PREM 19/921

MT

PART 2

SECRET

Confidential Filing

Uprating of Social Security Benefits.

SOCIAL SERVICES

Part 1 : May 1979

Part 2 : Jan 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~24.1.80~~		~~25.2.81~~					
~~29.1.80.~~		~~9.3.81~~					
~~20.2.80~~		~~11.3.81~~					
~~17.3.80.~~		~~8.4.81~~					
~~21.3.80~~		~~[illegible]~~					
~~26.3.80~~		8.4.81					
~~28.3.80~~		-ends-					
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~~3.11.80~~							
~~9.12.80~~							
19.1.81							
~~3.2.81~~							
12.2.81							

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PART 2 ends:-

8.4.81

PART 3 begins:-

5.2.82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(80) 6	22.1.80
CC(80) 3rd Concs Min 7	24.1.80
L(80) 23	21.3.80
L(80) 9th Mtg Min 1	26.3.80
CC(80) 6th Concs Min 1	12.2.81

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. Pon man Date 30 Oct 2012

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Social Security Act 1980
(Chapter 30)

Hansard (Commons) Cols 891 - 903 :
Social Security Benefits (Uprating),
11 Mar 1981

Hansard (Commons) Cols 1658 - 1664
Social Security Benefits (Uprating)
27 Mar 1980

Signed R. Powman Date 30 Oct 2012

PREM Records Team

JS

Social Services

File 5/5.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Joint Parliamentary Under Secretary of State

Jeff Rooker Esq MP

WEDNESDAY - 8 APR 1981

Dear Mr Rooker,

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (Standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister of 25 February (Vol 999 Col 371). Pensioners include, in addition to those receiving national insurance retirement pensions, recipients of the following benefits: Widow's pension (including widowed mothers allowance and widow's allowance); industrial death benefit paid by way of a widow's or widower's pension; war disablement pension and industrial injury disablement pension; war widow's pension; attendance allowance, invalid care allowance and non-contributory invalidity pension. Supplementary pension, now aligned with retirement pension, will be similarly protected.

Invalidity benefit and unemployability supplement have of course had their uprating abated in 1980 but part of the abatement is to be made good at the 1981 uprating (IVA and its equivalent) and we have given an assurance that the benefits will be restored to the rate of retirement pension when they are brought into tax. The abated rates, transitionally, and the unabated rates thereafter, will be price protected.

I am copying this letter to the other members who were on Standing Committee G.

Yours sincerely,

John T. Hughes

(Private Secretary)

X

MRS LYNDA CHALKER

[Approved by Mrs Chalker and signed in her absence]

FILE

VLB

Sound

B F for

cc HMT

DHSS letter to Rooker

8 April 1981

Social Security Benefits: Price Protection

The Prime Minister has now considered your Secretary of State's minute of 3 April on the above subject. She agrees that Mrs. Chalker should write to Mr. Rooker in the terms of the draft enclosed with the minute - provided the Chancellor of the Exchequer is also content.

B.F for letter.

I am sending a copy of this letter to John Wiggins (HM Treasury).

T P LANKESTER

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

GL.

Prime Minister

You agreed to this on condition that the Chancellor also agreed.

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

PRIME MINISTER

SOCIAL SECURITY BENEFITS PRICE PROTECTION

TPM. 8/12

I have seen Patrick Jenkin's minute to you of 3 April about the definition of "pensioners" in pledges about price protection.

2. I agree with him that, at the present time, there is nothing to be gained - and perhaps a lot to be lost - by seeking to qualify the pledge and drawing a distinction between the "deserving" and "undeserving" pensioners. I do not, as you know, like unjustified indexation in any form, but, for the moment, I accept that we must apply the traditional construction to the term "pensioner" and include in it all those listed in the draft letter to Geoff Rooker.

3. I am sending a copy of this minute to Patrick Jenkin.

(G.H.)

8 April 1981

- 8 APR 1981

PRIME MINISTER

COMMITMENT ON PENSIONS UPRATING

Mrs. Chalker was pressed in Standing Committee on 26 March to give details of the benefits covered by your pledge on pensions. Mr. Jenkin has now minuted you saying that he thinks that, while you clearly had retirement pensioners particularly in mind, it would be very hard not to make the pledge also cover war pensioners, widows and disablement pensioners. He proposes that Mrs. Chalker should now write to Jeff Rooker in the terms of the draft letter at Flag A.

You may be interested in the relevant costings: 1 per cent on retirement pensions (including supplementary pensions) costs £115 million; 1 per cent on all the other pensions and allowances mentioned in Mrs. Chalker's draft costs £30 million.

Are you content for Mrs. Chalker to write?

The point must be cleared with the Chancellor

T.

7 April 1981

MA.

TF

DRAFT LETTER TO MR ROOKER

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister on 25 February (Vol 999 Col 371). Pensioners include, in addition to those receiving national insurance retirement pensions, recipients of the following benefits: Widow's pension (including widowed mothers allowance and widow's allowance); industrial death benefit paid by way of a widow's or widower's pension; war disablement pension and industrial injury disablement penion; war widow's pension; attendance allowance, invalid care allowance and non-contributory invalidity pension. Supplementary pension, now aligned with retirement pension, will be similarly protected.

Invalidity benefit and unemployability supplement have of course had their uprating abated in 1980 but part of the abatement is to be made good at the 1981 uprating (IVA and its equivalent) and we have given an assurance that the benefits will be restored to the rate of retirement pension when they are brought into tax. The abated rates, transitionally, and the unabated rates thereafter, will be price protected.

I am copying this letter to other members of the Committee.

10 DOWNING STREET

TIM

I kept this back so that you could put it in - and because it does not spell out the amount of money we are talking about. Small though it may be, I think we are entitled to know...

MS
3/4

C. D. Wolfson
J. Hoskyns
A. Walters

Prime Minister

SOCIAL SECURITY BENEFITS PRICE PROTECTION

The Chancellor minuted you on 16 January on the question of whether the Social Security Bill should provide that any shortfall in the uprating of social security pensions and benefits which might arise from an under-estimate of inflation should be made good the following year. You expressed a preference to avoid a statutory commitment if we could. Accordingly, although the Chancellor and I decided it would be prudent to have a fall-back clause drafted covering pensions and other long-term benefits, we have proceeded on the basis that you have given a pledge that pensioners will be compensated fully for price increases over the lifetime of this Parliament and that a statutory commitment is unnecessary. As we expected, this has satisfied our supporters and we expect to defeat Opposition attempts to include a statutory commitment to make good shortfall in the Bill.

The Opposition have, however, come back to the definition of "pensioners" in your pledge (you may recall answering a question from Mr Rooker on this, OR 25.2.81 Col. 371). I am sure you had retirement pensioners particularly in mind but clearly it would be extremely difficult politically to say that the pledge applies to them alone. What, it would be asked, is the position of such groups as war pensioners, widows and disablement pensioners? Are they not to be given price protection? Since we have every intention of giving these long-term pensioners the same protection as retirement pensioners, and the projections for social security expenditure shown in the Public Expenditure White Paper assume price protection, it would seem to me to be a self-inflicted wound to say that your pledge does not apply to them. It would also shake the faith of our supporters and might lead to the very defeat which we have been striving to avoid.

I therefore propose that Lynda Chalker should expand on the meaning of "pensioners" as in the attached draft letter. The list, which has been agreed with Treasury officials, essentially comprises the groups of beneficiaries who have entitlement to the Christmas bonus. The notable exclusions are all the short-term beneficiaries, sickness, unemployment, etc; supplementary allowance and family income supplement, child benefit and mobility allowance. I shall be grateful to know if you will agree to this meaning being placed on your promise. I am, of course, copying this minute to the Chancellor.

P. J.

3 April 1981.

10 DOWNING STREET

From the Private Secretary

1 April 1981

You sent me a copy of your letter of 30 March to David Butler about the uprating of benefits.

I am sure that the Prime Minister never had it in mind that anything more than retirement pensions should be covered by her price protection commitment. This being the case, I think it would be wise if your Secretary of State would minute the Prime Minister before Mrs Chalker gives any reinterpretation of that commitment.

I am sending a copy of this letter to David Butler, HM Treasury.

T P LANKESTER

D V Chislett, Esq.,
Department of Health and Social Security

DSS

Mr. T. P. Lankester

DHSS

With the Compliments of

Department of Health and Social Security

This is a duplicate. The original was sent yesterday through the ordinary post by mistake.

[illegible]

Friars House
157-168 Blackfriars Road
London, SE1 8EU
Tel. No. 01-703 6380 Ext.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
FRIARS HOUSE
157-168 BLACKFRIARS ROAD
LONDON SE1 8EU
Telex 883669
Telephone 01-703 6380 Ext. 4030

Your reference
Our reference

David Butler Esq
HM Treasury
Parliament Street
LONDON
SW1P 3AG

30 March 1981

Dear David,

In Standing Committee on 26 March Mrs Chalker was pressed by the Opposition to give details of the benefits covered by the Prime Minister's pledge on shortfall; Mr Rooker asked for a letter setting this information out (Standing Committee G Col 291.)

We discussed this and we agreed that it was not practicable to confine the commitment to retirement pensions and that Mrs Chalker could say that the pledge covered long-term benefits (including invalidity benefit), basing the list on those benefits which attract payment of the Christmas Bonus. These are given in S.2(1) of the Pensioners Payments and Social Security Act 1979 as retirement pension (covering Categories A, B, C and D); invalidity pension; widows allowance, widowed mothers allowance or widow's pension; NC1P; invalid care allowance, industries death benefit by way of widows or widowers pension; attendance allowance; unemployability supplement or allowance; war disablement pension; war widows pension; supplementary pension.

I attach a draft letter to Jeff Rooker linking the PM's pledge to all benefits payable to pensioners (including widows). This excludes ICA and Attendance Allowance, which are price protected (the cost is small) but which are not covered by the terms of the PQ reply given by the PM on 25 February, which Mr Rooker specifically referred to. The letter explains that IVP is covered in so far as it will be price-protected from henceforth (to avoid any commitment on restoring the 5% abatement). I would be grateful for your urgent comments by tonight.

I am copying this letter and enclosures to Tim Lankester at No 10.

Yours,

Derek

D V CHISLETT

PS(SS) DRAFT LETTER TO MR ROOKER

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (Standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister on 25 February (Vol 999 Col 371). These "pension" include, in addition to retirement pensions, the following: benefits payable to widows (widows pension, widowed mothers allowance, widows allowance); industrial death benefit paid by way of a widows or widowers pension; war disablement pension and war widows pension; and non contributory invalidity pension. Supplementary pension, now aligned with retirement pensions, will be similarly protected. Invalidity pension and unemployability supplement have of course had their uprating abated in 1980; but, using this rate as the starting point, the level of these benefits will be protected. We have of course given an unqualified assurance that invalidity pension and unemployability supplement will be restored to the rate of retirement pension when they are brought into tax.

I am copying this letter to other members of the Committee.

MRS L CHALKER

P.M.

25 February 81
Written Answer

Han. Ref. Vol. 999
Col. 37

Benefits (Updating)

Mr. Rooker asked the Prime Minister if it is Her Majesty's Government's intention to compensate (a) retirement pensioners, (b) other recipients of national insurance benefits and (c) recipients of means-tested social security benefits for price increases over the lifetime of the current Parliament.

The Prime Minister: As I have already made clear, the commitment we have given is to compensate pensioners fully for price increases over the lifetime of this Parliament. Decisions on benefits to others will be taken in the light of economic circumstances from time to time. My right hon. Friend the Secretary of State for Social Services announced in the House on 24 February that the power to abate certain benefits under section 1 of the Social Security (No. 2) Act 1980 would not be used this year.

Answer agreed by Bolling & Chislett with Tsy.

Y. Pl return – by hand – to Angela Lingwood.
T.

[Dr. McDonald.]
the impact of their various measures on families, particularly this vulnerable group of families? Perhaps the Prime Minister would like to remind the Secretary of State that that is what he ought to be doing, and make sure that Ministers in his Department also do that.

Mr. Race: Is my hon. Friend aware that one of the groups of people we have both been referring to, namely, those people who are sick or unemployed and getting the smallest—5p—increase in child support, are the very people who receive fewer exceptional circumstances additions to their benefit and fewer exceptional needs payments than anyone else? That is the evidence from the Townsend survey and is the point which my hon. Friend was making to the Minister about the totality of the policy that is being followed.

Dr. McDonald: I thank my hon. Friend for that intervention. In the course of my speech on the previous amendment I pointed out the difficulties experienced by such families in providing clothing for their children and how they had to rely on jumble sales, since one cannot possibly buy new clothing from the money provided.

I want briefly to mention the purpose of amendment No. 81 and new clause 3. The amendment is to ensure that as regards finance the amendments relating to making good the shortfalls are in order.

New cluause 3 concerns the continuation of the power of abatement laid down in subsection (1) into 1981 and 1982. The right hon. Member for Daventry (Mr. Prentice) said in a written answer:

"It is not proposed to make use of the power in section 1 of the Social Security (No. 2) Act 1980 to abate the increase in those benefits by up to 5 per cent.—[*Official Report*, 19 December 1980; Vol. 996, *c.532*.]

The power to abate in the current year is not being used. However, the right hon. Member for Daventry gave no commitment in regard to 1981-82.

Is the hon. Lady prepared to give the commitment that the abatement powers will not be used next year? If she is, new clause 3 cannot logically be proposed as it would remove the power which the Government would otherwise have to make an abatement. I hope that the hon. Lady will answer us. If she is prepared to give the commitment for which I asked, I hope that she and her hon. Friends will support new clause 3.

12 noon

I feel that I have emphasised strongly the plight of vulnerable families and more than 1 million children which we have sought to correct with our amendments. I hope that Conservative Members who professed concern and interest will take those sentiments as far as they should be taken by supporting us.

Mrs. Chalker: We have had a long and interesting, if somewhat predictable, debate. Many members of the Committee have debated these issues for some time.

I shall try to go through the issues that have been raised in relation to the amendments and not stray out of order, but it will mean that I cannot answer every point that has been raised because we went well into other matters on occasions.

I turn first to the issue that was raised by the hon. Member for Birmingham, Perry Barr (Mr. Rooker) and others—namely, the Prime Minister's pledge and what it means.

My right hon. Friend the Prime Minister said in the House on 25 November 1980:

"The full value of the pension in terms of what it will buy will be preserved. Last year, we added to the provision for pensions because the amount that had been provided was not sufficient. This year, we provided more than was warranted by the price increase. The undertaking is to compensate fully for price increases over the lifetime of a Parliament . . . That means either making up the shortfall or taking into account the over-provision next time."

That is clear and unequivocal. My right hon. Friend clearly referred to retirement pensions and long-term benefits. She did not refer to short-term benefits, which the hon. Member mentioned.

We must accept that the provision in the Bill is for one year and one year only. Therefore, in relation to making good the shortfall—I shall come to the question raised by my hon. Friend the Member for Peterborough (Dr. Mawhinney)—this is something which we are already empowered to do under section 125 of the Social Security Act 1975, and which has been done by both Conservative and Labour Governments in various ways over the years.

I could list all the individual figures but I do not think that it is necessary or fruitful to do so in Committee. The point is that the Prime Minister has given her pledge. She said:

"That means either making up the shortfall or taking into account the over-provision next time."—[*Official Report*, 25 November 1980; Vol. 994, c. 488.]

By "next time" she referred to the uprating in November 1981 only.

Mr. Race: Can we make clear that the Under-Secretary of State is saying that the Prime Minister clearly committed herself to protecting the value of pensions and long-term benefits, and can we therefore assume that the commitment is not to protect short-term benefits?

Mrs. Chalker: As I understand my hon. Friend, and I do not think I am in error, there was no explicit comment on short-term benefits. The commitment was for long-term benefits. If the economy improves to such an extent that there can be a further commitment on short-term benefits, I am sure that my right hon. Friend the Prime Minister or my hon. Friend the Secretary of State will give it. But the commitment standing in the name of my right hon. Friend on 25 November was on retirement pensions and long-term benefits, including invalidity benefit.

The hon. Member for Perry Barr questioned the written answer that he received from my right hon. Friend the Prime Minister on 25 February. He had asked the same question as that asked by the hon. Member for Wood Green (Mr. Race). I hope that I have made clear exactly where we stand on the matter of making good the shortfall. The power is already there. It will be used to make good the shortfall, because that is what the Prime Minister said.

Mr. Rooker: Will the hon. Lady tell the Committee why the Prime Minister did not answer my question? Why did she use the term "pensioners only"? The answer must have been drafted by the DHSS, not at No. 10, so why did not it state "pensioners and other recipients of long-term benefits"?

Mrs. Chalker: I cannot answer the hon. Gentleman.

Mr. Rooker: Will the hon. Lady write to me?

Mrs. Chalker: I will. I was just about to say so.

I return to the issue of making good the shortfall. We have heard differing comments affecting the long list of amendments, beginning with amendments Nos. 4, 5 and 7. They all affect this issue, being linked to the RPI.

Comments were made on Second Reading and the hon. Member for St. Pancras, North (Mr. Stallard) has spoken in this debate about the RPI not protecting pensioners. It is still considered the most appropriate method for the uprating of State pensions, because more than half the pensioners are covered by the RPI, and there is no evidence to show that it is not appropriate. Moreover, for technical reasons, it is the only available index which represents the needs of pensioners. All other indices exclude housing, and it would not be right to exclude housing from the total costs of the pensioner's household.

The hon. Member for Wood Green was right when he said that housing costs have risen more slowly for those pensioner households than for households in general because of the relatively greater importance for pensioner households of rent and rate rebates and rent allowances. We all know that they now play a major part in the household expenditure of elderly people.

Mr. Race: Will the hon. Lady give way?

Mrs. Chalker: I should like to continue, if the hon. Gentleman will allow me. If when I come to the end of this part of my remarks I have not covered his point, I shall give way.

The Committee knows that making good the shortfall in relation to prices is possible under existing legislation. We have given the pledge and have repeated it. I do not know what more can be said in the sense, that I do not consider it necessary to put into this statute, because the power exists in section 125 of the 1975 Act.

The hon. Member for Perry Barr asked a specific question in relation to bringing short-term benefits into taxation. It might be helpful to remind him of what my right hon. Friend the Secretary of State for Social Services said when we debated the No. 2 Bill in the House on 21 May 1980. The hon. Gentleman charged us with bringing the short-term benefits into taxation. My right hon. Friend said:

"The benefits to which this section applies"—

he was referring to the No. 2 Bill—

"ought to be taxed and we cannot wait until 1982 or 1983 to secure the contribution from the social security budget towards the Government's overall spending objectives."—[*Official Report*, 21 May 1980; Vol. 985, c. 555.]

So the Secretary of State was saying then—quite consistently—that the short-term benefits would be brought into taxation as soon as possible, perhaps in 1982. But he was pointing out that it was not possible before that date. In fact, we now know that it is likely to be April 1983.

I turn to the issue of making good the invalidity benefit. We have given a clear pledge that we shall do that this November. I accept what the hon. Member for Perry Barr said, namely, that the invalidity allowances are a small part of the whole. But we have also said that the benefit will be put on the same footing when the other benefits are brought into taxation. The amendments want us to make faster progress than that. I wish that that were possible, as members of the Committee know full well. But it is not possible to do so within the confines of the economy at present.

My hon. Friend the Member for Peterborough (Dr. Mawhinney) raised an important point on Second Reading. My hon. Friend the Minister for Social Security replied to that and to other questions asking whether, when there is an increase above the RPI, we will give an undertaking not to claw that back. If that had been in the Government's mind we should not now be embarking in this Bill on a change that will make increases in pensions during the lifetime of this Parliament at least balance out. My hon. Friend said:

"if it was our intention to ask the House for a right to have a clawback in perpetuity—the exercise of that power year after year—we should have included such a provision in the Bill. We have not done so."—[*Official Report*, 24 February 1981; Vol. 999, cc. 824-5.]

My right hon. Friend the Prime Minister and the whole Government hope that the economy will make such an improvement that we can increase retirement pensions and other benefits, at least to what the RPI indicates they should be.

Mr. Race: That is not what the Prime Minister said.

Mrs. Chalker: The point is that we are determined to put the economy on a sound footing.

Dr. McDonald: When?

Mrs. Chalker: As soon as possible. Unless we do that, pensioners—those dependent on the State pension and others—will find that their pensions simply do not go far enough. We have to conquer inflation. Although we would gladly spend the money if we could, we cannot do so when it does not belong to us; the Government have no money of their own. Because that is such a basic point, I hesitate to repeat it.

Dr. McDonald: I accept that the Government have stated their intention. But through their own

RC

cc Press
Mr Gow

1.

Prime Minister
Content with
Mr Jenkin's statement?
MAP 10/3

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

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

10 March 1981

Dear Mike

STATEMENT ON THE UPRATING OF SOCIAL SECURITY BENEFITS

I enclose a copy of the statement which will be made to the House of Commons by my Secretary of State on 11 March. It will be repeated in the Lords by the Baroness Young. Some amendments or additions may be needed following the Chancellor's statement today.

Copies of this letter and the statement go to Richard Tolkien, Nick Huxtable, Michael Pownall and Barry Hilton.

Yours ever

Mike.

MIKE TULLY

ENC

DRAFT STATEMENT ON THE UPRATING

WEDNESDAY 11 MARCH 1981

I will, with permission, Mr Speaker, make a statement about the increases in social security benefits. The increases which will come into operation on 23 November next will be embodied in an Uprating Order and other instruments to be laid after the Social Security Bill becomes law.

The standard rate of basic retirement pension for a single person will go up by £2.45 a week from £27.15 to £29.60. The rate for a married couple will go up by £3.90 from £43.45 to £47.35. Other long term benefits which will be similarly increased include widow's pensions, industrial disablement pensions, non-contributory invalidity pension, and attendance allowance.

