cc. D. Wolfson
J. Hoskyns
A. Walters

Prime Minister

SOCIAL SECURITY BENEFITS PRICE PROTECTION

The Chancellor minuted you on 16 January on the question of whether the Social Security Bill should provide that any shortfall in the uprating of social security pensions and benefits which might arise from an under-estimate of inflation should be made good the following year. You expressed a preference to avoid a statutory commitment if we could. Accordingly, although the Chancellor and I decided it would be prudent to have a fall-back clause drafted covering pensions and other long-term benefits, we have proceeded on the basis that you have given a pledge that pensioners will be compensated fully for price increases over the lifetime of this Parliament and that a statutory commitment is unnecessary. As we expected, this has satisfied our supporters and we expect to defeat Opposition attempts to include a statutory commitment to make good shortfall in the Bill.

The Opposition have, however, come back to the definition of "pensioners" in your pledge (you may recall answering a question from Mr Rooker on this, OR 25.2.81 Col. 371). I am sure you had retirement pensioners particularly in mind but clearly it would be extremely difficult politically to say that the pledge applies to them alone. What, it would be asked, is the position of such groups as war pensioners, widows and disablement pensioners? Are they not to be given price protection? Since we have every intention of giving these long-term pensioners the same protection as retirement pensioners, and the projections for social security expenditure shown in the Public Expenditure White Paper assume price protection, it would seem to me to be a self-inflicted wound to say that your pledge does not apply to them. It would also shake the faith of our supporters and might lead to the very defeat which we have been striving to avoid.

I therefore propose that Lynda Chalker should expand on the meaning of "pensioners" as in the attached draft letter. The list, which has been agreed with Treasury officials, essentially comprises the groups of beneficiaries who have entitlement to the Christmas bonus. The notable exclusions are all the short-term beneficiaries, sickness, unemployment, etc; supplementary allowance and family income supplement, child benefit and mobility allowance. I shall be grateful to know if you will agree to this meaning being placed on your promise. I am, of course, copying this minute to the Chancellor.

P.J.

3 April 1981.

Social Services
File 5/5.

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Joint Parliamentary Under Secretary of State

Jeff Rooker Esq MP

WEDNESDAY - 8 APR 1981

Dear Mr Rooker,

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (Standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister of 25 February (Vol 999 Col 371). Pensioners include, in addition to those receiving national insurance retirement pensions, recipients of the following benefits: Widow's pension (including widowed mothers allowance and widow's allowance); industrial death benefit paid by way of a widow's or widower's pension; war disablement pension and industrial injury disablement pension; war widow's pension; attendance allowance, invalid care allowance and non-contributory invalidity pension. Supplementary pension, now aligned with retirement pension, will be similarly protected.

Invalidity benefit and unemployability supplement have of course had their uprating abated in 1980 but part of the abatement is to be made good at the 1981 uprating (IVA and its equivalent) and we have given an assurance that the benefits will be restored to the rate of retirement pension when they are brought into tax. The abated rates, transitionally, and the unabated rates thereafter, will be price protected.

I am copying this letter to the other members who were on Standing Committee G.

Yours sincerely,
John T. Hughes
(Private Secretary)

MRS LYNDA CHALKER

[Approved by Mrs Chalker and signed in her absence]

FILE

VLB

B F for.

cc HMT

Dft's letter to Rooker

8 April 1981

Social Security Benefits: Price Protection

The Prime Minister has now considered your Secretary of State's minute of 3 April on the above subject. She agrees that Mrs. Chalker should write to Mr. Rooker in the terms of the draft enclosed with the minute - provided the Chancellor of the Exchequer is also content.

B.F for letter. /

I am sending a copy of this letter to John Wiggins (HM Treasury).

T P LANKESTER

Don Brereton, Esq.,
Department of Health and Social Security.

CC.

2

Prime Minister

You agreed to this on condition that the Chancellor also agreed.

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

PRIME MINISTER

SOCIAL SECURITY BENEFITS PRICE PROTECTION

TPM 8/12

I have seen Patrick Jenkin's minute to you of 3 April about the definition of "pensioners" in pledges about price protection.

