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DEPARTMENT OF HEALTH & SOCIAL SECURITY
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From the Secretary of State for Social Services

Miss Margaret O'Mara
Private Secretary to
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 November 1983

Dear Margaret

AUTUMN STATEMENT: DHSS PRESS NOTICES

As promised, I attach advance copies of the Press Notices we will be issuing this afternoon on National Insurance contributions and the National Health Service. I also attach a copy of the latest draft of the notice covering the social security changes. This may, however, change significantly before it is finalised and I shall be grateful if you make sure that it is not copied or fed into the system in such a way that it gets used!

Our Press Office will be supplying you with copies of the Press Notices themselves as instructed. I am sending a copy of this letter and enclosures to Andrew Turnbull.

Yours
Steve

S A Godber
Private Secretary

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83/246 17 November 1983

GOVERNMENT HONOURS PLEDGES ON THE NHS - £800 MILLION INCREASE IN HEALTH SPENDING

Norman Fowler, Secretary of State for Social Services, today announced planned spending on the NHS for 1984/85. Mr Fowler said:

"We have honoured our pledges on the NHS. Next year we plan to spend £800 million more on the NHS in Great Britain - just as pledged by the Prime Minister. These resources should provide real growth of over 1% for the NHS. In the hospital and community health services the growth should cover the expected increase in the number of very old people. We are already treating more patients than ever before and these extra resources will enable us to treat still more patients in the future.

Hospital and Community Health Services

"The English position is this. Next year we are planning to increase public expenditure on hospital and community health current services in England by £400 million over spending this year. That means a total of some £9 billion for 1984/85. These figures provide scope for real growth of some 1% over this year's spending. We are therefore planning to provide the extra resources needed next year to cope with the increasing numbers of very old people in our society. These pressures will run at just under 1% in the next few years and we are fully aware of the importance of coping with these demands.

"Next year we plan to increase NHS capital spending by some £50 million - 7% over this year's amount - getting on for 2% over forecast general inflation. The new total is £760 million, some 15% larger in real terms than when we took office.

"Extra resources are just one aspect. It is the patient care that we get from these resources that is the real test for the NHS. The Griffiths Inquiry gives us a clear path to modernising the management of the NHS. We are looking to a major cost improvement programme to enable us to make real progress in service development. We need to increase our efficiency to cope with continuing medical advance and the need we all recognise to improve services in vital areas. We are determined to see this through.

The Family Practitioner Services

"We are budgeting for an increase in public expenditure on these services of some £190 million next year, after taking full account of this year's increase of some £100 million over our 1983 White Paper plan. This brings the planned total for 1984/85 to some £2.86 billion for England. We are discussing with the representatives of the industry the scope for further savings on the drugs bill next year."

Priority for health

Mr Fowler added:

"These spending plans show the high priority the Government attaches to the NHS. Together with the resources which can be saved by cost improvement programmes and greater efficiency, these plans will enable the NHS to meet the growing pressures that it faces."

The detailed figures were given in reply to a Parliamentary Question by Mr Robin Squire, MP for Hornchurch:

"Planned public expenditure on the HPSS for 1984/85 is £15,414 as announced earlier today by my rt hon Friend, the Chancellor.

"We will be maintaining our planned total expenditure on the NHS in England at the level given in Cmnd 8789 for 1984/85, an increase of over £650 million on expected spending this year. Next year we are planning to increase hospital and community health services current public expenditure by some £400 million over this year's level to

£8.97 billion. NHS capital expenditure is planned to increase by some £50 million to £0.76 billion and FPS current expenditure by some £190 million to £2.86 billion. Centrally financed current spending in 1984/85 will be broadly as planned in Cmnd 8789. These increased resources should provide scope for real growth in resources of over 1% for the NHS on the basis of the Government's pay and price projections for next year."

