PREM 19/1957

Uprating of Social Security Benefits

PART 3

SOCIAL SERVICES

Pt 1: May 1979

Pt 3: Feb 1982

PREM 19/1957

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.2.82		11.5.83					
3.3.82		16.5.83					
10.3.82		23.6.83					
18.3.82.		28.11.83					
5.4.82		27.1.84					
7.4.82		17.4.84					
9.7.82		12/6/84.					
20.7.82		13/6/84					
Nov 82.		15.6.84					
22.11.82		18.6.84					
9.12.82		7.9.84					
14.12.82		22/11/84					
31.1.83		26/11/84					
9.2.83		28/11/84					
15.2.83		24.2.86					
21.2.83		22.10.86					
3.3.83		PART ENDS					
10.3.83							
6.4.83							
8.4.83							
13.4.83							
22.4.83							
3.5.83							

Dd 533270 5M 2/78 8362633 JET

PART 3 ends:-

Statement by SS/DHSS 22.10.86

PART 4 begins:-

DHSS to DRN 6.5.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(82) 11th meeting, item 1	18/03/1982
MISC 88(82) 1	09/12/1982
MISC 88(82) 1st meeting, Minutes	14/12/1982
MISC 88(83) 1	26/01/1983
MISC 88(83) 1st meeting, Minutes	31/01/1983
MISC 89(83) 2	15/02/1983
CC(83) 7th meeting, item 4	03/03/1983
CC(83) 7th conclusions, minute 5. Most Confidential Record	03/03/1983
CC(83) 18th conclusions, minute 4. Limited Circulation Annex	12/05/1983
H(83) 30	19/07/1983
CC(84) 22nd meeting, item 2	14/06/1984
CC(84) 22nd conclusions, minute 2. Limited Circulation Annex	14/06/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 27/10/2014

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmnd. 8443 Department of Health and Social Security
Social Security (Contributions) Bill 1981
Report by the Government Actuary on the Financial Provisions of the Bill
Presented to Parliament by the Secretary of State for Social Services by Command of Her Majesty, December 1981
Printed by HMSO ISBN 010 184430 1

House of Commons Paper 451
Social Security Act 1975
National Insurance Fund Long Term Financial Estimates
Report by the Government Actuary on the First Quinquennial Review under section 137 of the Social Security Act 1975
Printed by HMSO

Signed _____ Date 27/10/2014

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 18 March 1982, Columns 498-591 "Social Security and Housing Benefits Bill"

2. House of Commons Hansard, 18 June 1984, Columns 20-34 "Social Security Benefits (Uprating)"

3. House of Commons Hansard, 26 November 1984, Columns 671-716 "Social Security Bill"

4. House of Commons Hansard, 22 October 1986 Columns 1174-1190 "Social Security Benefits (Uprating)"

Signed P Wayland Date 17 February 2015

PREM Records Team

cc MEA
DN
Press
PJU
DIC

SOCIAL SECURITY BENEFIT (UPRATING): STATEMENT

With permission, Mr Speaker, I should like to make a statement about the next uprating of Social Security benefits, which will take place in the week beginning 6 April 1987.

2. This will be the third increase over 16 months and covers the eight months from January to September 1986. It will complete the process of transition to the new timetable for benefit upratings which, in future, will take place annually in April. This will ensure that pensioners and other beneficiaries receive increases in their resources at the same time as most other financial changes take place.

3. The Government is pledged to increase pensions and other linked long term benefits in line with the rise in prices. The Retail Price Index published last Friday showed a rise between January and September 1986 of 2.1 per cent. Accordingly the retirement pension for a married couple will rise from £61.95 to £63.25 an increase of £1.30 a week and for a single person the pension will go up from £38.70 to £39.50 an increase of 80p per week. Widows' pensions and invalidity benefit will also be increased by the same percentage as will public sector pensions.

4. In the 16 months of the transitional period the pension for a couple will have risen by £5.95 a week as a result of the three upratings and that for a single person by £3.70 a week.

5 Turning to benefits for families the Government has made it clear that in considering the uprating of child benefit account must be taken of priorities within the social security budget - every 10p increase costs over £50 million a year. We have decided that child benefit will go up from £7.10 to £7.25 a week which is fully in line with the increase in prices. The Government also remains committed to the protection of low income families with children. The prescribed amounts in Family Income Supplement will therefore rise by between 2.1 and 2. 3 per cent depending on the age of the child. This increase will ensure that low income working families with older children on FIS have seen the real value of their benefit increased by some 20 per cent since 1978.

6 Over the eight months period for this uprating the Retail Price Index excluding housing costs rose by 2 per cent, almost the same as for the RPI. The short term rate of supplementary benefit will therefore increase from £48.40 for a couple to £49.35 a rise of 95p. There will be corresponding increases in the other scale rates. Additional requirements in the supplementary benefit scheme will be increased in line with appropriate elements of the Retail Price Index. The cost of fuel and light has remained stable and so there will be no change in heating additions. But dietary additions will be increased - by 10p a week for someone receiving the higher rate of addition.

7 As in July I have decided to link the increase in the basic needs allowance for Housing Benefit to the cash increase in the basic retirement pension and in child benefit. This will ensure that virtually all pensioners do not lose housing benefit as a result of the increase in retirement pensions. It will also minimise the operational problems for local authorities next April. Full details of the increases in the housing benefit needs allowance and non dependent deductions together with the other benefit changes are set out in a schedule which I have placed in the Vote Office.

8 I am also proposing to adjust the rent "taper" for relatively better off housing benefit recipients - those with incomes above the needs allowance - from 29 per cent to 33 per cent. Those at supplementary benefit level and some way above it will not be affected. This change is subject to consultation with the relevant organisations. The amount of earned income which is ignored in the housing benefit calculation will be held steady for the second uprating in succession. This will ensure that those on low earnings continue to benefit from last April's tax reductions.

