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Members of Parliament may find the enclosed useful for Wednesday's debate on the Opposition Motion,

"Fuel Costs & Poverty"

Wednesday 21st March 1984

House of Commons

Part I Energy Prices.

Part II Help with Heating Costs.

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FUEL PRICES PART I

1. INTRODUCTION

During the last few months there has been widespread comment about gas and electricity prices. In recent weeks both the British Gas Corporation and the Electricity Council have announced modest price increases. Domestic gas prices rose by 4.3 per cent in January 1984, whilst domestic electricity prices will rise by just 2 per cent in April. Both these price increases are below the current rate of inflation. To help the less well-off, the Government is continuing to increase the level of heating additions, which are now at record levels. Currently around 2½ million people - including 1½ million pensioners - benefit from these payments.

In short the Government's energy policies since 1979 show a high degree of commitment to maintaining a successful energy industry, whilst simultaneously promoting a compassionate approach to the less well-off. Oil production, investment in the the coalmining industry and heating additions are all at unprecedented levels. Further the number of electricity and gas disconnections has dropped substantially since 1980.

The recent discussion on gas and electricity prices led to an enquiry by the House of Commons Select Committee on Energy. The two major conclusions in the Committee's First Report were -

- The Committee has been presented with no evidence to suggest that the recently announced gas price increases conflict with the commercial judgement of the industry (page ix).
- Neither in terms of the need for the industry to meet its financial target, nor on the basis of the Government's policy of economic pricing for electricity are we persuaded by the case for a 2 per cent price increase in 1st April 1984 (page ix).

2. GAS PRICES

In December 1983 the British Gas Corporation announced that domestic gas prices would rise by 4.3 per cent following the first reading of the customer's meter on or after January 1st. Standing charges are, however, unaltered and will continue to be limited to a maximum of 50 per cent of a customer's bill. No changes are also being made to the rebate scheme.

This price increase is the first for 15 months and is below the current rate of inflation. Whilst domestic gas prices have exceeded the level of inflation since 1979, this has principally occurred because of the last Labour Government's deliberate policy of subsidising domestic consumers at the expense of industrial customers. Between Q1 1974 and Q2 1979, industrial gas prices rose by a staggering 288 per cent. During the first few years of the Conservative Government, this anomaly was removed. Domestic gas consumers were not encouraged to waste gas by blatant subsidies, whilst heating additions were raised substantially to help the less well-off.

The British Gas Corporation requested the recent price increases, principally because of rising extraction costs. The Select Committee Report on Energy confirmed that:

'in the four years to March 1983, the average cost of gas to the Corporation more than doubled from 5.8p/therm to 14.8p/therm (including 3.2p/therm gas levy). This trend is likely to continue as cheap gas from the early North Sea contracts is replaced by more costly new supplies which British Gas has recently been

buying at prices above 20p/therm' (page 25).

Despite these rising costs the price of domestic gas is little different in real terms from its price in 1970 - some years before the quadrupling of oil prices by OPEC members. Further the British Gas Corporation needs a reasonable level of profit for future investment in projects such as the Morecambe Bay gasfield.

Despite this need for a price increase, there are no plans for a 40 per cent price rise over the next 4 years, as suggested recently by a leading national newspaper. It appears this calculation was based on a four year estimate of inflation added to a figure of 20 per cent. This latter percentage was contained in a report drawn up by Deloitte, Haskins and Sells - a leading firm of accountants - and it represents their estimate of the level of gas underpricing. The British Gas Corporation has formally rejected this report.

3. ELECTRICITY PRICES

The Electricity Council has announced that domestic electricity prices will increase by 2 per cent as from April 1984. There will however neither be an increase in standing charges nor in tariffs to large industrial users.

This 2 per cent increase is the first since April 1982 and is by any standards, a modest one - well below the current annual inflation rate of around 5 per cent. In fact if an allowance is made for the maintenance of the standing charge level, the net increase from April will be just 1.6 per cent.

Under the last Labour Government, electricity prices rose alarmingly. Between February 1974 and May 1979 - when the British economy was imperilled with inflation - domestic electricity prices rose by 170 per cent. This represents a real increase of 27 per cent.

