

(CONFIDENTIAL)

Social Security



Treasury Chambers, Parliament Street, SW1P 3AG

Dear

Michael

Wm 16/11/74

I attach a note on social security
uprating that the PM may like to read
before the Debate on the Address.
I am sending a copy to David Clark.

Yours sincerely

J. G. G. G.

M. Sch. Sch.

RECOVERY OF OVERSHOOT

This morning's press contains accounts of the Government's intentions on the uprating of social security benefits next year. The main cuttings are attached. Some of the papers (the Express most clearly, but also the Times and FT) refer to possible recovery of overshoot. The Guardian and the Mirror also refer to restoration of the 5% abatement in Unemployment Benefit.

The point at issue

2. This November benefits generally will be raised by 11%. This increase is made up of:

- i. 2% to cover last year's "shortfall". (In 1981, the price rise forecast on which the benefit increase was based turned out to be 2% less than the actual rise.)
- ii. 9% to cover the forecast increase in prices between November 1981 and November 1982.

It is now clear that the 9% forecast was too high, perhaps by 2½-3%.

The Cabinet decisions

3. Cabinet decided:

- i. it would be right to adjust next year's uprating to have regard to the overshoot this year.
- ii. There should be savings of £180m on the social security programme next year to reflect this.
- iii. But the exact method of achieving these savings - in particular the balance between recovery of overshoot and improvements in some benefits - should not be decided until Budget time.

The Autumn Statement will announce these decisions.

Line to take

4. If the Prime Minister is asked about the Government's intentions in the light of the press reports the line might be:

"The provision in this year's benefit uprating for the rise in prices since November 1981 is likely to be greater than the actual rise. We shall therefore be making an adjustment to next year's uprating. There is nothing extraordinary about this, and nothing inconsistent with the assurances we have given on maintaining the real value of benefits. Last year when the provision in the 1981 uprating was less than the actual rise in prices we restored the resulting shortfall. The principle is just the same now.

We shall not, however, decide the exact size of next year's uprating until Budget time, as is usual.

The Government has carried out its pledge to maintain the real value of the retirement pension and associated benefits. As I said, there is nothing inconsistent with this in our decisions. Maintaining the real value is bound to mean adjustments from year to year, up or down, depending on the relationship between forecast and outturn."

5. Given the conflicting accounts of the Government's intentions there might be some advantage in clarifying them if the point is raised. The above text does not however mention the £180m figure since this might provoke detailed questions about its origin and possible "sweeteners".

Line to take: restoration of 5% abatement of Unemployment Benefit

6. This might be:

CONFIDENTIAL

"We have made it clear many times that the possibility of restoring this abatement will be kept under review. That remains the position."

CONFIDENTIAL

11

Cabinet accord over pensions and benefits

By Julian Haviland, Political Editor

The Cabinet are understood to have agreed yesterday to maintain the real value of pensions and benefits from November next year, and not to incur the electoral liability of trying to recoup the two or three pence in the pound of "excess" provision which will be paid out over the next 12 months.

The full-year cost is put at £700m to £750m, but this sum is said to have been conceded amicably by Mr Leon Brittan, Chief Secretary to the Treasury, to Mr Norman Fowler, Secretary of State for Social Services, during discussions on next year's public expenditure programmes.

The decision was ratified

yesterday when the Cabinet, in two and a quarter hours, agreed that expenditure for 1983-84 should be contained within the planning total of some £121,000m published last March.

Unemployment benefit, retirement pensions and other benefits are all to be increased from this month by 11 per cent. The increase would have been smaller if ministers had forecast correctly the rapid fall in inflation.

The Government's practice is to set a figure to match the estimated rate of inflation and then adjust it upwards or downwards the following year to match the real rate. Their

decision to recoup in 1981 an over-provision of one per cent the previous year exposed ministers, notably Sir Geoffrey Howe, the Chancellor of the Exchequer, to accusations of meanness - accusations from which his colleagues were anxious to protect him and themselves in the coming year, when a general election is likely.