9 Benefits payable to sick and disabled people including sickness benefit, invalidity benefit, severe disablement allowance and invalid care allowance will all rise by 2.1 per cent. So too will attendance allowance and mobility allowance. I am also taking the opportunity to make a further change. Funeral expenses will be paid in respect of war pensioners who die as a result of their accepted disablement whether the funeral is arranged privately or by the War Pensioners Welfare Service.

10 The House will shortly have an opportunity of debating these changes. I should add that they will apply in Northern Ireland as in the rest of the United Kingdom.

11 Mr Speaker, the changes I have just announced will add over £700 million to the social security budget next year on top of the £420 million from the July uprating. Since 1978/79, spending on pensions has grown in real terms by over 25 per cent at an additional cost of £4 billion a year. About £1 3/4 billion of this reflects an increase of 850,000 in the number of pensioners; the remainder represents a real improvement in the value of the pension.

12 The new rates will mean that the retirement pension has more than doubled in cash terms since November 1978; and that we have protected the position of other beneficiaries, including low income families with children, and the sick and disabled.

SCHEDULE OF MAIN PROPOSED CHANGES IN SOCIAL SECURITY BENEFIT RATES

from the pay-day in week commencing 6th April 1987

(weekly rates unless otherwise shown)	Old Rates 1986	New Rates 1987
ATTENDANCE ALLOWANCE		
higher rate	30.95	31.60
lower rate	20.65	21.10
CHILD BENEFIT - each child	7.10	7.25
CHILD'S SPECIAL ALLOWANCE	8.05	8.05
DEPENDENCY ADDITIONS		
Adult Dependency Additions		
For spouse or person looking after children, with :-		
retirement pension on own insurance, invalidity pension, unemployability supplement and, if beneficiary over pension age, unemployment benefit	23.25	23.75
non-contributory retirement pension, invalid care and severe disablement allowance	13.90	14.20
sickness benefit if beneficiary over pension age	22.25	22.70
unemployment benefit:		
standard rate	19.00	19.40
3/4 rate	14.25	14.55
1/2 rate	9.50	9.70
maternity allowance/sickness benefit		
standard rate	18.20	18.60
3/4 rate	13.65	13.95
1/2 rate	9.10	9.30

NOTE:1/2 and 3/4 rates for existing cases only

Child Dependency Additions		
For each child with:-		
retirement pension, widows benefit, invalidity benefit, invalid care and severe disablement allowance, higher rate industrial death benefit, unemployability supplement and sickness or unemployment benefit if beneficiary over pension age	8.05	8.05
EARNINGS RULES		
Retirement Pension	75.00	75.00
Invalid Care Allowance	12.00	12.00
Unemployment Benefit subsidiary occupation (daily rate)	2.00	2.00
Therapeutic earnings limit	25.50	26.00
Industrial Injuries Unemployability Supplement permitted earnings level (annual amount)	1326.00	1352.00
War Pensioners' Unemployability Supplement permitted earnings level	25.50	26.00
Adult dependant's benefit with:-		
Sickness Benefit if claimant is under pension age	18.20	18.60
over pension age	22.25	22.70
Maternity Allowance	18.20	18.60
Unemployment Benefit if claimant is under pension age	19.00	19.40
over pension age	23.25	23.75

Retirement Pension,Invalidity Pension, Severe Disablement Allowance, Unemployability Supplement where dependant is :-		
living with the claimant	30.80	31.45
living with the claimant and still qualifies for the tapered earnings rule	45.09	45.09
Retirement Pension,Invalidity Pension and Unemployability Supplement where dependant not living with claimant	23.25	23.75
Severe Disablement Allowance where dependant not living with claimant	13.90	14.20
Invalid care allowance (wife or female housekeeper)	13.90	14.20
Child dependency additions level at which child additions payable with long-term benefits are affected by earnings of claimant's spouse or partner		
first child	85.00	85.00
each subsequent child	10.00	10.00

FAMILY INCOME SUPPLEMENT

Prescribed amount for one-child family, where child is aged		
under 11	98.60	100.70
11-15	99.60	101.75
16 and over	100.60	102.80
Increase for each additional child		
under 11	[illegible]	[illegible]
11-15	12.65	12.95
16 and over	13.65	14.00
Maximum amount for one-child family where child is aged		
under 11	25.30	25.85
11-15	25.80	26.40
16 and over	26.30	26.90
Increase for each additional child		
under 11	2.55	2.60
11-15	3.05	3.15
16 and over	3.55	3.65
GUARDIAN'S ALLOWANCE - each child	8.05	8.05
HOSPITAL DOWNRATING		
20% rate	7.75	7.90
40% rate	15.50	15.80
60% rate	23.25	23.70
Reduction where wife has pension on her own insurance (Cat A)	23.20	23.65
Resettlement benefit	62.00	64.00

HOUSING BENEFIT

Needs allowances		
single person	48.10	48.90
couple/single parent	70.85	72.15
single handicapped person	53.65	54.50
couple (1 handicapped) or handicapped single parent	76.40	77.75
couple (both handicapped)	79.00	80.45
pensioner addition	.85	.85
dependent child addition	14.60	14.75
Non-dependant deductions		
Rate rebates		
aged 18 to pension age, and not on Supplementary Benefit or Youth Training Scheme nor qualifying for modified deduction after 56 days	2.60	2.70
of pension age, or over 25 and on Supplementary Benefit or qualifying for modified deduction after 56 days	1.10	1.15
age 16-17 and not on Supplementary Benefit,Youth training scheme or Severe disablement allowance, or 16-24 and qualifying for modified deduction after 56 days	1.10	1.15
Rent rebates and allowances		
aged 18 to pension age and not on Supplementary Benefit or a Youth Training Scheme nor qualifying for modified deduction after 56 days	7.80	8.05
of pension age, or over 25 and on supplementary benefit or qualifying for modified deduction after 56 days	2.80	2.90
aged 16-17 and not on Supplementary Benefit,Youth training scheme or 16-24 and qualifying for modified deduction after 56 days	2.80	2.90

