

CONFIDENTIAL

PRIME MINISTER

Uprating of Social Security Benefits
(C(79) 9)

Mr. Jenkin's paper has been agreed with the Chancellor and the Chief Secretary, following correspondence. Decisions are needed well before the Budget. Among other things, they affect the size of the Contingency Reserve for the remainder of the year.

HANDLING

2. You may want to ask Mr. Jenkin to introduce his paper in general terms, but thereafter it will be best to go through the points one by one. The main difficulties arise over the first sections;

- (a) The main rates. A number of decisions are needed here.

Thus:-

- (i) Prices or Earnings. The present legislation, now three years old, requires pensions to be uprated by reference to the movement in prices or earnings whichever is more favourable to the pensioner. It is now proposed to move over to a prices-only basis in the long term. This requires legislation. The case for prices-only indexation is that it protects the pensioner, while limiting the Government's commitment. It is in line with the existing treatment of tax allowances and with the index-linking of public service pensions where the relevant index is that of prices. It leaves the Government the option of more generous treatment in years when this can be afforded. But it does not guarantee the pensioner a share in the increasing prosperity of the country. There is no manifesto commitment either way. A political decision is needed, either now or before next year.

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(ii) Timing of Legislation. It is not yet clear that legislation will be needed this year. The Budget forecasts, making full allowance for the Chancellor's tax changes, will not be available until just before Budget day. It seems likely, but not certain, that they will predict prices increasing faster than earnings in the year to November. The likely extent of increases in indirect taxes makes this more probable. In that event, legislation is not essential: the present Act would require the prices basis to be taken. If, unexpectedly, the Budget forecast shows earnings moving ahead faster than prices (i.e. wage inflation running ahead of price inflation) and the Government nevertheless wanted to use a prices basis this year, legislation would be needed before November - which means introducing it before the Summer Recess. But in any event the Chancellor favours "grasping the nettle" now and legislating for the prices basis probably in the proposed Social Security Bill dealing with Christmas bonus (see below). This would of course turn the Social Security Bill into a much more controversial piece of legislation, for which time would need to be allowed.

(iii) Forecasts or Historic Data? The paper is silent on the content of the legislation, and a policy decision is needed either in Cabinet or in Home Affairs before drafting can proceed. Given the change from an "earnings or prices" basis to a "prices only" basis, there are three possibilities: to require a statutory forecast of the movement in the index; to make the change retrospective, by reference to movement over, say, the past 12 months; or for the legislation to remain silent. The present Act is in fact silent on the point: the practice of basing the uprating on the forecast of movements is extra-statutory and has been endorsed by the courts as a valid interpretation of the

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present law. There is a lot to be said for putting the matter beyond doubt and legislating firmly for the historic basis. But this is not a good year to do so, because it could not take account of the big increase in prices still to come partly attributable to the indirect tax changes in this Budget. We know that for this reason the Chancellor favours silence on this point, relying for the moment on existing practice and the Court decision, both pointing to the 'forecast' method. You might ask Mr. Jenkin which course he proposes: and if he is not ready to answer, you might ask that Home Affairs should look at the problem again before drafting proceeds. It would, of course, be possible to provide for the historic basis as the statutory minimum and still do more in a particular year.

- (b) Shortfall. While the basis remains a forecast, there is always a danger that it will be wrong. It was wrong last year, and as a result, the pensioner did not get the full increase to which he was "entitled". You confirmed in the House on Tuesday the Government's election commitment to make good the shortfall. The Cabinet need do no more than take note of the position the cost of which (£80-£90 million) has been agreed between Mr. Jenkin and Treasury Ministers.
- (c) Christmas Bonus. The Manifesto says that "Christmas Bonus, which the last Conservative Government started in 1972, will continue". (Though it does not say for how long.) The legislative authority has so far been renewed each year. Mr. Jenkin now proposes to put it on to a permanent footing, allowing payment in later years under subordinate legislation with provision to increase the amount by Order if and when the Government so decides. This particular point was discussed in H Committee yesterday without a conclusion being reach. Opinion was divided as to the relative merits of permanent or annual legislation and Cabinet will need to decide the issue.
- (d) Another point which may arise here is the future of the "winter fuel scheme" or "electricity discount" which has operated for the last four years: you may want to ask Mr. Howell to say whether he

Mr. Howell has
suggested there should
be a separate

Ministerial discussion.

