

PRIME MINISTER

### SOCIAL SECURITY UP-RATINGS

April 1987 is the earliest practicable date for implementing the benefit reforms. How do we get from the November 1985 up-rating to April 1987?

Norman Fowler wants two 9-month up-ratings (see Flag A). This saves £150 million in 1986-87 because with a July up-rating the average level of benefits that year is lower than with a November 1986 up-rating. Nigel Lawson wants one 18-month up-rating in April 1987, saving £570 million in 1986-87 (Flag B).

Norman Fowler's option does not save us enough money in 1986-87. We need more because the public expenditure position is so grim and also because politically it is best to get the painful benefit cuts out of the way well before the Election.

Nigel Lawson's option isn't on because deferring the up-rating of the pledged basic pension is politically explosive. Every hypothermia case in the winter of 1986-87 will be blamed on us.

I recommend the following compromise. Agree with Norman Fowler's ingenious proposal for an up-rating in July 1986. But insist that he also implements then some of the nasty measures from the benefit reviews so as to get extra savings. My shopping list would be:

- introduce the Housing Benefit Capital Rule so that anyone with savings of more than £6,000 loses their benefit entirely.

- steepen the Housing Benefit rates taper.

- get rid of some of the SB additional requirements (eg, central heating) and not up-rate some of the others.

The DHSS have not yet come up with costings for these options but we could press him for another £150 million.

*Duty Clerk*  
*PP.*

DAVID WILLETTS

21 May 1985

SECRET

PRIME MINISTER

SOCIAL SECURITY REVIEWS

The main purpose of the meeting is to settle the pattern of upratings. Mr. Fowler's option saves £150 million in 1986-87, Flag A, and the Chancellor's option saves £570 million, Flag B. The Chancellor's option of going through the seventeen months from November 1985 to April 1987 scarcely looks consistent with Government pledges. But he feels the savings of Mr. Fowler's option are insufficient. He has circulated a note, Flag C, presenting a gloomy preliminary review of this year's survey. David Willetts, Flag D, suggests a compromise in which Mr. Fowler brings forward to July 1986 some of the measures producing savings. Mr. Fowler's minute suggested this, but the costings paper does not provide any figures. David thinks £150 million might be achieved.

The second issue is the finalisation of the Green Paper. Flag E expresses Treasury worries about the late arrival of the document which will contain a number of important details not set out in earlier papers. You should ask Mr. Fowler to let you have the latest draft to look at over the Bank Holiday weekend.

You should confirm with Mr. Fowler that he has all the arrangements for presentation firmly in hand.

Having met the Building Societies, Mr. Fowler is getting cold feet about the proposal to withhold supplementary benefit for mortgage interest for the first six months. His letter to the Chancellor, Flag F, proposes a "greener" presentation of this issue. He promises, however, to achieve the £60 million savings which were expected from this proposal. You should emphasise that there can be no question of sacrificing these savings.

AT

21 May 1985



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cc B/yp  
DW  
B

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*From the Secretary of State for Social Services*

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

21 May 1985

*Dear Andrew,*

SOCIAL SECURITY REVIEW: UPRATING TIMING

In advance of tomorrow's meeting, I attach an agreed note by DHSS and Treasury officials.

A copy goes to Margaret O'Mara (Treasury).

*Yours sincerely*

*Stephen*

S H F Hickey  
Private Secretary

S E C R E T

SOCIAL SECURITY UPDATINGS 1986 AND 1987

NOTE BY TREASURY AND DHSS OFFICIALS

1. This note shows the savings, on current assumptions (see Annex), of uprating social security benefits in -

Option a) November 1985, July 1986, April 1987 and April each year thereafter

Option b) November 1985, April 1987 and April each year thereafter instead of in November each year.

2. The savings are

	1986/87	1987/88	1988/89
			£m
Option (a)	150	300	400
Option (b)	570	300	400

3. The savings result from the seasonal pattern of movements in the RPI. Regardless of the actual annual rate of inflation, there is usually a larger increase in Q2 (April - June) than in any of the other three quarters, because of increases in housing costs and in excise duties in April. The RPI less housing, used for uprating supplementary benefit, shows a similar pattern, though to a lesser extent, reflecting the excise duty rises.

4. The July 1986 uprating would be based on the movement over 8 months which exclude the April increase. Although uprating expenditure would be brought forward from November, the cost between July and November 1986 would, on present assumptions, be more than offset by the saving between November 1986, when an uprating including the Q2 rise would otherwise have occurred, and April 1987.

5. Similarly, compared with November 1985, benefit levels in April 1987 will reflect the movement in the RPI over a 16-month period which contains only one Q2 effect. They will therefore be slightly higher between April and November 1987 than they would have been if uprated in November 1986, but considerably lower between November 1987 and April 1988 than they would have been if uprated in November 1987. The net effect is a substantial saving in 1987-88. This holds true whether or not there is an uprating in July 1986.

6. In subsequent years, the uprating will be based on a full year's RPI movement. But the savings persist because the April uprating will always be from a lower base.

7. The following table shows these effects in relation to the single retirement pension rate, current £35.80.

Uprating Date	November Upratings	Option (a)	Option (b)
November 85	38.05	38.05	38.05
July 86	↓	38.75	↓
November 86	39.70	↓	↓
April 87	↓	39.90	39.90
November 87	41.10	↓	↓
April 88	↓	41.15	41.15

£pw

ANNEX

RPI MOVEMENTS ASSUMED

	<u>Period</u>	<u>Percentage increase</u>	<u>Uprating date (week commencing)</u>
1. November upratings	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - May 86	$4\frac{1}{2}$	24 Nov 86
	May 86 - May 87	$3\frac{1}{2}$	23 Nov 87
	May 87 - May 88	3	21 Nov 88
2. Option (a)	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - Jan 86	1.8	28 July 86
	Jan 86 - Sept 86	3.0	6 April 87
	Sept 86 - Sept 87	3.1	4 April 88
3. Option (b)	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - Sept 86	4.9	6 April 87
	Sept 86 - Sept 87	3.1	4 April 88

Note: All May-May figures are current PESC assumptions.