Disregards for			
Claimant's earnings		17.30	17.30
partner's earnings		5.00	5.00
various pensions etc.		4.00	4.00
maintenance of non-grant aided students (maximum)		23.85	24.35
Deductions for amenities			
	all fuel	8.80	8.80
	heating	6.70	6.70
	hot water	.80	.80
	lighting	.50	.50
	cooking	.80	.80
Expenses allowed for sub-tenants			
furnished letting		3.00	3.00
unfurnished letting		1.50	1.50
garage or outbuilding		.40	.40

INDUSTRIAL DEATH BENEFIT

Widow's pension			
first 26 weeks		54.20	55.35
higher permanent rate		39.25	40.05
lower permanent rate		11.61	11.85
Child dependency addition		8.05	8.05

INDUSTRIAL DISABLEMENT PENSION

18 and over, or under 18 with dependants	100%	63.20	64.50
	90%	56.88	58.05
	80%	50.56	51.60
	70%	44.24	45.15
	60%	37.50	38.70
	50%	31.60	32.25
	40%	25.28	25.80
	30%	18.96	19.35
	20%	12.64	12.90

under 18		
100%	38.70	39.50
90%	34.83	35.55
80%	30.96	31.60
70%	27.09	27.65
60%	23.22	23.70
50%	19.35	19.75
40%	15.48	15.80
30%	11.61	11.85
20%	7.74	7.90
Maximum life gratuity (lump sum)	4200.00	4290.00
Unemployability Supplement	38.70	39.50
plus where appropriate an increase for early incapacity		
higher rate	8.15	8.30
middle rate	5.20	5.30
lower rate	2.60	2.65
Adult dependency addition	23.25	23.75
Child dependency addition	8.05	8.05
Maximum special hardship allowance	25.28	25.80
Constant attendance allowance		
normal maximum	25.30	25.80
part-time rate	12.65	12.90
intermediate rate	37.95	38.70
exceptional rate	50.60	51.60
Exceptionally severe disablement allowance	25.30	25.80
INVALID CARE ALLOWANCE	23.25	23.75
Adult dependency addition	13.90	14.20
INVALIDITY BENEFIT		
Invalidity pension	38.70	39.50
Invalidity allowance		
higher rate	8.15	8.30
middle rate	5.20	5.30
lower rate	2.60	2.65

MATERNITY BENEFIT		
Maternity Allowance		
full rate	29.45	30.05
adult dependency addition	18.20	18.60
3/4 rate	22.09	22.54
adult dependency addition	13.65	13.95
1/2 rate	14.73	15.03
adult dependency addition	9.10	9.30
NOTE: 1/2 and 3/4 rates for existing cases only		
MOBILITY ALLOWANCE	21.65	22.10
ONE PARENT BENEFIT	4.60	4.70
PNEUMOCONIOSIS,BYSSINOSIS,WORKMAN'S COMPENSATION AND OTHER SCHEMES		
Major incapacity allowance(maximum) and allowance for total disablement	63.20	64.50
partial disablement allowance	23.25	23.75
Unemployability supplement plus where appropriate increases for early incapacity	38.70	39.50
higher rate	8.15	8.30
middle rate	5.20	5.30
lower rate	2.60	2.65
Constant attendance allowance		
normal maximum rate	25.30	25.80
part-time rate	12.65	12.90
intermediate rate	37.95	38.70
exceptional rate	50.60	51.60
Exceptionably severe disablement allowance	25.30	25.80
Lesser incapacity allowance (maximum)	23.25	23.75
based on loss of earnings of over	30.95	31.60

RETIREMENT PENSION		
on own insurance - Category A or B	38.70	39.50
on spouse's insurance - Cat B(lower)	23.25	23.75
non-contributory - Cat C or D	23.25	23.75
- Cat C(lower)	13.90	14.20
additional pension, guaranteed minimum pension and graduated retirement benefit	increased by 2.1%	
Graduated Retirement Benefit (Unit)	5.06p	5.17p
increments to basic and additional pension, guaranteed minimum pension, and graduated retirement benefit	increased by 2.1%	
maximum amount of additional pension (also paid with widows' and invalidity benefits)	24.03	24.53
addition for over 80's	.25	.25
SEVERE DISABLEMENT ALLOWANCE	23.25	23.75
adult dependency addition	13.90	14.20
SICKNESS BENEFIT		
over pension age		
single rate	37.05	37.85
adult dependency addition	22.25	22.70
under pension age		
full rate	29.45	30.05
adult dependency addition	18.20	18.60
3/4 rate	22.09	22.54
adult dependency addition	13.65	13.95
1/2 rate	14.73	15.03
adult dependency addition	9.10	9.30

NOTE: 1/2 and 3/4 rates for existing cases only

SUPPLEMENTARY BENEFIT

Scale rates

ordinary rates		
single householder	29.80	30.40
couple	48.40	49.35
non-householder 18 or over	23.85	24.35
non-householder 16-17	18.40	18.75
long-term rates		
single person living alone	37.90	38.65
couple	60.65	61.85
non-householder 18 or over	30.35	30.95
non householder 16-17	23.25	23.70
dependent children		
over 18	23.85	24.35
16-17	18.40	18.75
11-15	15.30	15.60
under 11	10.20	10.40
Board and lodging		
personal expenses:short term		
single	9.80	10.00
couple	19.60	20.00
personal expenses: long-term		
single	10.95	11.15
couple	21.90	22.30
personal expenses: dependants		
18 and over	9.80	10.00
16-17	5.90	6.00
11-15	5.05	5.15
under 11	3.30	3.35

Allowances for personal expenses for claimants in:-

private and voluntary residential and nursing homes	9.05	9.25
re-establishment centres	9.95	10.15
resettlement units	7.60	7.75
hospital and local authority accommodation	7.75	7.90
the Polish Home Ilford Park	10.95	11.15

