

SUBJECT

e Mark



cc CSO ✓  
DRES ✓  
CO ✓

hu 6

10 DOWNING STREET

From the Private Secretary

24 November 1981

Dear John,

Social Security expenditure and National Insurance contributions

The Prime Minister held an informal meeting yesterday evening with the Chancellor of the Exchequer, the Secretary of State for Social Services and the Chief Secretary to consider what should be put before Thursday's Cabinet in relation to decisions about social security expenditure and national insurance contributions.

The Secretary of State and the Chief Secretary briefly reported the position that they had reached on social security matters. The two issues on which they had reached no agreement were the changes which the Treasury had proposed to the Christmas bonus arrangements for 1982, and proposed abatement of the unpledged benefits at their next uprating. The Secretary of State said that he found very considerable difficulty with both of these proposals. He had dropped his claim for a restoration of the 2% shortfall this year on the unpledged benefits, and he expected much Parliamentary opposition on this front. He would also face considerable difficulties in taking the new national insurance contributions bill through Parliament. The Chief Secretary had suggested as an alternative the possibility of postponing by up to three weeks the date of the 1982 uprating, which would generate savings of £150 million in 1982/83 and £90 million a year in 1983/84 and 1984/85. But this too would face the same Parliamentary difficulties, since primary legislation would be required. His view was that it was simply not possible to achieve the desired savings by either of these three routes.

After further discussion it was agreed that there would need to be an increase in contributions to the national insurance fund of 1.0 percentage points, rather than the 0.85 percentage points canvassed in the Chancellor's minute to the Prime Minister of 17 November. The Chancellor should circulate a paper to Cabinet for discussion on Thursday 26 November. The emphasis of the paper should be heavily on the need to balance the national insurance fund. It was agreed that these increases should be loaded on the employee and not on the employer.

/ On this basis

SECRET

SPJ hu

On this basis it was agreed that there should be no changes in the arrangements for the 1982 Christmas bonuses, and that there should be no abatement of the uprating of the unpledged benefits. The Secretary of State withdrew all his earlier proposals in relation to invalidity benefit. The aim would be to announce the national insurance decisions together with the public expenditure decisions in general on Wednesday 2 December, if it were not possible to do so on Monday 30 November. It would then be possible to introduce a new national insurance contributions bill immediately.

The Prime Minister is particularly concerned to ensure that there should be no leak of these decisions, and I would accordingly be grateful if you would see to it that as few people as possible are informed.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), Don Brereton (Department of Health and Social Security) and David Wright (Cabinet Office).

*Yours sincerely,*

*Michael Scholem*

John Kerr, Esq.,  
H.M. Treasury.