See letter in this folder (Flag A)

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proposes to continue this. (There is no provision in the PES for it). If so, a secondary issue is whether the necessary legislation should be incorporated with that on Christmas bonuses; you could invite him to pursue this point urgently with Mr. Jenkin.

- (e) Child Benefit. The proposal here is to make no further increase in November. Given the public expenditure position, there is unlikely to be any objection. There is no Manifesto commitment to increase child benefit. The long term aim is to replace it by tax credits, but the Manifesto makes clear that this will take some years. There is a minor proposal, costing only £3 million, to increase the premium for one-parent families, which should not be controversial.
- (f) Mobility Allowance. This proposal costs only £2 million and is unlikely to be attached.

CONCLUSIONS

3. Subject to the course of discussion, you should be able to record conclusions on each of the points listed in Mr. Jenkin's paragraph 11, and on some additional points, as follows:-

- (i) That the uprating commitment should be related to prices only in future.
- (ii) That, if the Budget forecasts confirm that the earnings basis is more favourable, legislation should be taken immediately to opt for the prices basis.
- (iii) That if the forecast shows that the prices basis is more favourable, either:-
 - (a) legislation to move to the prices base should be postponed until later in the session; or
 - (b) nevertheless, opportunity should be taken to introduce legislation immediately, probably in the Bill now being prepared to deal with Christmas bonuses.

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- (iv) either:
 - (a) that the legislation should provide for uprating to be made by reference to past movements in the price index; or
 - (b) that it should provide for uprating by reference to forecast;
 - (c) that the legislation should be silent on the point, relying on the past rulings of the court that forecasts are a valid method; or
 - (d) that this issue of the basis of uprating should be referred to the Home Affairs Committee by policy decision before drafting proceeds.
- (v) That last year's shortfall should be taken into account in calculating this year's uprating.
- (vi) That the Chief Secretary, Treasury, should make proposals for the Contingency Reserve for the remainder of this year on the basis of this decision.
- (vii) That a Christmas Bonus of £10 should be paid this year.
- (viii) either:
 - that legislation should be taken to put the Christmas Bonus on to a permanent statutory footing, with power to proceed by Order and to increase the bonus if and when the Government decides; or
 - that the Christmas Bonus legislation should be renewed for one more year.
- (ix) That the one-parent family premium should be increased to £2.50 in November.
- (x) That the mobility allowance should be increased to £12 in November.
- (xi) That the total additional costs of all these measures should be charged to the Contingency Reserve.

EXTRACT FROM HOUSE OF COMMONS
HANSARD DATED 28 MARCH 1979

married manual worker is 50 per cent.—an increase in real standards. We shall fulfil our statutory obligations again this year.

This is the season of estimates and revenue. Yesterday we debated expenditure on the Armed Forces for the coming year. Today I should like to inform the House of the estimate of the Chancellor of the Exchequer for old-age pensions for the coming year. First, he has provided for a correction to the underestimate in the forecast made this time a year ago—a question that has been raised on a number of occasions by hon. Members on both sides, but mainly from Government supporters, I grant. Let us associate the Conservatives with this. Do not let them escape their share of the responsibility.