The standard rate of sickness benefit and unemployment benefit will go up by £1.85 for a single person from £20.65 to £22.50, and by £3.00 from £33.40 to £36.40 for a married couple. The increases in invalidity pension will be somewhat higher - for a single person the increase will be £2.35 taking the pension from £26.00 to £28.35, and for a married couple the increase will be £3.75 a week, increasing the invalidity pension from £41.60 to £45.35 a week.

In calculating the new rates of benefit account has been taken both of the one per cent adjustment provided for by the Social Security Bill, to which the House gave a Second Reading on 24 February and of the forecast, given by my Rt Hon and Learned Friend, the Chancellor of the Exchequer, yesterday of a 10 per cent increase in the retail price index between November 1980 and November 1981. As I said on the Second Reading of the Bill, I would have wished that we did not have to make this adjustment, but given the very tight constraints on public spending, to which my Rt Hon and Learned Friend referred yesterday, we simply cannot afford the extra £225 million in a full year, which the uprating of benefits would otherwise have cost.

Supplementary benefits will all be increased next November on the same basis as National Insurance Benefits. War pensions will go up similarly at the same time, and a Christmas bonus of £10 will be paid on the same basis as last year.

For public sector pensions, earnings-related components in national insurance pensions, and the pensions payable under the old graduated scheme, where there are no standard rates, the same principle of the one per cent adjustment will apply. This will increase existing rates by 9.06 per cent. The same increase will apply to those who receive guaranteed minimum pensions from contracted-out occupational pension schemes.

Last July I told the House that subject to economic and other circumstances we would maintain the value of child benefit in line with prices. As announced yesterday by the Chancellor, child benefit will be increased by 50p to £5.25 a week for each child - a 10½ per cent rise - a little more than the expected rise in prices. One-parent benefit - the premium paid to lone parents - will go up from £3.00 to £3.30 a week. Thus, a one-parent family with two children will get £13.80 a week, compared with £12.50 at present.

The prescribed levels of income for family income supplement will go up by £7.00 to £74.00 weekly for one-child families and the additional amount for each further child will be raised to £8.00 a week.

I am glad to be able to announce, in the International Year of Disabled People, a substantial increase in mobility allowance - from £14.50 a week to £16.50. This is an increase of nearly 14 per cent and marks the importance which we attach to this allowance. We are particularly anxious to continue to make it possible for as many disabled people as can to lease or buy cars from Motability, and this increase will help to ensure the continuing success of that scheme.

Turning to invalidity benefit, the Chancellor made it clear yesterday that it will not be possible to bring this benefit into tax before 1983, but I am anxious to make a start towards the restoration of the value of this benefit in advance of that date. I therefore propose to restore the value of the invalidity allowances in November. These are the sums paid on top of the invalidity pension and depend on the claimant's age when incapacity begins. The cost of restoring these allowances and of the increase in real terms of the mobility allowance, will be met from the Contingency Reserve. Our pledge to restore the value of the invalidity pension itself when it comes into taxation now stands unqualified.

Rising fuel costs are causing increasing anxiety among needy people, and the Government has every sympathy with the difficulties which they face. Last November we introduced the most generous fuel assistance package ever. We raised annual spending on fuel aid to over £200 million, concentrated on giving substantial help to those in the greatest need. This year, we aim to protect the value of that advance. Supplementary benefit heating additions, therefore, including the special boost we gave them last year, will be increased in line with expected rise in fuel prices between November 1980 and November 1981.

The basic rates of heating addition and the central heating addition will go up from £1.40 a week to £1.65 (that is to £85.80 a year). Around 1½ million people will benefit from this increase, including all supplementary pensioner householders over the age of 70, and supplementary benefit householders with children under five. The higher rate heating addition will rise from £3.40 to £4.05, or £210.60 a year. Over 400,000 people are getting this increase, and they include the most severely disabled who get it automatically. These increases in heating additions will cost an extra £40 million in a full year, which means that our total spending on fuel assistance will rise to over £250 million and will benefit over 2¼ million people.

The cost of this uprating will be about £2 billion in a full year. About £1½ billion will fall on the National Insurance Fund, and the balance comes out of the Consolidated Fund. I shall be reviewing contribtuion rates as usual in the autumn and any necessary changes will take effect from April 1982. For the convenience of the House, I am circulating details of the new rates of benefits in the Official Report, and copies are available in the Vote Office.

This package of measures will bring help to the least privileged members of the community. The increase in pensions maintains our commitment to protect the real value of the pension over the life-time of this Parliament. The increases in child benefit and the premium for one-parent families fulfil the undertaking to maintain the value of child benefit which I gave to the House in July last year. These increases and that in family income supplement are an indication of the importance we attach to family support. The increase in mobility allowance and invalidity allowances for the disabled, and the heating additions for the needy demonstrate our concern for these hard pressed groups. Of course all of us, on both sides of the House, wish we could do more. But we have to take account of what we can afford. I hope the House will agree that the measures proposed are evidence of our determination to protect the most vulnerable in these very difficult times.

STATEMENT BY THE SECRETARY OF STATE FOR SOCIAL SERVICES

THE RT HON PATRICK JENKIN

WEDNESDAY 11 MARCH

SOCIAL SECURITY BENEFITS UPRATING

I will, with permission, Mr Speaker, make a statement about the increases in social security benefits. The necessary uprating order will come into operation on 23 November next. This and the other Uprating Instruments will be laid after the Social Security Bill becomes law.

The standard rate of basic retirement pension for a single person will go up by £2.45 a week from £27.15 to £29.60. The rate for a married couple will go up by £3.90 from £43.45 to £47.35. Other long term benefits which will be similarly increased include widow's pensions, industrial disablement pensions, non-contributory invalidity pension, and attendance allowance.

The standard rate of sickness benefit and unemployment benefit will go up by £1.85 for a single person from £20.65 to £22.50, and by £3.00 from £33.40 to £36.40 for a married couple. The increases in invalidity pension will be somewhat higher - for a single person the increase will be £2.35 taking the pension from £26.00 to £28.35, and for a married couple the increase will be £3.75 a week, increasing the invalidity pension from £41.60 to £45.35 a week.

In calculating the new rates of benefit account has been taken both of the one per cent adjustment provided for by the Social Security Bill, to which the House gave a Second Reading on 24 February and of the forecast, given by my Rt Hon and Learned Friend, the Chancellor of the Exchequer, yesterday of a 10 per cent increase in the retail price index between November 1980 and November 1981. As I said on the Second Reading of the Bill, I would have wished that we did not have to make this adjustment, but given the very tight constraints on public spending, which the Chancellor emphasised yesterday, we simply cannot afford the extra £225 million in a full year, which the uprating of benefits would otherwise have cost.

Supplementary benefits will all be increased next November on the same basis as National Insurance Benefits. War pensions will go up similarly and a Christmas bonus of £10 will be paid on the same basis as last year.

For public servicepensions, earnings-related components in national insurance pensions, and the pensions payable under the old graduated scheme, where there are no standard rates, the same principle of the one per cent adjustment will apply. This will increase existing rates by 9.06 per cent. The same increase will apply to those who receive guaranteed minimum pensions from contracted-out occupational pension schemes.

Last July I told the House that subject to economic and other circumstances we would maintain the value of child benefit in line with prices. As announced yesterday by the Chancellor, child benefit will be increased by 50p to £5.25 a week for each child - a 10½ per cent rise - a little more than the expected rise in prices. One-parent benefit - the premium paid to lone parents - will go up from £3.00 to £3.30 a week. Thus, a one-parent family with two children will get £13.80 a week, compared with £12.50 at present.

The prescribed levels of income for family income supplement will go up by £7.00 to £74.00 weekly for one-child families and the additional amount for each further child will be raised to £8.00 a week.

I am glad to be able to announce, in the International Year of Disabled People, a substantial increase in mobility allowance - from £14.50 a week to £16.50. This is an increase of nearly 14 per cent and marks the importance which we attach to this allowance. We are particularly anxious to continue to make it possible for as many disabled people as can to lease or buy cars from Motability, and this increase will help to ensure the continuing success of that scheme. The VAT relief on adaptation to cars for the disabled and the other VAT concession announed yesterday will also be welcomed by disabled people.

Turning to invalidity benefit, the Chancellor made it clear yesterday that it will not be possible to bring this benefit into tax next year, but I am anxious to make a start towards the restoration of the value of this benefit in advance of taxation I therefore propose to restore the value of the invalidity allowances this November. These are the sums paid on top of the invalidity pension and depend on the claimant's age when incapacity begins. The cost of restoring these allowances and of the increase in real terms of the mobility allowance, will be met from the Contingency Reserve. Our pledge to restore the value of the invalidity pension itself when it comes into taxation now stands unqualified.

Rising fuel costs are causing increasing anxiety among needy people, and the Government has every sympathy with the difficulties which they face. Last November we introduced the most generous fuel assistance package ever. We raised annual spending on fuel aid to over £200 million concentrated on giving substantial help to those in the greatest need. This year, we aim to protect the value of that advance. Supplementary benefit heating additions, therefore, including the special boost we gave them last year, will be increased in line with the expected rise in fuel prices between November 1980 and November 1981.

The basic rates of heating addition and the central heating addition will go up from £1.40 a week to £1.65 (that is to £85.80 a year). Around $1\frac{1}{2}$ million people will benefit from this increase, including all supplementary pensioner householders over the age of 70, and supplementary benefit householders with children under five. The higher rate heating addition will rise from £3.40 to £4.05, or £210.60 a year. Over 400,000 people are getting this increase, and they include the most severely disabled who get it automatically. These increases in heating additions will cost an extra £40 million in a full year, which means that our total spending on fuel assistance will rise to over £250 million and will benefit over $2\frac{1}{4}$ million people.

The cost of this uprating will be about £2 billion in a full year. About £$1\frac{1}{2}$ billion will fall on the National Insurance Fund, and the balance comes out of the Consolidated Fund. I shall be reviewing contribution rates as usual in the autumn and any necessary changes will take effect from April 1982. For the convenience of the House, I am circulating details of the new rates of benefits in the Official Report, and copies are available in the Vote Office.

Mr Speaker,

This package of measures will bring help to the least privileged members of the community. The increase in pensions maintains our commitment to protect the real value of the pension over the life-time of this Parliament. The increases in child benefit and the premium for one-parent families fulfil the undertaking to maintain the value of child benefit which I gave to the House in July last year. These increases and that in family income supplement are an indication of the importance we attach to family support. The increase in mobility allowance and invalidity allowances for the disabled, and the heating additions for the needy demonstrate our concern for these hard pressed groups. Of course all of us, on both sides of the House, wish we could do more. But we have to take account of what we can afford. I hope the House will agree that the measures proposed are evidence of our determination to protect the most vulnerable in these very difficult times.

MG

Soc Sec

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

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
London SW1

9 March 1981

Dear Geoffrey,

SOCIAL SECURITY BILL

Thank you for your letter of 25 February about legislation on the one per cent reduction in social security benefits.

I am quite content with your suggestion for the two alternative bases on which possible Government amendments to clause 1 of the Bill might be drafted. One should provide for shortfall and overshoot for long-term benefits, including invalidity benefit, and the other should also do likewise for short-term benefits. Both provisions would exclude public service pensions.

Subject to any comments from Christopher Soames, I agree that draftsmen should proceed with this approach in readiness for any developments which might make it necessary to amend the Bill on this question.

I am copying this letter to the Prime Minister, Christopher Soames, Francis Pym, Michael Jopling, and Sir Robert Armstrong.

Yours ever

Patrick

2 PPS

Minister of State

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

9th March 1981

Dear Geoffrey

R 11/3

SOCIAL SECURITY BENEFITS - LEGISLATING FOR THE 1 PER CENT REDUCTION

You copied to Christopher Soames your letter of 25 February to Patrick Jenkin.

I agree that we must not improve the position of public service pensioners while the Scott Report is under consideration. But we should be equally wary of discriminating against them. The alternatives canvassed in your letter would - taken with the 1% reduction this year - be perceived by staff and pensioners as a marked worsening. The difficulties of achieving higher contributions - or, indeed, any negotiated solution - following Scott would then be greater. The solution we are looking for must, I feel sure, be a carefully balanced package and it will be harder to achieve if we make perceived discriminatory changes piecemeal in the meantime.

I do not believe a general provision on future shortfall is required at this time; there is no need to legislate immediately on 1982 and later upratings. If necessary, we could undertake to legislate next session. This would have two advantages. By then we shall have reached conclusions on Scott. And it would allow time to come up with a properly considered and workable proposal. You may not know that my officials, Patrick Jenkin's, and Parliamentary Counsel discussed the technicalities of Clause 1 last week. I gather there is much complexity, and a hurried amendment at this stage would carry a significant risk of proving to be unworkable.

I am copying this letter to the Prime Minister, Patrick Jenkin, Francis Pym, Michael Jopling, Sir Robert Armstrong and Sir Henry Rowe.

Yours ever

Barney

BARNEY HAYHOE

Social Services

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

25 February 1981

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Social Services

12
20/2

Dear Patrick

SOCIAL SECURITY BENEFITS - LEGISLATING FOR THE 1 PER CENT REDUCTION

Thank you for your letter of 12 February.

I am glad to see that you agree with me that the utmost effort must be made to ensure that clause as drafted becomes law, and we do not have to give statutory extension to the concept of making good short-fall in future years. As I said before, we must rest on the Prime Minister's statement.

However I have accepted that we have to think about a possible fallback or fallbacks, although as I say I sincerely hope that they will not turn out to be needed. I am sorry to see that you are not now happy with what we had previously called Option B - giving the shortfall/overshoot protection in respect of state retirement pensioners and associated long term benefits, but not for short term benefits or public service pensioners. My own feeling is that short term benefits and public service pensions are very different, in that they are not covered by the Prime Minister's statement - on this point I cannot accept Christopher Soames' argument that because of the legislative link the statement should be deemed to cover public service pensions. And as I have argued before we must do all we can to prevent the extension of solid indexation.

We are at the moment only talking about possible fallbacks, and final decisions do not have to be taken now. Indeed it would be wise to wait and see in what form pressures developed before finally making up our mind. I accept, however, that it is desirable to have some basis on which Government amendments for use in extremis can be drafted, and I would like to suggest that this be done on two alternative bases.

/First,

First, notwithstanding what you say, I think we should try to stick to what we used to call Option B. I am not convinced it would be as hard to explain or justify this as you suggest. I accept the perhaps technical oddity that Option B means that we should be able to claw back overshoot on retirement pensions but not (without further legislation) on public service pensions or short term benefits, but I would I think be prepared to accept this; in due course we might want to do something anyway on public service pensions following Scott, and the short term benefits in question will be less widespread when we have ESSP (we are of course under no constraint so far as short term supplementary benefits go). I hope you will be able to agree that drafting at least should proceed on this basis.

My alternative suggestion would be to make the longer term protection in respect of undershoot (and claw back power in respect of overshoot) extend to state retirement pensioners and associated long term benefits, and social secuirty short term benefits, but not public service pensions. The difference between this and Option B lies, of course, in the treatment of short term benefit. I feel strongly that we should not do anything which improves the position of public service pensioners for the better, pending our consideration of Scott. I accept, as I say, that we may in due course want to make other legislative changes in respect of public service pensions, and I can see that Christopher Soames might argue that the time for breaking the link with state retirement pensions should be then rather than now. But I think our supporters would find it very difficult to agree that a benefit we were statutorily conferring on state retirement pensions should extend to public service pensioners while Scott is still under study.

I do not ask at this stage that we should take a decision as to which, if either of them, of these options we should go for if we are pressed. I prefer the first, but a final decision can be taken in the light of circumstances. Meanwhile I hope that you and Christopher Soames can agree that draftsmen should proceed now on these two alternative bases.

I am copying this letter to the Prime Minister, Christopher Soames, Francis Pym, Michael Jopling and Sir Robert Armstrong.

GEOFFREY HOWE

CONFIDENTIAL

Social Services

R.CF 13/2

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 Lord Soames GCMG GCVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London
SW1A 2AZ

R 17/2

12 February 1981

Dear Christopher,

LEGISLATION FOR THE 1% REDUCTION

Thank you for your letter of 3 February.

I well understand your concern; and I think I can meet the specific point you raise. You will see from the attached copy of my letter to Geoffrey Howe what I have in mind, and why. This will leave us free to handle the forthcoming Bill in whatever way is best designed to secure our objectives; and will, of course, close no options for future policy changes.

I am copying this as for your letter.

Yours ever
Patrick

CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

T 13/2

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
London
SW1

12 February 1981

Dear Geoffrey,

SOCIAL SECURITY BENEFITS - LEGISLATING FOR THE 1% REDUCTION

Thank you for your letter of 28 January. You will have seen Christopher Soames' letter of 3 February on the same subject.

I entirely accept your point that we must take our stand on the clause in the Bill as drafted and the Prime Minister's statement. But we must reckon with the very real possibility that our own Backbenchers as well as the Opposition will argue that the strength of the commitment supports rather than removes the need for putting it into legislative guise. The usual Government argument against legislation - an argument adopted by both Parties - is the need for flexibility. It will not be easy to persuade the House that a promise is just as good as legislation, or rather better.

As regards the form of a fall-back provision to be drafted for use in extremis, I would certainly want your officials associated with mine; and CSD officials would also be kept closely in touch. I have been thinking again about the form of the fall-back, and I would like to propose something rather more simple and to the point.

The amendment we would be seeking to counter would probably be one requiring making good of shortfall across the board <u>and</u> irrespective of whether the previous year's shortfall had been deliberate or accidental. If we could counter that with an amendment providing for making good only <u>accidental</u> shortfall, and balancing this with a power to claw back the previous year's accidental overshoot, we would have achieved all we could reasonably expect to achieve. The much more complicated Option B, with neither shortfall nor overshoot provisions for short-term benefits and public service pensions, would, I confess, be extremely hard to explain let alone justify. If, as is always possible, we want to make a deliberate distinction between different benefits in different years, I think we must legislate to that end. Shortfall

E.R.

and overshoot are a matter of correcting errors, and we cannot make a policy out of allowing errors to run on - especially when the result could be for short-term benefits and occupational pensions to do better at upratings than national insurance long-term benefit, because there is no power to recover overshoot.

The fall-back I now propose would of course meet Christopher Soames' point, while leaving us free to legislate for change in the public service pension arrangements if and when we thought this appropriate.

I am copying this as for your letter.

Yours ever

Patrick

E. R.

Top Copy filed on Parl Members' Pay + Pensions: Pt 4

PRIME MINISTER

Parliamentary Affairs

1. Next Week's Business

You will see that the Opposition are likely to nominate Linwood as one of the subjects for their Supply Day on Tuesday. As I have said elsewhere, I am sure that we shall come under a lot of pressure on this.

On Thursday, we shall return to the topic of Members' pay and pensions. * Mr. Pym has been having consultations in the light of the Cabinet's earlier decisions, and his office will be letting us have a note of what he now proposes later tonight.

Below (Duty Clerk 11/2/81)

2. Sickness Pay

The only other major topic to be discussed is the decision reached earlier today on the Social Security Bill. A minute from Mr. Pym and a Cabinet Office brief are attached.

MS

* In the light of discussions with George Cunningham last night, the CDL now wants to go after all for the "Cunningham formula" - so giving the House a chance to amend the figure after all. Mr St John Stevas' promise at flag A is too firm to go back on without a row, in Mr Pym's view

11 February 1981

The business has been arranged in such a way that the Opposition ought to be away at the end of next week (they are expected to be on a 1-line Whip on Wednesday and Thursday); we should, therefore, win!

MS

A04255

PRIME MINISTER

Parliamentary Affairs: Social Security Bill

BACKGROUND

1. The two main purposes of the existing draft of the Social Security Bill, originally intended for introduction later this week, are to provide for the holding back of the November 1981 social security benefit up-rating to recover the excess of 1 per cent in the November 1980 up-rating, and to make provision for the introduction of an employers' statutory sick pay (ESSP) scheme. Under the latter scheme, employers would be made responsible for providing the statutory minimum amount of sick pay for the first eight weeks of sickness of an employee in each tax year, or in each spell of sickness. The overall cost to employers of the new arrangements would be rather more than counter-balanced by a reduction of 0.6 per cent in employers' national insurance contributions. Special reimbursement schemes would be provided to deal with new employees, and to provide special benefits for small businesses. The scheme would bring 90 per cent of claims for sickness benefit into tax, would enable the DHSS to save some 5,000 posts, and would reduce public expenditure by about £400 million a year, though the adjustment to employers' national insurance contributions would mean that there would be no corresponding reduction in the public sector borrowing requirement.

2. The ESSP proposals have run into severe criticism from employers' organisations and from the Government's own supporters in Parliament, mainly because of continuing fears about the effect on small businesses, and the position of those manufacturers and other employers whose ESSP payments would exceed the reduction in their national insurance contributions because their employees had worse than average sickness records. There has also been considerable disquiet about the imposition of additional administrative burdens on industry as a whole. It has become clear that, in spite of the various concessions made by the Government since the Green Paper was published in April last year, there is a high risk of the Government's being defeated on the proposals as they stand at present. With the Home Secretary's agreement, the Chancellor of the Duchy of Lancaster and Paymaster General chaired a meeting of the Home and Social Affairs Committee on 11 February to consider the best way of handling these proposals.