83/245 17 November 1983

NATIONAL INSURANCE CONTRIBUTIONS FROM APRIL 1984 -
NO INCREASE IN RATES FOR EMPLOYEES OR EMPLOYERS

National Insurance contribution changes from April 1984 were announced today by Norman Fowler, Secretary of State for Social Services.

Four main elements in the announcement:

* There will be no change in the rates for Class 1 contributions, which employed people and their employers pay, or for the Class 4 contributions which are paid by some self-employed people.

* The lower and upper earnings limits for Class 1 contribution liability are being raised to £34 and £250 a week respectively. The earnings limits are increased each year in line with the requirement in law to relate them to the basic pension rate.

* The Treasury Supplement to the National Insurance Fund is being reduced by 2% from 13% to 11%. This will help to restore the balance of spending on social security between contributions and general taxation. In recent years, an increasing share of spending has come from general taxation.

* The balance in the Fund for 1984/85 will still be well above the level of 16.6% of annual benefit expenditure which the Government Actuary has suggested as a minimum.

Commenting on the changes, Mr Fowler said:

"I am very glad that next April, for only the third time since earnings related contributions began in April 1975, there is to be no increase in National Insurance contribution rates for employers and employees. The earnings limits will, of course, go up next April. But that is normal practice to increase them each year in line with the requirement in law to relate them to the basic pension rate."

In reply to a question from Mr Robert McCrindle, MP for Brentwood and Ongar, Mr Fowler said:

"I have completed the annual review under section 120 of the Social Security Act 1975 and I have today laid two draft Orders which require the approval of both Houses, the Social Security (Contributions, Re-rating) Order 1983 providing for contribution rates and profits limits to take effect from 6 April 1984, and the Social Security (Treasury Supplement to Contributions) Order, which provides for a reduction in the Treasury Supplement from 13 per cent to 11 per cent. I have also laid the Social Security (Contributions) Amendment (No. 5) Regulations 1983, which set out new earnings limits for employees' and employers' contributions. A report by the Government Actuary (Cmnd 9092) which accompanies the Orders and Regulations explains their effect on the National Insurance Fund.

EMPLOYEES AND EMPLOYERS

"As my right hon Friend the Chancellor of the Exchequer said in his statement earlier today I do not propose to raise the rate of contribution for either employees or employers. In line with the requirements of the Social Security Pensions Act 1975, the lower earnings limit for Class 1 contributions is to be increased to £34 a week, just below the new basic retirement pension rate, and the upper earnings limit is to be raised to £250 a week, which is about 7.3 times the new basic pension rate. These new earnings limits replace the existing ones of £32.50 and £235 a week respectively. The effects of these changes are as follows:

NOT CONTRACTED-OUT EMPLOYEES

"Neither the employee nor his employer will have to pay a contribution if his earnings are less than £34 a week. For people earning between £34 and £235 (the old upper limit) there will be no increase for either the employee or the employer. For those with earnings between £235 and £250 (the new upper limit) the maximum increase will be £1.35 a week for the employee and £1.71 a week for the employer.

CONTRACTED-OUT EMPLOYEES

"Contributions payable by contracted-out employees and their employers will rise slightly. Where earnings are less than £235 the increase will be very small, reflecting the fact that the increase in the lower earnings limit reduces the band of earnings on which the lower contracted- out rate is paid; the increase on earnings between £34 and £235 will be 4p for the employee and 6p for the employer. Additional contributions will be payable on earnings between £235 and £250 (the new upper limit); the maximum increase will be £1.07 for the employee and £1.17 for the employer.

THE SELF-EMPLOYED

"The flat-rate Class 2 contribution will be raised to £4.60. Strict application of the formula for calculating self-employed contributions which has operated since 1977 would have meant a Class 2 rate of £4.80 but I have thought it right to continue a modest relief to the small businessman while remaining within the broad framework of the formula. The rate of the Class 4 contribution is not being increased and the annual limits of profits between which Class 4 contributions are paid are being raised from £3,800 and £12,000 to £3,950 and £13,000, the latter figure being in line with the new upper earnings limit for employees.

