



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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*From the Secretary of State for Social Services*

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10 Downing Street

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*Dear Bob*

SOCIAL SECURITY UPDATING

As the basis for this afternoon's meeting, I enclose a draft of the updating statement my Secretary of State will be making tomorrow.

The main points are:

- increases of 7 per cent for all the main benefits (except child and supplementary benefit) in line with the May RPI figure. This means about £4 a week on the basic pension for a married couple;
- increases of 5.1 per cent for supplementary benefit. Again this is full price-protection but, because supplementary benefit does not cover housing, it is the RPI excluding housing costs which is used as the measure;
- child benefit will be increased from £6.85 to £7.00 - not £7.35 as would have been required for full price-protection. This will yield savings of about £60 million this year. The impact of the abatement will be offset by extra help being given to those on low incomes by improving Family Income Supplement and the Housing Benefit allowances for children.

Two other significant savings measures will also be included. First, we will announce the phasing out of central heating additions which are at present given to anybody on supplementary benefit if they have central heating. They were originally introduced when central heating was more expensive than other forms of heating but are no longer justified. The change will not affect the position of those who receive heating additions on grounds of ill-health or age. The change will mean that central heating additions will no longer be given to new claimants after the beginning of August.

E.R.

Second, we intend to announce a steepening of the housing benefit rates taper from 9 per cent to 13 per cent. This will save up to £57 million in a full year. It will be controversial but it is consistent with the direction of change which will be required when the new simplified housing benefit scheme is introduced and it will reduce the transitional problems at that time. It will also mean that savings are being made in the area where the Government has already said that it intends to make them.

I am sending copies of this letter and enclosures to Joan MacNaughton (Lord President's office), Murdo MacLean (Chief Whip's office), Rachel Lomax (HM Treasury), David Morris (Lord Privy Seal's office) and Richard Broadbent (Chief Secretary's office).

Yours  
Steve

S A Godber  
Private Secretary

SECRET

With permission, Mr Speaker, I would like to make a statement about the annual uprating of social security benefits which is due in November of this year.

The retail prices index published last Friday showed a rise of 7.0 per cent between May 1984 and May 1985. (This will mean a substantial increase in retirement pension and other long term benefits.) The retirement pension for a single person will rise from £35.80 to £38.30, an increase of £2.50 a week. The pension for a married couple will rise from £57.30 to £61.30, an increase of £4.00 a week. The standard rates of widows benefits will rise in line with the rate of the single person's pension and the rate of widows allowance will go up from £50.10 to £53.60, an increase of £3.50 a week.

Between November 1978 and November 1985 pensions will have gone up by over 96 per cent while over the same period prices are forecast to rise by only 86 per cent. This means that pensioners will have had a real increase of over £2 a week for a single person or £3 for a married couple more than fulfilling our pledge to protect the retirement pension against rising prices. [Those Labour members who voted against the use of the historic method of determining the uprating will doubtless be aware that if we had remained with the inaccurate forecasting method which they favoured pensioners would now be getting an increase of only 5 per cent - a loss of more than £1 per week for a married couple.]

We shall also further ease the earnings rule: - the amount which a pensioner can earn without a reduction of his pension will be increased ~~in line with inflation~~ from £70 to £75 a week.

The basic rate of unemployment benefit will be increased by 7 per cent from £28.45 to £30.45 a week for a single person and from £46 to £49.25 for a couple, cash increases of £2 and £3.25 a week respectively.

As the House will know, Supplementary benefit is increased in line with the retail prices index excluding housing costs. This is because people on supplementary benefit have their housing costs met through housing benefit. The RPI minus housing for May is 5.1 per cent and all the main supplementary benefit rates will be increased by this amount. The long term scale rate for a couple will go up by £2.90 to £60 a week. The ordinary rate for short-term and unemployed claimants will go up from £45.55 to £47.85 a week for a couple. The scale rates for children will go up to £18.20 for a child aged 16-17, £15.10 for a child of 11-15 and £10.10 for a child under 11.

The extra weekly payments to cover items such as heating and special diets will be increased in the usual way in line with the appropriate element of the retail prices index. For example heating additions will be increased by 4.4 per cent in line with the rise in fuel prices, while the additions for special diets will go up by 3 per cent in line with the rise in food prices.

