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PRIME MINISTER

CHILD BENEFIT

You will hear on the news tonight that Mr. Fowler has uprated child benefit by 10p, to £7.10. The cost is £16 million in a full year.

This was agreed with the Treasury after a series of discussions, just before Cabinet last week. Mr. Fowler has undertaken to meet the cost by savings elsewhere in his programme.

I have told the DHSS that they were wrong not to keep you in touch with this decision, or at least to inform you in the minute that Mr. Fowler sent to you for the weekend. They accept this, and have offered apologies.

The Treasury managed to exact a price during the discussions, by some quick footwork. The uprating of social security is 1.1%, as compared to the 1% allowed in the survey figures. The cost of the extra 0.1% is £12 million, and Mr. Fowler is also meeting this cost from within his programme.

Savings offered in the social security area are always a little dubious, partly because of the complications of the arithmetic. But the Treasury assure me strenuously that these are O.K.

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24 February, 1986.

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UPRATING STATEMENT: MONDAY 24 FEBRUARY 1986

With permission, Mr Speaker, I should like to make a statement about the uprating of social security benefits. As the House knows, benefits were increased only three months ago at the end of November. We have made it clear that we intend to move to April upratings from 1987 in order to bring tax and social security closer together and to ensure that benefit changes coincide with changes in rents and rates. The uprating that I am announcing today enables the transition to be made and is the second of three upratings in the 16-month period from November 1985 to April 1987.

These further increases will be paid in the week beginning July 28th and will be based on the change in prices between May 1985 and January 1986 when the Retail Price Index rose by 1.1 per cent. The overall cost of the new increases will be an extra £410 million in a full year and they follow the 7 per cent increases in benefits which were paid from last November.

As a result the retirement pension for a married couple will rise from £61.30 to £61.95 a week and for a single person from £38.30 to £38.70. Public service pensions will be increased by the same percentage as will benefits for disabled people and war pensioners. Mobility allowance will go up to £21.65 a week although transport costs have in fact fallen over the period.

The basic rate of unemployment benefit will also be increased by 1.1 per cent from £30.45 to £30.80 for a single person and from £49.25 to £49.80 for a married couple. Other main contributory and non-contributory benefits will be similarly increased.

made it clear last year that the Government believe it right to continue child benefit for all children irrespective of the income of their parents. But I also said that we have to consider its level both in relation to overall priorities within social security and also with the aim of doing more for families with children on low incomes. I have considered the uprating of child benefit on that basis. My conclusion is that child benefit should be increased by 10p a week to £7.10 - rather more than the rate of inflation. The children's rates for supplementary benefit and the age related amounts for family income supplement will also go up by slightly more than 1.1 per cent.

Mr Speaker, three upratings in 16 months places inevitable administrative burdens and costs on local authorities and local offices of the DHSS. To sensibly contain this extra work I propose to increase the long term rate of supplementary benefit and the housing benefit needs allowance by the same cash amount as will apply to retirement pension which means putting supplementary benefit up by 1.1 per cent although the increase in prices after excluding housing costs is 1.2 per cent.

For similar reasons I do not propose to make any general changes in the additional amounts paid with supplementary benefit. In some cases no increase would be due in any event and in the others only small amounts. However, I have thought it right to increase the higher rate of heating addition which goes to the very elderly, the severely disabled and to people with homes which are specially difficult to heat. This addition will increase from £5.45 to £5.55 a week.

One other change will be made from this July which is consistent with bringing the current supplementary benefit scheme into line with the new proposed income support arrangements. From the date of the uprating no new awards of the non-householder housing addition will be made between the ages of 21 and 24. Equally, no deductions will be made from the householder's housing benefit or supplementary benefit in respect of such non-dependants in this age group. This means that the poorest households will remain fully protected. There will be no increase in the amount of non-dependant deductions generally nor will there be any increase in the deduction from benefit which applies during industrial disputes.

Mr Speaker, there are two other matters I should mention. First, over the last few years there has been a steep rise in supplementary benefit single payments. Since 1981 the number of these payments has risen from under 1 million a year to over 4 million and the real cost has increased by over five times to more than £300 million a year. My honourable Friend the Minister of State for Social Security has reviewed the position and as a result I am today referring draft regulations to the Social Security Advisory Committee for consultation in the normal way.

Second, concern has been expressed over future policy on the payment of benefits at post offices. In a report by the Public Accounts Committee last summer the possibility was discussed that cash incentives should be offered to beneficiaries to encourage payment directly into bank accounts. I am aware that this has led to anxiety that the existence of many sub-post offices might be threatened if inducements were paid which reduced significantly the volume of benefit business which they transact. To remove that anxiety I want to make it clear that the Government does not intend to offer cash incentives. We recognise that very many people wish to retain the option of being paid in cash at post offices and it is clear that post offices will retain an important role in the payment of benefits in the future. In order to ensure that the service to the public is as effective as possible, a joint study is being carried out by the post offices and my Department to see what improvements can be made.