3. The Committee agreed that it would be wrong in present circumstances to proceed with the present proposals. They identified two possible alternatives. Under the first, the Social Security Bill would be modified so as to reflect the latest compromise proposals arising from discussion with the Confederation of British Industry. All employers would be entitled to deduct 50 per cent of their expenditure on actual ESSP payments from their tax and national insurance remittances, with the remaining 50 per cent being covered by a 0.3 per cent reduction in the level of the employers' national insurance contribution. This would halve the staff savings expected from the original scheme, but would retain the planned reduction in public expenditure, and would still give employers an incentive to exercise close control over sickness payments. The majority of the Committee favoured this approach, though the Chief Whip and the Parliamentary Under Secretary of State, Department of Industry, thought that the absence of any special provisions for small businesses would make it at least as unpalatable to the Government's supporters as the existing proposals. The other alternative would be to confine the present Bill to the uprating provisions and the miscellaneous amendments of the social security law, and to give further consideration to the drafting of modified proposals on ESSP which might command a wider basis of support. This was the approach favoured by the Chancellor of the Duchy of Lancaster and the Secretary of State for Social Services.

4. The Chancellor of the Duchy, with the agreement of the Committee, reported the outcome of their discussion to you for decision. You came to the conclusion that the ESSP proposals should be omitted from the Social Security Bill, whose only major provisions would then be those on the November 1981 up-rating. The Bill, as amended, would be introduced at the end of this week. Further consideration would be given to the possibility of legislation early next Session on the ESSP, but you were quite clear that no Bill should be introduced unless it was quite certain that it embodied a fully worked out and defensible scheme and it seemed likely that there would be a majority in both Houses for its main provisions. The Chancellor of the Duchy subsequently reported your decision to the Secretary of State for Social Services in a minute which has been copied to all members of the Cabinet.

HANDLING

5. You will wish to begin by informing the Cabinet of the decision which you have taken, and inviting the Chancellor of the Duchy of Lancaster to add any further comments arising from the discussion in H Committee. The Chancellor of the Exchequer or the Chief Secretary may wish to comment on the public expenditure implications of postponing or abandoning the ESSP proposals. The expected saving of £400 million has already been included in the targets for 1982-1983 incorporated in the draft White Paper on public expenditure which has now been nearly finalised. You may wish to ask the Chancellor to confirm that postponement of the ESSP provisions will have no significant effect on the public sector borrowing requirement. The Lord President of the Council may wish to give his preliminary reactions to the loss of the expected manpower savings. The Secretary of State for Social Services cannot be expected to find fully compensating economies within his own Department, and other Departments will have to make an additional contribution if the Lord President's objective of reducing the size of the Civil Service to 630,000 by April 1982 is to be achieved. The Secretary of State for Social Services was prepared at H Committee to accept the postponement of the Bill, but he may wish to comment on the implications for his Department's manpower and public expenditure targets. It will be for him to take the lead in drawing up new proposals for an ESSP scheme and to bring them to H Committee in due course.

6. Further consideration will have to be given to the best * way of presenting the decision not to proceed with legislation on ESSP this Session and making clear that the Government have not abandoned the idea altogether. The Secretary of State for Social Services might agree to make a statement early next week, by which time the abridged Social Security Bill will have been published. If so, he will need to clear the text with you, the Chancellor of the Exchequer, the Lord President, and the Chancellor of the Duchy of Lancaster. (The alternative is to postpone publication of the Bill until next week to coincide with such a statement. The Business Managers are opposed to any delay in introducing the Bill.)

* What is now proposed is a Written Answer tomorrow (Thursday) and subsequent briefing of the Press; the Bill would be introduced on Thursday and published on Friday. MC

CONCLUSIONS

7. You will wish to guide the Cabinet to take note of your decisions on the handling of the ESSP proposals, and to invite the Chancellor of the Exchequer and the Lord President to give further consideration with the

Ministers concerned to the public expenditure and manpower implications of postponement. The Secretary of State for Social Services might be invited to clear with you, the Chancellor of the Exchequer, the Lord President, and the Chancellor of the Duchy of Lancaster the text of a statement to be made early next week.

RtA

11 February 1981

MT

CBI

SECRETARY OF STATE FOR SOCIAL SERVICES

SOCIAL SECURITY BILL

1. As you know, the Home Secretary asked me to take the chair this morning at the meeting of the Home and Social Affairs Committee which discussed the difficulties which we would be likely to encounter with our own supporters if we were to go ahead with the proposals on Employers' Statutory Sick Pay (ESSP) in the form in which they were in the draft Social Security Bill already circulated to Legislation Committee. I attach a summary of the ESSP scheme, and of H Committee's discussion, for the benefit of Cabinet colleagues who were not present at the meeting. Essentially we came to the conclusion that there were only two realistic options. We could introduce a modified Bill reflecting the latest CBI proposals, which go some way to meeting the most severe criticisms of the present scheme, and also making provision for the 1-per-cent claw-back in the November 1981 Social Security Benefit Uprating. Alternatively, we could postpone the ESSP provision to next session, thereby giving ourselves a breathing space to re-examine the policy and the practicalities, and confine this session's Bill to the essential uprating provisions and a few miscellaneous and non-controversial amendments of Social Security Law. H Committee agreed that I should report the outcome of their discussion to the Prime Minister, so that she could take the final decision on how we should proceed.

2. This I did and, as I have already told you, the Prime Minister is opposed to proceeding with legislation on ESSP unless we are sure that it embodies a fully worked out and defensible scheme, and that we can successfully carry the legislation in both Houses. She noted that there had not yet been time to examine the implications of the modified CBI scheme in detail. Moreover, the reports she herself has received of back-bench and Party opinion on this subject

show that there would, at the moment, be very strong resistance to any scheme which met the Government's objectives. She has therefore decided that the ESSP provisions should be deleted from the Social Security Bill, and arrangements are now in hand to introduce the shorter Bill on Friday, 13 February, with the intention of its reaching the Lords before Easter and obtaining Royal Assent, as is essential, by the beginning of July. The matter will be reported to the Cabinet in discussion of "Parliamentary Affairs" tomorrow morning.

3, I am copying this minute to the Prime Minister, other Cabinet colleagues, to the Attorney General and the Chief Whip, and to Sir Henry Rowe and Sir Robert Armstrong.

FP

FRANCIS PYM

11 February 1981

ANNEX

HOME AND SOCIAL AFFAIRS COMMITTEE: 11 FEBRUARY 1981
SUMMARY OF DISCUSSION OF THE SOCIAL SECURITY BILL

The proposed Employers' Statutory Sick Pay Scheme (ESSP) which is set out in the current draft of the Social Security Bill incorporates changes made as a result of the largely hostile reaction to the Green Paper published in April 1980. It places a duty on employers to provide a minimum amount of sick pay for the first eight weeks of sickness in each tax year, or in each spell of sickness. The overall additional cost to employers will be rather more than counterbalanced by a reduction of 0.6 per cent in the employers' national insurance contribution, though differing levels of sickness will mean that some employers will be net beneficiaries from the scheme, while others will find themselves under-compensated for their sickness payments. There will be a reimbursement scheme under which all employers will be entitled to reclaim 50 per cent of ESSP paid in respect of new employees, and a further reimbursement scheme designed to give extra help to small businesses. If implemented, the present scheme would reduce public expenditure by about £400 million, reduce the size of the civil service by around 5,000 posts, and bring 90 per cent of claims for sickness benefit into tax at source. Because of the proposed decrease in employers' national insurance contributions, there would not be a corresponding reduction in the public sector borrowing requirement.

The Secretary of State for Social Services reminded the Committee that the ESSP proposals had always been resented, particularly by small businesses, because it was thought that the proposed compensation arrangements were inadequate, in spite of the decision to increase the reduction in the national insurance contribution from the 0.5 per cent put forward in the Green Paper to 0.6 per cent. The Confederation of British Industry (CBI) had put forward an alternative scheme under which employers would be entitled to deduct their actual expenditure on ESSP from their gross tax and national insurance payments. The CBI proposals had been widely publicised, and had attracted considerable Parliamentary support among the Government's own backbenchers.

The CBI's scheme in its original form was unacceptable to the Government because it would give employers no incentive to monitor the validity of the claims to ESSP which they met under the scheme. Extensive monitoring procedures would have to be established by the Department of Health and Social Security and the Inland Revenue, which could well lead to a net increase in civil service manpower instead of the reduction of 5,000 which the scheme was designed to achieve.

The Secretary of State for Social Services told the Committee that the CBI had now come up with a modification of their original scheme, under which employers would be able to deduct 75 per cent of their ESSP payments from their tax and insurance remittances. The proposed reduction in the employers' national insurance contribution would be adjusted accordingly. The CBI had been told that the DHSS would be prepared to examine this variant provided that deductions from tax and insurance were limited to 50 per cent of ESSP payments.

Although the new CBI proposal did not overcome all the objections made to their original one, it would provide employers with some incentive to maintain a close check on their ESSP payments, and should enable a net saving of some 2,500 staff to be made.

The Secretary of State for Social Services had seen the Conservative back bench Social Services Committee the previous evening. The feeling against the Government's existing proposals had been very strong, and many members had said that they would feel obliged to vote against them as being penally burdensome to employers when considered against the background of the many other difficulties which they were facing at the present time. Although there had been understanding of the reasons which had led the Government to put forward its proposals, there had been strong pressure for the Bill to be postponed so that further consideration could be given to the main objections to the scheme. A switch to the modified CBI proposals would not disarm the Government's critics entirely, but it would make the ESSP part of the Social Security Bill much less controversial.

Parliamentary Counsel had already drafted an alternative version of the Bill to reflect the latest CBI proposals, and this should be ready for introduction on Friday 13 February.

On balance, the Secretary of State's own preference was to postpone the ESSP proposals to a separate Bill at the beginning of next Session, and to confine the existing Social Security Bill to the provisions necessary to hold back the November 1981 social security benefit up-rating and to give effect to a number of miscellaneous and non-controversial changes in the social security law.

In discussion, the Committee agreed that there should be no going back on the principle of the ESSP proposals. The view of the Chief Secretary, Treasury, supported by the majority of the Committee, was that the Government should go ahead immediately with legislation based on the new CBI proposals. This would only achieve half the manpower savings originally intended, but it would be almost as valuable in terms of public expenditure reductions. The credibility of the Government's public expenditure plans for 1982/1983 would be greatly undermined if the saving of £400 million were not made. Further delay would increase rather than decrease opposition to the Government's proposals. The Lord President of the Council was willing to accept the loss of manpower savings implicit in the CBI scheme, but warned that compensating economies would have to be found in DHSS or elsewhere.

The Chief Whip, and the Parliamentary Under Secretary of State, Department of Industry, thought that the failure of the CBI scheme to provide for any special benefits to small businesses would make it more difficult to carry intact than the existing Government proposals. The new scheme implied that the reduction in the employer's national insurance contribution would be limited to 0.3 per cent; this would actually worsen the cash flow position of small businesses, and would probably lead to an even more powerful lobby being mounted against the Bill after its introduction. The danger was that a Second Reading would be given to a Bill incorporating the CBI plan, with further benefits for small businesses having to be added at Committee Stage. The only practical way of restoring some sort of differential for small businesses would be to allow them to offset say 75 per cent of the cost of ESSP against tax and insurance payments, as opposed to 50 per cent for other employers; but such a complication would further erode the staff savings expected from the scheme.

The Secretary of State for the Environment challenged the assumption that employers needed a financial incentive to control unjustified sick absences. He was in favour of conceding something like the original CBI scheme, under which employers would be entitled to recoup the whole of their ESSP expenditure from their tax and national insurance remittances.

The Committee accepted that any Bill dealing with ESSP would have to reach the House of Lords by Easter in order to have any chance of being passed by early July, the deadline for legislation to implement the changes in the November 1981 social security benefit up-rating.

The Chancellor of the Duchy of Lancaster and Paymaster General, who chaired the meeting, said that his personal view was that the risk inherent in proceeding with legislation on ESSP this Session were unacceptable. He noted, however, that the majority of the Committee favoured the introduction that week of a modified Bill reflecting the CBI's latest proposals, and he undertook to report the position reached to the Prime Minister so that she could take a final decision.

11 FEB 1981

11 FEB 1981

CONFIDENTIAL

Social Services

LORD PRESIDENT OF THE COUNCIL

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

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

3 February 1981

Dear Patrick,

R..

LEGISLATION FOR THE 1% REDUCTION

TPM

Thank you for sending me a copy of your letter of 22 January to the Chancellor of the Exchequer. I have also seen his reply of 28 January.

I am disturbed by your implication that the Government should be ready to introduce option B as an alternative to our agreed proposal. I believe this option would create more problems than it would solve. The arrangements for public service pensions increase are contained in that section of the Social Security legislation which covers increases for state pensioners and are directly linked to them. Public service pensioners will therefore have noted the Prime Minister's assurance and we must be careful to avoid charges of breach of faith. And it is surely not through a back bench amendment of this nature that the link between state and public service pension increases should be broken.

I hope that you will make every effort to stick with option A, reminding the House of the Prime Minister's earlier assurances. The Government's proposal could then be presented as retaining maximum flexibility in avoiding over-complication of what is already very intricate legislation.

I am copying this letter to the Prime Minister, Chancellor of the Exchequer, Chancellor of the Duchy of Lancaster and Chief Whip and Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

CONFIDENTIAL

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 28 January 1981

2

Prime Minister

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

Dear Patrick

SOCIAL SECURITY BENEFITS - LEGISLATING FOR THE 1 PER CENT REDUCTION

Thank you for your letter of 22 January. I am most grateful to you for your agreement that the Social Security Bill should be introduced on the basis of Option A set out in my minute to the Prime Minister on 16 January.

I note what you say about the possibility of having to shift our position, and I do not wish to object to your having an alternative clause prepared on the lines you suggest. No doubt my officials can be associated with this (and of course I need not emphasise the need to keep this piece of planning confidential). But I should say now that I should want a good deal of persuading to agree that we should table the alternative clause. The fact is that the Prime Minister has given a pledge that for the life time of this Parliament shortfall will be made up on state retirement pensions. That is good enough for me and it should be good enough for our supporters. But we shall see; as you say we may get an indication of our backbenchers attitude come Second Reading.

Incidentally, I can see that the Prime Minister pledge will need to be repeated in debate. But I hope we can rest on it as it is and not find ourselves extending or embellishing it. If the situation arises where support for the Bill as introduced depends on some extension, then we could examine that as an alternative to introducing Option B into the legislation. But this is a possibility we should need to consider together if the situation arose. Meanwhile we should rest on what was said in the House on 25 November and go no further.

/I am copying this

I am copying this letter to the Prime Minister, the Lord President, the Chancellor of the Duchy, the Chief Whip and Sir Robert Armstrong.

GEOFFREY HOWE

DHSS

With the Compliments of

Department of Health and Social Security

[signature]

Friars House
157-168 Blackfriars Road
London, SE1 8EU
Tel. No. 01-703 6380 Ext.

ME

3/104

Reference....................................

FILE NOTE

1. This note sets out the calculation of inflation between uprating dates in 1979 and 1980.

2. The RPI for 16/12/1980 was 275.6 and for 18/11/1980 was 274.1. From these figures it is possible to calculate a notional RPI figure of 274.5 for 25/11/1980, i.e. $274.1 + \frac{1}{4}(275.6 - 274.1)$

3. The RPI for 13/11/1979 was 237.7, so the best estimate of inflation between upratings is obtained by comparing 237.7 with 274.5. This produces an estimate of price rises over that 54-week period of 15.5%.

Martin Lerner

M G LERNER
FC1
Room 437
Friars House
Ext 4260

23 January 1981

cc Mr Billing
Mr Chislett
Ms Clayton
Mr Reith

(1) T/M
You might like to be aware of this rationalisation for 15.5% –

(2) PA (Social Security file)
MJS
12/2

CODE 18.77

on the Wolfson
Mr Hoskyns
Mr Walters

Prime Minister

To note that we may be forced to make provision for future shortfall on pensions.
[illegible] 26/1

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
London SW1

22 January 1981

Pensions

Dear Geoffrey,

The Prime Minister has now replied to your minute of 16 January and has indicated her preference for Option A if it can be carried through the House of Commons. I shall now arrange for Parliamentary Counsel to be instructed to draft accordingly but the Prime Minister's qualification is, of course, at the heart of the matter. My view on this was omitted, due I understand to a secretarial slip, from your minute (you will see that on page 2 four arguments are promised but only three are given). Perhaps I may state it for the record:-

> "You [The Prime Minister] gave an unqualified assurance on shortfall so far as pensions go in the House on 25 November and that being so, there is no reason why it should not go into the legislation - and indeed it would be very difficult to resist an amendment which was subsequently put down to make it statutory. Such an amendment is almost inevitable."

I remain convinced that an Opposition amendment on these lines is inevitable. I shall naturally resist this and rest our case on the Prime Minister's pledge. If our supporters go along with this, all well and good, and perhaps we shall get a fairly clear indication of their attitude to emerge during the Second Reading debate. But we must be ready to bring in a clause of our own (on the lines of Option B assuming this will satisfy our supporters) if a defeat either in Committee or on Report looks possible. I intend therefore to ask for Parliamentary Counsel to be instructed to have ready an amended clause so that we may shift our ground quickly and gracefully if it becomes clear that our supporters are determined on a statutory commitment to making good shortfall. In this event I hope you will be able to agree to such an amendment being tabled.

I am copying this letter to the Prime Minister, to the Lord President, and with copies of the previous correspondence to the Chancellor of the Duchy of Lancaster and to the Chief Whip.

Yours ever

Patrick

cc CO
LPO
DHSS
A Duguid

10 DOWNING STREET

From the Private Secretary 19 January 1981

The Prime Minister has considered the Chancellor's minute of 16 January in which he set out three options in regard to the legislation needed for the 1 per cent reduction in social security benefits. The Chancellor asked the Prime Minister for her initial views before consulting colleagues more widely.

The Prime Minister has commented that she would prefer Option A if it can be carried through the House of Commons.

I am sending a copy of this letter to Don Brereton (Department of Health and Social Security) and Jim Buckley (Lord President's Office) and also to David Wright (Cabinet Office), together with a copy of the Chancellor's minute.

T. P. LANKESTER

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

cc Mr Wolfson
Mr Hoskyns
Prof Walters

Prime Minister
The Chancellor will have to consult other colleagues on this. But he wants your initial view first. I imagine you will back the Chancellor (option A para 5) against Mr Jenkin's preference (Option B).
TL 16/1

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

PRIME MINISTER

I prefer option A if we can get-it-through the House etc.

SOCIAL SECURITY BENEFITS - LEGISLATION FOR THE 1 PER CENT REDUCTION

As you know, in the course of the recent round of discussions about public expenditure, Cabinet noted that the Social Security upratings at November 1980 made in accordance with our Social Security Act 1980 were likely to exceed the amounts required to restore the value of benefits as at November 1979 (or to restore value less 5 per cent in the case of the abated benefits). Accordingly we agreed that the upratings at November 1981 should be held back to this extent, then estimated at about 1 per cent. The actual excess over what was intended is likely to be almost exactly 1 per cent which is the figure the Social Security Secretary and I propose. It is proposed that the necessary legislative provision should be sought in the Social Security Bill now in preparation, which will otherwise deal mainly with the Employers' Statutory Sick Pay scheme (ESSP). The Bill's Second Reading is expected in February. The purpose of this minute, which has been agreed with the Secretary of State for Social Services, is to let you have our views on the form of this legislation.

2. We are agreed that the legislation should provide for the upratings at November 1981 to be 1 per cent lower than they would otherwise have been in respect of both long-term and short-term benefits and, because the same legislation applies, public service pensions. We are also agreed that the legislation should make it clear that for November 1981 and future years

/the first announcement

the first announcement of the new benefits rates should be the definitive one. This is traditionally made at the time of the Budget. The current law requires a fresh view to be taken at the time the Uprating Order is laid, which may be as much as 4 months later. It is clearly undesirable to have to publish more forecasts of inflation than we have to, and equally undesirable to have the precise level of the uprating, and therefore its cash implications, in doubt for some months after the Budget. However the Secretary of State considers that we should include in the legislation a provision, in respect of long-term social security benefits (notably the state retirement pension but including invalidity benefit), imposing on the Government a duty, at any uprating, to correct any shortfall resulting from the RPI moving ahead faster than had been expected at Budget time. As a counterpart to this a power would be taken to recover any overshoot. This would still, of course, only represent a minimum position and we should always be able to do better in any year if we wished.

The Secretary of State argues for this provision on four grounds:-

(a) The Government is proposing to recover the 1980 overshoot. In equity, it should accept a statutory obligation to make good shortfall.

(b) The Government is making the chance of shortfall or overshoot more likely by making the Budget forecast the definitive one, and should therefore accept a statutory commitment on shortfall (matched by a new power on overshoot).

(c) The Government may want to recover overshoot in future years (my own proposals would require fresh legislation

/if we wanted to

if we wanted to do this after 1981); the corollary must be an obligation to make good shortfall.

I can see the political attractions in what the Secretary of State proposes. But you have given a pledge that for the life of this Parliament shortfall will be made good and in my view that is enough. To go further and put this on a statutory basis would represent a significant extension of statutory indexation, and might make it harder in the longer term to get away from the "cost plus" life generally. As such I am not happy with it even in this cause and I think it should be resisted. To my mind a simple recovery of the 1980 overshoot alone (coupled with making the Budget uprating definitive) is all we need. It would deal with this year. If we wanted to recover overshoot in 1982, we could legislate again (and we are always free, of course, to make up shortfall if we wish).

3. So far this has been about long-term social security benefits. Somewhat different considerations apply to short-term benefits (which in practice include short-term supplementary benefit where the main group of beneficiaries are the long-term unemployed) and public service pensions. No pledge on shortfall exists here. We both propose that at this stage anyway no change should be made. This means that there will be no obligation to make good shortfall, but equally no power to recover overshoot. In turn, this means that if we do what the Secretary of State wants on long-term benefits, there will be a difference between long-term benefits on the one hand and short-term benefits and public service pensions on the other; shortfall would have to be made good for the former but would not be mandatory for the latter, while overshoot could be recovered from the former but (without further primary legislation) not from the latter.