Earnings last year rose faster than the forecast on which the Chancellor based his uprating at that time. He has taken account of this in the new increase that will operate for the next pension year from November. For a married couple, therefore, he has provided for an increase in the pension next November of about £4 a week to around £35, and for a single person of about £2.50 per week, to about £22. That is provided in the Estimates. That will be one more important step to reduce the gaps that still exist in our society—to remedy the injustices, to erase the class divisions and racial bigotry, to attack poverty and the lack of opportunity that still face many of our citizens. The difference between the Opposition and the Government is that we know that these problems will not be solved by a return to those policies of 1970 or by soup-kitchen social services. They will be overcome only if we harness the energy and the ideals of our people to build a fairer and more just society.

Let need, not greed, be our motto. Our purpose as a Government and as a party is to present a bold, Socialist challenge to all these problems as we face these tasks. I ask for the confidence of the House and of the country so that we may continue with our work. *[Interruption.]*

Mr. Speaker: Order. I think that hon. Members have conveyed their message.

Mr. John Stokes (Halesowen and Stourbridge): On a point of order, Mr. Speaker. I have just received a message that—*[Interruption.]*

EXTRACT FROM HOUSE OF COMMONS
HANSARD DATED 29 MARCH 1979

of Rochester and Chatham, Plymouth, Devonport and Portsmouth, North?

The Prime Minister: I fully realise that electoral matters are at the top of the hon. Gentleman's mind, but we have made clear our position and policy on these issues and we intend to stick to them. We rely on the good sense of the country in these matters. If either side were to engage in a Dutch auction in giving excessive and unjustifiable wage increases to those who demand them, the future of this country would be very bleak. If we had been willing to do that, we would not, perhaps, be having some of the industrial troubles through which we are passing.

Mr. Ashton: Will my right hon. Friend find time today to consider the Opposition's attitude to the Civil Service strike? Is he aware that the Leader of the Opposition has not been calling civil servants thugs or bully boys or saying that they are holding the country to ransom? Could that be because she thinks that most civil servants vote Tory or live in marginal constituencies? Does my right hon. Friend agree that if the right hon. Lady gets to be Prime Minister she will bring in such huge public expenditure cuts that most of them will not have a job anyway?

The Prime Minister: I regret very much the industrial disruption taking place in the Civil Service. I understand that an offer was made which was unacceptable because it is much below the assessment that the unions place on the result of the exercise in comparability. The Cabinet considered the matter this morning and we are ready to make a further offer to the Civil Service unions which will be more in accordance with what we think is appropriate, although I think that it will be far less than the unions are demanding. Of course, if Conservative Members would like the strike to continue—and perhaps they would—no doubt they will say so.

Mrs. Thatcher: As the Prime Minister mentioned his dislike of Dutch auctions in connection with what may occur during the next three or four weeks, may I make quite clear that we shall honour the pension commitments that he announced yesterday?

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Qa 04110

To: MR STOWE
From: SIR KENNETH BERRILL

*overlooked by PM's
memo to
PQ on 22/5
TL
23/5*

Uprating of Social Security Benefits

1. I think the Prime Minister will wish to consider very carefully whether Mr Jenkin's proposals on retirement pensions in C(79)9 fully meet the need for public expenditure savings both this year and in the longer term.
2. The present pension is £19.50 a week for a single person and £31.00 a week for a married couple. The real value of the pension has risen 20 per cent over the last five years. The cost is now over £7½bn. a year.
3. The present statutory requirement is to uprate long-term benefits (including pensions) by the forecast growth (November to November) in earnings or prices, whichever is the higher.
4. Mr Jenkin proposes that next November's uprating should be indexed to prices only. Legislation would be taken, as necessary, to make this the statutory minimum requirement, in line with the present arrangements for basic rate personal tax allowances.
5. He also proposes that a margin should be added to make good the 'shortfall' on the previous Government's uprating last November (they under-estimated the rise in incomes). The cost of this margin would be up to £90m. in 1979/80 and £220m. in a full year. The cost is inevitably carried forward into all future years because indexation provides a ratchet. This £220m. is a significant sum. There is no provision for this in current expenditure plans and if it is committed now it will necessarily be at the expense of equivalent cuts elsewhere.

