



Original on: 7
 ERM (1994): P 11
 Public Expenditure

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

PRIME MINISTER

100,000,000
 1,000

i.e. would say
 that the higher interest
 rates would be less
 contractionary than not
 spending the money.

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

/of the



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 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 state 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.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

29 October 1980

DHS SOCIAL SECURITY

| | £ million 1980 Survey prices | | | | |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------|---------|---------|---------|---------|
| | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
| Cmdnd 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> | | | | | |
| Up-rating of all 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

Extract from "Weekend World" 6 January 1980

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

IAN 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.

IAN WALDEN: ...to prices.

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

IAN 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 come 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 time, so that when that went up they did get the increase, I'm pledged on that, and a pledge must last.

IAN 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?

SECRET

ANNEX C

Exceptions proposed by the Secretary of State

| | <u>1981-82</u> | <u>1982-83</u> | <u>1983-84</u> | <u>Manpower (full year)</u> |
|-------------------------------------------------------------------------------------|----------------|----------------|----------------|---------------------------------|
| A. War pensions | 4 | 3 | 10 | None |
| B. Mobility allowance and attendance allowances | 3 | 9 | 9 | None |
| These are accepted by the Chief Secretary | | | | |
| C. Invalidity Benefit | 8 | 24 | 24 | slight saving |
| The Chief Secretary is not convinced that this is justifiable | | | | |
| D.1 Short term Supplementary Benefit or | 11 | 31 | 31 | 220 |
| D.2 Give long term rate of Supplement Benefit to the Unemployed after 2 years | 15 | 46 | 51 | 45 |

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.

SECRET

Original on: 9
Econ POL: Pg 11
Public Expenditure
Social Services

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.

SECRET

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.

SECRET

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.

D. J. WRIGHT

RA (Robert Armstrong)

3rd November, 1980

Original Copy on:
Econ Pol: P2 11
Public Expenditure.

S E C R E T



Prime Minister

The Chancellor proposes
to hand this round
at Cabinet. In view of

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

its sensitivity, I suggest
that you (or he) ask
that the copies
be left in the

PRIME MINISTER

PUBLIC EXPENDITURE: SOCIAL SECURITY

We agreed that Cabinet should discuss the Social Security Cabinet Res. on Tuesday, 4 November.

.....

2. I enclose a copy of the paper I propose to circulate at this meeting, which is based largely on the minute, agreed with Patrick Jenkin, I sent you on 28 October. I have added a reference to the proposal on public sector pensions. I think it would be convenient for Cabinet to take a decision in principle on this as well, though the details can be discussed later with our colleagues who would be concerned.

R
..
3/11

3. I am sending a copy of this minute to the Secretary of State for Social Services.

P.S. Jenkins

for (G.H.)

31 October 1980

Approved by the Chancellor and
signed in his absence.

S E C R E T

DRAFT PAPER FOR CABINET

PUBLIC EXPENDITURE: SOCIAL SECURITY

Memorandum by the Chancellor of the Exchequer

This paper outlines my proposals for savings on the Social Security programme and on public sector pensions.

Social Security

2. The attached Annex outlines 3 proposals. The Secretary of State for Social Services is prepared to accept proposals A and B (savings on shift to monthly payment of child benefit following the Rayner study, and 2 per cent cut in cash controlled expenditure affecting mainly administration). He points out, however, that the proposal to pay child benefit four weekly in arrears has yet to be agreed in its own right, and to that extent the savings must be regarded as provisional. I accept this.

3. Proposal C - 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. 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 (ie the standards of living of people in work are likely to fall) we have no choice but to tackle this area. The Secretary of State accepts the proposals in principle. But there are, however, some outstanding points yet to be settled.

4. First, exceptions. The Annex also sets out certain exceptions which the Secretary of State would wish to make to the across the board reduction, together with their cost. I believe that in principle there should be no exceptions, but I am ready to concede the first two in the list - war pensioners, and mobility allowance and attendance allowances.