2. I agree with him that, at the present time, there is nothing to be gained - and perhaps a lot to be lost - by seeking to qualify the pledge and drawing a distinction between the "deserving" and "undeserving" pensioners. I do not, as you know, like unjustified indexation in any form, but, for the moment, I accept that we must apply the traditional construction to the term "pensioner" and include in it all those listed in the draft letter to Geoff Rooker.

3. I am sending a copy of this minute to Patrick Jenkin.

(G.H.)

8 April 1981

PRIME MINISTER

COMMITMENT ON PENSIONS UPRATING

Mrs. Chalker was pressed in Standing Committee on 26 March to give details of the benefits covered by your pledge on pensions. Mr. Jenkin has now minuted you saying that he thinks that, while you clearly had retirement pensioners particularly in mind, it would be very hard not to make the pledge also cover war pensioners, widows and disablement pensioners. He proposes that Mrs. Chalker should now write to Jeff Rooker in the terms of the draft letter at Flag A.

You may be interested in the relevant costings: 1 per cent on retirement pensions (including supplementary pensions) costs £115 million; 1 per cent on all the other pensions and allowances mentioned in Mrs. Chalker's draft costs £30 million.

Are you content for Mrs. Chalker to write?

The point must be cleared with the Chancellor

TL

7 April 1981

MT.

TF

DRAFT LETTER TO MR ROOKER

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister on 25 February (Vol 999 Col 371). Pensioners include, in addition to those receiving national insurance retirement pensions, recipients of the following benefits: Widow's pension (including widowed mothers allowance and widow's allowance); industrial death benefit paid by way of a widow's or widower's pension; war disablement pension and industrial injury disablement penion; war widow's pension; attendance allowance, invalid care allowance and non-contributory invalidity pension. Supplementary pension, now aligned with retirement pension, will be similarly protected.

Invalidity benefit and unemployability supplement have of course had their uprating abated in 1980 but part of the abatement is to be made good at the 1981 uprating (IVA and its equivalent) and we have given an assurance that the benefits will be restored to the rate of retirement pension when they are brought into tax. The abated rates, transitionally, and the unabated rates thereafter, will be price protected.

I am copying this letter to other members of the Committee.

10 DOWNING STREET

TIM

I kept this back so that you could put it in - and because it does not spell out the amount of money we are talking about. Small though it may be, I think we are entitled to know...

MS
3/4

10 DOWNING STREET

From the Private Secretary

1 April 1981

You sent me a copy of your letter of 30 March to David Butler about the uprating of benefits.

I am sure that the Prime Minister never had it in mind that anything more than retirement pensions should be covered by her price protection commitment. This being the case, I think it would be wise if your Secretary of State would minute the Prime Minister before Mrs Chalker gives any reinterpretation of that commitment.

I am sending a copy of this letter to David Butler, HM Treasury.

T P LANKESTER

D V Chislett, Esq.,
Department of Health and Social Security

285

Mr. T. P. Chantler

With the Compliments of

Department of Health and Social Security

This is a duplicate. The original was sent yesterday though the covering part by mistake.

Friars House
157-168 Blackfriars Road
London, SE1 8EU
Tel. No. 01-703 6380 Ext.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
FRIARS HOUSE
157-168 BLACKFRIARS ROAD
LONDON SE1 8EU
Telex 883669
Telephone 01-703 6380 Ext. 4030

Your reference
Our reference

David Butler Esq
HM Treasury
Parliament Street
LONDON
SW1P 3AG

30 March 1981

Dear David,

In Standing Committee on 26 March Mrs Chalker was pressed by the Opposition to give details of the benefits covered by the Prime Minister's pledge on shortfall; Mr Rooker asked for a letter setting this information out (Standing Committee G Col 291.)