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6. There is no doubt that the Government is committed to an increase of at least £2.50 (to £22) for a single person and £4.00 (to £35) for a married couple. That is implicit in the Prime Minister's assurance on 29 March that "we shall honour the pension commitments which he [Mr Callaghan] announced yesterday". But these, or even larger, increases will result from indexation by prices only without the addition of any margin for shortfall on the rise of incomes (unless prices are forecast to rise by less than $12\frac{1}{2}$ per cent, which is unlikely).

7. Mr Jenkin is likely to argue that the Government also has a commitment to make good the shortfall on incomes left over from last November. We do not think that this need be read into the Prime Minister's assurance noted above. But she will wish to judge that for herself. Mr Callaghan's remarks, to which she responded, are at Annex A.

8. Unless the Prime Minister feels that the Government is committed to making good the shortfall on incomes, there is a good argument on merits for not doing so. The social security programme now accounts for nearly 25 per cent of public expenditure; is growing rapidly; and is increasingly closing off other options. Pensioners have done well in recent years. The present Government's policy is to index by prices only until resources are available to achieve further improvements. Last November's uprating has already provided for an increase in real terms of over 3 per cent even in its defective form. Given the present need for expenditure savings it is illogical to seek to go further.

9. I am sending a copy of this minute to Sir John Hunt.

K.B.

22 May 1979

Att

EXTRACT FROM HANSARD

Mr. Callaghan

HOUSE OF COMMONS

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Her Majesty's

28 MARCH 1979

Government

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of the Industrial Reorganisation Corporation. This time they want to hamstring the National Enterprise Board. They intend to cut public expenditure. They keep saying so. What do they propose to do? Do they propose to stop the National Enterprise Board funding the new Rolls-Royce aero-engines? [HON. MEMBERS: "Answer".] There are more questions yet. Let us have a compendium. Do they intend to cut the European airbus? Will they stop the production of the new HS146 aircraft? Is it the youth employment schemes that are to go? Is it the Welsh Development Agency or the Scottish Development Agency, which is at the moment backing 9,000 jobs with £20 million of investment?

Is it the new social benefits that we have introduced that are to go or the mobility allowance for the disabled, the invalid care allowance, or help to disabled housewives? I make no mention of school milk.

Since we came into office the average number of patients on each doctor's list has declined. Are the numbers to be allowed to swell again when public expenditure is cut?

The numbers of people served by home helps have increased. The meals on wheels service has been enlarged.

Are these to be cut back? Or is it the rebuilding of our cities? Would they tamper with the child benefit scheme, whose allowance is to be increased from £3 to £4 per week from 1 April?

What about the pensioners? During the Conservatives' term of office pensioners' living standards fell behind those of the population who were working. By contrast, this Government have steadily improved the real position of the pensioner year by year, by increasing the pension by whichever has been the higher of the forecast earnings or the forecast prices. That is now a statutory responsibility. It has improved the standard of life of the pensioner after he or she retires, by comparison with the wage earner.

Let me give the figures. When the Conservative party left office the pensioners' proportion of the net earnings of a married male manual worker was 40 per cent. Today the pensioners' proportion of the same net earnings of the male

married manual worker is 50 per cent.—an increase in real standards. We shall fulfil our statutory obligations again this year.

This is the season of estimates and revenue. Yesterday we debated expenditure on the Armed Forces for the coming year. Today I should like to inform the House of the estimate of the Chancellor of the Exchequer for old-age pensions for the coming year. First, he has provided for a correction to the underestimate in the forecast made this time a year ago—a question that has been raised on a number of occasions by hon. Members on both sides, but mainly from Government supporters, I grant. Let us associate the Conservatives with this. Do not let them escape their share of the responsibility.

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Mr. Speaker: Order. I think that hon. Members have conveyed their message.

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