

SECRET

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At 2: Benefits
Copies of Chancellor's
minutes - to be left in
12
Cabinet room.

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.



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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

or

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.

(Robert Armstrong)

*(Approved by Sir R. Armstrong
and signed on his behalf)*

3rd November, 1980