Additional requirements		
Heating additions (including age-related heating additions)		
higher rate	5.55	5.55
lower rate	2.20	2.20
Central heating		
higher rate	4.40	4.40
lower rate	2.20	2.20
Estate rate heating		
higher rate	8.80	8.80
lower rate	4.40	4.40
Special dietary additions		
lower rate	1.60	1.65
higher rate	3.70	3.80
haemodialysis rate	10.65	10.85
Blind person	1.25	1.25
Over age 80.	.25	.25
Laundry costs	.55	.55
Extra bath	.30	.30
Housing costs		
Reduction for non-dependants		
age 18 to pension age and not on Supplementary Benefit, a Youth Training Scheme nor qualifying for modified deduction after 56 days	7.80	8.05
of pension age or over 25 and on Supplementary Benefit or qualifying for modified deduction after 56 days	2.80	2.90
age 16-17 and not on Supplementary benefit, a youth training scheme or Severe disablement allowance, or 16-24 and qualifying for modified deduction after 56 days	2.80	2.90
non-householder rent addition	3.90	4.05
maintenance and insurance all'ce	1.85	1.95

Capital limits for		
receipt of Supplementary Benefit	3000.00	3000.00
single payments and related items	500.00	500.00
interest on loans for major repairs and improvements	500.00	500.00
lower rate voluntary unemployment deductions	100.00	100.00
Other limits for		
expenses on starting work	35.00	35.00
religious requirements - funerals	75.00	75.00
single payment for repairs and maintenance	325.00	325.00
Deductions for direct payment		
fuel bills 5% rate	1.50	1.55
10% rate	3.00	3.05
housing costs	1.50	1.55
Earnings disregard - £4, and in the case of single parents half the difference between £4 and £20	4.00	4.00

UNEMPLOYMENT BENEFIT

over pension age		
single rate	38.70	39.50
adult dependency addition	23.25	23.75
under pension age		
full rate	30.80	31.45
adult dependency addition	19.00	19.40
3/4 rate	23.10	23.59
adult dependency addition	14.25	14.55
1/2 rate	15.40	15.73
adult dependency addition	9.50	9.70
NOTE:1/2 and 3/4 rates for existing cases only		
occupational pension abatement	35.00	35.00

WAR PENSIONS

Disablement pension (100% rates)		
private or equivalent	63.20	64.50
officer (£ per annum)	3295.00	3363.00
Age allowances		
40%-50%	4.40	4.50
over 50% but not over 70%	6.85	7.00
over 70% but not over 90%	9.85	10.05
over 90%	13.70	14.00
Disablement gratuity (£ per annum)		
specified minor injury	4200.00	4290.00
unspecified minor injury	2310.00	2359.50
Unemployability allowance		
personal allowance	41.10	41.95
adult dependency addition	23.25	23.75
addition for each child	8.05	8.05
Invalidity allowance		
higher rate	8.15	8.30
middle rate	5.20	5.30
lower rate	2.60	2.65
Constant attendance allowance		
normal maximum rate	25.30	25.80
part-time rate	12.65	12.90
intermediate rate	37.95	38.70
exceptional rate	50.60	51.60
Comforts allowance		
higher rate	10.90	11.10
lower rate	5.45	5.55
Mobility supplement	24.05	24.55
Allowance for lowered standard of occupation (maximum)	25.28	25.80
Exceptionally severe disablement allowance	25.30	25.80
Severe disablement occupational allowance	12.65	12.90
Clothing allowance (per annum)		
higher rate	86.00	88.00
lower rate	55.00	56.00
Education allowance (per annum)	120.00	120.00

War widows' pension (private)		
widow	50.30	51.35
childless widow under age 40	11.61	11.85
age allowance		
age 65 to 69	5.40	5.50
age 70 to 79	10.80	11.00
age 80 and over	13.55	13.85
child addition	11.55	11.60
addition for motherless or fatherless child	12.60	12.70
Unmarried dependant living as wife	48.25	49.30
Rent allowance (maximum)	19.15	19.55
Adult orphan's pension	38.70	39.50
Widower's pension (maximum)	50.30	51.35

WIDOW'S BENEFIT

Widow's allowance	54.20	55.35
Widowed mother's allowance	38.70	39.50
Widow's pension - standard rate	38.70	39.50
Age-related widow's pension		
age 49	35.99	36.74
48	33.28	33.97
47	30.57	31.21
46	27.86	28.44
45	25.16	25.68
44	22.45	22.91
43	19.74	20.15
42	17.03	17.38
41	14.32	14.62
40	11.61	11.85
Non-contributory widow's pension (Cat C) standard rate	23.25	23.75
age 49	21.62	22.09
48	20.00	20.43
47	18.37	18.76
46	16.74	17.10
45	15.11	15.44
44	13.49	13.78
43	11.86	12.11
42	10.23	10.45
41	8.60	8.79
40	6.98	7.13

SECRET

Prime Minister 2
An interesting
little note.
DHS
22/10.

FROM: M GIBSON

DATE: 20 October 1986

1. MISS NOBLE

2. CHIEF SECRETARY

cc Mr F E R Butler
Miss Peirson
Mr Turnbull
Mr Tyrie

UNPLEDGED BENEFITS AND HOUSING BENEFIT

You asked to be reminded of which benefits are unpledged and how much could be saved by not uprating them.

2. This was one of the measures we considered with DHSS officials as a possibility for inclusion in the £500 million savings packages, so we have a note to hand on it. This is attached at annex A. The saving on the actual RPI and RPI less housing figures to determine the 1987 uprating (2.1 and 2 per cent) is £330 million, less than the £350 million shown, which was based on a higher RPI assumption. The supplementary allowance element is £130 million and the housing benefit element £40 million. The other main components are child benefit £85 million, unemployment benefit £30 million, mobility allowance £10 million, and the rest £30 million.

2. You can see from the list of pledged and unpledged benefits at annex B that supplementary pension is in fact a pledged benefit, although there is no statutory price indexation.

3. The argument against not uprating the unpledged benefits is the obvious political one that, with the possible exception of child benefit, the bulk of expenditure on unpledged benefits goes to the poor or unemployed.

