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PRIME MINISTER

## 1984 SOCIAL SECURITY UPDATING

As is usual, I shall be announcing on 18 June the changes in social security benefit rates which will come into effect at the end of November. Colleagues will wish to be aware, before Cabinet tomorrow, of what is involved.

Apart from the normal updating of benefits, which in most cases follows directly from the May RPI figure which will be announced this Friday, I shall also be announcing a number of changes in benefit structures and payment arrangements which are likely to be controversial. These follow from the outcome of the last public expenditure round and the revised package of housing benefit changes which I announced at the beginning of the year.

In accordance with the legislation we passed last year, the main benefits are now updated by reference to the movement in the RPI in the year to May. For most benefits this means a rise of about 5.1 per cent, higher than last year and well above the 4.5 per cent at which inflation is expected to be running when the new benefits come into effect in November. We can certainly present this as good news for those on retirement pensions, unemployment benefit and family income supplement. For supplementary benefit, we increase benefit rates by the RPI excluding housing (because housing costs are covered separately through housing benefit). This will give a lower figure - around 4.7 per cent - but this is still a little higher than the expected general inflation rate in November. My stance will be that the historic method of updating benefits has now proved that it helps claimants; that they will be doing better than inflation in November; and that we have maintained the value of all the main benefits, whether pledged (like retirement pension) or not (like unemployment benefit).

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But you and colleagues should be aware that there are some unpopular elements in the package as well. First (subject to agreement by Cabinet), this year's uprating will take effect on 26 November - 53 weeks, rather than the normal 52, after the last uprating. The problem is that, because a year is slightly more than 52 weeks, if we work on a 52-week year, the uprating date creeps slowly but steadily forward over succeeding years. We legislated in 1980 to overcome this 'creep' and delayed the uprating by two weeks. This is the first time since then that the issue has arisen and I think it right to establish now the policy that the uprating will always take place in the last complete week in November. It will then be generally accepted that once every 5 - 6 years we have a 53-week uprating year.

The other major change concerns the payment of additional allowances to those on long-term supplementary benefit (mainly pensioners) for special needs such as heating, laundry or special diet. Ever since the higher long-term rate was introduced, it has been assumed that 50p a week ("the available scale margin") should be treated as being available as a contribution to these special needs, ie 50p a week is deducted from the standard special allowances. Additions for heating costs were excluded from this deduction in 1973. The contribution of 50p was reasonable in 1972 when the differential between the long and short-term scale rates was quite small. But the 50p has not been increased since then even though the long-term scale rate is now more than £7 above the ordinary rate for a single person. I propose, therefore, now to increase the available scale margin to £1 a week and to reapply it to heating additions.

Although there will be no cash losers as the change will take place at the time that benefits are uprated, there will be many who will lose up to £1 on what they otherwise would have been paid. I will be mitigating the effect of this change by excluding allowances for children from the available scale margin deductions; by extending the automatic provision of heating additions to all aged 65 or over instead of just those aged 70 or over; and by paying higher rates of heating addition to the over-85s.

I shall also be announcing arrangements to simplify the paying of family income supplement. FIS is paid for a period of 52 weeks

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from the time of the first claim even though, in many cases, their circumstances may have changed. The amount paid is uprated during the year like other benefits. In order to further simplify the system and reflect the long period over which it is paid, the amount of benefit will be kept constant throughout the year. Thus upratings will only apply to new claims and claims which are renewed after the uprating date each year. That will save £11 million in a full year.

There is one other change which I would like to announce on Monday - and which is an essential part of my savings package - but on which Tom King and I have been unable to agree. This concerns the arrangements for paying unemployment benefit. At present, unemployment benefit is paid fortnightly - one week in advance and one week in arrears. I wish to move to a system under which benefit is still paid fortnightly but wholly in arrears.

This change would have advantages for me in expenditure terms, as the benefit expenditure falls on my programme; it would save £17 million in 1984/85 and £9 million in subsequent years. It would also have operational advantages for Tom's Department: he would save 200 staff. The change would have the effect of providing claimants with additional benefit payments at the end of a period of unemployment (and when they will be working time-in-hand), rather than at the beginning of the period when they have just received their final pay packet (usually also in arrears). The change would also avoid the current position where many claimants begin working during a week for which they have been paid benefit in advance. They are thus paid benefit that they are not entitled to, but which is in practice irrecoverable.

I understand that Tom King feels this measure would be damaging and that he will be minuting you separately on it.


My view is that, like any savings measure in the social security field, this will attract some criticism but that the criticism will be much less substantial than for other savings measures I have to undertake as it does not involve any loss of benefit entitlements.

I shall be grateful for your views and those of colleagues. If the change is to be made it is important that it should be contained within my uprating statement.

To set against these measures I shall be making some small improvements in the benefit system - in addition to the improved additions for heating and for children's special needs mentioned above. Of these changes, two are worth particular mention. First, I shall be making real improvements in the age allowances for war widows, and introducing a new higher rate for war widows aged over 80. I shall also be announcing further progress towards our Manifesto commitment to end the retirement pensioners' earnings limit. The limit will be increased by more than the rate of inflation - from £65 to £70 per week.

It will not be easy to present these changes in a positive light. But, with the minor improvements which I shall be announcing, I hope that it will be possible to reassure our colleagues that, for instance, we are sticking to our commitments to protect pensioners.

I am sending copies of this minute to all members of the Cabinet and to Sir Robert Armstrong.



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13 June 1983

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PRIME MINISTER

Mr. Fowler would like to come and see you to report on his four social security reviews which are all now launched and operating. The pensions review, which was started first, is well advanced.

In addition to hearing his reports, you could urge him to draw together in one exercise the poverty and unemployment traps which will arise in each of the separate benefit reviews (housing benefit, supplementary benefit, provision for young people and children.) *You could also raise your misgivings on implementation of Griffiths.*

A half-an-hour slot is available before Cabinet on 28 June.

Agree?

13 June 1984



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*From the Secretary of State for Social Services*

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

15 June 1984

*Dear Andrew*

SOCIAL SECURITY UPRATING

As discussed, I enclose a copy of the latest draft of the statement my Secretary of State will make on Monday, amended in the light of discussion at Cabinet. Also enclosed are detailed briefing (for you only) and summary notes on the main issues.

I am copying this letter to David Peretz and David Normington.

*Yours*

*S A*

S A Godber  
Private Secretary

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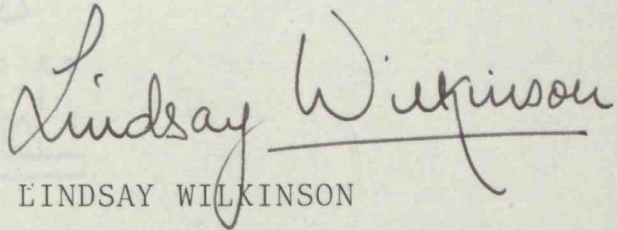
~~Mr. Thornbuck~~

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MR BUTLER

cc Mr Peretz, Treasury  
Mr Godber, DHSS

The circulation of this LCA is very restricted. Please ensure that the confidentiality of its contents and the need to know principle are strictly observed until after the statement in the House on Monday 18 June.

  
LINDSAY WILKINSON

15 June 1984

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