Sir Geoffrey could afford to be generous. Before the latest survey of spending programmes began, extra bids of some £5,000m were being put forward. These have now been smoothed away.

Negotiations between the Treasury and the Defence Department have been notably

peaceful. The commitment to a three per cent increase each year in real terms is maintained, with extra funds provided for the Falklands campaign and the replacement of lost equipment. This cost will amount to only £200m next year against £700m this year.

The Opposition are to force two votes next week. On Tuesday they will move an amendment attacking the Government's industrial policy - the proposals to sell shares in British Telecom and to sell British Airways. On Wednesday they will seek to censure ministers for their handling of the economy and for the levels of unemployment.

SUN

HOWE IS SET FOR 2p TAX PAYOUT

By CHRISTOPHER POTTER
CHANCELLOR Sir Geoffrey Howe is set to dish out a £4billion boost to Britain's ailing industry.

The big give-away—which may include a 2p cut in the standard rate of tax—is likely to come within two weeks in a mini budget.

Sir Geoffrey got the go ahead from Mrs Thatcher at a crucial Cabinet meeting yesterday.

Now he can give an extra package of hand-outs and loans in a bid to get Britain's factories rolling again.

Sir Geoffrey is also likely to offer tax cuts in his spring budget . . . provided pay settlements are kept under control.

And the hated "fine" on employers, the National Insurance Surcharge, introduced by the last Labour Government, is also expected to be cut.

Bubbly

The decision to give away some early goodies was strengthened when ministers got the result of the miners' ballot.

Arthur Scargill's defeat left them in no doubt that the main threat to their economic policy had been smashed . . . and the way is open to spend money to create new jobs.

Prudent housekeeping by Sir Geoffrey provided the necessary cash.

He and Mrs Thatcher believe that industry



Howe . . . has £4billion to help industry

must have first priority. Families will come next . . . provided restraint is shown in pay claims.

But some Falklands war costs still have to be met and certain Government departments could face spending cut-backs to meet any over-the-top pay rises.

Ministers at yesterday's meeting were in a bubbly mood.

Sir Geoffrey was able to report that he had persuaded the big-spending departments such as Health and Social Security to slash their plans.

As a result, government spending next year will be £121billion—right on target.

Joy at No. 10 as Howe gives the good news

2p TAX CUT IS ON THE WAY

By GORDON GREIG, Political Editor

A CUT of at least 2p in income tax looks like a spring certainty from Chancellor Sir Geoffrey Howe.

He was given Cabinet clearance yesterday to put together a package of Budget sweeteners for election year.

The income tax cut could be more, if Mrs Thatcher can persuade her Chancellor before March to put all his spare cash—estimated at £3,000 million—back in people's pockets.

Sir Geoffrey and other Ministers insisted that industry ought to be given the incentive of a cut in its hated National Insurance surcharge. A 2½-hour argument in Cabinet between Prime Minister and Chancellor over who gets what seems to have ended in a draw, with something to come off Income Tax and something for industry.

Every penny off the 30p in the £ standard rate of Income Tax will cost about £750 million—as will each percentage point off the 2 per cent. National Insurance surcharge, which industry believes is crippling its competitiveness. The Budget package is also likely to include increases in pensions to keep in line with inflation and a bigger-than-average increase in unemployment benefit to make up for a 5 per cent. cut two years ago.

Cheerful

According to a tax expert, a 2p cut reduction in income tax could save a married man earning £6,000 a year about £66, and one earning £10,000 about £225.

A Treasury statement which will act as a curtain-raiser to the Budget is being rushed forward in the next fortnight to boost confidence and get industry moving. Last night a cheerful Mrs Thatcher entertained all her Ministers to dinner at Downing Street to celebrate what should be the last Parliamentary session before an election next autumn. She took them to a party afterwards at the Carlton Club.

With the public spending estimates for next year fixed at £121,000 million, an increase of only 7.25 per cent., Mrs Thatcher is convinced that all the sums are adding up her way.