4. The Secretary of State recognises that this might be difficult to justify as it stood, but points out that we could certainly argue that it would not necessarily be the final

/position.

position. We might well wish to return to short-term benefits at the time they are brought into taxation. Similarly, public service pensions should be looked at in the light of Scott. Under my proposals there is no need to legislate now to alter the present position. But if we adopt the Secretary of State's proposal, the legislation would have specifically to exclude public service pensions from the protection proposed. This would be contentious, but in the Secretary of State's view could be defended as being subject to further consideration.

5. To summarise, the following broad possibilities exist:-

Option A — To legislate for clawback of 1 per cent in 1981 alone on all benefits, including short-term benefits and public service pensions (plus making the Budget uprating definitive) and do no more. This is what I recommend.

Option B — As Option A, but to provide that future shortfall must be made good and future overshoot may be recovered in the case of long-term benefits (including state pensions) but not in the case of short-term benefits or public service pensions, both of which will require further consideration in future in any case. This is the Secretary of State's proposals.

Option C — As Option B, but to extend the shortfall and overshoot provisions to:

(i) Short-term benefits, or
(ii) Public service pensions, or
(iii) Short-term benefits and public service pensions.

This is not recommended by either of us.

/Before we

6. Before we consider asking our colleagues for their views, we thought we should give you the opportunity to express an opinion, having regard to the fact that your pledge is involved.

7. I am copying this minute to the Secretary of State and, in view of the reference to public service pensions, to the Lord President.

G.H.

(G.H.)

16 January 1981

Social Services 2

PRIME MINISTER

MT

Payment of Social Security Benefits

Mr. Jenkin's statement went quite well today, although both the Opposition and a significant number of Government back benchers remain to be convinced about the changes proposed in his consultation paper.

Norman Buchan made an impressive debut at the despatch box. His main serious criticisms were of continuing uncertainty for sub postmasters, the implications for employment in other nationalised industries whose business might be put through the Post Office in the future, and the effect on women of the ending of child benefit as a weekly cash payment. He also tried to score a cheap point over your commitment to the weekly option for pensioners, arguing that press reports of Cabinet discussion on the value of pensions suggested that your pledges could not be relied upon.

Mr. Jenkin stressed that the rest of Europe now pay child benefit 4-weekly or less frequently, and he could not accept that the British housewife would be unable to cope. Some later questioners suggested that if our system was to follow the European pattern, so should the level of benefits. Mr. Jenkin observed that the case for weekly payment might be thought to be higher in countries with higher benefit levels.

The House had three concerns, two of which were shared on all sides. First, although the Post Office had acquiesced in Mr. Jenkin's package, this did not necessarily mean that the sub postmasters had. Exactly how their income would be sustained was far from clear. Mr. Jenkin said that he would now expect to see the sub postmasters opening new negotiations with the Post Office about their contract.

Secondly, the House was concerned about the effect of the child benefit change for mothers just out of the groups who would continue to qualify for weekly child benefit. Mr. Jenkin stood by

/ his

his comparisons with the rest of Europe, pointing out that we would maintain a weekly payment option for a much higher proportion of mothers than elsewhere in Europe.

The third point of concern - for the Labour benches plus Peter Bottomley - was on the short term financial effect of the switch to a 4-weekly system. Mr. Jenkin made it clear that, in a year of severe restraint, the £50 m which would be carried forward into the following financial year was a valuable cash flow saving. The Opposition saw it as Government robbery, which should be refunded in increased levels of benefit. Mr. Bottomley felt that the first 4-weekly payment should be made two weeks after the last weekly one, thus splitting the difference with the claimant.

In the consultation period, there is likely to be continued pressure both for widening the group who can draw child benefit weekly, and for more clear-cut definition of how the village Post Office network is to be preserved. In the end, I suspect that Mr. Jenkin will have to chip away a bit more at the savings originally suggested from the study. But he is likely to be able to carry the bulk of his proposals.

MP

9 December, 1980.

Original on: 9
Econ Pol: Pt 11
Public Expenditure
Social Services

Ref. A03433

PRIME MINISTER

Public Expenditure: Social Security

The Chancellor of the Exchequer proposes to hand out at the Cabinet meeting tomorrow the paper attached to his minute of 31st October to you.

2. Proposal A is for savings which will follow the shift to monthly payments of child benefit following the Rayner study. This was endorsed by H Committee at their meeting on 29th October, but its implementation is subject to the reactions to the proposed White Paper on payment of social security benefits.

3. Proposal B is for relatively modest savings following the application of the general 2 per cent cut on cash controlled expenditure.

4. Proposal C is the main one of uprating all benefits in November 1981 by 3 percentage points less than needed to give full price protection. The Chancellor of the Exchequer has agreed with the Secretary of State for Social Services that war pensions and mobility and attendance allowances should be an exception to that. They have not reached agreement on whether an exception should be made for invalidity benefit or on the treatment of short-term supplementary benefit - the figures are summarised at the foot of the table annexed to the minute.

5. The Chancellor further proposes that the de-indexing should apply to public sector pensions, and that the Chief Secretary should circulate a note setting out the details of this. It is important to note here that 'public sector' embraces both the 'public services' and the nationalised industries and a number of other trading bodies. The public services include the Civil Service, armed forces, NHS, teachers, local government, police and firemen, MPs and Ministers. The pensions of these groups are statutorily linked with state retirement pensions and can fairly readily be dealt with as a whole. The pensions of the nationalised industries and other similar bodies, however, depend on a variety of arrangements whose complexities will not be fully known to the Cabinet until the Chief Secretary's note is available.

HANDLING

6. After the Chancellor of the Exchequer has introduced his paper you will wish to invite the Secretary of State for Social Services to comment. The main proposal is of major political importance and most other Ministers will no doubt wish to comment.

7. The discussion might be based on the proposals tabulated in the annex to the minute. It should not be necessary to spend any time on A - already discussed by H Committee - or B which is non-controversial.

8. The key question on C is whether it is politically on, given past pledges (including your own undertakings in your interview with Brian Walden on 6th January). Notwithstanding the very real political difficulties there are powerful arguments in favour of this measure:-

(i) The size of the contribution to the public expenditure savings - before exceptions, £175 million in 1981-82 and around £500 million in each year thereafter.

(ii) It does not directly affect industry or unemployment.

(iii) The difficulties in the present climate of offering full protection to these groups of people, when many wage and salary earners (including those in the public services) are being expected to settle for less than the expected rate of inflation.

9. If it is accepted that the proposal should not be ruled out, the Cabinet will wish to consider the exceptions. It is common ground that exceptions should be made for war pensions and mobility and attendance allowances. There are obvious dangers in moving on to a slippery slope by giving anything more. The Cabinet may nevertheless feel that in order to get the main measures through, concessions will be necessary on invalidity benefit and, in some way, on short-term supplementary benefit. On the latter, of the options listed, the best seems to be to give long-term rate of supplementary benefit to the unemployed after two years. It would be represented as a general change rather than a further exception to the 3 per cent arrangement. It is the cheapest in terms of demands on additional manpower.

10. The Cabinet may not be able to come to a final decision on public sector pensions - or at any rate on whether any abatement should apply solely to the public services only or to the nationalised industries as well - until they have seen the Chief Secretary's promised minute and have a better feel of the complexities in the nationalised industry area.

CONCLUSIONS

11. In the light of a discussion you should be able to:-

(i) Endorse Proposals A and B.

(ii) Either endorse Proposal C and record agreement on the exceptions to be made

<u>or</u>

agree to defer a decision (even if there were to be strong opposition to it, I suggest that it would be tactically better not to rule it out until the Cabinet is clearer on the overall package - in other words the more concessions the Cabinet decides to make on other programmes, the more it may be necessary to insist on this measure).

(iii) Subject to (ii), agree to an abatement on public sector pensions subject to examination of the details in the minute which the Chief Secretary will be circulating.

D. J. WRIGHT

pp. (Robert Armstrong)

3rd November, 1980

Original Copy on:
Econ Pol: Pt 11
Public Expenditure.

S E C R E T

8

Prime Minister

The Chancellor proposes to hand this round at Cabinet. In view of its sensitivity, I suggest that you (or he) ask that the copies be left in the Cabinet Rm.

TL
3/11

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

PRIME MINISTER

PUBLIC EXPENDITURE: SOCIAL SECURITY

We agreed that Cabinet should discuss the Social Security on Tuesday, 4 November.

..... 2. I enclose a copy of the paper I propose to circulate at this meeting, which is based largely on the minute, agreed with Patrick Jenkin, I sent you on 28 October. I have added a reference to the proposal on public sector pensions. I think it would be convenient for Cabinet to take a decision in principle on this as well, though the details can be discussed later with our colleagues who would be concerned.

3. I am sending a copy of this minute to the Secretary of State for Social Services.

P.S. Jenkins
for (G.H.)
31 October 1980
Approved by the Chancellor and signed in his absence.

S E C R E T

DRAFT PAPER FOR CABINET

PUBLIC EXPENDITURE: SOCIAL SECURITY

Memorandum by the Chancellor of the Exchequer

This paper outlines my proposals for savings on the Social Security programme and on public sector pensions.

Social Security

2. The attached Annex outlines 3 proposals. The Secretary of State for Social Services is prepared to accept proposals A and B (savings on shift to monthly payment of child benefit following the Rayner study, and 2 per cent cut in cash controlled expenditure affecting mainly administration). He points out, however, that the proposal to pay child benefit four weekly in arrears has yet to be agreed in its own right, and to that extent the savings must be regarded as provisional. I accept this.

3. Proposal C - a reduction in real value of all benefits in November 1981, including retirement pensions - is clearly very difficult. We shall be accused of "attacking the poor" and of breaking our pledges. Nevertheless in the present situation, given the size of the social security programme, the very difficult proposals we are putting in respect of other programmes, and the fact that we expect prices to be increasing slightly faster than earnings over the next year or so (ie the standards of living of people in work are likely to fall) we have no choice but to tackle this area. The Secretary of State accepts the proposals in principle. But there are, however, some outstanding points yet to be settled.

4. First, exceptions. The Annex also sets out certain exceptions which the Secretary of State would wish to make to the across the board reduction, together with their cost. I believe that in principle there should be no exceptions, but I am ready to concede the first two in the list - war pensioners, and mobility allowance and attendance allowances.

5. The Secretary of State also considers that invalidity benefit recipients, having already received a 5 per cent reduction in this year's uprating, should not suffer a further 3 per cent. In addition the Secretary of State feels that some exception for the poorest of all, namely those on the short term rate of supplementary benefit, is needed if the other reductions are to be carried. This could be done either by continuing to price protect the short term supplementary benefit rates (thus preserving the safety net for those on the lowest rates) or by allowing the long term unemployed, who at present have to make do with the short term rates however long they have been unemployed, to qualify for the long term rates after one or two years of unemployment. In my view to go further than I have indicated would cut excessively into the savings we are looking for and, because a good case can always be made out for a social security benefit, end up creating resentment and risking having to concede more.

6. Second, there is the question of presentation of our decision and the timing of the necessary legislation on pensions. The Secretary of State and I both feel there would be advantage particularly in the context of wage negotiation in announcing a decision soon in terms of "'x' per cent increase" (which on present forecasts would be 8 per cent), rather than "3 per cent reduction". A decision to announce an "8 per cent increase" now would however have to be provisional, in case my final forecast of inflation differs from 11 per cent. The legislation that will be necessary need not be introduced until after the Budget, and the exact form can be settled nearer the time.

7. Finally, I should report that in order to ensure that the PSBR as well as public expenditure benefits from the holding back of contributory benefits, I propose that the legislation include a power to reduce as appropriate the Treasury Supplement to the National Insurance Fund. However as an entirely separate matter I may wish to look to a reduction in the Supplement anyway as a means of helping the next year's PSBR.

<u>Public Sector Pensions</u>

8. As a parallel to the proposals on Social Security I propose that index-linked public sector pensions should be held back at the next uprating also by 3 per centage points. My reason for making this proposal is not solely financial. If state pensions are to be held back it is inconceivable that

we should not take similar action in the area of public sector pensions. We have set up the Scott Enquiry to look at the values of the deduction for index-linking for current employees, but we have not yet touched past employees. For these reasons I would wish the coverage to be as wide as possible. Since this concerns a number of colleagues I propose that the Chief Secretary should circulate a separate paper on the legislative and administrative details. Meanwhile I invite colleagues to endorse the principles of this proposal.

Conclusion

9. I ask my colleagues to :

i. agree the proposals A, B and C in the attached Annex.

ii. consider the possible exceptions discussed in paragraphs 4 and 5 above.

iii. agree the abatement of public sector pensions proposed in paragraph 8, in principle.

ANNEX

£ million 1980 Survey pric

	1981-82	1982-83	1983-84	
Proposal A				
Savings on shift to monthly payment of child benefit, following Rayner study	- 61	- 1	- 13	
Proposal B				
2% cut in cash controlled programmes				
(i) effect in 1980-81 cash limits squeeze	- 11.1	- 11.1	- 11.1	
(ii) further proposed reduction	- 6.3	- 6.3	- 6.3	
Proposal C				
Uprating of all benefits in November 1981 by 3 percentage points less than needed to give full price protection	-175	-504	-504	
Agreed minor additional bids	+ 9	+ 12	+ 14	
Net saving	-168	-492	-490	
Exceptions to C, proposed by Secretary of State				Manpower effect
- Agreed (i) War pensions	+ 4	+ 3	+ 10	Nil
(ii) Mobility and attendance allowances	+ 3	+ 9	+ 9	Nil
Net saving on proposal C	-159	-480	-471	
- Not agreed				
(i) Invalidity benefit	+ 8	+ 24	+ 24	slight saving
(ii) Either short term supplementary benefit	+ 11	+ 31	+ 31	+220
or give long term rate of supplementary benefit to the unemployed either after 2 years	+ 15	+ 46	+ 51	+ 45
or after 1 years	+ 26	+ 74	+ 84	+190
Public sector pensions : proposed abatement - public expenditure savings	- 10	- 30	- 30 (estimated)	

Social Services

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

29 October 1980

T Lankester Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC EXPENDITURE - THE SOCIAL SECURITY PROGRAMME

Annex C of the Chancellor of the Exchequer's minute to the Prime Minister of 29 October should be replaced by the slightly amended version attached.

I am copying this letter to David Wright and Jim Buckley.

Yours,
Peter.

P S JENKINS
Private Secretary

ANNEX C

Exemptions proposed by the Secretary of State

£ million

	1981-82	1982-83	1983-84	Manpower (full year)
A. War pensions	4	10	10	None
B. Mobility allowance and attendance allowances	3	9	9	None
These are accepted by the Chief Secretary				
C. Invalidity Benefit	8	24	24	slight saving
The Chief Secretary is not convinced that this is justifiable				
D.1 Short term Supplementary Benefit	11	31	31	220
or				
D.2 Give long term rate of Supplementary Benefit to the Unemployed				
(a) after two years	15	46	51	45
(b) after one year	26	74	84	190

The Chief Secretary is not convinced that D.1 is justifiable when eg retirement pensions are being restricted. D.2 though more costly, is less unattractive as not causing so much erosion of the 3 per cent cuts; and also as more justifiable in its own right given unemployment trends. But the Chief Secretary is opposed to both.

Original on: 7
Econ Pol: Pt 11
Public Expenditure

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

PRIME MINISTER

100,000,000
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i.e. would say that the higher interest rates would be less contractionary than not spending the money.

PUBLIC EXPENDITURE - THE SOCIAL SECURITY PROGRAMME

For reasons of security the Chief Secretary's paper for Cabinet on Thursday which will report the upshot of discussions in MISC 47 will not refer to social security (or public sector pensions). The purpose of this minute is, however, to report to you the present position on discussions in this area, and to seek your agreement that I should make a brief oral statement on Thursday. This minute has been agreed with the Secretary of State for Social Services.

2. Annex A attached shows the position on the social security programme, and the savings which the Chief Secretary proposes.

3. The Secretary of State is prepared to accept proposals B and C (savings on shift to monthly payment of child benefit following the Rayner study, and 2 per cent cut in cash controlled expenditure - in this case largely administration). He points out, however, that the move to pay child benefit four weekly in arrears to the better off recipients has yet to be agreed in its own right, and to that extent the savings must be regarded as provisional. I accept this.

4. Proposal A - a reduction in real value of all benefits in November 1981 - including retirement pensions - is clearly very difficult. We shall be accused of "attacking the poor" and of breaking our pledges; in this context I have to draw your attention to the transcript at Annex B of part

/of the

of the interview you gave Brian Walden on "Weekend World" on 6 January last. Nevertheless in the present situation, given the size of the social security programme, the very difficult proposals we are putting in respect of other programmes, and the fact that we expect prices to be increasing slightly faster than earnings over the next year or so (i.e. the standards of living of working people are likely to fall) we have no choice but to tackle this area. The Secretary of State is in principle in agreement. But there are, however, some outstanding points yet to be settled.

5. First, exceptions. Annex C sets out certain exceptions which the Secretary of State would wish to make to the across the board reduction, together with their cost. The Chief Secretary and I feel that in principle there should be no exceptions, but we are ready to concede the first two in the list, war pensioners, and mobility allowance and attendance allowances. To go further than this would, in my view, cut excessively into the savings we are looking for and, because a good case can always be made out for a social security benefit, end up creating resentment and risking having to concede more.

6. However, the Secretary of State considers that invalidity benefit recipients, having already received a 5 per cent reduction in this year's uprating, should not suffer a further 3 per cent cut (which may not get through the House of Lords anyway). In addition the Secretary of State feels that some exception for the poorest of all, namely those on the short term rate of supplementary benefit, is needed if the other reductions are to be carried. This could be done either by continuing to price protect the short term supplementary benefit rates (thus preserving the safety net for those on the lowest rates) or by allowing

/the long term

the long term unemployed, who at present have to make do with the short term rates however long they have been unemployed, to qualify for the long term rates after one or two years of unemployment. If something on these lines were to be done, I would prefer to give the long term supplementary benefit rate to the unemployed after two years, rather than create any further exceptions to the 3 per cent; but on balance I do not think we should go beyond the limited concessions in paragraph 5 above.

7. Second, there is the question of presentation of our decision. The Secretary of State and I both feel there would be advantage particularly in the context of wage negotiation in announcing a decision soon in terms of "'x' per cent increase", rather than "3 per cent reduction". On current forecasts 'x' would be 8 per cent. But I have to make another forecast of inflation before final decisions can be taken. A decision to announce an "8 per cent increase" now would therefore have to be provisional. Some flexibility would have to be left in case my final forecast of inflation differs from 11 per cent. I would want to be assured of my 3 per cent savings while the Secretary of State would not want pensions to fall more than 3 per cent below the RPI forecast.

8. A third outstanding point concerns the form of the legislation that will be necessary. The Secretary of State would prefer to make this "one-off" affecting the November 1981 uprating only, with our pledges to price protect, and indeed give pensioners and others more as our economic situation improves, merely suspended rather than abandoned. I myself would prefer something more akin to the so-called "Rooker-Wise" provisions in the tax statutes.

9. Finally, I should report that in order to ensure that the PSBR as well as public expenditure benefits from the

/holding back

holding back of contributory benefits, we propose that the Treasury Supplement to the National Insurance Fund be held back as appropriate. The legislation I have just referred to could cover this also. However as an entirely separate matter I may wish to look to a reduction in the Supplement anyway as a means of helping the next year's PSBR, and if so both points will be swept up together.

10. I should add here for convenience that the Chief Secretary will also be proposing that index-linked public sector pensions should be held back at the next uprating also by 3 per cent, to parallel what is proposed on the s tate retirement pension. The Chief Secretary will be circulating a separate letter on this. The presentational issue discussed in paragraph 7 also arises here.

11. If you are in agreement I will make an oral report to Cabinet on Thursday on the lines of the foregoing. In the light of the discussion we may need to circulate a paper later.

12. I am copying this to the other members of MISC 47 and to Sir Robert Armstrong.

GH

(G.H.)

29 October 1980

SECRET

ANNEX A

DHSS SOCIAL SECURITY

	£ million 1980 Survey prices				
	1979-80	1980-81	1981-82	1982-83	1983-84
Cmnd 7841 revalued	19,272	19,731	20,183	19,860	20,000
Estimating changes etc	-167	-313	+20	+147	+45
Other increases proposed					
(a) child benefit uprating proposed in C(80)40			+75	+250	+360
(b) small bids			+9	+12	+14
Cuts already proposed					
Not yet agreed					
Proposal A					
Uprating of all benefits in November 1981 by 3 percentage points less than needed to give full price protection			-175	-504	-504
Proposal B					
Savings on shift to monthly payment of child benefit, following Rayner study (provisional)			-61	-1	-13
Proposal C					
2% cut in cash controlled expenditure			-6.3	-6.3	-6.3
Resulting programme including latest estimate for 1979-80 and 1980-81)	19,105	19,418	20,044	19,758	19,896
Effect of revised economic assumptions*					
(a) unemployment benefit etc			+185	+330	+130
(b) administrative costs to both DHSS and DE of paying unemployment benefit		+10	+47	+60	+60
Resulting programme	19,105	19,428	20,276	20,148	20,086

*provisional figures, including extra computer costs in first year

ANNEX B

Extract from "Weekend World" 6 January 1980

RGA[...] THATCHER: Now your questions, I'll try to answer those....

RIAN WALDEN: .....and very shrewd. You'reobviously looking at dexation in general, and when you say things like people can't pect in fact to have their earnings linked to an everlasting rise inflation, it's pretty clear that something is going to happen this sphere. However, I do take it do I not that you're not looking at d thatyou won't be looking at, the indexation of old age pensions.....

RGARET THATCHER: No...I'm pledged on that.

IAN WALDEN: ...to prices.

RGARET THATCHER: No, I'm absolutely pledged on that.

IAN WALDEN: For the life time of the parliament?