Labour's poor record on electricity prices was explained by the Secretary of State for Energy, Mr Peter Walker:

'The Energy Select Committee has been looking at energy prices. If a Select Committee has been looking at every electricity price increase of 1.6 per cent under a Labour Government, we would have had a Select Committee every five weeks' (London, 29th February 1984).

The following table shows the standard domestic tariffs for England and Wales since April 1978.

PART II

ASSISTANCE WITH HEATING COSTS

Assistance with fuel bills comes from 3 Government Departments:

- i) The DHSS offer help, chiefly through heating additions, to the low paid and supplementary benefit recipients.
- ii) The Department of Environment offers help with conservation measures eg., the home insulation scheme.
- iii) The Department of Energy provides additional help for home insulation projects through voluntary organisations. In addition the gas and electricity industries operate a number of schemes to assist consumers who have special difficulties meeting their bills.

A. The Department of Health & Social Security

The aim of the Government's fuel assistance policy is to concentrate worthwhile help where it is most needed, both through income support and conservation measures. In particular the Government recognises the difficulties that poor families with children, and the old, experience in meeting fuel bills. Help has therefore been concentrated on these two groups.

Since coming to office in 1979 the Government has:

- i) simplified the system by removing the complicated Electricity Discount Scheme which provided no help for people dependent on fuels other than electricity;
- ii) substantially increased heating additions so that total help with heating costs exceeded that offered both under the Electricity Discount Scheme and heating additions, under Labour (see below);
- iii) directed help to where it is most needed. For example since November 1980 the basic heating additions has been paid automatically to supplementary benefit recipients with a child under 5 or where the householder is a pensioner aged 70 or over.

The Supplementary Benefit Commission commented in its Annual Report (Cmnd 8033 September 1980) that the Government's,

"Measures go a long way towards protecting the poorest from the impact of the rising cost of fuel. The help given by the present Government is of much greater value to the people receiving it than that provided by the previous Government's Electricity Discount Scheme."

Higher Heating Additions

The heating additions paid to people on supplementary benefit have been substantially increased since 1978 with the two higher rates being consolidated into one.

	Nov 1978	Nov 1979	Nov 1980	Nov 1983
Basic Rate	0.85	0.95	1.40	2.05
Higher Rate	1.70	1.90	3.40	5.05
	or 2.55	or 2.85		

The increase in heating additions has been about 140 per cent since November 1978 compared with an increase of about 100 per cent in fuel prices. (Hansard 28th February 1984 WA Col 162).

Moreover heating additions are being paid to more people. In November 1978 53 per cent of all claimants received heating additions. This figure has now risen to 60 per cent. The proportion of pensioners and other persons on supplementary benefit receiving heating addition has risen from 70 per cent in 1978 to the present level of 90 per cent. (Lords Hansard 13th December 1983 col 101 & Hansard 28th February 1984 col 164). Altogether more than 1 million more people benefit from heating addition in 1982 compared with 1978.

Expenditure

Expenditure on help with heating costs under Labour and under the Conservatives is shown below. This includes supplementary benefit heating additions; extra help towards heating costs through Family Income Supplement; and expenditure up until 1979 through the Electricity Discount Scheme.

Expenditure on Heating Costs

	£m
1978-9 (Labour)	125
1982-3	325

The latest estimate is that expenditure on supplementary heating additions is expected to be £380m 1983-84. (Hansard 31st January 1984 col 134).

In a recent Parliamentary answer Dr Rhodes Boyson, Minister of State for Social Security announced heating additions will be increased again in November 1984 by reference to the increase in the fuel and light element of the retail price index in the year ending May 1984. (Hansard 12th March 1984 col 67).

The abolition of standing charges for all consumers would cost the electricity and gas industries some £500m a year in lost revenue. To abolish standing charges to pensioners alone would cost some £300m.

Ways help with fuel bills is extended:

- 1) weekly heating additions to supplementary benefit can be claimed;
 - i) if the householder is aged 70 or over (basic) 1½m pensioner householders qualify for heating additions;
 - ii) to a householder where there is a child under 5 (basic)
 - iii) to a claimant if he or his dependents has a long lasting illness which could be helped by extra heating (eg., arthritis, rheumatism) or difficulty in walking (basic);
 - iv) help at the higher level is available for various other reasons; for instance those suffering from a serious or worsening illness (eg., ulcerative colitis, muscular dystrophy, kidney failure) or to those who are house bound or bed bound.