5. The Secretary of State also 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. 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 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. In my view to go further than I have indicated would 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. Second, there is the question of presentation of our decision and the timing of the necessary legislation on pensions. 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" (which on present forecasts would be 8 per cent), rather than "3 per cent reduction". A decision to announce an "8 per cent increase" now would however have to be provisional, in case my final forecast of inflation differs from 11 per cent. The legislation that will be necessary need not be introduced until after the Budget, and the exact form can be settled nearer the time.

7. Finally, I should report that in order to ensure that the PSBR as well as public expenditure benefits from the holding back of contributory benefits, I propose that the legislation include a power to reduce as appropriate the Treasury Supplement to the National Insurance Fund. 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.

Public Sector Pensions

8. As a parallel to the proposals on Social Security I propose that index-linked public sector pensions should be held back at the next uprating also by 3 per centage points. My reason for making this proposal is not solely financial. If state pensions are to be held back it is inconceivable that

should not take similar action in the area of public sector pensions. We have set up the Scott Enquiry to look at the values of the deduction for indexing for current employees, but we have not yet touched past employees. For these reasons I would wish the coverage to be as wide as possible. Since this concerns a number of colleagues I propose that the Chief Secretary should circulate a separate paper on the legislative and administrative details. Meanwhile I invite colleagues to endorse the principles of this proposal.

Conclusion

9. I ask my colleagues to :

- i. agree the proposals A, B and C in the attached Annex.
- ii. consider the possible exceptions discussed in paragraphs 4 and 5 above.
- iii. agree the abatement of public sector pensions proposed in paragraph 8, in principle.

| | 1981-82 | 1982-83 | 1983-84 | |
|-----------------------------------------------------------------------------------------------------------------|---------|---------|------------------|-------------------------------|
| <u>Proposal A</u> | | | | |
| Savings on shift to monthly payment of child benefit, following Rayner study | - 61 | - 1 | - 13 | |
| <u>Proposal B</u> | | | | |
| 2% cut in cash controlled programmes | | | | |
| (i) effect in 1980-81 cash limits squeeze | - 11.1 | - 11.1 | - 11.1 | |
| (ii) further proposed reduction | - 6.3 | - 6.3 | - 6.3 | |
| <u>Proposal C</u> | | | | |
| Uprating of all benefits in November 1981 by 3 percentage points less than needed to give full price protection | -175 | -504 | -504 | |
| Agreed minor additional bids | + 9 | + 12 | + 14 | |
| Net saving | -168 | -492 | -490 | |
| <u>Exceptions to C, proposed by Secretary of State</u> | | | | |
| - <u>Agreed</u> (i) War pensions | + 4 | + 3 | + 10 | <u>Manpower effect</u> Nil |
| (ii) Mobility and attendance allowances | + 3 | + 9 | + 9 | Nil |
| Net saving on proposal C | -159 | -480 | -471 | |
| <u>- Not agreed</u> | | | | |
| (i) Invalidity benefit | + 8 | + 24 | + 24 | slight saving |
| (ii) <u>Either</u> short term supplementary benefit | + 11 | + 31 | + 31 | +220 |
| <u>or</u> give long term rate of supplementary benefit to the unemployed <u>either</u> after 2 years | + 15 | + 46 | + 51 | + 45 |
| <u>or</u> after 1 years | + 26 | + 74 | + 84 | +190 |
| <u>Public sector pensions</u> : proposed abatement - public expenditure savings | - 10 | - 30 | - 30 (estimated) | |

Social Services



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 October 1980

T Lankester Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC EXPENDITURE - THE SOCIAL SECURITY
PROGRAMME

Annex C of the Chancellor of the Exchequer's
minute to the Prime Minister of 29 October
should be replaced by the slightly amended
... version attached.

I am copying this letter to David Wright
and Jim Buckley.

*Yours,
Peter.*

P S JENKINS
Private Secretary

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 | | | | |
| C. Invalidity Benefit | 8 | 24 | 24 | slight saving |
| The Chief Secretary is not convinced that this is justifiable | | | | |
| 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.