RGARET THATCHER: For the national, of the life time of the rliament that was the pledge which I made at the election. What, 've taken the index linking away from earnings sometimes as a matter fact earnings were below prices, as you know during the life-time the Labour Government, for three years on the trot the standard living of the British people fell, actually fell, it only started to back again in 1978, the year before the election. But I, I pledged the election to our old people that their state National Insurance nsions would keep pace with rising prices, and we honoured that this st time, so that when that went up they did get the increase, I'm edged on that, and a pledge must last.

IAN WALDEN: Can I ask you about employers. There have been ot of suggestions that employers will be asked to pay the first eight s of sickness benefit , are you looking at this?

ANNEX C

Exceptions proposed by the Secretary of State

	1981-82	1982-83	1983-84	Manpower (full year)
A. War pensions	4	3	10	None
B. Mobility allowance and attendance allowances	3	9	9	None

These are accepted by the Chief Secretary

C. Invalidity Benefit	8	24	24	slight saving

The Chief Secretary is not convinced that this is justifiable

D.1 Short term Supplementary Benefit	11	31	31	220
or				
D.2 Give long term rate of Supplement Benefit to the Unemployed after 2 years	15	46	51	45

The Chief Secretary is not convinced that D.1 is justifiable when eg retirement pensions are being restricted. D.2 though more costly, is less unattractive as notcausing so much erosion of the 3 per cent cuts; and also as more justifiable in its own right given unemployment trends. But the Chief Secretary is opposed to both.

10 DOWNING STREET

Note for the record.

The Prime Minister had already agreed this (see file), and the Secretary of State acted accordingly. The top copy below went in to the PM yesterday (5/8) in error.

TL.
6/8

10 DOWNING STREET

John Hoskyns

Before putting this in, I wonder why we really have to make this semi-commitment to indexation. What do you think?

Too late!

R

R 5/8

I think NO, as "valorised" & then the most it should be de-indexed as with some other things. My latest info from Robin Butler suggests ~ 61% P.E. is effectively indexed. I don't think we are yet clear on the full implications of this. Indexing of P.E. is probably the most important single problem we face. J.H.

Mr Ingham
Mr Hoskyns

Prime Minister

I am very much against this extra commitment. It is a real hostage to fortune and we should not do it.
MT

1

Prime Minister

The Chancellor and I have been discussing what form of statement I should make at the time of the Uprating Order for child benefit which I am bringing before the House next Monday. In his letter to Mr William Waldegrave, the Chancellor gave a clear indication that some statement of intent would be made, though it would of course be one with sensible provisos.

We consider that the statement of intent should be on the following lines:-

> "The Government ~~is~~ are of course committed to the child benefit system and it is their intention, subject to economic and other circumstances, to uprate child benefit each year so as to maintain its value".

The Chancellor and I have agreed that final decisions on the uprating of child benefit would of course be taken at the time of the Budget, when the "economic and other circumstances" to be considered would include the Chancellor's decisions on personal tax levels; though it would be made clear that this did not mean we necessarily undertook to maintain any particular relativity between child benefit and personal tax levels.

It would also be made clear that the flexibility represented by the words "subject to economic and other circumstances" was real, and that if circumstances did in fact demand it we should make use of it. It is important that there should be no misunderstanding on this point, as this would lead to possible accusations of bad faith later.

The provision for maintaining the real value of child benefit, which is at present in the contingency reserve, would then be transferred to the social security programme. This would not, of course, pre-empt the annual decision as to what should be done since there is no statutory obligation to uprate child benefit each year. It would however be presentationally helpful, and would add nothing to total public expenditure.

Is this really so? Think it through

We both feel that such a commitment is about the least which we can proffer, and subject to your approval I will therefore use the above form of words when the Uprating Order is presented.

I am copying this minute to Cabinet colleagues.

PJ

PJ

ORIGINAL IN POLICY UNIT - TO BE REPLACED.

PM

Social Services

Prime Minister

The Chancellor and the [illegible] have agreed this form of words. In view of the qualification ("subject to economic and other circs."), it seems OK.

Content?

TL 28/7

Acquiesced

TL 28/7

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I am copying this minute to Cabinet colleagues.

PJ

PJ 28.7.80

C.F. to note

Original – QK

File

cc DHSS

Social Services

35

10 DOWNING STREET

THE PRIME MINISTER

9 June, 1980

Dear Mr Silkin

Thank you for your letter of 24 April enclosing a copy of one from your constituent, Mrs. N. Chaplin of 22 Crossway Court, Endwell Road, Brockley, London SE4 about the Government's proposals regarding invalidity benefit.

The proposal that invalidity benefit will be increased by 11½ per cent whilst retirement pension is being increased by 16½ per cent is one of the changes set out by the Secretary of State for Social Services in his announcement on 27 March regarding the November 1980 uprating. One part of the reason for this change is that it is essential that we should restrain public expenditure as an inescapable step towards restoring the well-being of this country's economy. To that end, economies in the field of social security are needed as much as they are elsewhere.

But that is only part of the answer. It has been a long held view on both sides of Parliament that unemployment benefit, sickness benefit and its long term successor, invalidity benefit, should be taxable like retirement and widows' benefits. What has been lacking has been the means to achieve it. We have proposals which will be put before Parliament in due course to bring these benefits into taxation; the abatement this year is an interim measure in advance of taxation.

The abatement of these benefits by 5 per cent will have a less severe effect generally than if they were brought into taxation straightaway since the savings will be only about one third of

/ what

RH

what would be achieved under taxation. Of course this is not an ideal solution since allowance cannot be made for individual circumstances as will be possible under taxation. However, the change will go a little way towards off-setting the situation that can arise at present when a person has to change from invalidity pension (untaxed) to retirement pension (taxable). The eventual introduction of the benefits into taxation will go further towards achieving greater parity between invalidity and retirement pensions in the future.

In the meantime, for those invalidity pensioners with invalidity allowance - even those on the lowest rate - their personal invalidity benefit from November will be £27.75 a week which will be 60p a week more than the retirement pensioner's taxable £27.15. Apart from this and the substantial improvements in mobility allowance, the Government will be protecting the less fortunate by uprating supplementary allowances fully in line with prices.

We regard these economies as a modest but essential pruning of the social security budget. Unless we can get the economy right and make the country more prosperous, it is the sick, the old and the needy who will suffer most. Despite the measures being proposed in the new Social Security Bill, spending on social security - currently some £20 billion a year - is set to rise in real terms by 2½ per cent this year.

We are of course aware of the problems of people like Mrs. Chaplin whose husbands have been incapable of work for a number of years. I can assure you that when it comes to tax, subject to the availability of resources, the Government will put invalidity benefit back to what it would have been had it stayed in step with the retirement pension this November.

Mr. Chaplin's benefit entitlement has been investigated and I can confirm that the £49.30 a week invalidity benefit and £18.60 a week attendence allowance he is receiving is the most to which he is entitled by way of those benefits under the Social Security Act. Mr. Chaplin's invalidity benefit is made up

/ of

of the standard invalidity pension of £23.30, an invalidity allowance of £4.90 - the rate appropriate to a man whose incapacity for work began when he was under 40 - an increase of £14.00 for his wife and an increase of £7.10 for a dependant child. Mrs. Chaplin also receives £4.00 a week child benefit. Subject to Parliamentary approval the £49.30 rate of invalidity benefit will be increased in November to £54.55 and the £18.60 rate of attendance allowance will be increased to £21.65; child benefit will also be increased to £4.75. Mr. Chaplin is also receiving Mobility Allowance, at present £12.00 a week. This is being increased to £14.50 a week from 26 November.

I am sorry that the announcements in the Budget made Mrs. Chaplin feel that she should write to you as she did. I very much hope that the explanation I have given of the reasons for the changes we have made will persuade her that we have sought to do all that we could within the limits of the resources which we can make available.

Yours sincerely

Margaret Thatcher

The Rt. Hon. John Silkin, M.P.

for Service

PMG NOTE 34/80

✓ MS

SOCIAL SECURITY (No 2) BILL - BACKGROUND NOTE

Social Security Expenditure

Social Security costs £20 billion a year; about a quarter of public expenditure. Grown in real terms by £7 billion over past 10 years (see* below) ≏ 3 times as fast as national income. Equivalent to £1,000 for every household in land. After current proposals implemented will still be going up slightly in real terms as well as cash terms, even without allowing for any increase in child benefit in future years. *(including an allowance for the switch to child benefit from child tax allowances and family allowances).

Costs and Savings

1980 uprating more than £3 billion in full year. Number 2 Bill savings: of the order of £270m in financial year 1981/82 of the order of £480m 1982/83 in cash terms.

CLAUSE 1: LOWER UPRATING OF UNTAXED BENEFITS

Purpose

Certain untaxed benefits will be uprated in November 1980 by 11.5% instead of 16.5%, the latter being the amount necessary to restore their value. But:

a full price protection for supplementary allowance from November 1980;

b clause does not apply to uprating of child dependency increases;

c retirement and widows' pensions, attendance allowance, mobility allowance, war pensions and industrial disablement pensions, all price protected.

Comment

Agreed by both main Parties that benefits which replace earnings should be taxable. (Previously frustrated by the anticipated high administrative costs.)

Government plans to make benefits paid to the unemployed (Unemployment Benefit and Supplementary Benefit) taxable from 1982. Also plans to introduce taxable employers' statutory sick pay from same date. Tax other benefits as soon as possible thereafter.

5% uprating reduction an interim measure pending taxation.

Saves about £130m net in 1981/82. Savings from taxation about £450m a year.

Will there be further 5% reductions in 1981 and 1982 upratings?

Government will consider the content of future upratings at the appropriate times. Approval of Parliament (affirmative resolution) needed before 5½ cuts in upratings could be applied.

Will the cuts be restored when taxation introduced?

The Government has stated clearly that it will look at the benefits again before they become taxable and consider what is the right level in the light of the economic circumstances at the time. In answer to a Question about invalidity benefits, the Secretary of State has given an assurance that when they become taxable, and subject to the availability of resources, they will be restored to the level of retirement pensions.

Some of those affected by the proposal would not have had to pay any tax had the benefits been taxable.

Interim measure prior to taxation. Not practical to take account of individual circumstances as actual taxation would. Overall savings much less than tax clawback. Tax refunds not affected.

CLAUSE 2: TEMPORARY FREEZING OF LEVEL AT WHICH RETIREMENT PENSIONS EARNINGS RULE STARTS

Purpose

Level at which Retirement Pensions earnings rule starts is to remain at £52 - set in November 1979. Cost of increasing the limit - £1m in a full year for each 1% increase in the limit.

Real value of £13 limit, which applied before Conservative amendment began rapid increases in the level in April 1975, would be at about £33 November 1980 (assuming 16½% increase in RPI

November 1979-80)

Manifesto Commitment

The Government still intend to phase the rule out as soon as possible. Revised costings based on more up-to-date assumptions likely to show a lower cost for this. But not an overriding priority.
Cost still substantial and would benefit those with substantial earnings as well as pension.

How long will freeze last?

The Government hope that it will only be for one year - it will depend on the economic situation.

CLAUSE 3: LINKING RULE CHANGES

Purpose

Two changes:

a ending payment for very short spells of incapacity

COMMENT: Only a minority of these, those that link with earlier spells, get benefit at present. Half a million claims - high administrative costs but very little benefits costs. Little financial need for these short periods.

b Reduction in the linking period from 13 to 6 weeks

COMMENT: This will help to concentrate invalidity benefit on the chronic sick for whom it was intended by excluding limited spells of minor illnesses. Gives some extra protection to a person with recurrent unemployment.
Net benefit savings from both changes £20m in 1981/82.

CLAUSE 4: EARNINGS RELATED SUPPLEMENT

Purpose

The earnings-related supplement payable with unemployment benefit, sickness benefit, maternity allowance and in certain circumstances injury benefit and the earnings related addition to widows' allowance will be reduced in January 1981 and abolished in January 1982.

COMMENT:

Main aim public expenditure savings: net savings from abolition after extra supplementary benefit, about £285m in first full financial year.

Also relevant:

a real value of maximum supplement halved since 1966 and value in relation to flat rate more than halved;

b when benefit savings have to be made better that they should fall on provision made for higher benefits for the higher paid;

c since the supplement was introduced occupational sick pay schemes have been developed, maternity protection legislation has been introduced and statutory and non-statutory redundancy payments have become more generous;

d at a point in time only 16% of registered unemployed claimants receive ERS;

e of those in receipt of ERS at a point in time half get it with sickness benefit and one third with unemployment benefit.

Breach of contractural obligation based on contributions.

National Insurance System funded on a 'Pay as you go' basis. Contributions for 1980/81 relate to 1980/81 benefit expenditure.

Scheme not run on a commercial basis of people paying in advance for benefit they get later; if it were, current contributions would have to be higher or benefits lower.

Shouldn't the 'self-financing' element of ERS be retained?

'Self-financing' presumably refers to the income to the National Insurance Fund from employer and employee contributions.

It is not practicable to operate the Fund in this way. There is no separate contribution for ERS. Nor for any other benefit. Treasury supplement is 18% of total contribution income not of benefit outgo.

It is far too early to indicate the effect of the abolition of ERS on contribution rates in 1982/83. The decision on those rates will be taken in the Autumn of 1981 in the light of advice from the Government Actuary. He will take a number of factors into account, of which the abolition of ERS will be one, and of course the intended introduction of an Employers' Statutory Sick Pay Scheme another.

Extra Burden on Supplementary Benefits?

Holding back the 1980 uprating for certain benefits and abolish ERS is estimated to result in 110,000 extra claims. This is only 4% of total claimants. Extra expenditure on benefits and administration taken into account in savings shown above.

Will contribution levels be reduced to take account of the changes?

Benefit savings will be taken into account for future contribution rate calculations. Effect of ERS reduction in 1981 too small to affect contribution levels.

The increase in Supplementary Benefit claimants resulting from the changes will mean that Supplementary Benefit will no longer be 'just a safety net'.

Supplementary Benefit already a major benefit - some 5.2 million claims in 1979.

Long recognised that scheme not playing role Beveridge originally intended. Hence Review of the scheme set up by previous Government and Social Security (1) Bill to simplify scheme and fit to mass role.

Estimated 110,000 additional Supplementary Benefit claimants as a result of reduced uprating and reduction and abolition of ERS. Increase of only 4%.

ERS for the unemployed helped to promote mobility of labour?

ERS only one of several measures introduced to help (among other things) mobility of labour - others, Redundancy payments and Employment Protection Legislation.

CLAUSE 5: OCCUPATIONAL PENSIONERS

Purpose

Reduced payments of Unemployment Benefit will be made to those aged 60 or more in receipt of an occupational pension of over £35 per week.

COMMENT:

Entitlement to unemployment credits will not be affected.

An unemployment benefit claimant has to be 'available for work' but difficult to test the availability of occupational pensioners especially in retirement areas. In a recent survey 56% of those with substantial occupational pensions also receiving unemployment benefit admitted that they were not looking for work.

Numbers

About two-thirds of unemployed claimants aged 60-64 get an occupational pension - 5o% of these have pensions over £35 per week.

Amount

A married man receiving flat rate benefit only in 1981 will not lose all his unemployment benefit unless his occupational pension exceeds £68.40 per week.
Other countries; exclude occupational pensioners from unemployment benefit.

Savings: £25 million.

CLAUSE 6 STRIKERS

Purpose

Where someone is out of work as a result of his involvement in a trade dispute at his place of employment, no supplementary benefit will be paid in respect of the requirements of his family unless these exceed £12 per week.

COMMENT:

This fulfils the Manifesto commitment - to review the question of financial support for strikers.

The provision will lead to a better balance between support by the community and individual strikers and their unions.

Hardship

There is provision in the Bill for making regulations to deal with individual cases of hardship and the Government is currently considering the types of cases and situations which need to be covered.

These hardship provisions will be strictly limited in application To do otherwise would defeat the purpose of the clause.

Non-Unionists

The Government believe that it is reasonable to assume that all strikers - whether or not they are union members - will have made, either through their unions or individually, provision to cover themselves in the event of a strike. Strikes by non-unionists account for only about 1% of days lost due to stoppages.

Strikers families treated worse than those of prisoners?

Not a valid comparison. World of difference between someone who is removed from his family by due processes of law, generally for long period and someone who voluntarily relinquishes his main source of income for a few days or weeks.

Lockouts

Lockouts are very rare and where they do take place they are usually a management response to strike action.

The existing trade dispute disqualification is well established and to depart from it could make the new scheme very complicated to operate and create scope for prolonged arguments about the reasons for particular days of lost work.

Can unions afford to increase their strike pay?

The Government believes they can. In 1978 the proportion of union income spent on strike pay was only 2.4%.

Provision in other countries

With the exception of the Republic of Ireland and the USA social assistance is not paid automatically to a striker or his family. Elsewhere it is paid usually by local authority discretion only under exceptional circumstances where there is particular hardship.

Additional Points:

Will disproportionate cuts be made in the rate of Injury Benefit as a result of the Bill?

No. Injury Benefit comprises the normal rate of sickness benefit plus an increase, commonly called the industrial injuries preference. This preference has been fixed at a rate of £2.75 per week since 1966. The sickness benefit will be uprated by 11½% in line with other non-taxable benefits.

Is a money resolution needed?

Whether or not a money resolution is required is a matter for the House authorities who would take advice from Parliamentary Counsel. The view was taken that the money resolution adopted for the Social Security (No 1) Bill was sufficient to cover the new Bill.

Paymaster General's Office
Privy Council Office
68 Whitehall
London SW1

6 May 1980

Social Services

2

PRIME MINISTER
MS

CONFIDENTIAL PSSC (80) 5

SOCIAL SECURITY (NO. 2) BILL

Members may find the following notes helpful for the Second Reading of the Social Security (No. 2) Bill on Tuesday 15th April 1980.

MAIN CHANGES

The Bill will implement a number of important and controversial changes which have recently been announced by the Government.

1. De-indexation

The Government is proposing to "de-index" certain benefits so that it will no longer be obligatory to raise them in line with prices. These benefits include the so-called "short-term" benefits (i.e. unemployment benefit, sickness benefit and maternity allowances) as well as industrial injury benefit and invalidity pensions.

2. The earnings rule

The earnings rule limit (currently £52 per week) is the amount a retired pensioner can earn without having his pension reduced and there is a statutory duty to raise the limit each year in line with the increase in earnings. The Government intends not to increase the earnings rule limit this year and amending legislation is therefore required.

3. Earnings-related supplements

An earnings-related supplement is paid to a minority of people in receipt of unemployment benefit, sickness benefit, injury benefit and maternity allowances, and a corresponding benefit is paid with the widows' allowance.

The supplement will be reduce in January 1981 and abolished entirely from January 1982.

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4. Occupational Pensioners

At present a person who is unemployed may, in addition to his unemployment benefit, be drawing an occupational pension.

The Bill would reduce unemployment benefit by 10p for each 10p of occupational pension above £35 per week as from April 1981 (the £35 figure can be raised to a higher level before this date).

5. Striker benefits

The Bill provides for a strikers' family to have their supplementary benefits reduced by £12 per week and will ensure that tax refunds will be taken fully into account, instead of up to £4 being disregarded as at present.

6. Linking periods

The Bill includes some rather technical changes about the "linking periods" for spells of incapacity, of which the most important is that spells of incapacity or unemployment will be able to be run together where the gap between them is not more than 6 weeks as against 13 weeks at present.

B. INDEXATION

Under the Social Security Act 1973 almost all national insurance benefits had to be received annually and the increase had to be at least in line with the increase in prices.

The Government is proposing to increase the short-term benefits (i.e. unemployment and sickness benefits and maternity allowances) and the invalidity pension and industrial injury benefits by 11½% in November 1980 against an expected price increase of 16½%.

Short-term benefits

The following points may be noted:

* despite the cut in their real value, the levels of unemployment and sickness benefits will still be slightly higher in real terms than at the time of the September 1971 uprating.

* supplementary benefits are being increased fully in line with prices (although there is no legal obligation to do so) and this means that the "safety net" is being fully safeguarded.

This is particularly important for the unemployed, because some 60% of the unemployed who draw state benefits rely wholly or partly on supplementary benefits. These include school-leavers who have not paid the necessary NI contributions; the long-term unemployed, for whom flat-rate unemployment benefit runs out after one year; and a number of low-income families whose NI benefits are topped-up by supplementary benefits.

* unemployment benefit and sickness benefit and maternity allowances are all tax-free and this confers an unexpected bonus on the recipients.

* retirement pensions, widows pensions and the mobility allowance are all taxable and it is accepted in principle (by both major Parties) that unemployment benefit and sickness benefit should be taxed as well.

* Mr. Stanley Orme stated in 1976, writing about the short-term benefits, that:

  "there is little doubt that in principle all such benefits should be taxed". (Hansard 23/12/76 WA Cols 333-4)

  and Mr. Sheldon, then Financial Secretary to the Treasury said in 1977:

  "Not only do I agree with the taxation of short-term benefits but I think everyone who has ever been concerned with these problems has agreed with it". (Hansard Standing Committee D 23rd June , 1977)

  More recently Mr. Joel Barnett, formerly Chief Secretary to the Treasury, asked why socialists should not discuss among themselves.

  "Taxing all benefits (what's anti-socialist about taxing all income whatever the source?) to finance better benefits?". (Guardian 25/9/79).

Invalidity pensions

The 5% cut in invalidity pensions will affect some 650,000 people. The following points may be noted.

* the invalidity pension will still be higher in real terms than at the time of the November 1976 uprating.

* the invalidity pension is non-taxable and, as explained above, this confers a bonus upon its recipients. It is interesting that Mr. Robert Sheldon, Financial Secretary to the Treasury under Labour, said in 1978 that:

  "Sickness benefit, which should in principle be taxable, is exempted because of the practical difficulties of collecting tax on short-term benefits. Invalidity benefit which is payble when entitlement to sickness benefit runs out, is exempted because it would give rise to anomalies if it were treated differently from sickness benefit".(Hansard 26/5/78 WA Col. 742).