Mr Speaker, I am laying before the House a full schedule detailing all benefit rates payable from next July. This uprating will mean that in 1986/87 spending on social security will be almost £43 billion - that is 31 per cent of all public spending.

The last time that an uprating statement was made less than a year after the previous one was in 1975 but the circumstances today are very different. In 1975 inflation was out of control and the value of savings was being sharply eroded. Today inflation is low which is to the benefit of the whole nation - but perhaps most of all to millions of pensioners. This interim increase keeps pensions ahead of the rise in prices since this Government came into office and I will be making a further uprating statement in the Autumn.

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 Mr Butler
 Mr Anson
 Mr Scholer
 Sir P. Middleton
 Mr Turnbull
 Mr Watson
 Mr Gray
 Mr Lond 20B
 Ms Nable
 Mr C. Butler
 Mr Kemp
 Mr C. Allen
 Miss G. Nable.

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20 February 1986

Dear Tony

DHSS ADMINISTRATION AND EXPENDITURE

Your Secretary of State and the Chief Secretary spoke further on the telephone last night following their discussion recorded in my letter to you of 19 February.

After some further discussion it was agreed that your Departments' manpower target for 1 April 1987 should be increased to 96,750 with an associated increase in total departmental running costs of £99 million. The Chief Secretary made it clear that he was agreeing to these increases on condition that no further running cost bids were made for 1986-87. Your Secretary of State accepted that this was the intention while noting that an event of earthquake proportions would of course alter the position. The Chief Secretary also emphasised the potential presentational difficulties with both the public and with other departments with increases of this size. Your Secretary of State agreed to consider carefully the presentation of the agreed increases in the light of the Chief Secretary's concerns.

Your Secretary of State and the Chief Secretary spoke again this morning about your Secretary of State's proposals for additional capital spending. They agreed on a increase of £3.7 million for the purchase of computers, expenditure on the local offices project and minor works in local offices.

Your Secretary of State and the Chief Secretary also discussed last night the proposed uprating of Child Benefit. After some further discussion, your Secretary of State offered

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to find savings of £12 million to fully offset the overall additional cost of the uprating (by bringing forward by 3 months the ending of the industrial industries gratuity). The Chief Secretary agreed on this basis that he should proceed as planned with a 10p uprating of Child Benefit.

Your Secretary of State mentioned that he wished to make some minor changes to the uprating package which would not affect its total cost. The Chief Secretary asked that these should be discussed between officials.

Yours sincerely

Richard Broadbent

RICHARD BROADBENT
Private Secretary

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CZ Mr Lord 26A
 Mr Butler Ms Nable
 Mr Anson Mr C. D. Butler
 Mr Scholar Mr Kemp
 Sir P. Middleton Mr C. C. Allen
 Mr Turnbull Miss G. Nable
 Mr Watson
 Mr Gray

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19
20 February 1986

Dear Tony

DHSS ADMINISTRATION AND EXPENDITURE

Your Secretary of State, Minister of State (Mr Newton) and officials yesterday discussed with the Chief Secretary your Secretary of State's letters of 14 February (about the administration vote) and 17 February (about the 1986 uprating).

The Chief Secretary said that your Secretary of State's proposals for increased staffing gave him considerable difficulty, on two counts. First, your Secretary of State's proposal for an increase in his manpower target for 1 April 1987 to 98,332 had the most serious implications for the Government's overall manpower targets. He had very recently minuted the Prime Minister warning about the pressures on the diminishing contingency margin, and the danger that unless the utmost restraint was exercised the Government's targets would be broken. Agreeing to anything more than 95,000 staff would mean relying on slippage elsewhere and perhaps looking to other departments for any offsetting savings if the targets were to be achieved. Second, the running cost increase associated with your Secretary of State's proposals made a significant difference to the recently published figures for the civil service as a whole, increasing the figure for the civil service as a whole from 5.8 per cent to some 6.7 per cent. Under the new system of running costs, the increased running costs should be offset from elsewhere within the department's running cost provision. He asked the Secretary of State to consider what more could be done in this respect. To the extent that offsetting reductions in running costs could not be found, your Secretary of State's proposals represented a very considerable claim on the Reserve for 1986-87 where the position was already looking difficult.

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Your Secretary of State emphasised that he would not have put forward these proposals if there had been any alternative. However, the pressure in local offices was intense and the service was on the point of breaking down (with the associated risk of legal challenge in some areas). He was certain that the complementing review under way would show that the local offices required many more staff than he was bidding for now. He had nevertheless pared his bid down to the maximum extent possible and believed that his proposals represented the minimum necessary to present an acceptable case which would stand a reasonable chance of averting damaging industrial action in the local offices. He emphasised, however, that the 5,000 additional staff he was seeking were "on account". The complementing review could well recommend additional staff of 8 - 12,000.