We discussed this and we agreed that it was not practicable to confine the commitment to retirement pensions and that Mrs Chalker could say that the pledge covered long-term benefits (including invalidity benefit), basing the list on those benefits which attract payment of the Christmas Bonus. These are given in S.2(1) of the Pensioners Payments and Social Security Act 1979 as retirement pension (covering Categories A, B, C and D); invalidity pension; widows allowance, widowed mothers allowance or widow's pension; NCIP; invalid care allowance, industries death benefit by way of widows or widowers pension; attendance allowance; unemployability supplement or allowance; war disablement pension; war widows pension; supplementary pension.

I attach a draft letter to Jeff Rooker linking the PM's pledge to all benefits payable to pensioners (including widows). This excludes ICA and Attendance Allowance, which are price protected (the cost is small) but which are not covered by the terms of the PQ reply given by the PM on 25 February, which Mr Rooker specifically referred to. The letter explains that IVP is covered in so far as it will be price-protected from henceforth (to avoid any commitment on restoring the 5% abatement). I would be grateful for your urgent comments by tonight.

I am copying this letter and enclosures to Tim Lankester at No 10.

Yours,

D V CHISLETT

PS(SS) DRAFT LETTER TO MR ROOKER

In the Standing Committee on 26 March I undertook to write to you about the social security benefits covered by the Prime Minister's pledge on shortfall (Standing Committee G Col. 291).

This Government is committed to compensate pensioners fully for price increases over the lifetime of this Parliament. This was the pledge repeated by the Prime Minister on 25 February (Vol 999 Col 371). These "pension" include, in addition to retirement pensions, the following: benefits payable to widows (widows pension, widowed mothers allowance, widows allowance); industrial death benefit paid by way of a widows or widowers pension; war disablement pension and war widows pension; and non contributory invalidity pension. Supplementary pension, now aligned with retirement pensions, will be similarly protected. Invalidity pension and unemployability supplement have of course had their uprating abated in 1980; but, using this rate as the starting point, the level of these benefits will be protected. We have of course given an unqualified assurance that invalidity pension and unemployability supplement will be restored to the rate of retirement pension when they are brought into tax.

I am copying this letter to other members of the Committee.

MRS L CHALKER

P.M.

25 February 81
Written Answer

Han. Ref. Vol. 999
Col. 37

Benefits (Updating)

Mr. Rooker asked the Prime Minister if it is Her Majesty's Government's intention to compensate (a) retirement pensioners, (b) other recipients of national insurance benefits and (c) recipients of means-tested social security benefits for price increases over the lifetime of the current Parliament.

The Prime Minister: As I have already made clear, the commitment we have given is to compensate pensioners fully for price increases over the lifetime of this Parliament. Decisions on benefits to others will be taken in the light of economic circumstances from time to time. My right hon. Friend the Secretary of State for Social Services announced in the House on 24 February that the power to abate certain benefits under section 1 of the Social Security (No. 2) Act 1980 would not be used this year.

Answer agreed by Billing & Chilcot with Try.

Y. I'll return - by hand - to Angela Lingwood.
T.

[Dr. McDonald.]
the impact of their various measures on families, particularly this vulnerable group of families? Perhaps the Prime Minister would like to remind the Secretary of State that that is what he ought to be doing, and make sure that Ministers in his Department also do that.

Mr. Race: Is my hon. Friend aware that one of the groups of people we have both been referring to, namely, those people who are sick or unemployed and getting the smallest—5p—increase in child support, are the very people who receive fewer exceptional circumstances additions to their benefit and fewer exceptional needs payments than anyone else? That is the evidence from the Townsend survey and is the point which my hon. Friend was making to the Minister about the totality of the policy that is being followed.

Dr. McDonald: I thank my hon. Friend for that intervention. In the course of my speech on the previous amendment I pointed out the difficulties experienced by such families in providing clothing for their children and how they had to rely on jumble sales, since one cannot possibly buy new clothing from the money provided.

I want briefly to mention the purpose of amendment No. 81 and new clause 3. The amendment is to ensure that as regards finance the amendments relating to making good the shortfalls are in order.