Meanwhile the clearing banks yesterday ignored the latest signals from the Bank of England aimed at bringing down their interest rates. Bankers said they wanted the City money market rates to come down at least another ¾ point before they could cut their base rates by ½ per cent. to 9 per cent.

MAIL

T.R.R.R

Howe set for big giveaway

By MARK DOWDNEY

CHANCELLOR Sir Geoffrey Howe was given the go-ahead by the Cabinet yesterday to draw up a giveaway Budget for next spring.

For the first time in the life of Premier Margaret Thatcher's government, its spending plans are on target.

So Sir Geoffrey will not be faced with having to raise extra revenue in the Budget.

With a General Election looming, MPs expect him to put more cash into people's pockets through a hefty rise in income tax allowances.

There will also be cash available to help industry, ranging from cuts in the national insurance surcharge to extra aid to ease energy costs.

The five per cent cut in the dole which has led to several revolts by Tory back-benchers since it was imposed two years ago is expected to be restored.

Sir Geoffrey will drop a few hints in a Commons statement, probably next week.

His likely message will be that as long as pay rises remain moderate, he will be able to hand out benefits in the Budget.

Howe to make statement earlier

By Margaret van Hattem,
Political Correspondent

SIR Geoffrey Howe, the Chancellor, appears to have brought forward the date of his financial statement to the Commons on the Government's £121bn spending plans for 1983-84, possibly to next week.

This follows a 2½ hour Cabinet meeting yesterday at which ministers agreed the final details of the plans.

The statement is expected to be broadly encouraging to industry. One reason its being brought forward may be government hopes that its contents could take the wind out of the sails of Labour's onslaught on unemployment and the Government's financial strategy—especially privatisation of Britoil and British Telecom—planned for next week.

The shadow Cabinet met for an hour yesterday to discuss the Government's legislative programme for the next year, to be outlined in the Queen's Speech at the opening of Parliament today. The speech was read out to the Cabinet last night by Sir Robert Armstrong, the Cabinet Secretary, at their traditional eve of Parliament dinner.

The Commons debate on the main economic measures in the speech will be next Wednesday. It was indicated in Whitehall yesterday that the Chancellor will make his financial statement "in the first half of this month" and the possibility of its coinciding with the debate on the Queen's Speech was not ruled out.

The financial statement will be fuller this year than in the past, partly in response to a request from the Commons all-Party Treasury and Civil Service Committee for an autumn "green budget"—analogous to a green paper—to allow a wider public debate well before the spring Budget.

Although the request will not be fully met, the statement is expected to indicate the broad scope for tax changes next year and include any further cuts in the National Insurance surcharge, with a ready reckoner of the direct effects of tax changes during the first year and over a full year.

The statement is also expected to include an 11 per cent increase in pensions and unemployment benefits. Although, in view of the rapid reduction in the inflation rate, ministers consider this amount excessive, no clawback is expected to be announced before the spring.

Why reflation need not mean
inflation. Page 25

Modest package of reflation on way

By Colin Brown and Victor Keegan

The Cabinet yesterday approved an autumn economic package which will provide mild expansion for industry while sticking to the Chancellor's £121 billion target for public expenditure in the financial year 1983-4 — an increase of £6 billion or 7.5 per cent on this year.

The Government has gone further than most people have been expecting in turning the autumn statement into the kind of provisional Budget which the Commons Treasury Committee has been advocating.

It includes broad expenditure plans, the most detailed economic forecasts yet published, details of increases in National Insurance contributions, and the general parameters within which the

CBI reports, page 18; Leader comment, page 14

Chancellor, Sir Geoffrey Howe, will decide how to concentrate the £2 to £3 billion "giveaway" he is expected to have in March.

With inflation now down to 7.3 per cent and set to fall to 5 per cent by the spring, yesterday's measures amount to a mini-Budget and mark the latest instalment of an expansion-by-stealth policy which has been building up for some months. It includes abolition of HP controls in July (partly responsible for the current rise in retail sales), relaxation of monetary policy announced last month, and exhortations by the Environment Secretary to get local authorities to spend more money on their capital accounts.

