Tim

Copied to: Social Services Pt 2: Benefits

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PRIME MINISTER

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

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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

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					
<u>Proposal A</u>					
Uprating of <u>all</u> benefits in November 1981 by 3 percentage points less than needed to give full price protection			-175	-504	-504
<u>Proposal B</u>					
Savings on shift to monthly payment of child benefit, following Rayner study (provisional)			-61	-1	-13
<u>Proposal C</u>					
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

MARGARET THATCHER: Now your questions, I'll try to answer those....

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

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

BRIAN WALDEN: ...to prices.

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

BRIAN WALDEN: For the life time of the parliament?

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

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

ANNEX C

Exceptions 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

	1981-82	1982-83	1983-84	Manpower (full year)
C. Invalidity Benefit	8	24	24	slight saving

The Chief Secretary is not convinced that this is justifiable

	1981-82	1982-83	1983-84	Manpower (full year)
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.