In other words, Mr. Sheldon excluded invalidity pensions from tax not because he disagreed in principle but because (quite understandably) it would be anomalous to tax invalidity pensions and not sickness benefit. As the Government intends to tax sickness benefit this obstacle is now removed.

Indeed Mr. Orme referred specifically to invalidity pensions as well as unemployment and sickness benefit when he said that:

"in principle all such benefits should be taxed". (Hansard 23/12/76 WA Cols 333-6).

* the non-contributory invalidity pension will be increased by 16½% (a Research Department brief for the debate on 31st March 1980 stated, wrongly, that this was being raised by only 11½%) and the supplementary benefit rates are also being raised by 16½%.

. THE EARNINGS RULE

The Conservative Manifesto committed the Party to "phase out the 'earnings rule' during the next Parliament" and Mr. Jenkin has stressed that

"we remain firmly committed to ending the earnings rule, as soon as circumstances allow". (Hansard 27/3/80 Col1661).

At present a pensioner can earn £52 per week before his pension is reduced and, under current legislation, this must be increased each year in line with the percentage increase in earnings. The Government wishes to hold down the limit to £52 this year because, as Mr. Jenkin explained:

"At a time when other people are having to make sacrifices, we believe it right to hold the earnings rule limit at its present level of £52 per week for the time being". (ibid).

It may be emphasised that pensioners have benefitted in other ways - from the increase in the retirement pension by 19½% last November (as against a price increase of 17½%) from the protection currently afforded to pensions against prices and from payment of the £10 Christmas Bonus last year as well as this year. The poorest pensioners dependent on supplementary benefit will also gain from the considerable extra help on heating costs, amounting to the continuance of £20m of last year's special measures and an extra £80m of new measures in 1980.

D. EARNINGS-RELATED SUPPLEMENTS

The introduction of earnings-related supplements is a comparatively modern phenomenon, and derives from the

National Insurance Act 1966.

It is interesting to note that Labour's original intention was to introduce a major new scheme of national superannuation. According to Richard Crossman the then Social Security Minister, Peggy Herbison,

> "spoke with great passion, explaining that this whole idea (i.e. earnings-related supplements) was something she detested".

Peggy Herbison had wanted the full superannuation scheme but had been overruled by the economic Ministeries and had had to fall back on a minor scheme of earnings-related supplements. ("The Diaries of a Cabinet Minister", Volume 1, 1975).

The following points may be useful:

* the number of people receiving earnings-related supplements at any one time is comparatively small. For example, in May 1979 176,000 unemployed people were receiving the supplement although registered unemployment was in the order of 1,247,000 (Hansard 1/4/80 WA Cols 139-40 and Dept. of Employment Gazette).

* the Government's proposal to shift the first eight weeks of sick pay to the employer (effectively abolishing the NI scheme over this period) means that the supplement to sickness benefit would have to be abolished anyway. (vis. "Income During Initial Sickness: A new Strategy" Cmnd 7864 April 1980).

* the savings would be substantial:

Earnings-related supplements	£million
Sickness benefit	185
Injury benefit	15
Maternity allowance	35
Unemployment benefit	110
Widows allowance	15
	£360

Against this, there would be estimated extra expenditure of £75m on supplementary benefit (i.e. more people would need their NI benefits to be topped up) so that the net saving would be just under £300m. (Hansard 1/4/80 WA Cols 139-40.)

* one of the main reasons why some people are better-off out of work is because the combinations of flat rate plus earnings-related unemployment benefit gives them too great an income. The removal of the earnings-related supplement will therefore substantially ease the "why work?" problem.

D. OCCUPATIONAL PENSIONERS

The problem of occupational pensioners in their mid-50s or early 60s who draw on occupational pensions and then register as unemployed has long been a source of concern to Government.

Richard Crossman remarked in 1969 that:

"I have one other intractable problem, the payment of unemployment benefit for occupational pensioners. Cars line up outside the labour exchanges at Worthing or Southport because the people who have just retired on their Civil Service pensions, even a Permanent Secretary at £3000 a year are for six months able to draw a tax-free earnings-related benefit while they are, so they say, trying to become the Secretary of the local Golf Club or something of the sort. Titmuss, who is on the National Insurance Advisory Committee, agrees that we really must stop this abuse because unemployment benefit is for the genuinely unemployed". (Crossman Diaries, Volume 3).

In 1969 the Government announced that new draft regulations would be presented to means-test unemployment benefits for occupational pensioners (Hansard 15/12/69 Col 932) but they never come into force.

In 1976 the Labur Government came forward with a similar proposal in the Social Security(Miscellaneous Provisions) Bill to reduce unemployment benefit by 5p for every 5p by which an occupational pension drawn by a person aged 60 or over exceeded £25 a week. This was successfully opposed by the Conservatives and was dropped by the Government.

As Mr. Jenkin explained to Parliament:

"The House has, on no less than three occasions, rejected this change and I myself have spoken and voted against it. Yet, when economies in the social security budget must be made, it is not now reasonable to protect entitlement to a year's unemployment benefit for people who have retired and are in receipt of significant occupational pensions (Hansard 27/3/80 Col 1661).

It is estimated that this change will save the Governement some £25m on unemployment benefit in a full year at current benefit rates (Financial Memorandum to the Bill).

E. STRIKERS BENEFITS

The Government is proposing three main steps:

1. To reduce supplementary benefit for strikers families by £12 per week, irrespective of whether the strike is a trade unionist.

2. To ensure that tax funds are taken into account in full, instead of up to £4 being disregarded as at present.

3. To tax such supplementary benefit payments (This proposal will of course, be dealt with in a Finance Bill).

The following points may be of interest:

* payment of supplementary benefit (or national assistance as it was called) to strikers and their families was comparatively small in the early 1960s. For example it totalled £75789 in 1960 and £127,588 in 1966.

* under Section 10 of the Ministery of Social Security Act 1966 a striker was given the right to draw supplementary benefit for his dependents, in place of the discretionary payment which previously existed. Subsequently payment rose rapidly to £377,100 in 1967, £334,471 in 1968 and to £748,542 in 1969.

* there is a growing public concern on this issue and, as the Chancellor pointed out, the £8m paid so far this year on strikers benefits could have been used instead to raise the mobility allowance by £1 per week.

* the number of non-trade unionists on strike in any one year is probably very small, although no offical figures are available.

* there was a clear Manifesto commitment to requre unions to take greater financial responsibility for wages.

* some unions pay little or no strike pay even though they have large funds at their disposal. On average only about 2.4% of trade union income is used for strike pay.

* in the EEC countries (except UK and Eire) unions contribute more to strke pay and the state less.

* if strikers have to rely on the union pay (rather than automatic state benefits), this may give the union greater control over unofficial strikes.

* children will be largely protected because child benefit is paid automatically to all mothers, irrespective of whether the father is in work or on strike, and is therefore unaffected.

* a Sunday Times opinion poll showed that , by a margin of 63 to 31, the electorate approve of the decision to reduce payments to strikers families.

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CM/FL
11/4/80

Social Services

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A N Ridley
Special Adviser

Don Brereton Esq
Private Secretary to
the Secretary of State
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

3 April 1980

Dear Don,

CHILD BENEFIT BRIEF

Thank you for your letter of 2 April and the photocopy of your Secretary of State's comments on the Child Benefit Brief. As you say, his comments are straightforward and raise no problems. A revised final and agreed version incorporating them has therefore been sent to the Paymaster General's office for distribution to Ministers.

I am copying this letter to Chief Whip, and Bernard Ingham and Tim Lankester at No 10.

There will be further material on this before very long, in particular on the longer-run historical comparisons.

Yours

Adam

ADAM RIDLEY

SPEAKING NOTE FOR MINISTERS - CHILD BENEFIT

The revised notes attached on Child Benefit replace those circulated under the same title on 26 March with PMG Note 20/80, which were subsequently withdrawn.

CHILD BENEFIT - KEY POINTS

1. The November 1980 increase of 75p a week per child is generous.

- Means £9.50 per week for 2 child family, £12.50 if parent is single.

- will have higher real value than child support had for great majority of basic rate tax payers after upratings of '76, '77, '78. For typical couple (2 children under 11, basic tax payers) old family allowances (FAM) and child tax allowances (CTAs) now only worth £6.90, revalued CBs £9.50. For the poor who pay no tax, CBs worth even more, since CTAs useless to them.

- the 75p increase, 18¾% up since April 1979, represents an annual rate of increase of just over 11% - the same as the 11% increase in the value of the personal tax allowance for the married couple allowing for abolition of 25% tax band. Burdens thus shared fairly in difficult times.

2. This is a family Budget.

- when CB is uprated in November, Budget tax changes and CB together will give smallest cash sums to singles, more to marrieds, most to those with children.

- we are doing much else for hard-pressed families. FIS and help to lone parents improved. Supplementary benefit fully price protected, fuel scheme helps poor with children under 5. /See p2/

3. Very difficult to justify bigger increase

- CB a massive £3.3bn programme, of which the 75p rise costs £400m. That shows our commitment when so much else is being cut. A £5 or £5.20 rate would cost £135m or £¼ bn on top.

- Real question of priorities to be faced. CB cannot take absolute priority over everything else - hospitals, education, police, tax cuts. With falling output, less available to share out. CB has kept a very fair share

- CB goes to all 13 million children in the UK, whether parents are rich or poor. So, though it helps "why work"/incentives/poverty, an expensive method. When times are difficult and little money available, selective help via FIS etc the best approach.

4. Why not Index CB - eg to April 1979 value, or from November 1980?

- April '79 not a fair date to measure from. Shift to CB from CTAs and FA long and complex, and must be looked at over a period. The £4 increase in April '79 can be looked at as the normal November '79 increase moved forward(for special political reasons)

- However, rigid indexation from that date, or any other in the future inappropriate in principle. As Budget Speech said (Col 1449,50 Hansard), some measure of price protection needed in tax and social security. But full protection must be at cost of those who have none. Unfair when national incomes falling. CB and children not Governments only priority.

Summary of extra help for hard pressed families

a. For low earners, where extra help has most impact on incentives, a big improvement in FIS:

- Average payment up by one-third from £7.50 to £10.00 per week, and twice as much as £5 level inherited in 1979.

- Income limit for a two child family for FIS up from £60.50 to £74.00 per week.
- Up to 10,000 new families entitled to FIS.
- NB All FIS families get free prescriptions and exemption from other health service charges so not hit by the increases there.

b. For lone parents:

- 50,000 will benefit from the FIS improvements.

- Extra 50p on the lone parent family premium putting it up from £2.50 to £3.00, on top of CB. Up 50% since May 1979.

- Higher earnings disregard for lone parents on supplementary benefit.

c. Families on supplementary benefit

- Automatic entitlement to £1.40 a week (£72.80 a year) fuel allowance where there is a child under 5. Covers all fuels.

- Much more help directed to children as part of the Social Security Bill changes.

- Supplementary benefit rates fully price-protected with the 16½% increase.

Comparison of Government's measures with child support in earlier years

Families better off with Child Benefit than they would have been if child tax allowances and family allowances had continued.

Attached table shows that four typical families of basic rate taxpayers all better off in November 1980 than if former system of CTAs and FAMs had been retained and revalued in line with prices. /Comparison with old system unfavourable only in a small number of cases.7

Key Conclusion of Table: Couple paying income tax at basic rate with -		1976/7 CTA & FAM Rates Revalorised	Value of CB in Nov '80	Difference
1 child aged	3	£ 2.90	£ 4.75	£1.85
2 children aged	4, 6	£ 6.90	£ 9.50	£2.60
3 " "	3, 8, 11	£11.40	£14.25	£2.85
4 " "	3, 8, 11, 16	£16.10	£19.00	£2.90

Those paying no tax gain even more advantage from CB.

- And remember a one parent family gets £3.00 a week on top of this from November.

FAMILY SUPPORT

COMPARISON OF FAMILY ALLOWANCES/CHILD TAX ALLOWANCES/CLAWBACK

(revalorised since 1976/77) with Child Benefit, for Illustrative Families

	1 child aged 3	2 children aged 4 & 6	3 children 3, 8, & 11	4 children 3, 8, 11, 1[illegible]
		£ per week		
1978/79				
Revalorised FAM/CTA	2.40	5.80	9.40	13.20
CB + Residual CTA				
April 1978	2.90	5.90	9.00	12.40
November 1978	3.60	7.30	11.10	15.20
Excess of Nov '78 CB over old system	1.20	1.50	1.70	2.00
1979/80				
Revalorised FAM/CTA	2.40	5.90	9.70	13.70
CB for Year	4.00	8.00	12.00	16.00
Excess of CB over old system	1.60	2.10	2.30	2.30
1980/81				
Revalorised FAM/CTA	2.90	6.90	11.40	16.10
CB To 24 Nov '80	4.00	8.00	12.00	16.00
From 24 Nov	4.75	9.50	14.25	19.00
Excess of Nov '80 CB over old system	1.85	2.60	2.85	2.90

Figures assume that FAM, CTAs and clawbacks are all revalorised by the RPI change consistent with the "Rooker-Wise" formula used for basic rate tax thresholds. They also take account of changes in the basic rate of tax.

6

SECRET

PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

✓ MS

Social Services

Chancellor of the Duchy of Lancaster

28 March 1980

Dear Don

The Chancellor of the Duchy has seen the copy you sent me of your letter of 26 March to Nick Sanders about the timetable for the Social Security (No 2) Bill. While this reflects quite accurately the timetable discussed at the Ministerial meeting on 24 March and confirmed at Legislation Committee, the Chancellor of the Duchy has asked me to stress again the point that both he and the Chief Whip made during those discussions, namely that, while they would do all they could to adhere to the timetable, there could be no guarantee of doing so. In particular, the business managers must retain some flexibility about the time made available for the Report and Third Reading of the Bill while recognising the need to get it to the Lords before the Spring Bank Holiday.

I am copying this letter to Nick Sanders and the other recipients of yours.

Yours ever
John Stevens

J W STEVENS
Private Secretary

Don Brereton Esq
Private Secretary to the Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House

SECRET

29 MAR 1980

p.a.

28/3

THE SOCIAL SECURITY PACKAGE

Social security benefits will be increased by more than £3 billion in the next financial year under improvements and uprating announced by Ministers this week. Changes in the system will on the other hand save only £270 million in 1981/82 and £480 million in 1982/83.

As Patrick Jenkin told the House: "These are not the actions of a Government that does not care."

In the week beginning 24 November, the basic retirement pension will increase by 16½% to £27.15 for a single person and £43.45 for a married couple; widows' pensions, new scheme additional pensions and graduated pensions, war and industrial disablement pensions, attendance allowance, non-contributory invalidity pensions and invalid care allowance all go up by 16½%.

Mobility allowance will go up by 21%

Supplementary pensions will be aligned with retirement pensions and will also be price protected by an increase of 16½%.

Short-term supplementary benefit scale rates will be fully price protected.

Sickness benefit, injury benefit, unemployment benefit, maternity allowance and invalidity benefit will be increased in November by 11½% (an interim measure ahead of moving over to taxation of income from benefits in 1982).

Family Income Supplement will go up by about one-third - greatly improving the real value of FIS.

The child benefit increase of 75p will give £4.74 a week for each child, and the premium for one parent families will be increased by 50p to £3 a week.

The £10 Christmas bonus will be paid.

Special heating additions paid with supplementary benefit are to go up by as much as 80% and more people are to be brought into the scheme to give help for consumers who would be hardest hit by the higher fuel costs of next winter. A basic rate of £1.40 a week will be paid to supplementary pensioner householders over 70 instead of being restricted to the over 75s. Supplementary benefit families with children under 5 will also get the additional £1.40 a week automatically. And to help the low income families who are working, a new addition of £1 a week will go to FIS families on top of the £1 already added for fuel this winter.

Needy pensioners who now get a 66% grant for home insulation work will in future get 90% of the cost paid by the Government.

WHAT IT ALL COSTS

The Social Security programme costs about £20 billion a year

It is about one-quarter of all public expenditure.

It has grown, in real terms, by £7,000 million in the last ten years.

The cost per year works out at the equivalent of £1,000 for every household in the country.

Even with the savings decided on by the Government, which do not in any way affect those at the supplementary benefit level, the social security programme will grow next year by about 2½% in real terms.

As Mr Jenkins told the House: "It is inescapable that this programme must bear some share of the necessary economies".

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

28 March 1980

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

B C Merkel Esq
Private Secretary to the
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London SE1 8BY

27 March 1980

Dear Bernie,

STATEMENT ON SOCIAL SECURITY BENEFITS

We spoke earlier today about the draft statement attached to your letter of today to Tim Lankester, and this is to confirm the points I made.

The Chief Secretary is content with the statement, subject to two points.

First he feels it will be desirable to include, perhaps somewhere on page 10, a reference to the encouragement that the Government are giving to the fuel industries to help with the problems of poor consumers. The Chief Secretary thinks that otherwise the impression is given that the problem of fuel poverty is solely and exclusively one for the Government to deal with, whereas it is clear that the fuel industries themselves have a role.

Second, while the Chief Secretary feels that the reference to the urgent study into ways of helping the old and disabled to save fuel using younger unemployed people is arguably premature - after all the study has not even been launched yet, and there is no knowing whether anything sensible can be devised - he is prepared to go along with it provided it is clearly understood that if any additional expenditure arises, this comes out of existing Department of Employment or Department of the Environment programmes, as Cabinet agreed when the matter was discussed.

Subject to these points, and provided the other Ministers involved are content, the Chief Secretary is, as I say, also content.

I am copying this letter to Tim Lankester and those who had copies of your letter, and also to David Edmonds (DoE)

Yours ever,
Alistair Pirie

A C PIRIE
Private Secretary

SECRET

5. 1

PRIME MINISTER

Social Security (No. 2) Bill

You should be aware at once of the very tight timetable indeed which is proposed for the Commons handling of the Social Security (no. 2) Bill. It is set out in the attached note from Patrick Jenkin's office.

Jim Prior telephoned us earlier in the week to say that he was very worried, as a former Leader of the House, about the prospects for getting the Bill through the House on this timetable. It will be far and away the sternest test of the Government's management of the House, and no doubt the Opposition will use all the tactics at their command to fight the Bill.

There is no alternative to going ahead on a schedule as fast as this, simply because of the operational need to get new order books distributed; but the combination of time pressure and potential difficulties from Government back-sliders ~~and~~ on the Committee means that the business managers will have to monitor the progress of the Bill with the greatest care.

MS

26 March 1980

aj,

4

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

Nick Sanders Esq
Private Secretary
10 Downing Street

26 March 1980

Dear Nick,

SOCIAL SECURITY (NO 2) BILL

I promised a note about the timetable for this Bill in the Commons.

My Secretary of State attended a meeting on Monday with the Chancellor of the Duchy and the Chief Whip (with the Secretary of State for Employment present) and the conclusions they came to were that the timetable should be as follows:-

Bill to be published	-	28 March
Second Reading	-	15 April (or 14 April, if necessary)
House of Commons Committee of Selection	-	16 April
Standing Committee hearings start	-	22 April
Business statement announcing Guillotine motion	-	24 April
Guillotine motion	-	28 April
Last Committee hearing	-	13 May

(If the Committee meets twice a week, this would give 7 full days, meeting morning and afternoon - apart from Thursday mornings when Secretary of State will be in Cabinet)

Business statement announcing Report Stage	-	15 May
Report and Third Reading	-	19 May

This programme was confirmed by Legislation Committee this morning.

The date for Third Reading is critical. We had hoped for an earlier date but my Secretary of State accepts that this is the earliest possible date for clearing the Commons. The point is that for operational reasons we shall need to anticipate approval by Parliament of clause 1 of the Bill (affecting the uprating of short-term benefits) by issuing certain order books containing one or more orders (from 24 November) at the new rates. This is customary practice - we have to do this every year before the relevant uprating orders have been approved - but the legislative changes proposed this year increase the risks, so we are making special arrangements to ensure that no order books containing orders at the new rates are issued until after the Bill has cleared the Commons on 19 May. It is important that there should be no slippage in that date.

I am copying this to John Stevens (Chancellor of the Duchy), Richard Dykes (Employment), Murdo MacLean (No 12) and Wilfred Hyde (Cabinet Office).

Yours ever
Don

D BRERETON
Private Secretary

URGENT AND PERSONAL

MR SANDERS

cc Mr Lankester

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A N Ridley
Special Adviser

This is excellent.

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

26 March 1980

Dear Patrick,

In view of the continuing interest in the child benefit proposal being announced in the Budget, we have prepared here some background notes which you and your Ministerial colleagues might find of some use. I am sending it to you in advance of its more general distribution on the Postmaster General's circuit. The material is in two parts - a short summary of the key arguments pro and con, and a more considered background note designed to answer the more profound arguments which may be brought forward. I hope this will be of some use in public debate in the next few days. It has been prepared with advice from officials here, but there may well be points which you would wish to see altered or strengthened in various ways.

With best wishes,

Yours sincerely

Adam Ridley

ADAM RIDLEY

CHILD BENEFIT

In view of the special interest in this issue, the following material may be of particular interest. It comprises a brief one-page summary of key points - some positive and some defensive. That is followed by a longer background note setting out a more considered explanation of the Government's proposals and analysis of popular criticisms of them.

CHILD BENEFITS - KEY POINTS

[cut off]E: Q. 75p on CB in November 1980 ungenerous?

A. No. 75p a very good deal.

- 75p up on £4 is an increase of nearly 20% (18¾%), More than the inflation expected/up to November 1980. in the year

- over the two years Nov 1978 - Nov 1980 it will have gone up by nearly 60%, prices by less than 40%. So hence a very hefty increase over and above inflation.