New cluause 3 concerns the continuation of the power of abatement laid down in subsection (1) into 1981 and 1982. The right hon. Member for Daventry (Mr. Prentice) said in a written answer:

"It is not proposed to make use of the power in section 1 of the Social Security (No. 2) Act 1980 to abate the increase in those benefits by up to 5 per cent.—[*Official Report*, 19 December 1980; Vol. 996, *c.532*.]

The power to abate in the current year is not being used. However, the right hon. Member for Daventry gave no commitment in regard to 1981-82.

Is the hon. Lady prepared to give the commitment that the abatement powers will not be used next year? If she is, new clause 3 cannot logically be proposed as it would remove the power which the Government would otherwise have to make an abatement. I hope that the hon. Lady will answer us. If she is prepared to give the commitment for which I asked, I hope that she and her hon. Friends will support new clause 3.

12 noon

I feel that I have emphasised strongly the plight of vulnerable families and more than 1 million children which we have sought to correct with our amendments. I hope that Conservative Members who professed concern and interest will take those sentiments as far as they should be taken by supporting us.

Mrs. Chalker: We have had a long and interesting, if somewhat predictable, debate. Many members of the Committee have debated these issues for some time.

I shall try to go through the issues that have been raised in relation to the amendments and not stray out of order, but it will mean that I cannot answer every point that has been raised because we went well into other matters on occasions.

I turn first to the issue that was raised by the hon. Member for Birmingham, Perry Barr (Mr. Rooker) and others—namely, the Prime Minister's pledge and what it means.

My right hon. Friend the Prime Minister said in the House on 25 November 1980:

"The full value of the pension in terms of what it will buy will be preserved. Last year, we added to the provision for pensions because the amount that had been provided was not sufficient. This year, we provided more than was warranted by the price increase. The undertaking is to compensate fully for price increases over the lifetime of a Parliament . . . That means either making up the shortfall or taking into account the over-provision next time."

That is clear and unequivocal. My right hon. Friend clearly referred to retirement pensions and long-term benefits. She did not refer to short-term benefits, which the hon. Member mentioned.

We must accept that the provision in the Bill is for one year and one year only. Therefore, in relation to making good the shortfall—I shall come to the question raised by my hon. Friend the Member for Peterborough (Dr. Mawhinney)—this is something which we are already empowered to do under section 125 of the Social Security Act 1975, and which has been done by both Conservative and Labour Governments in various ways over the years.

I could list all the individual figures but I do not think that it is necessary or fruitful to do so in Committee. The point is that the Prime Minister has given her pledge. She said:

"That means either making up the shortfall or taking into account the over-provision next time."—[*Official Report*, 25 November 1980; Vol. 994, c. 488.]

By "next time" she referred to the uprating in November 1981 only.

Mr. Race: Can we make clear that the Under-Secretary of State is saying that the Prime Minister clearly committed herself to protecting the value of pensions and long-term benefits, and can we therefore assume that the commitment is not to protect short-term benefits?

Mrs. Chalker: As I understand my hon. Friend, and I do not think I am in error, there was no explicit comment on short-term benefits. The commitment was for long-term benefits. If the economy improves to such an extent that there can be a further commitment on short-term benefits, I am sure that my right hon. Friend the Prime Minister or my hon. Friend the Secretary of State will give it. But the commitment standing in the name of my right hon. Friend on 25 November was on retirement pensions and long-term benefits, including invalidity benefit.

The hon. Member for Perry Barr questioned the written answer that he received from my right hon. Friend the Prime Minister on 25 February. He had asked the same question as that asked by the hon. Member for Wood Green (Mr. Race). I hope that I have made clear exactly where we stand on the

matter of making good the shortfall. The power is already there. It will be used to make good the shortfall, because that is what the Prime Minister said.

Mr. Rooker: Will the hon. Lady tell the Committee why the Prime Minister did not answer my question? Why did she use the term "pensioners only"? The answer must have been drafted by the DHSS, not at No. 10, so why did not it state "pensioners and other recipients of long-term benefits"?

Mrs. Chalker: I cannot answer the hon. Gentleman.

Mr. Rooker: Will the hon. Lady write to me?