Housing Benefit

4. You also asked to be reminded about the growth in expenditure on housing benefit. In 1984-85 prices expenditure has risen from £1300 million in 1978-79 to £2900 million in 1985-86, an increase of over 120 per cent. The main reasons for the growth in expenditure can be summarised as follows;

(a) rents have risen faster than prices over the period, with local authority rents rising by 41% and private rents by 32% relative to the GDP deflator. This accounts for over £0.7 billion of the £1.6 billion increase in housing benefit expenditure;

(b) average benefit per recipient rose faster than can be explained by rent increases alone, accounting for a further £½ billion of the increase in expenditure. One explanation is a structural shift in the composition of recipients away from pensioners towards the unemployed who tend to receive more housing benefit per head. Another possibility is collusion between landlord and tenant, although there is little hard evidence to support this (see below);

(c) unemployment increased significantly over the period, accounting for a further £0.2 billion;

(d) take up has increased, particularly among one parent families and the sick and disabled, accounting for almost £0.4 billion. A likely explanation is the increased publicity of benefits, often sponsored by local authorities, and the general growth of a 'benefit culture'.

5. Finally, you asked about abuse of the housing benefit system by private landlords raising rents to unreasonable levels, possibly in collusion with tenants. The housing benefit regulations enable local authorities to limit the level of rent eligible for benefit if the accomodation is unreasonably large or the rent unreasonably high, provided it is reasonable to expect a claimant to look for alternative cheaper accommodation. It is also possible for local authorities in England and Wales to apply to the rent officer for registration of a fair rent on any accommodation subject to a regulated tenancy. From April 1988 there will be a reserve power for the Secretary of State to limit the level of rent eligible for benefit.

6. DHSS receive anecdotal information about housing benefit fraud and are aware that some local authorities are more vigorous than others in the application of powers open to them. But hard evidence is more difficult to obtain. Our economists have recently been analysing trends in rent allowance expenditure. If collusion between landlord and tenant has been taking place, average benefit for certificated cases, who receive their housing costs in full, would be expected to have risen faster than average benefit for standard cases, who generally receive only 60% of their housing costs. This has not been the case; over the last three years, average rent allowance for certificated cases rose by 52%, while for standard cases it rose by 55%.

Reassuring but not conclusive.

DLN
22/10.

M GIBSON

Proposal 12

ANNEX A

SECRET

PES BRIEFING FORM

1. BENEFIT — UNEMPLOYMENT BENEFIT, SICKNESS BENEFIT, MATERNITY ALLOWANCE, MOBILITY ALLOWANCE, FIS, CHILD BENEFIT, SUPPLEMENTARY ALLOWANCE, HOUSING BENEFIT

2. PROPOSAL — No uprating of unpledged benefits

3. SAVINGS/COSTS (BENEFIT ONLY)
(-) (+)

£ million cash

	1987-88	1988-89	1989-90
net figures*	~~-350~~ -330	~~-350~~ -330	~~-350~~ -330 *

Transitional protection (where appropriate) N/A

* plus non-PE savings of £20 million in 1987/88

* on actual RPI
0 RPI less housing

4. OPERATIONAL IMPLICATIONS

a simplification in 1987 of the uprating operation

5. PROPOSED START DATE — April 1987

6. LEGISLATION

Primary

Affirmative regs. ✓

Negative regs.

None

SECRET

. GAINERS/LOSERS claimants would lose a 2½% increase to their benefit.

---

8 . ARGUMENTS FOR PROPOSAL

Savings

---

9 . ARGUMENTS AGAINST PROPOSAL

Would reduce the value of low income as well as high income families. Would meet huge opposition.

SECRET

SOCIAL SECURITY BENEFITS: UPRATING

	PLEDGED		UPRATING PRACTICE	1984-85 EXPENDITURE £m	UNPLEDGED		UPRATING PRACTICE	1984-85 EXPENDITURE £m
Statutory Price Indexation	1. Retirement Pension	C	RPI	15397	12. Unemployment Benefit	C	RPI	1597
	2. Widows Pensions	"	"	794	13. Sickness Benefit	"	"	268
	3. Invalidity Benefit	"	"	2074	14. Maternity Allowance	"	"	157
	4. Industrial Disablement Benefit	"	"	382	15. Guardians Allowance	"	"	}
					16. Child's Special Allowance	"	"	} 2
	5. Industrial Death Benefit	"	"	56	17. Child Dependency Additions to contributory and non-contributory benefits	C&N	"	[166]
	6. Attendance Allowance	N	"	568				
	7. Invalid Care/Allowance	"	"	11				
	8. Severe Disablement Allowance	"	"	232				
	Total			19514	Total			2024
No Statutory Price Indexation	9. Non-contributory Retirement Pension	N	RPI	40	18. Christmas Bonus	C&N	None	110
	10. War Pensions	"	"	544	19. Death Grant	C	None	17
	11. Supplementary Pension	"	Rossi etc	871	20. Mobility Allowance	N	RPI	361
					21. Supplementary Allowance	"	Rossi etc	5496
					22. Child Benefit	"	RPI	4272
					23. One Parent Benefit	"	"	122
					24. Family Income Supplement	"	"	131
					25. Maternity Grant	"	None	18
					26. Housing Benefit	"	Rossi etc	2778
	Total			1455	Total			13305
	Grand Total			**20969**	**Grand Total**			**15329**

C = CONTRIBUTORY NC = NON CONTRIBUTORY

SECRET

SOCIAL SECURITY

General Record

(i) Expenditure on social security is expected to be about £43 billion this year.

(ii) Between November 1978 and November 1985 retirement pensions have risen by 5 per cent in real terms.

(iii) Supplementary benefits have risen by about 6 per cent in real terms. Rates for children under five years have increased by about 29 per cent in real terms

(iv) We are spending 55 per cent more in real terms on benefits for long term sick and disabled people and nearly 4 times as much on mobility allowance (in real terms).

(v) Social Security Act 1986 gives effect to fundamental reforms with specific objectives to:

- **Target** help more effectively on areas of greatest need.
- **Simplify** the system
- **Widen** choice in pension provision and put pensions on a sound basis for future
- **Tackle** worst effects of **poverty** and **unemployment** traps
- **Create** a soundly based system that the country can afford.