- v) help is available for householders whose houses are difficult to heat (at basic level) or exceptionally difficult to heat (higher level);
- vi) special help is given to those who live on a housing estate that is recognised as having a very expensive central heating system by way of estate rate heating addition (ERHA). These are two rates of ERHA depending on the number of rooms, not counting the bathroom, wc., or hall. These are as follows:-
- | | |
|--------------|-------|
| 1-4 rooms | £4.10 |
| over 5 rooms | £8.20 |
- vii) householders with central heating are entitled to an addition based on the number of rooms that have central heating (excluding bathroom, wc., and hall.
- | | |
|--------------|-------|
| 1-4 rooms | £2.05 |
| over 5 rooms | £4.10 |
- viii) tenants on supplementary benefit who pay a fixed charge to their landlords which includes all their heating costs are entitled to a rebate from their local authority of any excess over £6.05.
- 2)i) Help can also be extended to a supplementary benefit claimant or a person eligible for SB by a way of a lump sum (subject to £500 capital disregard limit). Lump sum single payments can be used for providing extra blankets, hot-water bottles, heaters; to save heat by means of draught proofing or lagging; or if there are unexpected difficulties paying bills, a change in heating system.
- ii) Under Regulation 26 of Supplementary Benefits (Single Payments) Regulations additional help for fuel bills is available for exceptionally severe weather. During the winter of 1981/82, nearly 300,000 payments were made, at a cost of about £4m. The average payment was around £13. In 1982 new guidelines were introduced by the Chief Supplementary Benefit Office to provide a more objective scientific basis for interpreting the regulation. At the same time arrangements to let people know of this addition were improved.

B. The Department of Environment

Home Insulation Scheme

Under the Home Insulation Scheme (started in 1978) owner occupiers, tenants and landlords can apply to their local authority for a grant to insulate their lofts and water tanks. Those on supplementary benefit and housing benefit receive 90 per cent of the cost (up to a maximum of £95) and every one else 66 per cent (up to a maximum of £69) towards the cost of insulating roof spaces and the associated lagging of tanks and pipes in dwellings with no insulation.

Mr Ian Gow, Minister for Housing & Construction, has recently announced (November 1983) the Government is intending to extend H.I.S. to people with no more than 25mm or less of existing loft insulation.

Since 1978 £95m has been paid out in H.I.S. grants and a total of 1.75m

lofts have been insulated.

<u>YEAR</u>	<u>LOFT INSULATED</u>
1978-79	239,000
1979-80	410,000
1980-81	304,000
1981-82	377,000
1982-83	431,000

Help for those on low incomes

Social Security expenditure is 25 per cent higher in real terms now than in 1978/79.

The Social Security programme for 1984/5 has been increased by £163 million more than was planned in last year's Public Expenditure White Paper. Social Security expenditure accounts for about £37 billion a year, nearly 30 per cent of all government spending.

The chief priority of the Conservative Government's social security policy remains the concentration of help on those most in need.

The Elderly

- * Between November 1978 and November 1983 retirement pensions for a single person and a married couple increased by 74 per cent while prices rose over the same period by 69 per cent.

	<u>Nov 1978</u>	<u>Nov 1982</u>	<u>Nov 1983</u>
<u>Retirement and Widow's pension</u>			
Single	19.50	32.85	34.05
Married couple	31.20	52.55	54.50

The Government is not only increasing pensions but is paying pensions to more people - the number of retirement pensioners has increased by 600,000 since 1978. The Manifesto gave a clear commitment to protect retirement pensions against rising prices.

- * The Government remains committed to abolishing the earnings rule as soon as it is able. As a first step, between November 1978 and November 1982 the earnings rule limit was raised from £45 per week to £57 per week. In November 1983 the limit was raised by 14 per cent to £65 a week.