- CB will then be far more generous than old Family Allowances (FA) and Child Tax Allowances (CTAs). For typical couple (2 children under 11) old system worth £6.90, CBs £9.50, both at today's prices

- the 20% on CB one of the most generous increases in Budget.

[cut off]EFENSIVE: Q. Bigger increase needed than 75p to make this a Family Budget?

A. No. This is a Family Budget. By November, when CB is paid, Budget tax changes and CB will give least help to singles, more to marrieds, most to families with children.

Q. Surely Budget should have indexed CB for the 30% inflation likely since CB was fixed at £4 in APRIL 1979?

A. No. CB increase moved forward from normal November uprating by Healey to April 1979 for political reasons (Election). Why else did Labour raise ante to £4.50 CB promised during Election? And why did he announce it a year earlier in the April 1978 B udget? November 1978 or 1979 the proper date to measure from. Increased from these dates well over inflation rates.

Q. Surely a bigger CB increase is desirable, to deal with incentives/why work/poverty?

A. CB does help all three problems, but it is a very expensive way of doing so.

- Each 10p extra costs nearly £60m. The 50p extra some people want on top of our 75p would cost £275m. That is 3 or 4 times as much as the generous and most efficient scheme for help with fuel bills DHSS are about to introduce.

- CB goes to all families with children. Those affected by the poverty trap, "why work?", or poverty are only a small fraction of all families with children. Far better to help them with selective schemes - the FIS, fuel scheme etc. Why spend £100 through CB and give £90 to those who don't need it, when you can do as well with £10 well directed?

- We are tackling these three problems. Supplementary Benefit rates go up by less (16½%) than the 18¾% increase in CB, narrowing "why work" gap. Taxation we propose of Benefits and interim de-indexed increases help it too. Special effort to keep Rooker-Wise 18% increase in tax thresholds preserves incentives of last Budget for all.

BACKGROUND

NOTES ON CHILD BENEFIT (CB)

1. £4.75 a generous decision

(a) Fixing CB at £4.75, and not more, does not represent, as some imply, a reversion to a drastically reduced level of provision for children. CB replaces old Child Tax Allowances (CTAs) and Family Allowance (FA). CB levels have been much more generous than the system they replaced, and will continue to be after the £4.75 increase, being worth over £2.50 or so more (at current prices) than the old system for standard rate tax payers [see Table attached]. For the poor, who paid little or no tax, the value is much greater still.

(b) CB levels after the 75p increase will ensure the benefit continues to better inflation, not fall behind it, as critics say. Between November 1978 and November 1980 CB will rise from £3 to £4.75 by nearly 60%. Over the same period prices are projected to rise by under 40%. Over the 12 months November 1979 to November 1980, the increase from £4 to £4.75 is nearly 19%, more than the projected increase in inflation over the year. It is wrong, for reasons given in 4(c) below, to compare the value of the 75p increase with inflation since April 1979. The increase on that date represented an advance on the normal November uprating, which remains the proper benchmark from which to measure the value of changes.

2. This is a Family Budget

The Budget's tax changes and the increased CB in November will give back least money to the single, somewhat more to childless couples, and much the most to families. If that is not reflecting the priorities of families and children, what is?

3. <u>The present argument for "indexation" is misconceived.</u>

a. Only limited parts of the tax and benefit system are legally indexed: pensions, unemployment and sickness out of a mass of benefits, and (flexibly) basic rate income tax thresholds out of a wide range of bands and allowances. The rest of the tax system is totally unindexed. Neither the previous Government nor this administration have committed themselves to indexing CB. It is therefore incorrect to argue as if, or imply that, the increase now proposed "infringes" some indexation principle or other. To do so is no more than to argue, and that in a confusing way, that the figure ought to be larger. Neither CTAs nor FA were ever indexed.

b. No indexing argument means anything unless there is a 'right' base to start indexing from. No Government has, in fact, ever defined such a base. Nor is there, or could there be, any objective criterion which indicates what CB "ought" to be worth. It is not a subsidy designed to meet, in part or in full, the costs of child rearing. Such a subsidy would be contrary to the Conservative philosophy of the family, which expects parents to be primarily responsible for their children rather than the state. CB simply represents a sum Governments feel they can afford to help families with children. Its value is, therefore, necessarily arbitrary, and has to be decided by the Government's judgement in relation to its whole tax and spending policy.

c. There is however a right benchmark date from which CB changes should be measured - November each year, when all Social Security Benefits are adjusted. CB was, exceptionally, raised in April 1979. But this in effect represented a decision to advance the normal November uprating by 6 months in a particular year. The reasons for the decision constitute further strong grounds for treating arguments based on April 1979 with extreme scepticism.

d. This rather pedantic argument about dates is very important because the campaigners for "indexing" have not been arbitrary. They have chosen to argue from the £4 figure in April 1979, simply because this was the most favourable they could find. However, it is the least objective base imaginable. Its genesis was determined, in all likelihood, more by political necessity than the plight of the family. The £4 increase in April 1979 was first announced by Mr Healey in his April 1978 Budget Speech, on top of a normal November 1978 uprating to £3, at a time when, as is now clear, Labour Ministers were contemplating an election later in the year. It is difficult to see why else his decision should have been announced so improbably far in advance. This consideration is much reinforced by subsequent developments. The 1979 election campaign itself saw the Labour Party "up the ante" still further by promising £4.50 in November if elected. That demonstrated even more clearly the highly political way in which CB levels were determined, and made it clear why the Nov 79 increase had been advanced to April.

4. <u>CB and incentives, why work, and poverty</u>

Three further arguments are often used to justify massive increases in CB: that they improve incentives; help the poor; and reduce the "why work" problems. All are true, but weak. For CB is expensive. An extra 10p on the rate for a child would cost nearly £60m - and the extra 50p many people are asking for would cost no less than £275m, 3 or 4 times the cost of the generous special scheme we are announcing (27 March) for help with fuel costs. It is also an inefficient and, arguably rather unfair way of solving any of these problems. That it <u>helps</u> solve them is a valid argument in support of an increase which has been decided on for <u>other</u> reasons - eg the need to help children. But there are many other better ways of solving each if that is one's <u>main</u> aim.

<u>Incentives</u>

a. The chief alternative to CB as a means of improving <u>incentives</u> is increases in income tax allowances, or reductions in income tax rates. Neither is discriminatory as between those with children and without. Hence channelling available funds towards them is fairer than using CB which would favour families with younger children alone. Since there are no grounds for thinking that families with children suffer special disincentives, general cuts in income tax must be preferred. The poverty trap only affects a relatively small proportion of taxpayers - though a large number of people in absolute terms. So it is easy to see why CB increases are both an indefensibly discriminatory and expensive way of dealing with the problem.

"Why work?"

b. Raising CB massively would, of course, help reduce the present imbalance in relation to the Supplementary Benefit (SB) child assistance available to those out of work. As it happens, this Budget does increase CB by 18¾% as against the 16½% increase in SB child rates, so the gap is narrowed. But it would be immensely expensive to look to CB for the "final solution" to the problem. CB would have to be raised for all eligible families just to assist the small minority affected by the comparison with SB rates, at a vast cost of little under £2 bn if the gap were to be closed fully. There are other better ways of tackling the "why work?"issue. But unfortunately, given that SB rates are where they are, and have to be related to the costs of child rearing, it is probably wrong to envisage a dramatic closing of the gap until we have attained a much higher level of prosperity than can be foreseen for some time. In other words it would simply be unreasonable to expect this Budget to solve "why work?" by CB or any other acceptable means.

Poverty

c. CB increases certainly help the poor. But the millionaire's wife gets it too. With poor families only accounting for, say 10% of total CB, raising CB is a very bad buy as a way of reducing poverty. So any available money can be much more effectively applied in selective tailor-made schemes such as Family Income Supplement or the supplements to single parent families, Both of which are strengthened in this Budget.

5. Should Child Benefit be price protected or increased?

The issues here are big, and rarely discussed honestly or rationally.

a. To argue for price-protection or indexation of CB (or anything else) is tantamount to claiming that CB is so important that it must under <u>all</u> circumstances take absolute priority both over all other public spending except pensions and short-term benefits, and over the need to cut borrowing and taxes, whether output and incomes are rising or falling, come hell or high water. No case for doing so has yet been advanced and it is very difficult to see how a proper one could be. Were almost all public spending and taxing to be indexed, the case would be a little different. But it is not.

b. It is of course perfectly reasonable for people to argue that CB should be increased because they think children deserve more help. But if so the case cannot be advanced on basis of/the claims of children alone. It must deal with all the other competing priorities of schools, hospitals, tax cuts and so on. At a period of falling output, major reductions in borrowing and in spending on most Government programmes, <u>and</u> falling living standards, the rational and equitable arguments all point the other way. And in the final count it remains for the Government to decide. That is its job and whatever its priorities may be it is better placed than the pressure groups to reach a fair judgement - not least on the claims of competing pressure groups themselves!

COMPARISON OF THE VALUE OF CHILD BENEFIT AND THE OLD SYSTEM OF FAMILY ALLOWANCES AND CHILD TAX ALLOWANCES, AT CURRENT PRICES, FOR SAMPLE FAMILIES PAYING INCOME TAX AT BASIC RATES

	1979/80			1980/81			
	Revalorised FAM/CTA	Actual Child Benefit	Extra Money Under Child Benefit	Revalorised FAM/CTA	Actual Child Benefit Pre Nov	Actual Child Benefit Post Nov	Extra Money Under Child Benefit
Married couple with 1 child aged 3	2.40	4.00	1.60	2.90	4.00	4.75	1.85
Married couple with 2 children aged 4 and 6	5.90	8.00	2.10	6.90	8.00	9.50	2.60
Married couple with 3 children aged 3, 8, and 11	9.70	12.00	2.30	11.40	12.00	14.25	2.85
Married couple with 4 children aged 3, 8, 11, and 16	13.70	16.00	2.30	16.10	16.00	19.00	2.90

Figures assume FAM, CTA's, and clawback all revalorised, as in the Rooker-Wise amendment, for RPI growth between Dec-Jan 1975/6, the last year of the old system, and Dec-Jan 1978/9 or 1979/80.

26 March 1980

Social Services

cc. Mr Lankester

R 26/3

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 5618

A N Ridley
Special Adviser

Michael Jopling MP
Chief Whip
12 Downing Street
SW1

26 March 1980

Dear Michael,

In view of the continuing interest in the Government's proposals for child benefit, we have prepared here a further briefing on the Government's position. I am therefore attaching a number of copies for you and your colleagues in case they will be useful in the immediate future. Arrangements have also been made for this note to be circulated more generally in the Postmaster General's circuit.

The material being sent to you comes in two parts: a very brief one-page summary of the key issues, designed to be rather more compact and more immediately of use than the somewhat longer note which the Chancellor sent to you under his letter of 10 March; and a considered background note, which puts the issue in a wider context and might be helpful in dealing with the more profound arguments which people may attempt to bring against the Government's position.

Copies are also going direct to DHSS ministers

Yours sincerely

Adam Ridley

ADAM RIDLEY

PRIME adap Mr. Sir on 13

Original in C/R.

Social Serv

10 DOWNING STREET

THE PRIME MINISTER

17 March 1980

Dear Sir Bernard

Thank you for your letter of 8 February about the level of child benefit.

Now that child tax allowances have generally been phased out, there is no particular reason why April should be the month for uprating child benefit. Other social security benefits are uprated in November and it is logical that any child benefit uprating should be at the same time.

The Government are well aware of the difficulties facing families with children. We intend to ensure that there is a reasonable level of child support. But we have to recognise the competing demands for the limited financial resources available. Child Benefit is an expensive benefit; each 10p increase in the level of the benefit would cost about £60 million in a full year. Child benefit is still of greater value to most basic-rate taxpayers than the child support provided in recent years, through child tax allowances combined with family allowances or child benefit at earlier levels.

We will announce any future changes in the benefit at the appropriate time. There are no current proposals to amend the section in the Child Benefit Act dealing with the uprating of child benefit.

I am sorry that I cannot be more helpful. Our prime objective must be to get the economy moving; only that can provide the resources needed for the improvements we would all like to make.

Yours sincerely

MT

Sir Bernard Ledwidge, K.C.M.G.

jfh

1. TPL to see
2. PA
MS

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

14 March 1980

Dear Patrick

SOCIAL SECURITY ANNOUNCEMENT

Thank you for your letter of 12th March.

Subject to the views of others I have no objection to your making a statement in the House on 27th March about the detailed uprating proposals and other changes, nor to your holding a Press Conference and issuing a Press Notice immediately thereafter. I should be grateful, however, if my officials could be consulted by yours over the terms of the statement and the terms of the Press Notice.

Subject again to the views of others, I have no objection to your Social Security No.2 Bill being presented after 2nd April, provided always that this does not damage the timetable and that the savings we expect to make under the Bill are not jeopardised.

So far as the separate briefing with health correspondents go, you will, of course, be aware from the guidance which has been circulated by the Treasury that because of the inter-action this year of the Budget and the publication of the Public Expenditure White Paper, we would not expect such conferences or discussion to be held until after the end of my Budget Speech - that is, say, about 5.30 on Budget Day. Your meeting with the health correspondents will, therefore, have to take place sometime after that.

I am copying this letter to our Cabinet colleagues and to Sir Robert Armstrong.

Yours

(GEOFFREY HOWE)

The Rt. Hon. Patrick Jenkin, MP

SECRET

3

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Mch

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

Telephone 01-407 5522

From the Secretary of State for Social Services

NBPM ?

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

R

13 March 1980 13/3

2

PRIME MINISTER

To see. This is what Mr Jenkin tried to raise in Cabinet on Thursday. He will of course resist these amendments, and I trust that the Whips will do their job. MS

Dear Geoffrey,

SOCIAL SECURITY BILL

I feel I must warn you that we may be under heavy pressure to accept two amendments to this Bill at Report next week.

The first concerns Child Benefit. An amendment to index-link this benefit from November was withdrawn by the Opposition in Committee after they had pressed the point hard and it is clear they plan to return to the attack on Report and probably press for the restoration of the value of child benefit next November and price protection thereafter. There was obviously a great deal of support for the proposal on our side of the Committee. Speakers on both sides stressed that improvements in this benefit would meet two of our announced objectives - to help the family and to improve incentives.

I shall not, of course, be able to announce our decision to uprate the benefit by 75p a week next November and it is, in any event, doubtful if this would help matters since it would be obvious that there was to be a shortfall. The cost of fully restoring the value of child benefit next November would be an additional £120 million in a full year beyond what we have already agreed and we shall, of course, resist such an amendment strongly. But you will know that a number of our supporters would rank improvements in this benefit as one of the top priorities for the coming year.

The second item, which was also strongly argued in Committee, concerns the death grant. Here again, we can expect the Opposition to return to the attack with proposals at the least, to make the grant non-contributory - at a full year cost of £2½ million. Again, soundings we have made suggest that there is a great deal of sympathy among our supporters.

SECRET

It is important that colleagues should be aware of this pressure; I am copying this letter to the Prime Minister, other members of the Cabinet, and to Sir Robert Armstrong.

PI

CONFIDENTIAL

2

PRIME MINISTER

Another part of the jigsaw

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

12 March 1980

Dear Geoffrey,

Now that it is settled that your Public Expenditure White Paper will be published on Budget Day, I am writing to let you and the Leader of the House know that I shall want to make a Statement in the House on the following day, ie on Thursday 27 March, giving the usual details about the uprating proposals and further details about the other proposed changes. I am proposing to hold a Press Conference and to issue a Press Notice immediately after my Statement.

The Secretary of State for Employment has asked that the further Social Security Bill should not be presented before 2 April and I am looking at the timetable to ensure that this does not seriously damage the timetable. Second Reading must be as soon as possible after the Easter Recess.

I am arranging a separate briefing with health correspondents on Budget Day on the changes in the Budget affecting the National Health Service.

I am copying this to Cabinet colleagues, and Sir Robert Armstrong.

Yours ever

Patrick

CONFIDENTIAL

CONFIDENTIAL

Original Pub Expend filed Pt 8

File

Social Sec JS

Econ Pol

10 DOWNING STREET

From the Private Secretary

20 February 1980

Dear John,

PUBLIC EXPENDITURE ANNOUNCEMENTS: SOCIAL SECURITY

The Prime Minister has read the Chancellor's minute of 15 February about public expenditure announcements. She has noted that the announcement on the social security decisions can now be deferred until the publication of the Public Expenditure White Paper, but she wonders whether it would not be better if the White Paper were published on Budget day rather than on the currently planned date of 18 March. Although she is aware that the underlying economic assumptions in the White Paper will not be quite the same as the assumptions underlying the Budget judgement, she believes that there would be advantage in avoiding having to make a major statement on public expenditure - as presumably would be necessary - so shortly before the Budget. The Prime Minister would like to discuss this with the Chancellor before a final decision is taken.

filed on Public Expenditure Pt 8

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, the Chief Whip, the Acting Leader of the House of Lords, and to Sir Robert Armstrong.

Yours ever

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.

FILE

Original in C/R

LPO

Soc. Services

CC IG

DHSS

J. Stallard

C.F. to note

10 DOWNING STREET

THE PRIME MINISTER

29 January 1980

Dear Andrew

Thank you for your letter of 23 January signed jointly by Jock Stallard and yourself. I appreciate your concern about the shortfall. You will by now know our decision on it - a decision which will of course have disappointed you.

There are a number of points I would like to make. First, as you know, there is nothing in the current legislation to require the Government to make good any shortfall - a point clearly stated by our predecessors as well as by ourselves. We are required to make the best estimate we can (and our estimate of the <u>price</u> rise was very accurate and meant that we were able to protect pensions fully with a little to spare), and to up-rate on that basis. The shortfall is a shortfall by comparison with what we would have done had we <u>known</u> the earnings figures instead of having to estimate them; it is not a shortfall by reference to our statutory obligations.

My second point is that neither we nor our predecessors have given any general guarantee about shortfalls. We promised to make good for pensioners the Labour Government's 1978 up-rating shortfall. We added on an extra 1.9 per cent to do precisely that. We kept our promise. But we gave no commitment about future shortfalls.

/Third,

Third, to make good the shortfall as an addition to next November's uprating would cost £195 million in a full year. This is out of the question when the Government is being forced to find further savings in public expenditure. We must face the reality that the resources to meet this extra burden could be found only by greater cuts in public expenditure in other fields or by an increase in taxation or public borrowing. Given that the real value of pensions has been maintained, the choice we have made is the only responsible one.

I am sending a copy of this letter to Jock Stallard.

Yours sincerely

Margaret Thatcher

A. Bowden, Esq., M.P.

Covering SECRET

2

Original of attachment on Pub. Expen. Pt 7.

PRIME MINISTER

Social Security Options

I attach at Flag A a list of all the social security changes which the Chancellor has agreed with Mr. Jenkin - together with the amount of money which would be saved against each one. At Flag B are some examples of what would happen to typical beneficiaries.

Points to note are:

i) Widows' allowance is not to be changed (annex A of the Cabinet Paper is wrong).

ii) The Chancellor agrees that Earnings Related Supplement cannot be abolished with effect before January 1981 without blatantly breaching the "contribution contract". ~~immediately~~.

iii) I think a distinction can be drawn between short term and long term benefits. Thus, it would seem reasonable to cut unemployment, sickness, maternity and injury benefits; but not invalidity benefits. Whether we can cut the short term benefits by as much as ten percentage points is another matter.

iv) The reductions in unemployment benefit and supplementary benefit could be justified perhaps as being in lieu of tax which will not start up until 1982. It is not proposed that other benefits will be taxed (except for ERS if it is continued).

v) Flat rate unemployment benefit lasts for twelve months and likewise sickness benefit. ERS lasts for six months.

/vi)

vi) All the measures proposed require primary legislation: the necessary changes could be made in the Social Security Bill which is now in committee.

R

23 January 1980

SOCIAL SECURITY OPTIONS AGREED BY CHANCELLOR AND MR. JENKIN

	£m. at survey prices	
	80/81	81/82
Abolish ERS	-	260
Reduce up-ratings by 10 percentage points less than price inflation:		
Unemployment Benefit	22	65
Sickness Benefit	17	50
Invalidity Benefit	25	80
Maternity Benefit	4	10
Injury Benefit	2	5
Up-rating of short-term supplementary benefit by the lower of earnings or prices (assumed to be 2% point saving)	10	25
Postpone 1980 up-ratings by 1 week	40	40
Miscellaneous Changes: i) Abolish death grant ii) Abolish unemployment benefit for occupational pensioners with large incomes iii) Change "linking rule" (ie at present there are no waiting days if you fall sick or become unemployed within 13 weeks of last becoming sick or becoming unemployed. The proposal is to reduce this period to 8 weeks)	10	40
Less increased claims for supplementary benefit caused by above measures	20	70
	110	505

7

EFFECT OF AGREED SOCIAL SECURITY CHANGES, ON AVERAGE EARNERS

1. The two key changes are:

   (i) put up sickness, invalidity, unemployment benefit 10% less than prices in November 1980.

   (ii) abolish the Earnings Related Supplement (ERS) to unemployment and sickness benefits in January 1981.

2. Examples

   A. Single man with average ERS of £11 to unemployment or sickness benefit.

(a) Now receives	£29.50
(b) With 15% uprating would in November get	£32.30
(c) With only 5% uprating will get	£30.45
(d) From January '81 with abolition of ERS gets	£19.45

   B. Married couple, with average ERS of £11 to unemployment or sickness benefit.

(a) Now receives	£40.95
(b) With 15% uprating would get in November	£45.45
(c) With only 5% uprating will get	£42.45
(d) From January 1981 with abolition of ERS will get	£31.45

   C. Married couple with two children, with average ERS £11 to unemployment or sickness benefit.

(a) Now receives	£52.35
(b) With 15% uprating and £2 child benefit increases would get in November	£57.35
(c) With only 5% uprating and £2 child benefit increase will get	£54.35
(d) From January 1981 with abolition of ERS will get	£43.35

Notes: 1. ERS lasts for a maximum of 6 months.
2. A person getting ERS when abolition occurred would continue to get it for that spell of sickness or unemployment, so he wouldn't have a cash cut.
3. Assumed throughout no entitlement to supp ben.