Particular points

(i) The increase of 40 pence a week for single pensioners and 65 pence a week for married couples follows increases of £2.50 and £4 a week respectively last November.

(ii) The increases in July were interim payments. In fact pensioners will be getting three increases in the period between November 1985 and April 1987 (inclusive).

(iii) Government's priority is to give greater help to those families in greatest need. We have given more help with family income supplement, and the family credit scheme will help 200,000 more working families - some by over £5 a week.

Government record on help for the poor

This Government have:

(i) Protected and increased the value of nearly all the major social security benefits.

(ii) Introduced numerous improvements in specific benefits:

- Reduced qualification period for **Long term supplementary benefit scale rate** from two years to one.
- Extended the **long term rate** to unemployed men over 60.
- Provided bigger **earnings disregards** to lone parents.
- Extended **invalid care allowance** to married women.
- Introduced **severe disablement allowance.**
- Introduced higher **capital limits** in supplementary benefit.

(iii) Increased **personal income tax allowances** by 22 per cent in real terms and taken 1½ million people out of tax altogether.

(iv) Reduced **national insurance contributions** for lower paid employees and their employers.

(v) Increased take-home pay in real terms for a family with two children on three-quarters average earnings by 13 per cent compared with only 2 per cent between 1974 and 1979.

(vi) Inflation reduced from 10% to 3%.

Single payments

(i) Single payments have risen in number from 0.8 million in 1981 to over 4 million in 1985; the cost increased from £45 million in 1981 to £300 million in 1985 - over five-fold in real terms.

(ii) Growth in single payments in recent years is much greater than growth in numbers claiming supplementary benefit. Comparing 1985 with 1981 the number of single payments was nearly 5 times higehr while the number of claimants was only $1^{1}/3$ times higher than 1981.

(iii) The changes will:

- restore proper financial control over system.
- Provide more reasonable statement of what is the State's responsibilit to guarantee for claimants, while giving protection to elderly, chronically sick and disabled people.
- Provide a fairer balance between claimants and others on low incomes who have to manage without single payments.
- Produce clearer, more easily operated rules which enable staff to process claims more quickly.

Housing benefit

(i) Cost of housing benefit has gone up from £1.2 billion in 1979-80 to £4.6 billion in 1984-85. Recipients up from 5½ million to 7½ million over same period; around one household in three now gets housing benefit.

(ii) Housing benefit goes further up the income scale than any other income-related benefit - up to average earnings in some cases.

(iii) Present system inequitable - eg better treatment for those out of work than in. New scheme will mean equal treatment.

(iv) Plan to pay only 80 per cent of rates will require local councils to be more accountable to their electorate.

(v) Planned savings of £450m represents only one-sixth of the increase betwen 1979 and 1984 - only half of what Labour saved in 1976 by changing the basis of pension calculation.

17 October 1986
KK10/10

27

PM

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.

DN

DN

24 February, 1986.

JD47

cc DN
Press
PU
IF
PIC

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.

I 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 almsot £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.

SECRET

CX
Mr Butler
Mr Anson
Mr Scholar
Sir P. Middleton
Mr Turnbull
Mr Watson
Mr Gray

Mr Lord 26B
Ms Noble
Mr C. Butler
Mr Kemp
Mr C. Allen
Miss G. Noble.

Treasury Chambers, Parliament Street, SW1P 3AG

Tony Laurance Esq
Private Secretary to the
Secretary of State for Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

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

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

SECRET

CX
Mr Butler
Mr Anson
Mr Scholar
Sir P. Middleton
Mr Turnbull
Mr Watson
Mr Gray

Mr Lord 26A
Ms Noble
Mr C. D. Butler
Mr Kemp
Mr C. C. Allan
Miss G. Noble

Treasury Chambers, Parliament Street, SW1P 3AG

Tony Laurance Esq
Private Secretary to the Secretary of State
for Health and Social Security
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

19 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.

SECRET

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

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

E. R.

PRIME MINISTER 7 September 1984

SOCIAL BENEFITS

Norman Fowler's Inquiry teams are busy considering:

- Pensions
- Benefits for children and young people
- Supplementary Benefit
- Housing Benefit

There are four key themes they should pursue.

Save money so we can cut taxes

We want to cut expenditure on benefits so as to finance the Chancellor's strategy of raising tax allowances. The Institute of Fiscal Studies estimates that only 54 per cent of the benefits we pay are strictly necessary to bring incomes to the Supplementary Benefit subsistence level. We can save money by focussing benefits on the poor. Prosperous voters like their benefits, but there are strong arguments for action:

i. It is these better off tax-paying recipients of benefit who cause churning. We want clear water between benefits and taxation.

ii. The money these people lose in benefits will come back to them through higher tax allowances. And without these savings, we doubt whether the Chancellor will be able to ease the tax burden significantly.

iii. If the middle classes are divorced from the benefit system, they cease to lobby so volubly for ever-higher benefits. It is perhaps the main reason why President Reagan has had so much more success in cutting back on social benefit expenditure than we have. That is why the poverty lobby believes so strongly in universal benefits going to all.

Simplifying the system

The DHSS absorbs 80,000 staff and spends £1.5 billion on administering the benefit system. There are many competing means tests. - We get rid of competing systems in housing benefit - and the cost rose

We could cut down the total number of benefits by getting rid of the anachronistic ones which do little good at high cost. Death grant and maternity grant each pay out about £20 million a year, and cost as much again to administer.

We could also cut back on the number of means tests by having broader, cruder means tests for a smaller number of basic benefits. The ultimate prize would be one basic means test for Supplementary Benefit, Housing Benefit, and

Usually puts up costs

possibly a means-related Child Benefit. This way, saving money by focussing on the poor goes hand in hand with cutting back on complexity and cost of administration.