"The effect of these changes is that for self-employed people who only pay Class 2 contributions there will be an annual increase of £10.40 but for those with profits between £3,950 and £12,000 the increase will be less - 95p per year. For those with profits of or above £13,000, the new upper profits limit, the increase will be £63.95 a year.

CLASS 3 (VOLUNTARY) CONTRIBUTIONS

"The rate of Class 3 contributions is to be raised from £4.30 to £4.50.

RATE OF TREASURY SUPPLEMENT

"The Treasury supplement to the National Insurance Fund is being reduced from 13 per cent to 11 per cent. This will help to restore the balance of expenditure between the Consolidated Fund and the National Insurance Fund. In recent years the Consolidated Fund has been meeting an increasing share of social security expenditure."

NOTES FOR EDITORS

Table A attached sets out the changes proposed for 1984/85 and Table B shows their effect on individual liability on a range of earnings or profits between £32.50 a week (the old lower earnings limit) and £250 a week (the new upper earnings limit). Table C shows total payments by employees and employers expected for 1984/85. The Class 1 and Class 4 percentage contribution rates are not being changed but the Class 2 rate and the lower and upper earnings and profits limits, which are expressed in cash terms, have been increased to take account of inflation.

As the Class 1 rate is not changing, most employees will be unaffected, although their contributions rise automatically if their earnings rise. Employers with earnings between £32.50 and £34 will now be exempt from contributions. Those with earnings above £235 will now pay contributions on the next £15 of earnings up to the new earnings limit of £250. In addition, there will be an increase of 4p a week in the contributions of people who pay at the contracted-out rate on earnings between the earnings limits.

The same considerations apply to the employer's share of the Class 1 contribution. In most cases the increase will be nil or, for contracted-out employers, 6p a week.

A similar pattern applies to self-employed people. Only those with profits above the present upper profits limits will be significantly affected by the new limits. Most self-employed people who have profits between the lower and upper limits will experience little change, with a slight increase in Class 2 liability being largely offset by a reduction in Class 4 liability.

JP

TABLE A

CHANGES IN CONTRIBUTION RATES PROPOSED FOR 1984/85

	1983/84*	Increase on account of inflation	1984/85*
<u>Class 1</u>			
Lower earnings limit (LEL)	£32.50 a week	£ 1.50	£ 34.00 a week
Upper earnings limit (UEL)	£235 a week	£15.00	£250.00 a week
Employed earner's rate			
Not contracted-out	9.0%	-	9.0%
Contracted-out	9.0% to LEL 6.85% between LEL and UEL	- -	9.0% to LEL 6.85% between LEL and UEL
Reduced rate	3.85%	-	3.85%
Employer's rate*			
Not contracted-out	11.45%	-	11.45%
Contracted-out	11.45% to LEL 7.35% between LEL and UEL	-	11.45% to LEL 7.35% between LEL and UEL
<u>Class 2 rate</u>	£4.40 a week	£0.20	£4.60 a week
Small earnings exception - where earnings below	£1775 a year	£75	£1850 a year
<u>Class 4 rate</u>	6.3%	-	6.3%
Lower limit of profits or gains	£3800 a year	£150	£3950 a year
Upper limit of profits or gains	£12000 a year	£1000	£13,000 a year
<u>Class 3 rate</u>	£4.30	£0.20	£4.50

* Inclusive of NI surcharge rate of 1% as introduced by the 1983 Finance Act from 1 August 1983. Before the 1 August 1983 the surcharge was 1.5%