This mildly expansionist course was given a boost yesterday by the Cabinet's authorisation of unchanged public spending plans for next year. This could be expansionary because the £121 billion spend-

ing plans for next year (drawn up last November) were based on an inflation rate several percentage points above what is now forecast. This means that departments could have some scope for increasing the volume of their spending while still keeping within Government-imposed cash limits.

The autumn package is believed to have made the "temporary" reduction of 1 per cent announced last March in the National Insurance surcharge into a permanent one and to have included a further reduction in the surcharge. The increases in the ordinary NI contributions — made more onerous last year because of a reduction in the Treasury's contribution to the scheme — are also expected to be more generous this year.

But although the overall effect will be expansionary, it is thought unlikely that the Chancellor will make any major relaxation to take the political steam out of his March Budget.

Against the background of falling inflation, the Cabinet yesterday decided on the amount of aid it could give to industry. The Chancellor reduced National Insurance surcharge from 2½ per cent to 2 per cent as a temporary measure from August 1 to the end of his financial year. But he is expected to make this permanent at a cost of £600 million in a full year and possibly cut a further half per cent from the NIS this month.

Sir Geoffrey's statement will also fix the level of increase for pensions and social security benefits. He is expected to restore a 5 per cent abatement in unemployment benefit made two years ago but Tory "wets" who have been pressing him to do so expect him to juggle the figures to take account of the unexpected fall in inflation this year.

The Chancellor's statement will be accompanied by the

Turn to back page, col. 3

Continued from page one

Government Actuary's assumption on unemployment which suggested 12 months ago it would rise to 2.9 million, when in fact it topped over 3.3 million. The total fell to 3.2 million this month, but is not expected to fall below 3 million in the coming year.

Sir Geoffrey will put off assistance for the low-paid until his Budget but it is almost certain that he will raise tax thresholds and increase some personal allowances following attacks on the Government for increasing the tax burden on the poor while reducing it for the rich.

The Prime Minister's pledge to reduce income tax to 25p in the pound as a basic rate has now been scrapped. But the level of aid announced by Sir Geoffrey in the next two weeks will give a strong indication of the possibilities for reducing the basic rate of income tax next spring.

He is also to carry out a Treasury Select Committee recommendation to publish a form of "Green Book" on his Budget assumptions.

Michael Smith adds: The Confederation of British Industry is expected to renew its plea for early Government assistance for business within the next few days when it makes its submission to the Chancellor ahead of the proposed Budget policy statement later this month.

Sir Terence Beckett, director-general of the CBI, yesterday told delegates at the CBI conference in Eastbourne that the NIS was a "perversely bad tax" which operated against the national interest.

Tax cuts on way and jobs boost



ANOTHER £1,000 million Government boost for industry and jobs looks on the way.

But so does a tightening of the screw on dole payments and pension as inflation falls.

This was the outlook last night after the Cabinet agreed a £121,000 million spending budget for next year.

Chancellor Sir Geoffrey Howe is working on a package which he will unwrap within the next two weeks. It will pave the way for a cut in income tax in the next Budget.

At the same time the Bank of England is clearly signalling for another cut in bank base

By JOHN WARDEN
Political Editor

rates by $\frac{1}{2}$ per cent to 9 per cent this week or next.

That would make it virtually certain that the building societies will recommend a 2 per cent cut in the mortgage rate next month.

The Chancellor is expected to announce another 1 per cent cut in the National Insurance Surcharge—the payroll tax paid by employers—worth at least £1,000 million to cheer up the

Confederation of British Industry gloom-mongers.

It would take effect next April bringing the surcharge down to 1½ per cent.

For the first time in years a Government is able to plan ahead on inflation remaining in single figures and falling.

But for a nation that has grown used to chronic inflation the withdrawal symptoms will include some shocks.

The worst will be a sharp brake on future social security benefits — dole, pensions, and sick pay.

This month's 11 per cent increase in pensions and other benefits was fixed last March.

But inflation has fallen faster than was estimated, so pensioners and others are getting at least 2½p in the £ more than the Government intended. In many cases this amounts to £1 a week.