Create pressures for sensible spending

The benefit system still assumes people can't run a family budget. The DHSS in effect meets the bill which the claimant presents, both with special payments under Supplementary Benefit, and also rent and rates for poorer recipients of Housing Benefit. This is wrong:

- It is not a way to encourage the housekeeping skills which help to keep people out of poverty.

- It encourages spivs and racketeers to charge high prices to claimants, and then get the bills paid by the DHSS. Payments for board and lodging under Supplementary Benefit have risen from £200 million in 1982 to £360 million in 1983.

Fixed payments to the claimants could encourage more responsibility, and would put downward pressure on the prices they pay.

Poverty and unemployment traps

Once the state is committed to maintaining a basic standard

of living, then a poverty trap is very likely. This happens either because benefits are withdrawn via a means test or, if they are universal, they cost so much that high marginal tax rates are needed to finance them. But there is a choice between a quick, nasty trap, taking benefits away rapidly in a narrow area of income distribution; or a slower, gentler trap, taking benefits away more gradually, but extending into a broader area.

The current system gives a pretty severe narrow trap, where income is not heavily concentrated. The best way of easing it is to increase tax thresholds.

The Government has succeeded in reducing the unemployment trap - the ratio between income out work and in work - by taxing Unemployment Benefit and ending the earnings-related supplement. But the evidence suggests that too many young people are still caught in the trap. Less generous Supplementary Benefit for them would help.

Root-and-branch reforms

Several different blueprints for root-and-branch reform have been produced in evidence for Norman Fowler's Inquiry. The main types are summarised in the Annex. They focus exclusively on one principle - universal benefits, or means-testing, or better contributory benefits - and abandon the present compromise between all three approaches.

Of the three approaches, means-testing is the best. But rather than distant utopian schemes, we need practical and politically defensible steps which enable us to save money in the short term so as to take people out of tax. Different approaches to the reform of particular areas of benefit are set out below.

Conclusion

The attached Annexes apply these principles to the main benefits. It would be helpful to have your guidance on our suggestions so that we can prepare for the Seminar on 4 October.

JOHN REDWOOD

DAVID WILLETTS

ANNEX A

THREE TYPES OF BENEFIT REFORM

Universal (Basic Income Guarantee, Negative Income Tax)

Pro : Easy to administer

: Eases acute poverty and unemployment trap problems

Con : Expensive

: Socialisation of income; state is both giver and taker - ie churning

Contributory (Back to Beveridge)

Pro : People know what they are paying for; – alas No – they don't.

: Focusses on contingencies that cause poverty

Con : Expensive

: Non-contributors then press for similar benefits

: Inflexible as new contingencies arise - eg one-parent families

Means test

Pro : Focusses on poor, so saves money

: Middle-class voters cease to have an interest in high benefits

Con : Administratively complex

: Political problems with losers

: Tapers may worsen poverty and unemployment traps

ANNEX B

BENEFITS FOR CHILDREN

In 1983-84, about £3.7 billion of Child Benefit went to the under-16s. Various other minor benefits - such as Family Income Supplement and child support elements in Supplementary Benefit and Housing Benefit - together added another £1 billion. There are four different ways of cutting back:

1. **Tax Child Benefit**. This boils down to cutting it by 30 per cent for most people, though it would not affect the very poorest who are out of tax, and would fall most heavily on higher-rate taxpayers. It would be administratively simpler just to cut it by 30 per cent. That looks politically unacceptable.

2. **Abolish Child Benefit and convert it back into a Child Tax Allowance**. This is an attractive way of taking people out of tax and reducing churning. But the old Child Tax Allowance was abolished partly so as to save Revenue manpower. Also we would have to provide benefit support for poor families below the tax threshold.

3. **Means-test Child Benefit**. Child Benefit would be reallocated so that more went to the poor and less to the better off. But if the average family loses, it will not be

very popular; and if not, then there won't be much extra money to direct towards the poor. It could worsen the poverty trap and create another administratively expensive means test without eliminating any.

4. Limiting the benefit to a narrower group. This might be a better way of saving money than cutting everyone's Child Benefit. We could just pay it for the under-5s, for example, arguing that it compensated women for loss of income when working was most difficult. The counter argument is that the costs of children rise, and it should therefore cover older children as well.

We recommend combining these approaches:

- Save money so as to raise existing tax allowances, given the difficulties of reintroducing Child Tax Allowance.

- Focus benefits on the poor to save money. This means-tested child payment might also incorporate other child-related benefit payments.

- As there are particular problems, even for prosperous families, if the wife has to give up work to look after young children, we could retain a non-means-tested benefit for the under-5s.

A package along these lines would have something for everybody. Variations on it could be analysed. The main problem, as with any reform in this area, will be the losers.

ANNEX C

SUPPLEMENTARY BENEFIT

One in eight of the population now depends on Supplementary Benefit. As it goes to the very poorest, it is difficult to achieve significant savings in the actual benefit payments. But we see considerable scope for simplification so as to save on administrative costs (currently 14p for every £1 of benefit).

First, at the moment it is structured in three tiers - basic payments, regular additional requirements, and one-off payments for special needs. As much as possible should be consolidated into the basic rate. This gives greater individual responsibility for the household budget, is simpler, and reduces the risk of fraud. Too many people are still having basic items of household equipment "stolen" or "broken" and getting a replacement paid for by the DHSS.

Another distinction which could be lost is between short rates for temporary claimants, and higher rates for longer-term claimants. This has now become a way of diverting assistance towards pensioners who do relatively better out of Supplementary Benefit than any other group.

The savings and earnings disregards also need to be looked at. If you earn more than £4 a week, £1 of Supplementary Benefit is deducted for every extra £1 of earnings. This is

a major discouragement to part-time work. Working a few hours a week can keep up morale, maintain the habit of work and, indeed, people often learn about job opportunities at the workplace. So we would prefer a withdrawal rate of, say, 50 per cent, though obviously this would have a public expenditure cost.

One area for offsetting savings would be benefit payments to 16-18 year olds. It seems right that parents rather than the state should normally take responsibility for young people, unless they have clearly become independent (through being orphaned or leaving home and marrying, for example). The benefit system at the moment is too ready to treat them as fully independent.

