risen 20 per cent over the last five years. The cost is now over £7½bn. a year.

3. The present statutory requirement is to uprate long-term benefits (including pensions) by the forecast growth (November to November) in earnings or prices, whichever is the higher.

4. Mr Jenkin proposes that next November's uprating should be indexed to prices only. Legislation would be taken, as necessary, to make this the statutory minimum requirement, in line with the present arrangements for basic rate personal tax allowances.

5. He also proposes that a margin should be added to make good the 'shortfall' on the previous Government's uprating last November (they under-estimated the rise in incomes). The cost of this margin would be up to £90m. in 1979/80 and £220m. in a full year. The cost is inevitably carried forward into all future years because indexation provides a ratchet. This £220m. is a significant sum. There is no provision for this in current expenditure plans and if it is committed now it will necessarily be at the expense of equivalent cuts elsewhere.

6. There is no doubt that the Government is committed to an increase of at least £2.50 (to £22) for a single person and £4.00 (to £35) for a married couple. That is implicit in the Prime Minister's assurance on 29 March that "we shall honour the pension commitments which he [Mr Callaghan] announced yesterday". But these, or even larger, increases will result from indexation by prices only without the addition of any margin for shortfall on the rise of incomes (unless prices are forecast to rise by less than $12\frac{1}{2}$ per cent, which is unlikely).

7. Mr Jenkin is likely to argue that the Government also has a commitment to make good the shortfall on incomes left over from last November. We do not think that this need be read into the Prime Minister's assurance noted above. But she will wish to judge that for herself. Mr Callaghan's remarks, to which she responded, are at Annex A.

8. Unless the Prime Minister feels that the Government is committed to making good the shortfall on incomes, there is a good argument on merits for not doing so. The social security programme now accounts for nearly 25 per cent of public expenditure; is growing rapidly; and is increasingly closing off other options. Pensioners have done well in recent years. The present Government's policy is to index by prices only until resources are available to achieve further improvements. Last November's uprating has already provided for an increase in real terms of over 3 per cent even in its defective form. Given the present need for expenditure savings it is illogical to seek to go further.

9. I am sending a copy of this minute to Sir John Hunt.

K.B.

22 May 1979

Att

ANNEX A

EXTRACT FROM HANSARD

HOUSE OF COMMONS

Mr. Callaghan

of the Industrial Reorganisation Corporation. This time they want to hamsting the National Enterpise Board. They intend to cut public expenditure. They keep saying so. What do they propose to do? Do they propose to stop the National Enterprise Board funding the new Rolls-Royce aero-engines? [HON. MEMBERS: "Answer".] There are more questions yet. Let us have a compendium. Do they intend to cut the Euopean airbus? Will they stop the production of the new HS146 aicraft? Is it the youth employment schemes that are to go? Is it the Welsh Development Agency or the Scottish Development Agency, which is at the moment backing 9,000 jobs with £20 million of investment?

Is it the new social benefits that we have introduced that are to go or the mobility allowance for the disabled, the invalid care allowance, or help to disabled housewives? I make no mention of school milk.

Since we came into office the average number of patients on each doctor's list has declined. Are the numbers to be allowed to swell again when public expenditure is cut?

The numbers of people served by home helps have increased. The meals on wheels service has been enlarged.

Are these to be cut back? Or is it the rebuilding of our cities? Would they tamper with the child benefit scheme, whose allowance is to be increased from £3 to £4 per week from 1 April?

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

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

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

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

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

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

Code 7.29.

TELEPHONE: 01-837 8891 (3 LINES)

TELEGRAPHIC ADDRESS: "STEELCON, LONDON W.C.1"

OUR REF: WS/BW.

THE IRON AND STEEL TRADES CONFEDERATION

General Secretary
W. Sirs

Swinton House,
324 Gray's Inn Road,
London, WC1X 8DD

20th May, 1979.

R22

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

Dear Prime Minister,

I am writing to urge you to act now to extend the long-term supplementary benefit rate to unemployed claimants.

The growing incidence of long-term unemployment must be of concern to us all. In October, 1975, 17% of unemployed males had been out of work for over a year; by October, 1978 28% had been without work for this long. The main burden of long-term unemployment is borne by the unskilled, the older worker and the worker in ill health. At the end of 1977 107,000 unemployment claimants had been on supplementary benefit for over two years, the number will be much higher by now., These claimants get £6.30 less (if married) and £4.35 less (if single) than other long-term claimants. We can see no possible justification for continuing this discrimination against the unemployed. There is no evidence to support the view that to pay the long-term rate would encourage the unemployed to continue on benefitinstead of looking for work. Moreover safeguards already exists in the supplementary benefit scheme against the small minority of "workshy" claimants.

Action was promised on long-term unemployment. This is one very small measure which you could take to help the long-term unemployed. The cost is relatively low: £33-million. The effect in mitigating the poverty experienced by the long-term unemployed could be considerable. It is essential that the unemployed should secure this extra assistance. To fail to do so now would be a bitter disappointment for the unemployed and for trade unionists fighting on their behalf.