I also intend to make a change to the additions which are given to householders on supplementary benefit with central heating systems. These were introduced in the early 1960's because the few claimants with central heating at that time spent more than other claimants on fuel. Now more than half of claimants have central heating; central heating has become more efficient; and claimants with gas and electric systems in fact spend less on average on fuel than people without central heating. The scheme needs to recognise such changes. Claimants already receiving central heating additions will continue to receive them while they remain on benefit. However, I propose that no further awards of such additions should be made to people claiming on or after the 5 August. At the same time, there will be no new authorisations for estate rate heating additions. Other heating additions will continue to be available for those who qualify on grounds of age or ill health.

Mr Speaker, the Government have made clear that we believe it right to maintain child benefit for all children, but to consider its level both in relation to overall priorities within social security and, in particular, with regard to the need to do more for families with children on low incomes.

Child benefit will be increased in November from £6.85 to £7.00 per week, an increase of 2.2 per cent. Restraining the increase in this way will help us to sustain the increased benefits I have announced for pensioners and those on supplementary benefit. It will also enable us to make two valuable improvements, over and above the normal uprating increases, for less well-off families with children.

First, in addition to increasing by the full 7 per cent the prescribed amounts for children in the Family Income Supplement scheme, we shall make a special increase in the prescribed amounts for families with children aged 11 and over. This will mean, for example, an increase of 11 per cent for a Family Income Supplement family with two children aged 11 to 15.

Second, we shall increase the child's needs allowance in housing benefit to £14.50 per week - £1 a week more than would otherwise have been indicated. For tenant families, this will mean gains in housing benefit of up to 40p per week per child.

Taken together with the reduction in national insurance contributions for lower paid workers we have already proposed to Parliament, these two measures are significant further steps towards reducing the unemployment trap and directing help more effectively to the families most in need.

One-parent benefit will be increased by the full 7 per cent, from £4.25 to £4.55 per week.

However, we have decided to offer extra help to working families through the housing benefit scheme by boosting the child's addition to the needs allowance by more than the amount implied by the uprating formula.

Turning to housing benefit, the needs allowances, which are increased according to a formula which takes account of increases in average local authority rents and rates as well as the supplementary benefit rates, will go up by 5.8 per cent to £47.70 for a single person and (£70.20) for a married couple. [The needs allowance for children will go up to (£13.55)].

The uprating of the Housing Benefit Needs Allowances will further increase expenditure on a benefit which is paid already to well over 7 million households. As I have made clear, however, the proposals in the Green Paper on housing benefit are directed towards reducing expenditure and caseload as well as making the scheme much simpler and more equitable. We have decided, therefore, to take an immediate step to restrain further growth in housing benefit expenditure by reducing the help available with rates as household income rises. We propose to do this by increasing the rates taper above the needs allowance from its current level of 9 per cent to 13 per cent.

( This change is consistent with the findings of the independent Review Team. ) They recommended that in a reformed scheme the rates

taper should no longer allow help with rates to go further up the income scale on average than help with rents. The Social Security Advisory Committee had drawn attention to this imbalance in their evidence to the review team.

The steeper rates taper will not affect households most in need. For example, a single pensioner would have to have an income of about £12.75 a week above the basic retirement pension before losing as much as 10p a week as a result of this change.

Overall we estimate that about two million households will be affected by this change and will lose on average less than 60p a week.

~~We have set in train a review of the board and lodging limits as we promised when they were introduced and I expect to be able to announce the outcome early in the New Year.~~

Benefits for disabled people, war pensioners and war widows will all be increased by seven per cent. This will mean that the war pension for a 100% disabled private soldier will go up to £62.50 a week, the pension for a widow under the industrial death benefit scheme will go up to £38.85, attendance allowance will increase to £30.60 a week and mobility allowance will go up to £21.40.

For invalidity benefit the 7 per cent uprating would have given a new rate of £36.65 a week. However as the House is aware a proposal to remove the 5 per cent abatement is contained in the Social Security Bill which is in another place. This



represents an increase from £34.25 to £38.30 for a single person and from £54.80 to £61.30 for a married couple bringing it in line with retirement pension once more and giving an increase of £4.10 a week for a single person and £6.50 for a married couple.

Although it is not a social security benefit, it is opportune to announce our intention in the next session to take powers to increase the £10,000 vaccine damage payment which has remained at that level since 1979.

Mr Speaker, the measures announced in this statement will add over £2 billion to the social security budget - a budget that will stand at £42½ billion, almost a third of all government spending. ~~The extra cost of this uprating alone will amount to [1/10th] of the defence budget.~~ I shall be laying a schedule giving the increases in the main benefit rates before the House.

Mr Speaker, in this uprating we have again protected the major income maintenance benefits, and fulfilled our pledges on pensions and linked long-term benefits. We have also fulfilled our aim of targetting resources on those in greatest need.