Mrs. Chalker: I will. I was just about to say so.

I return to the issue of making good the shortfall. We have heard differing comments affecting the long list of amendments, beginning with amendments Nos. 4, 5 and 7. They all affect this issue, being linked to the RPI.

Comments were made on Second Reading and the hon. Member for St. Pancras, North (Mr. Stallard) has spoken in this debate about the RPI not protecting pensioners. It is still considered the most appropriate method for the uprating of State pensions, because more than half the pensioners are covered by the RPI, and there is no evidence to show that it is not appropriate. Moreover, for technical reasons, it is the only available index which represents the needs of pensioners. All other indices exclude housing, and it would not be right to exclude housing from the total costs of the pensioner's household.

The hon. Member for Wood Green was right when he said that housing costs have risen more slowly for those pensioner households than for households in general because of the relatively greater importance for pensioner households of rent and rate rebates and rent allowances. We all know that they now play a major part in the household expenditure of elderly people.

Mr. Race: Will the hon. Lady give way?

Mrs. Chalker: I should like to continue, if the hon. Gentleman will allow me. If when I come to the end of this part of my remarks I have not covered his point, I shall give way.

The Committee knows that making good the shortfall in relation to prices is possible under existing legislation. We have given the pledge and have repeated it. I do not know what more can be said in the sense, that I do not consider it necessary to put into this statute, because the power exists in section 125 of the 1975 Act.

The hon. Member for Perry Barr asked a specific question in relation to bringing short-term benefits into taxation. It might be helpful to remind him of what my right hon. Friend the Secretary of State for Social Services said when we debated the No. 2 Bill in the House on 21 May 1980. The hon. Gentleman charged us with bringing the short-term benefits into taxation. My right hon. Friend said:

"The benefits to which this section applies"—

he was referring to the No. 2 Bill—

"ought to be taxed and we cannot wait until 1982 or 1983 to secure the contribution from the social security budget towards the Government's overall spending objectives."—[*Official Report*, 21 May 1980; Vol. 985, c. 555.]

So the Secretary of State was saying then—quite consistently—that the short-term benefits would be brought into taxation as soon as possible, perhaps in 1982. But he was pointing out that it was not possible before that date. In fact, we now know that it is likely to be April 1983.

I turn to the issue of making good the invalidity benefit. We have given a clear pledge that we shall do that this November. I accept what the hon. Member for Perry Barr said, namely, that the invalidity allowances are a small part of the whole. But we have also said that the benefit will be put on the same footing when the other benefits are brought into taxation. The amendments want us to make faster progress than that. I wish that that were possible, as members of the Committee know full well. But it is not possible to do so within the confines of the economy at present.

My hon. Friend the Member for Peterborough (Dr. Mawhinney) raised an important point on Second Reading. My hon. Friend the Minister for Social Security replied to that and to other questions asking whether, when there is an increase above the RPI, we will give an undertaking not to claw that back. If that had been in the Government's mind we should not now be embarking in this Bill on a change that will make increases in pensions during the lifetime of this Parliament at least balance out. My hon. Friend said:

"if it was our intention to ask the House for a right to have a clawback in perpetuity—the exercise of that power year after year—we should have included such a provision in the Bill. We have not done so."—[*Official Report*, 24 February 1981; Vol. 999, cc. 824-5.]

My right hon. Friend the Prime Minister and the whole Government hope that the economy will make such an improvement that we can increase retirement pensions and other benefits, at least to what the RPI indicates they should be.

Mr. Race: That is not what the Prime Minister said.

Mrs. Chalker: The point is that we are determined to put the economy on a sound footing.

Dr. McDonald: When?

Mrs. Chalker: As soon as possible. Unless we do that, pensioners—those dependent on the State pension and others—will find that their pensions simply do not go far enough. We have to conquer inflation. Although we would gladly spend the money if we could, we cannot do so when it does not belong to us; the Government have no money of their own. Because that is such a basic point, I hesitate to repeat it.

Dr. McDonald: I accept that the Government have stated their intention. But through their own