

S E C R E T



Copied to :

Not in : Social Services

Nov 79

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

Prime Minister

Agree X ?

S.T. Pike  
18.11.

PUBLIC EXPENDITURE - SOCIAL SECURITY AND HEALTH

Following Cabinet last Thursday the Secretary of State for Social Services and myself have discussed further the social security and health programmes.

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2. Proposals for reduction in these programmes are to be considered further at Cabinet tomorrow (Wednesday), and in order to help discussion Treasury and DHSS officials have prepared the attached note. As you will see this includes tables which show; in Section A, proposals in respect of social security which the Secretary of State and myself jointly recommend to Cabinet; in Section B, proposals in respect of social security which I put forward but which the Secretary of State does not agree to; and in Section C, differing proposals by myself and the Secretary of State in respect of health.

3. I should point out that due to absence abroad the Secretary of State has not himself seen the attached note and tables, but I believe them to be an accurate reflection of the position we reached together in our discussions.

X 4. If you are agreeable, I will hand the attached papers round at Cabinet as a guide to our consideration of these programmes.

5. I am copying this letter to the Secretary of State for Social Services and to Sir Robert Armstrong.

(G.H.)

18 November, 1980

S E C R E T

## LIC EXPENDITURE - SOCIAL SECURITY AND HEALTH

Note by Treasury and DHSS Officials

Following Cabinet on 13 November, the Chancellor and the Secretary of State have further considered proposals for public expenditure savings on social security and health. (These are in addition to the savings in changed timing in payment of Child Benefit, the reduction in cash controlled administration expenditure, and minor additional bids, all of which are agreed.)

## 2. The attached note sets out :-

In Section A, proposals in respect of social security which are agreed between the Chancellor and the Secretary of State;

In Section B, proposals in respect of social security which the Chancellor makes but which are not agreed by the Secretary of State;

In Section C, differing proposals in respect of health.

3. If agreed, the proposals in Section A and B would take effect from November 1981. They would be announced in detail at Budget time, but would also be announced earlier, in general terms, as part of the Chancellor's forthcoming statement.

4. The Chancellor and the Secretary of State have asked that attention be drawn to the two omissions from proposals below :-

- (a) Christmas bonus. Suspension of the Christmas bonus otherwise payable at Christmas 1981 would save £84 million in the year 1981-82. In light of other priorities both Ministers would be prepared to see it suspended for 1 year (or more). The previous administration did not pay the bonus at Christmas 1975 and Christmas 1976, when it was worth rather more than it is now. Against that, however, there is a manifesto commitment that "The Christmas bonus ..... will continue", and legislation was passed last year which would need amendment if it were to be suspended even for one year.

- (b) Reflection of alcohol and tobacco duties in upratings. The Chancellor and the Secretary of State drew attention to the fact that there is a case for ignoring the effects of the RPI of increases in duties on alcohol and tobacco when uprating pensions and other benefits. This could be worth about  $\frac{2}{3}$  of a percentage point on the RPI. Nevertheless alcohol and tobacco prices enter into the general level of prices, and the view of both Ministers is that to abate pensions uprating on this score would be difficult to reconcile with the pledge that the pensions should keep pace with prices.

5. The Chancellor and the Secretary of State also wished to have it recorded that the Secretary of State has agreed to the Chancellor's proposals that the "upper earnings limit" for National Insurance contribution purposes should be set at £200 per week from April 1981, rather than the £190 per week which the Secretary of State had wished. This does not affect Public Expenditure totals but it increases the surplus in the National Insurance Fund by about £100 million and thus reduces the PSBR by the same amount in 1981-82.

#### Conclusion

6. Ministers are invited :-

- (a) to consider the joint proposals of the Chancellor and the Secretary of State, at Section A below;
- (b) to consider the further proposals which the Chancellor makes, at Section B below;
- (c) to consider the differing proposals of the Chancellor and the Secretary of State, at Section C below.
- (d) To note the points made in paragraph<sup>4</sup> and 5 above.