Yours faithfully,

Wm Sirs

General Secretary.

PRIME MINISTER

c.c. Mr. Gow
Mr. Lankester

Pensions Uprating

After the exchanges in the House yesterday afternoon, I thought it might be helpful for you to see the legal advice from the DHSS on the question which was raised: namely, whether the Secretary of State for Social Services must, under the existing legislation, put up long-term benefits by the higher of his estimates of earnings and prices movements, or whether he can merely "have regard to" the movement in earnings, but put the benefit rates up by a (lower) prices figure nonetheless.

You will see that the DHSS advice is unequivocal. It is that new main legislation would be needed to do away with the link between earnings and the rates of pensions and other long-term benefits.

I understand that Mr. Jenkin and the Chancellor are already holding discussions about the prospects for prices and earnings movements, and that, as things stand, Mr. Jenkin has no proposal on the table for legislation.

Although it may be a little while before recommendations come to you, I thought you should nonetheless see now the terms of this legal advice so that you have the full background to the current discussions.

N. J. SANDERS

17 May, 1979.

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

National Insurance and Industrial Injury Benefits

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

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

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

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

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

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

Supplementary Benefit and War Pensions

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

Child Benefit

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

Mobility Allowance

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

Family Income Supplement

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

The present position

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

The proposal to link pension increases to prices

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

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

Up-rating of benefits

Power to increase rates of benefit.

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

(*a*) Schedule 4 to this Act;

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

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

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

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

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

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

Duty to increase rate of certain benefits.

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

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

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

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

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

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

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

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

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

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

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

Supplementary provisions as to up-rating.

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

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

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

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

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

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

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

(*a*) by an Act subsequent to this A[illegible] by an up-rating order; or

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

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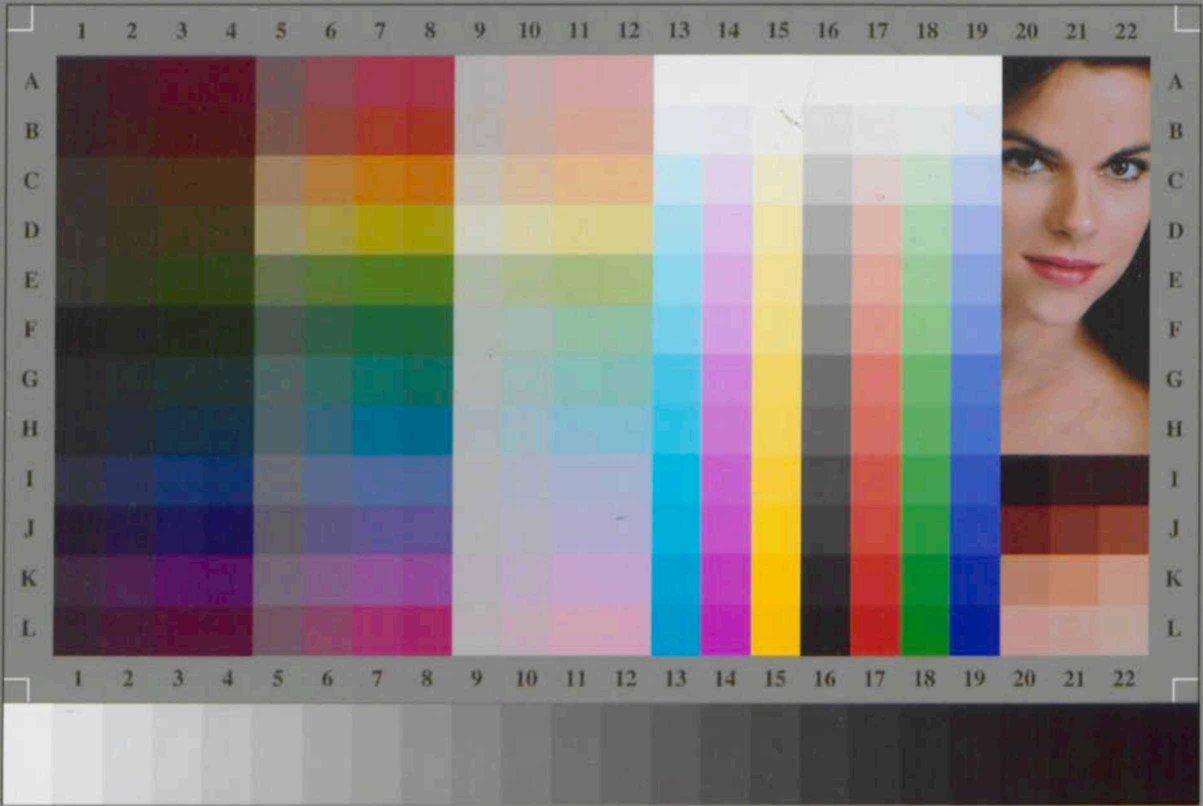

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