Yesterday's key decision in Cabinet was that pensions and other benefits should be adjusted downwards as well as upward.

Sir Geoffrey will not know the exact figure until the 1983-84 inflation forecast is made next spring. But it could mean a rise of only 4 or 5 per cent or less in pensions, dole and sick pay this time next year.

010

Social Security

SPEAKING NOTE FOR MINISTERS

UPRATING OF SOCIAL SECURITY BENEFITS

More than 20 million people are this week receiving an increase in their retirement pension, child benefit and other social security benefits. Most people who benefit will get an increase of eleven per cent.

The new increases will cost around £3000 million and will mean that this Government will be spending about £32,500 million a year on cash benefits. About half will help elderly people and the remainder goes largely to widows, sick and disabled people, families with children and the long-term unemployed.

The increases mean that retired couples will now get a pension of more than £2,700 a year at the basic rate. Families will now get over £300 a year tax free for each child from child benefit. The extra benefit for one parent families is also going up. Mobility allowance is not only being increased but has also been made tax free. Extra help with fuel costs will now go to more than 2 million households at a cost of over £300 million a year.

The details of the increases are:

Retirement Pension

The basic retirement pension goes up from £29.60 to £32.85 a week for a single person and from £47.35 to £52.55 for a married couple.

Unemployment and Sickness Benefits

The standard rates of unemployment and sickness benefit go up by £2.50 for a single person from £22.50 to £25.00, and by £4.05 from £36.40 to £40.45 for a married couple. Injury benefit increases to £27.75 for a single person, and £43.20 for a couple, and maternity allowance to £25.00.

The rate of invalidity pension for a single person is increased by £3.10 taking the pension from £28.35 to £31.45. For a married couple the increase will be £4.95 a week, ie from £45.35 to £50.30 a week.

Child Benefit

Child Benefit has been increased by 60p to £5.85 a week for each child. One-parent Benefit rises from £3.30 to £3.65 a week. A one-parent family with two children will now get £15.35 a week, compared with £13.80.

Family Income Supplement - FIS

The maximum level of income for entitlement to FIS goes up from £74.00 to £82.50 a week for one-child families, and the additional amount for each further child increases to £9.00 a week.

Mobility Allowance

Mobility allowance goes up from £16.50 to £18.30 a week. The allowance is no longer liable to tax.

Widows and other long term beneficiaries

Widows pensions, war and industrial disablement pensions, attendance allowance, non-contributory invalidity pension, invalid care allowance, new scheme additional pensions and graduated pensions are increased by 11 per cent.

Earnings rules

The amounts that can be earned by retirement pensioners, sick and disabled people in receipt of incapacity benefits go up. For retirement pensioners the limit rises from £52 to £57 a week. The amount of net earnings from permitted work of a therapeutic nature which can be received without loss of benefit by claimants to sickness, injury or invalidity benefits increases from £16.50 to £20 a week. For those receiving invalid care allowance the earnings limit doubles from £6 to £12 a week.

Supplementary benefit

Rates of supplementary benefit also go up. The ordinary scale rate for a single householder rises from £23.25 to £25.70 and for a couple from £37.75 to £41.70. The long term single householder rate goes up from £29.60 to £32.70, for a couple from £47.35 to £52.30. The limit on the

amount of capital a person can hold and still receive supplementary benefit increases from £2,000 to £2,500, fully restoring its 1980 real value. Supplementary benefit heating additions for those with extra heating needs go up 15 per cent in line with the estimated rise in fuel prices. The basic rate heating addition goes up from £1.65 to £1.90 a week (that is, to £98.90 a year) and the higher rate heating addition rises from £4.05 to £4.65 a week (£241.80 a year). This means that total spending on fuel assistance to over 2 million households will rise to over £300 million a year.

Details of all main benefit increases can be found in leaflet NI 196 (November 1982) available from DHSS local offices or from DHSS Leaflets Unit, PO Box 21, Stanmore, Middlesex, HA7 1AY.