INTERNAL SECURITY

Section A

Proposals which are agreed between the Chancellor and the Secretary of State

	£m 1980 survey prices			
	1981-82	1982-83	1983-84	Manpower changes
(a)(i) Increase in retirement pensions and long term supplementary benefits etc in November 1981 abated by one percentage point below full price uprating	41	111	112	neg.
(ii) Ditto for all other benefits (except those reflected at (b) and (c) below.)	7	20	20	neg.
<p>The Chancellor and the Secretary of State feel that the overpayment* likely this year could reasonably be deducted next year, while still maintaining in full the pledge that pensions should keep pace at least with prices over time. It will be recalled that the Government made up a shortfall left behind by the Labour Government of 1.9%, in November 1979. Legislation needed.</p>				
(b) Increase in unemployment benefit in November 1981 of 3 percentage points less than required to give full price uprating	6	16	16	+140
(c) Ditto for sickness benefit and maternity allowance	6	18	18	+80
<p>% reduction reflecting (inter alia) the 1% over payment* in November 1980, the expectation that earnings will fall behind prices in the coming year, and the effect of indirect tax increases on alcohol and tobacco prices. No legislation needed.</p>				
(d) Increase in child benefit in November 1981 abated by the same percentage as tax threshold increases are abated (provisionally put at 4.3%, to be reviewed at Budget time)	34	84	84	neg.
<p>No legislation needed.</p>				
(e) Extend "waiting days" for flat rate unemployment and sickness benefits (broad estimate)	20	30	30	some increase

There are already three waiting days. The proposal would extend it to six. Legislation needed.

\*Pensions and other benefits are to be uprated on 24 November by 16.5% (11.5 for some short-term benefits), representing the Budget forecast of price increases between November 1979 and November 1980. The Chancellors' latest forecast for inflation over this period is 15.5%.

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	£m 1980 survey prices			Manpower changes
	1981-82	1982-83	1983-84	
(f) Freeze pensions earnings rule again	3	10	10	none
There is a manifesto commitment to abolish the earnings rule during the existence of this Parliament, but freezing it runs up against no pledges. Legislation needed.				
(g) Abolish child dependency additions to unemployment benefit and short-term benefits	11	16	8	some saving
The dependency addition is being phased out anyway. This proposal merely brings it forward. Legislation needed.				
<u>Total of Section A</u>	<u>128</u>	<u>305</u>	<u>298</u>	

Section BProposals which the Chancellor wishes to make but which the Secretary of State does not agree

(h) Increase in short-term supplementary benefits by 2* percentage points below that needed to give full price uprating	7	20	20	nil
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The Chancellor suggests that for the same reasons given in respect of (a)/(c) above there is no reason why the supplementary benefit safety net should necessarily be fully prices protected. There is an incentives argument here, though the Chancellor accepts that many who would be affected are not in that area. Nevertheless there is nothing magic about the level of the safety net, and at a time of economic difficulty it is not unreasonable that it should not be fully price protected. The Secretary of State considers that in the context of reductions in other benefits it is essential to maintain the real value of the safety net and that he is pledged to do this.  
No legislation needed.

\*in addition to the 1% at (a) above.

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	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>Manpower changes</u>
(i) Hold-back supplementary benefit childrens rates so that the cash differential between this and child benefit does not increase	5	16	24	nil

In the interest of incentives the Chancellor feels that it is essential that the cash differential payable in respect of children to those in work and to those out of work should not widen. The Secretary of State points out that the majority of families including  $\frac{2}{3}$  of the children are either chronic sick or single-parents and thus the (i) incentive argument does not run for them. The proposals would hit the poorest families. No legislation is needed.

(j) A further 2% off short-term benefits at (b) and (c)	8	22	22	150+
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The Chancellor suggests that these benefits could stand this further deduction. Anyone in real hardship will be able to resort to supplementary benefit. The Secretary of State considers that 5% following last year abatement, making 10% in total, is intolerable at a time of rising unemployment. No legislation needed.

<u>Total of Section B</u>	<u>20</u>	<u>58</u>	<u>66</u>
<u>Grand total proposed by the Chancellor</u>	<u>148</u>	<u>363</u>	<u>364</u>

HEALTHSection C

- (k) Deduction to represent efficiency improvements to be expected.  
An amount equivalent to:-

<u>Chancellor's proposal</u> - 1% off cash limited programme (approximately $\frac{1}{2}$ % off NHS programme)	60	60	60
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The Secretary of State takes the view that this is more than can possibly be achieved by improved efficiency, and that a figure of this order would consequentially represent a breach of the manifesto commitment and involve damaging service cuts. He considers that £25 million is the most that should be taken into account at this stage, though efforts to see if further savings could be achieved in the later years will be considered in next year survey.  
He proposes ....

25	25	25
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