The £10 Christmas bonus has been paid each year under the Conservative Government. Legislation was enacted in 1979 to make the Christmas Bonus permanent; it was not paid under Labour in 1975 and 1976. The bonus benefits 9.1 million pensioners and 1.8 million other people at an annual cost of £109 million.

- * Since November 1980 the basic heating addition has been paid automatically to householders aged 70 or over who receive supplementary benefit. In November 1983 the basic heating addition was increased from £1.90 to £2.05 and the higher rate was increased from £4.65 to £5.05 a week. The Government is spending over £350 million on special schemes to help with heating costs.
- * All men over 60 on supplementary benefit can, from June 1983, qualify immediately for the long-term rate of benefit; this will benefit 80,000 claimants.

- * The 1983 Election Manifesto stated that the Government would consider how the pension rights of early leavers in occupational pension schemes could be better protected, and how fuller information could be given to members of such schemes. A consultative document setting out the Government's proposals on early leavers was published in November 1983. Additional measures will follow.
- * Mr Fowler has also announced the setting up of a special pension inquiry which he will chair himself. The inquiry will study the future development, adequacy and costs of state, occupational and private provisions for retirement (including the 'portability' of pension rights and the age of retirement). The inquiry will aim to reach conclusions by Spring 1984 and will be conducted, as Mr Fowler said, 'as openly as possible'.

Low Incomes

- * Supplementary benefits which are paid to about seven million people including dependants are often referred to as "a safety net" because they provide a minimum level of income to such as the unemployed, one parent families and pensioners.

Although the Government is legally obliged under current legislation to raise many benefits, eg retirement pensions, each year in line with the rise in prices, there is no such obligation in respect of supplementary benefits or child benefit. Nevertheless, in November 1983 all supplementary benefit rates were raised by 4.3 per cent. The long term supplementary scale rate will therefore be increased from £32.70 to £34.10 for a single householder and from £52.30 to £54.55 for a married couple.
- * From November 1983, the two main supplementary benefit disregards have been improved. The main limit has been increased from £2,500 to £3,000 and for single payments from £300 to £500. A new disregard limit of £1,500 was also introduced in respect of the surrender value of life assurance policies.
- * Between 1978 and November 1983 the "prescribed amounts" of Family Income supplement have been substantially increased ahead of prices; for example, a family with one child has had the prescribed amount raised from £46 a week to £85.50 a week from November 1983.

The Family

- * Child benefit has been raised by stages from £4 per week in April 1979 to £6.50 in November 1983 - its highest ever level in real terms.
- * One parent benefit has been more than doubled from £2 per week in April 1979 to £4.05 in November 1983 - its highest ever level. Moreover single parents are now eligible for the long term rate of supplementary benefit after one year instead of two; changes in the supplementary benefit rules allow single parents to earn more without losing so much supplementary benefit.

The Disabled

- * Total social security spending on the disabled and long term sick has gone up over the period 1978/79 - 1982/83 from £1,730 million to £3,370 million. This represents an increase of 21 per cent over and above the rate of inflation. This increase is accounted for not only by substantial increases in some benefits but also by the increase in the number of recipients. For example, between 1978/79 and 1982/83 there was a 47 per cent increase in the number of people receiving attendance allowance and an 180 per cent increase in the number of people receiving mobility allowance.
- * The attendance allowance has been increased by 74.3 per cent between November 1978 and November 1983.

- * The mobility allowance has been increased from £10 per week in November 1978 to £19 per week in November 1983. Furthermore, in 1982, mobility allowance was exempted from tax.
- * In the 1981 Budget the Chancellor doubled the tax allowance for the blind from £180 to £360; zero rated VAT car adaptations for disabled drivers; and relaxed the conditions under which trusts for the disabled can obtain capital gains tax exemptions.
- * The Invalid Care Allowance was extended in 1981 to non-relatives - some 2,000 should benefit.
- * The "invalidity trap" has been abolished so that people on invalidity benefit can, from November 1983, qualify for the long-term rate of supplementary benefit. This will help 30,000 people under 60 at a cost of £3 million in 1983/84 and £10 million in 1984/85. 37,000 sick and disabled people over 60 will gain from a separate measure to give them the long-term rate automatically (see before).

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