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From the Private Secretary

23 May 1985

SOCIAL SECURITY REVIEWS: UPRATINGS

The Prime Minister held a meeting last night to consider the pattern of upratings following the social security reviews. Present were the Secretary of State for Social Services, the Chancellor of the Exchequer, the Chief Secretary and the Minister for Social Services. Mr. Willetts was also present.

The Secretary of State for Social Services said it was impossible to introduce the changes emerging from the reviews by November 1986. The earliest date would be April 1987. There were, however, advantages in moving to April as the month for upratings. This would align the tax, benefit and financial years. In addition, the seasonal pattern of the RPI used for upratings was more favourable.

There were a number of ways in which the move to April 1987 could be achieved. He had ruled out an uprating in November 1986 followed by another uprating only five months later. The alternatives were to pass over the November 1986 uprating and carry right through to April 1987; or to have another uprating in July 1986.

There were advantages to the first option. The public expenditure savings would amount to £570 million in 1986-87 and the size of the increases in benefits would be larger, thereby reducing the number of cash losers. Nevertheless, the Secretary of State for Social Services felt that to pass over the November 1986 uprating would not be consistent with the Government's pledges. He therefore preferred the second option.

The Chancellor of the Exchequer noted that the savings from the first option were likely to be only £150 million, and even that was subject to the vagaries of monthly movements in the RPI. The public expenditure position in 1986-87 was extremely difficult and additional bids from the social security budget alone exceeded £1 billion. If dropping the November 1986 uprating was ruled out on political grounds, there should either be a hybrid solution in which only the pledged benefits were uprated in July 1986; or some of the measures producing savings should be brought forward for implementation in July 1986.

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In discussion, it was argued that the hybrid solution was also unattractive. There would be difficulties in the treatment of people receiving different benefits and it would be impossible to advance the measures producing savings if there were no uprating of the unpledged benefits. It was noted that there were a number of savings which could be brought forward eg the introduction of the new capital disregards and tapers for housing benefit, the abolition of the special addition for central heating, and the taking of students out of SB. A combination of measures of this kind could produce savings in excess of £150 million in 1986-87 though more work would be needed to settle the precise composition of such a package.

Summing up the discussion, the Prime Minister said it was agreed that the pattern of upratings should be July 1986 followed by April 1987 and annual intervals thereafter. The Secretary of State for Social Services should prepare a note setting out the measures which could be brought forward to July 1986 which would achieve savings of £150 million or more in 1986-87.

I am copying this letter to Rachel Lomax (HM Treasury) and Richard Broadbent (Chief Secretary's Office).

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