In discussion, the Chief Secretary reiterated that to go beyond 95,000 staff would put him into a very difficult position in relation to his other colleagues and the need to achieve the Government's overall manpower target. He recognised the pressures described by your Secretary of State and he wanted to be helpful. But even on the basis that he resisted every other claim from colleagues and actively sought out slippage and perhaps offsetting savings to balance the books he could see no way of going beyond a target figure of 96,000 which he hoped your Secretary of State would recognise as an exceptional gesture towards his difficulties. Your Secretary of State noted the Chief Secretary's offer and emphasised the dangers of industrial action. Clear warnings had been given, not by extremist groups but by moderate union organisers and if these were ignored there could be an expensive and damaging dispute in which the Government did not have even a reasonable case to fight.

In discussion of the running costs associated with any increase in the manpower target, the Chief Secretary pointed out that an increase in the target to 96,000 would mean increased running costs (and unless offset elsewhere within running costs, a claim on the Reserve) of £114 million. This would pose a major presentational problem for the Government which had just announced a target for the civil service as a whole of 5.8 per cent. It was essential to minimise the increase in running costs; and any remaining claim on the Reserve. Your Secretary of State said that he did not believe that significant savings could be found from his existing running cost provision which already incorporated significant savings (for example from the introduction of micro-computers and new procedures for handling postal claims). If such economies had not continually been found, the total staffing requirement for his department would now be around 105,000 Sir Kenneth Stowe stressed that while there was always potential for improving the way in which a job was done, improvement came through carefully

planned and implemented changes. There was not at the margin an area of fat which could be squeezed out. Indeed, attempts to tackle the problem in such a generalised way could put at risk the real administrative savings which would ultimately come through from the many planned measures being implemented now.

In further discussion, the Chief Secretary emphasised the problems both in relation to the overall increase in running costs for the civil service and the size of any remaining claim on the Reserve even on the basis of the manpower target of 96,000 which he felt was the furthest he could go. Your Secretary of State agreed to reflect further overnight in the light of the discussion.

On the 1986 uprating, your Secretary of State said that he faced a series of difficult announcements on the uprating, NHS charges, and the package of changes on single payments which would be needed to yield the £90 million savings agreed in the last Survey. Of all these announcements, he and his Ministerial colleagues regarded the proposed non-uprating of Child Benefit as raising by far the greatest difficulties. They had considered the position further since the Survey, and in the light of developments since Christmas including discussions since then about family taxation policy. They had concluded that they would be ill advised to make no uprating of Child Benefit in the coming uprating. He recognised his commitments to finding the savings agreed in the last Survey and he therefore proposed a package of measures to save an equivalent amount of money on the basis of which he now wished to proceed to uprate Child Benefit.

The Chief Secretary said that he was very sceptical that an uprating of 10p would make a great deal of difference to the family lobby. If a problem existed with Child Benefit, a 10p uprating would not stave it off. Moreover, it had been agreed in the PES round that Child Benefit should not be uprated in July. There had been many changes since the last Survey, including for example a sharp fall in the price of oil and consequential fiscal pressures. He acknowledged that your Secretary of State had sought offsetting savings to replace those it had been envisaged would be secured by not uprating Child Benefit. But these savings had to be seen in the context of an overall cost of the uprating of £12 million in excess of that provided for in PES (on the basis of the latest forecast inflation figures); and the very large additional bids he was making on the administration side which had just been discussed. Finally, the Chief Secretary was concerned that an uprating in July would cause more problems in the future by increasing the baseline and restricting the Government's room for manoeuvre the following April. Overall, he believed that the proposed uprating was likely to cause more trouble than it was worth.

In discussion, your Secretary of State emphasised that in his view it was a matter of political judgement whether or not the uprating was worthwhile. It was not so much that 10p was a significant sum in family policy terms but there

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was a vociferous lobby, not least in the Parliamentary Party, who would see non up-rating as confirming their worst fears about the Government's longer-term intentions about Child Benefit. This problem could be averted by a small up-rating now for which he had proposed offsetting savings in order to ensure no net cost arose. The Chief Secretary emphasised that the proposal could not be seen in isolation from the £12 million net additional cost of the up-rating on the basis of the latest inflation forecast; or the much larger additional bid on the Reserve in prospect in the light of their earlier discussion about the administration vote. He agreed to reflect further overnight in the light of the discussion.

It was agreed that your Secretary of State and the Chief Secretary would need to make contact again by lunch time today about the respective points which they had agreed to consider overnight.

Yours sincerely
Richard Broadbent

RICHARD BROADBENT

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