SECRET

D. Married couple with two children, on long-term Invalidity Benefit

(a)	Now receives	£62.60
(b)	With 15% uprating would get in November (with £2 CB increase)	£70.75
(c)	With only 5% uprating will get (with £2 CB increase.	£66.70
(d)	From January 1981 will continue to get (ERS not having been in payment)	£66.70

Original filed
Econ Pol (Exp) Pt 7.

SECRET

Ref. A01205

PRIME MINISTER

Public Expenditure and the Economic Outlook

(C(80) 3, 4, 5, 6 and 7)

BACKGROUND

Cabinet agreed in December (CC(79) 25th Conclusions, Minute 6) to aim at further reductions in the planned levels of public expenditure of £1,000 million in 1980-81 and £2,000 million in each of the subsequent years. The Chancellor offered at the same time to circulate a paper about the wider economic strategy, and about the role of monetary policy and the consequent need to keep down public expenditure and the PSBR.

2. Since Christmas, there has been the usual series of bilateral and multilateral talks, in which the Chancellor has been supported by the Home Secretary. He reported the first results of these talks to you at your private talk on 17th January, and again in his minute of 21st January. Since then he has made further progress. The main outstanding points now relate to housing and local government manpower, to the Defence Budget (on which I have minuted you separately), to employment measures and to certain parts of the social security programme. In addition, he wants Cabinet to endorse some of the bilateral agreements he has reached with spending Ministers, because of their wider political implications, and to get sufficient backing from Cabinet to be able to agree some other issues with spending Ministers before next week's Cabinet.

3. Cabinet thus has five papers in front of it. The first is the general economic and monetary background (C(80) 4) which will be convenient to take first. The second main paper, C(80) 3, is the public expenditure one: discussion of the three supporting papers (on special employment measures; on social security uprating; and on housing) can be fitted in as the Cabinet works through the main paper.

SECRET

HANDLING

I. Economic and Monetary background

4. You might ask the Chancellor to introduce this paper (C(80) 4): as noted above, it was commissioned by Cabinet. It calls for endorsement rather than decision, and it should not require prolonged discussion provided that all your colleagues accept the underlying premise that there is no acceptable alternative to the strategy to which the Government has set its hand.

5. The Chancellor concludes that there is no 'alchemist's stone' which would allow him to dispense with the present monetary restrictions. Cabinet may grumble, but is likely to endorse this conclusion. You might run briefly round the table: the Ministers most likely to want to join in are the Secretary of State for Employment and the Minister of Agriculture (still grumbling) and the Secretary of State for Industry and Secretary of State for Trade (broadly in support of the Chancellor). The Home Secretary might also be ready to support the Chancellor. But the Chancellor's paper deals with all the obvious escape routes which Cabinet talked about last time: the hope that oil would float us off the rocks; the expectation that the Government's policies will take effect more quickly than the Chancellor reckons; the hope that interest rates will begin to turn down of their own accord; the possibility of reimposing the 'corset' in some tighter form; hire purchase and direct credit controls as an alternative or supplement to interest rate policy; going back on the exchange control decision; monetary base control. You will need to give some of these arguments a run if they are raised, but you might guide the Cabinet, fairly briefly, to agree with the Chancellor that there is no real alternative to the strategy on which it is already embarked.

II. Public Expenditure

6. You might start yourself by making five general points:

(i) Timing. It is essential that the Cabinet complete its discussion by next week. This is necessary both to give the Chancellor time to prepare his Budget, and to complete the printing of the Public Expenditure White Paper for publication ahead of the Budget.

(ii) There has already been a good deal of Press speculation. It is important to keep these discussions absolutely confidential until the decisions are announced. /NB: this may be before the publication date for the White Paper: see below. I suggest you do not get Cabinet involved in discussion of timing and presentation until they have taken the actual decisions./

(iii) The economic outlook is, if anything, even more forbidding than it appeared in December. (Oil prices, Afghanistan/Iran, etc.)

(iv) Yet the agreed savings listed here (Annex A), together with some of the other possibles, still do not add up to the Chancellor's - and the Cabinet's - original target. To some extent the short-fall may be made good by a volume squeeze, if inflation runs ahead faster than cash limits. But this is an unsatisfactory way of keeping the PSBR down, and the use of cash limits as an ex ante volume squeeze is liable eventually to discredit the cash limit system. Clear decisions on volume would be better - and those in the Chancellor's paper are the only ones on offer at this stage.

(v) Inevitably, discussion will focus most on 1980-81. But the short-fall is almost as serious in later years. Cabinet has agreed to publish full five-year public expenditure figures. But it may well have to return to the levels for later years next summer, when it looks at the 1980 Survey. Ministers may therefore want now or later to identify those areas where they think there is scope for still further savings, so that detailed work can be done on them during the Survey period. Some such points may emerge in discussion today and next week.

7. You should then invite the Chancellor to introduce the discussion, which he will do briefly. He will have three objectives: to get Cabinet ratification of the agreed cuts listed in Annex A; to get a favourable decision on Child Benefit, the biggest unresolved issue which is ripe for Cabinet decision this week; and to get sufficient guidance from Cabinet on the other issues to be able to conduct further bilaterals between now and next week. To do this it is important that Cabinet should complete a first run through the complete list at the first meeting.

8. You should then take the Cabinet through the individual issues in the sequence listed in the paper, bringing in related topics at the appropriate point (as shown below). The agreed figures are all listed in Annex A to C(80) 3, which also shows in brackets the Chancellor's original bid, for comparison.

(a) Social Security including Child Benefit. (Paragraph 5 and Annex C; also C(80) 6).

The proposal to abolish Earnings Related Supplement is agreed with the Secretary of State for Social Services. But it means reopening a decision taken by Cabinet as recently as 25th October (CC(79) 18th Conclusions, Minute 4) when it was agreed that the Government should not go back on the contractually-earned right to ERS. This is, however, the biggest single social security saving available, and if it is not acceptable substantial new savings will have to be found elsewhere. In judging this issue colleagues will especially need the judgment of the Leader of the House and the Chief Whip.

Mr. Jenkin has also agreed to cut the real level of short-term benefits (unemployment, sickness, maternity and injury benefits, widow allowances and long-term invalid), uprating them by 10 per cent less than is needed to keep pace with prices. At this point you will want to draw colleagues' attention to Annex C of the Chancellor's paper which makes it clear that what is proposed is a 10 percentage point shortfall, not a 90 per cent uplift. This is a major cut in the real value of these benefits. The Chancellor sees this as a 'change of gear' which would permanently shift the regular uprating on to a trend line below the present one. (The discussion at Wednesday's E on the taxation of unemployment benefit will be relevant). The Chancellor may also propose later - but not at this meeting - a similar 'change of gear' in relation to the Defence Budget and the NATO commitment. Cabinet has of course already accepted the need, wherever possible, to 'de-index' benefits and public sector wages. The Chancellor's proposals are not quite this - being a substitute for tax - but have much the same effect.

There is a quite separate problem over long-term benefits, which erupted at Question Time last Thursday, and is now dealt with in a joint paper (C(80) 6) by the Chancellor and Mr. Jenkin to which Cabinet could now turn. The question is whether, given the Manifesto commitment to make good the 1978 shortfall (which has been done), the Government should also make good the shortfall on its own 1979 uprating. If so, when should this be announced? Both Ministers agree that there is no obligation to put right the 1979 'earnings' shortfall. If Cabinet agrees (as I think they must), in what terms should the announcement be made, and when? Is the formula in paragraph 8 sufficient?

The unresolved issue concerns Child Benefit. The Chancellor wants to carry the de-indexation principle still further (and it should be easier, in principle, to do so for Child Benefit, which is not yet formally indexed). The Secretary of State wants to uprate in line with prices, because of the effect on incentives if this is not done. Whatever is decided on Child Benefit, he wants to keep children's supplementary benefit on a full uprating basis, arguing that this has very little effect on the in-work/out of work incentive problems. As you know, a fuller report on incentives is in preparation, but will not be ready in time for these Cabinet discussions. However, its tentative conclusions would, I understand, probably support Mr. Jenkin's case on both counts. Against this, the Chancellor feels that he must get the Child Benefit decision in his favour: £85 billion is at stake next year.

(b) Health (Annex A)

This is a convenient point at which to pick up the proposed reductions in the Health Service, which have been agreed with Mr. Jenkin. They are listed in Annex A as 'agreed' and described there. Mr. Prior complained last time that he had not realised prescription charges were to be increased. Is he content that they should be increased further this time? Does the Cabinet agree? What will be the effect on the RPI?

(c) European Community (paragraph 6).

At official level, there are signs that Departments feel their programmes are being cut unnecessarily, when there is a prospect of savings on the European Budget later in the year. If this argument emerges, you will probably want to ask Cabinet not to count its chickens. It is far from clear that we shall get the whole £1 billion reduction in the European Budget; even if we did, the Chancellor's strategy ideally requires even more savings than those Cabinet has agreed to find. The prospect of success in the EEC Budget negotiations is not an excuse for failing to take difficult decisions on domestic programmes.

(d) Cash Limits (paragraph 7)

Cabinet has already approved most cash limits for next year, building in a 14 per cent inflation assumption for central Government. The cash limits for the central Civil Service vote and for the defence budget, however, have yet to be agreed. If inflation were to continue next year at something like the present 17 per cent rate, there would be a quite sizeable volume squeeze implicit in these limits (yielding as much as £450 million); but, as the paper notes, obvious difficulties about publishing these. For the moment, Cabinet need only note the problems this would raise. Mr. Pym will probably keep quiet at this point, because these matters are under separate discussion; but such a squeeze (quite apart from any further squeeze on Armed Forces' pay) would make it even harder for him to maintain his 3 per cent volume growth rate. If anyone else challenges these assumptions, you should remind them that Cabinet has already decided the main cash limits and there is no going back on them.

(e) Local authority manpower (paragraphs 8-9 and C(80) 7).

As Annex A makes clear, Mr. Heseltine was asked to make much bigger cuts in the housing programme than he has in fact offered. The shortfall is £75 million in 1980-81 and £146 million, £85 million and £180 million in the subsequent years. His suggestion is that further economies in 'his' area could be found by further cumulative 1 per cent reductions in current expenditure on local authority services. But this is not in his gift. First it is not clear what base-line he proposes to apply this 1 per cent cut to: is it the figures which emerge from the Cabinet's decisions this month, or is it the earlier figures agreed by Cabinet but never announced? If the latter, local authorities will not know what they are supposed to be cutting. Next, how would he make it stick? The most he can do is to issue exhortation to local authorities, and to reduce the 'eligible expenditure' for RSG purposes. But local authorities would not necessarily reduce their expenditure correspondingly: they might choose to put up rates instead. Next, is such a percentage cut acceptable across the board, given the sizeable reductions already made in other local authority services? Finally, does it reflect the Government's own priorities? How could the present exemptions for the 'law and order services', and the relative protection of the Education budget, be continued? (The Chief Secretary has circulated some relevant figures as C(80) 7). All in all, this looks like a rather hastily-conceived gimmick, and the Chancellor will not wish to accept it. He will have some support for this line from the Secretary of State for Education. The Home Secretary will certainly oppose Mr. Heseltine's plan, and believes that more can be taken off the housing programme.

(f) <u>Civil Service and other manpower cuts</u>

The cuts listed in Annex A already take full account of the manpower reductions agreed by Cabinet before Christmas. The question is whether any further overall reduction should be made. Some Ministers may be disposed to argue that there is still plenty of administrative fat: and that the "Rayner" and similar exercises will sweat it off. They will want to take credit for these further savings. The Chancellor (and Mr. Channon, who you may wish to call at this point) will remind them that they were very reluctant indeed to come up with any further specific manpower savings last year. In addition, they are already being subject to an overall volume squeeze, of indeterminate size, through the operation of cash limits. It does not seem realistic to impose a further administrative 'super cut' across the board.

(g) <u>Housing</u> (paragraph 11)

Mr. Heseltine has agreed to reductions in the housing programme of £225 million in 1980-81, £364 million in 1981-82, £415 million in 1982-83 and £420 million in 1983-84 (listed in Annex A). But he is not prepared to say how this will be found. This presents some technical problems: how will the cuts be described in the White Paper? It leaves Government spokesmen a little exposed if they are asked to explain the figures. There is a general feeling in Cabinet (to which you have referred yourself) that Mr. Heseltine was too soft on council house rents last time. Can he be persuaded to firm up his proposals now? If so, he might be invited to discuss with the Chancellor between now and next week, and to come back with firm proposals. These should certainly include a statement of the effects on the RPI. The CPRS note that it might be possible to go further on housing subsidies than would otherwise be possible if the Government were prepared to consider a gradual elimination of housing subsidies, public and private.

(h) <u>Defence</u> (paragraph 12)

I have minuted you separately on this. For the moment, you need only take note simply that talks are continuing.

(i) <u>Education</u> (paragraph 13 and Annex A)

Although these cuts, largely in student grants and charges for nursery schools, have been agreed with the Education Ministers, they need ratification by Cabinet because of the political implications and the effect on the RPI (not quantified in the paper). You will note that the Home Secretary and other Ministers feel that there is scope for further reductions in the Education budget: does Cabinet wish the Chancellor to pursue these ideas bilaterally with Education Ministers before next week?

(j) <u>Employment</u> (paragraph 14, Annex A and C(80) 5)

The Secretary of State for Employment has accepted the reductions listed in Annex A, subject to consultation with the Manpower Services. They fall mainly on training. But he is not prepared to give up his additional bid for 'special employment measures' next year. These are described in his separate paper C(80) 5. They were the subject of preliminary discussion at E(EA) last week, but this was necessarily inconclusive because the Chief Secretary reserved his position. Mr. Prior's additional bids would amount to a maximum of £18 million in 1980-81, against which some receipts from the European Social Fund might be expected (figures in Annex 1 to his paper). The arguments are set out extensively in his paper. The decision is a straightforward one. In addition, a decision is needed on the taxation of the job release scheme allowance: the Chancellor wishes to tax it, in line with his proposals on short-term benefits. But because of existing undertakings, the payments would have to be correspondingly grossed up for tax, at a cost of £34 million, as well as incurring some additional administrative expenses. Mr. Prior proposes postponement of the tax decision for a further year. The sums involved are not large, and barely affect the PSBR at all. If the Cabinet does not decide the issue one way or the other this time, they might invite Mr. Prior to pursue the subject once again with the Chancellor, with a view to getting agreement before next week's discussions.

(k) Other agreed savings

At this point, you might ask Cabinet to confirm that the remaining savings listed in Annex A as 'agreed' can be taken as approved. The ones not so far discussed are those on page 2 of that Annex: Transport, FCO; Home Office; Energy; Legal Aid; and Export Credits. None of these seem to raise serious political problems which involve anyone beyond the spending Ministers concerned, who have already agreed to these cuts.

(l) Earnings rule

The CPRS note that, if it were desired to find additional savings for the later years, quite large provision is made (£35 million for 1982-83, rising to £125 million for 1983-84) for implementation of the Manifesto commitment to phase out the "ER" during this Parliament. It is arguable that deferring this commitment would be a good deal less painful than some of the measures already agreed. Indeed the objective of the commitment (to encourage retirement pensioners to go on working) may be open to question in present circumstances.

(m) Resulting figures

The results of these cuts, subject to any further bilateral discussions, are summarised in Annex B of C(80) 3. In his paper, the Chancellor proposes that publication in a Public Expenditure White Paper in March (just ahead of the Budget). But he is likely to suggest (next week, if not this) that, because of the risk of leaks, and the need to convince public opinion that the Government means business on public expenditure, he should announce the main decisions earlier than this, by way of a statement, Written Answer, or in some other form. All you need to do today, I suggest, is to get the Cabinet's agreement that, once final decisions have been taken, they should be announced between now and the Budget.

CONCLUSIONS

9. I think you might try to record agreement as follows:

(1) That Child Benefit should be uprated by /£1/, /50p/ in November 1980, with a premium of /£1/ for fourth and subsequent children.

(2) That Supplementary Benefit child allowance should be increased by /£1/ per week.

(3) That no decisions should be taken at this stage about the figures to be published for the United Kingdom contribution to the EEC Budget.

(4) That the possible implications of the 1980-81 cash limits for volume of public expenditure should be noted, without any final decisions this week.

(5) Either that the Secretary of State for the Environment should be asked to find further savings on his programmes in lieu of the suggested 1 per cent cut on manpower, and to agree them with the Chancellor; or that the Chancellor, in consultation with the Secretary of State for the Environment and others concerned, should examine further the 1 per cent reduction and agree on how it should be applied and enforced.

(6) In addition [possibly] that the Secretary of State for the Environment should agree with the Chancellor of the Exchequer further identifiable potential reductions (of £X million, to be specified if possible) in the housing programme, to be considered by Cabinet next week.

(7) That no further general squeeze other than that implied by cash limits, should be imposed on central government expenditure.

(8) That the Chancellor and the Secretary of State for Defence should continue their discussions of the Defence budget.

(9) That the Education programmes should be reduced as shown in Annex A to C(80) 3, and that the Secretary of State for Education should agree with the Chancellor on the scope for further savings.

(10) That the new Special Employment Measures proposed by the Secretary of State for Employment in C(80) 5 be turned down. [Or alternatively, remitted to the Chancellor and the Secretary of State for Employment for further bilateral discussion.]

(11) That the remaining cuts noted in Annex A should be approved.

(12) To invite the Chancellor to pursue with the Ministers concerned any further potential savings identified in discussion.

ROBERT ARMSTRONG

(Robert Armstrong)

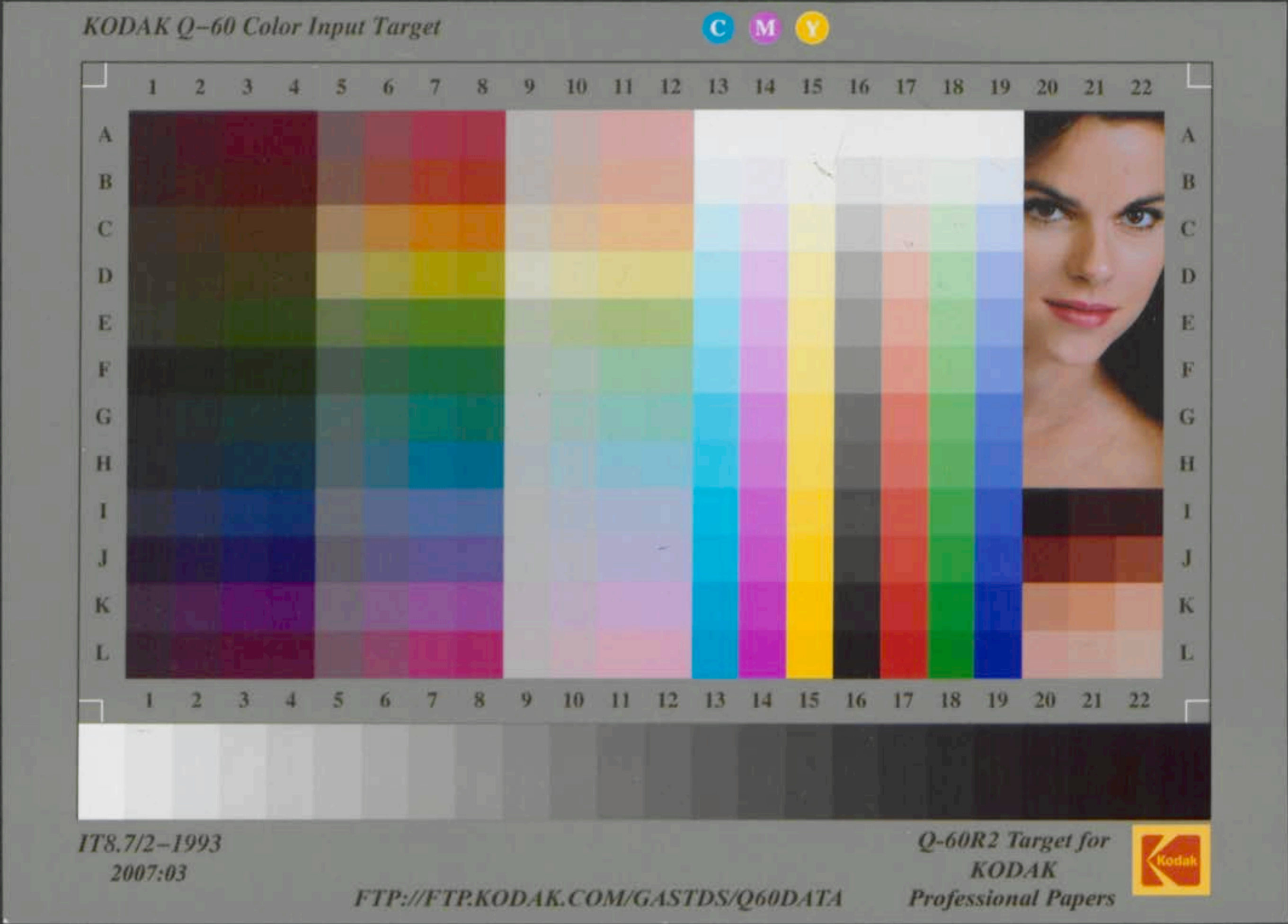
23rd January, 1980

PART 1 ends:-

TL to HMT 10.1.80

PART 2 begins:-

C(80)6 22.1.80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