TABLE B

EFFECT OF PROPOSED CHANGES ON INDIVIDUAL LIABILITY

EMPLOYED EARNERS

WEEKLY EARNINGS	EMPLOYEE		EMPLOYER		TOTAL	
	AMOUNT	CHANGE	AMOUNT	CHANGE	AMOUNT	CHANGE
NOT CONTRACTED-OUT						
£ 32.50	Nil	-2.92	Nil	-3.72	Nil	-6.64
£ 34.00)						
£100.00)						
Ø £180.00)	NO	CHANGE	NO	CHANGE	NO	CHANGE
£235.00)						
£250.00 or more	22.50	+1.35	28.62	+1.71	51.12	+3.06
CONTRACTED-OUT						
£ 32.50	Nil	-2.92	Nil	-3.72	Nil	-6.64
£ 34.00	3.06	+0.04	3.89	+0.06	6.95	+0.10
£100.00	7.58	+0.04	8.74	+0.06	16.32	+0.10
Ø £180.00	13.06	+0.04	14.62	+0.06	27.68	+0.10
£235.00	16.83	+0.04	18.66	+0.06	35.49	+0.10
£250.00 or more	17.86	+1.07	19.77	+1.17	37.63	+2.24
REDUCED RATE*						
£ 32.50	Nil	-1.25	)			
£ 34.00	1.31	0.00	)			
£100.00	3.85	0.00	)			
Ø £180.00	6.93	0.00	) As Above			
£235.00	9.05	0.00	)			
£250.00 or more	9.62	+0.57	)			

SELF-EMPLOYED

Annual Profits or Gains	Yearly Contribution	Change
£1775 - £1849	Nil	-228.80
£1850 - £3800	239.20	+ 10.40
£3950	239.20	+ 0.95
Ø £9360	580.03	+ 0.95
£12000	746.35	+ 0.95
£13000 or more	809.35	+ 63.95

Ø Anticipated average earnings 1984/85

* Payable by opted-out married women and widows (3.85%)

TABLE C

Estimated Total Payments in 1983-84 and 1984-85 by Employees and Employers in National Insurance Contributions and National Insurance Surcharge(1)

Great Britain (£ million)

	National Insurance Contributions			NI Surcharge		
	Employees	Employers	Total Employees + Employers	Employers	Total Employees + Employers Contributions + NIS	Total Employers contributions + NIS
Contributions in 1983-84	9210	10310	19520	1670	21200	11980
1984-85 change from increased earnings etc(2)	590	620	1210	380(3)	830	240
1984-85 change from increases in earnings limits	70	80	150	10	160	90
Total contributions in 1984-85	9880	11010	20890	1300	22190	12310

(1) Figures are rounded to the nearest £10 million and may not sum. Detailed figures for National Insurance Contributions are included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-ratings) Order 1983.

(2) Including population and employment changes.

(3) The net decrease in NIS receipts between 1983-84 and 1984-85 reflects the fact that the rate for local authorities is 2½ per cent throughout 1983-84 and for other employers was 1½ per cent until 1 August, 1983, when it was lowered to 1 per cent. The table assumes that the surcharge remains at 1 per cent for all employers in 1984-85.

Note: Figures in this table are on a receipts basis, excluding self-employed and voluntary contributions. Figures include NHS and Employment Protection Allocation contributions. Employers contributions have not been adjusted to take account of deductions in respect of statutory sick pay.

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DRAFT PRESS NOTICE

SOCIAL SECURITY CHANGES: SPENDING INCREASES TO GO UP, CONTRIBUTION RATES TO BE HELD DOWN, BUT SOME CHANGES TO CONTAIN CONTINUING GROWTH;

Norman Fowler, the Secretary of State for Social Services, today gave details of changes in the social security programme reflected in the Chancellor's Autumn Statement. He said:

> "The cost of the social security programme is forecast to rise, even after the changes announced by the Chancellor in his Autumn Statement. In 1984-85 the Government will spend £36,850 million on social security benefits, about half going to pensioners.
>
> The increase in 1984-85 is over £150 million compared with the total in the Public Expenditure White Paper after adjustment for the changes announced at the Budget.
>
> * benefits are being increased this November as announced. This means that pensions and other linked long-term benefits are going up in line with the increase in prices during the year to May 1983, thus fulfilling the Government's pledge to protect these benefits against rising prices. The retirement pension will go up by £1.20 a week for a single person (from £32.85 to £34.05) and by £1.95 a week for a couple (from £52.55 to £54.50).
>
> * Moreover all the other unpledged benefits are also being increased in line with inflation, some by considerably more. Child benefit goes up by 65p, from £5.85 to £6.50 a week for each child - an 11 per cent increase, far above the rate of inflation. Unemployment benefit, too, is getting a bigger rise - about 8 per cent - from £25.00 to £27.05 a week for a single person.
>
> * Altogether these increases will cost over £1,500 million in a full year.
>
> * The benefit uprating in November 1984 will be based on price rises in the twelve months up to May of that year; this protection will apply not only to pensions and other linked long-term benefits, but also to other benefits - including unemployment benefit, supplementary benefit and child benefit.

In spite of the strains which the extra costs of the social security programme impose, National Insurance contribution rates are being held at their present level and we are maintaining the key elements of the social security programme. However, with a programme of this size which is constantly rising and which now accounts for well over a quarter of all Government spending, some changes will have to be made next year in order to contain the rising costs within overall public expenditure targets.

We are proposing to save bout £180 million in a full year by reducing public expenditure on assistance with housing costs. In addition, about £50 million will be saved from lower rate rebates. These changes will take effect in April 1984. For housing benefit recipients they will be concentrated generally on households with relatively higher incomes and on those with non-dependants in work who will in future be expected to make a higher contribution towards housing costs. They also affect 18-20 year olds receiving supplementary benefit and living at home.

Details of the changes which were set out in response to a Parliamentary Question from Nicholas Budgen MP for Wolverhampton South West are attached.

"Very substantial help worth nearly £4 billion a year is now given with housing costs, through rate and rent rebates and through rent allowances. It goes to about 1 household in 3, getting on for half the population.

The scope of housing benefits has grown over the years and its growth needs to be constrained. The aim of the Government's proposals has been to do so but in a way that ensures that help continues to go to those households that need it most.

"The housing benefit changes will reduce expenditure on housing benefits by less than 5%. Even after the changes, about 6¼ million households will still be helped. Those who cease to receive benefits or have them reduced will, in general, be those with relatively higher incomes or those with non-dependants in the household who will - if not on supplementary benefit - be expected to contribute rather more towards housing costs.

Many of the poorest working families with children will benefit in real terms from the increase of £1 in the dependent child's needs allowance which comes into effect from April like the other changes. For those affected by the other changes, the increase will help to offset any reduction in benefit.

As to the supplementary benefit change, most 18-20 year olds living at home will continue to benefit from parental support and we think it reasonable to place them in the same position as 16-17 year olds and not pay them the non-householder housing contribution. However, where the householder is receiving housing benfit or supplementary benefit there will be a corresponding increase in the householder's benefit, so that total household income will be maintained.

Overall:

* some measures need to be taken to contain the overall growth in social security expenditure. These measures seek to do this by concentrating on those households who are in less need of help.

* typically, the households affected will have relatively higher incomes or more than one earner.

* poorer families are protected.

* help with housing costs generally continues on the same basis for families on supplementary benefit".

Other housing benefit changes

Mr Fowler also announced other changes in housing benefits which he was making in response to proposals from the Local Authority Associations. He said:

> "I am glad we have also been able to meet a number of suggestions for simplifications to the administration of housing benefit and for minor improvements in benefit, which have been put forward by the Local Authority Associations after discussions with my Honourable Friend Dr Boyson, the Minister for Social Security. I am arranging for details of the agreed proposals to be sent to the Local Authority Associations".

In addition, the £1 increase in the dependent child's needs allowance announced in the summer will provide further help for the poorer working families.