Simplification is the main requirement for the Supplementary Benefit Review.

ANNEX D

HOUSING BENEFIT

This is where we are most likely to encounter immediate political difficulties. Large cuts in the social security budget are needed in this year's public expenditure round just to get it back to the baseline, and the Treasury regard Housing Benefit as the best candidate. It would be very difficult to implement cuts whilst the review team is still sitting, and there is a risk that at least one member will resign.

65 per cent of council tenants now get Housing Benefit. The increases in council house rents over the past few years to bring them up to economic levels have led to a shift in public expenditure from the DoE housing programme subsidising rents to the DHSS Housing Benefit programme meeting the cost of unsubsidised rents. This seems to defeat the object of the exercise.

There is another problem with Housing Benefit: it meets rent and rate bills passively. So the private tenant has much less of an incentive to shop around, and is protected from the costs of extravagant councils (an issue we are looking at for the Local Government Seminar). Housing Benefit also acts as an anti-regional policy, because we pay out more in prosperous areas of the country where housing costs are high, and so subsidise the higher costs of employing labour

in those areas.

All this points to trying to achieve savings on Housing Benefit either by reducing the rate of Benefit, or by meeting an assumed standard cost of rents or rates. The objection to this is that as our housing market is so inflexible it will be difficult for people to shop around for cheaper accommodation. But we have got to start somewhere. Indeed, these changes to Housing Benefit would be another way of increasing pressures for liberalising the UK housing market in other ways.

SECRET AND CMO (UNTIL 4.00 PM 18 JUNE 1984)

D10

26

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

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

Steve

S A Godber
Private Secretary

SECRET AND CMO (UNTIL 4.00 PM 18 JUNE 1984

covering SECRET

FCRB 25

Mr. Ironbut

Ref. A084/1753

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

LINDSAY WILKINSON

15 June 1984

covering SECRET

(2)

PRIME MINISTER

MF

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?

AT

13 June 1984

SECRET

CC(83) 23.

COPY NO 001

→File

PRIME MINISTER

1984 SOCIAL SECURITY UPRATING

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 uprating 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 uprated 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 uprating 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).

SECRET

E.R.

COPY NO 001

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

E.R.

COPY NO 001

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 mush 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.

13 June 1983

N F

10 DOWNING STREET

Prime Minister

There is one issue outstanding on the social security uprating package which Mr King and Mr Fowler wish to raise orally. The paper on this is in the folder for the meeting with the Chancellor as you will want to discuss how to handle it.

AT

13/6

The Secretary of State for Social Services and I suggest that you ask Ministers to leave their copies of this minute and not take them away: we will collect them in.

top copy on Econ. Rel: Meetings with the Chanc. 10/83.

22

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) 1984 Social Security Up-rating

Mr. Fowler will be announcing the changes in social security benefit rates on Monday. These will include the changes resulting from last year's PES round as well as the normal up-rating. These are all set out in the minute attached which Mr. Fowler has circulated to colleagues. All the items are agreed except that Mr. King is objecting to the proposal to shunt payment of unemployment benefit back one week. As the minute explains, there are good reasons for this - payment in arrears brings UB into line with payment of wages so that there are no distortions as people move from a job to unemployment back to a job. In addition, the change saves 200 posts in the Department of Employment as it is no longer necessary to chase up over payments. Mr. King will not be writing but proposes to raise the issue orally at Cabinet.

You may want to discuss the handling of this with the Chancellor. While it is right that colleagues should be made aware of unpopular decisions before they are announced, you will not want to allow Cabinet to re-open elements of the package agreed between Mr. Fowler and the Chancellor. These implement the decisions of the last PES round plus the changes needed to finance the concessions made on housing benefit. You should therefore indicate that discussion will be confined to the question of unemployment benefit.

(ii) Argentina

The Chancellor could bring you up to date on Argentina's latest move in submitting a Letter of Intent to the IMF Board without the agreement of the IMF team of negotiators. There is also Argentina's threat to talk directly to banks if the IMF rejects this package. You will want to consider how the British banks should respond to this.

(iii) The Chancellor may want to give you an early indication of the PES round.

(iv) You might want to compare notes on the outcome of the Summit.

(v) The Chancellor may report on financial markets. Three-month inter-bank rate has eased a little further and now stands at nine and five-sixteenths.

12 June 1984

BM

file
cc Policy Unit

10 DOWNING STREET

From the Private Secretary

17 April 1984

Economic Assumptions for the
Government Actuary's Report

The Prime Minister has seen your letter to me of 16 April. She is content with the assumptions proposed for unemployment, inflation and average earnings.

(Andrew Turnbull)

Paul Pegler, Esq.,
Chief Secretary's Office

Prime Minister ① cc NO.

Agree these assumptions.

AT 16/4

Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq
10 Downing Street
LONDON
SW1

16 April 1984

Dear Andrew,

The Prime Minister will wish to be aware of the economic assumptions the Chief Secretary has in mind for use in the Government Actuary's report on the social security benefits Uprating Order (to be published around the end of June) and in the Public Expenditure Survey.

The main assumptions are summarised as follows:

MAIN ECONOMIC ASSUMPTIONS

Autumn Statement figures in brackets

	Unemployment (million)	Prices (per cent rise to May)	Average Earnings (per cent rise year on year)
1984-85	2.85 (2.85)	5(1) (5½)	7 (6½)
1985-86	2.85	4	6½
1986-87	2.85	4	6
1987-88	2.85	3½	5

(1) Latest estimate. The actual May RPI will be published on 15 June.

The only assumptions to be published at this stage will be those for unemployment and earnings for 1984-85, in the GA's report; they are underlined in the above table. For prices, the report will be based on the actual May RPI to be published on 15 June.

CONFIDENTIAL

For unemployment in 1984-85 it is proposed to stick to the figure of 2.85 million (GB narrow excluding school leavers etc) quoted in the White Paper for "1983-84 and thereafter". (It is the normal convention to use the same figure for the later years.) 2.85 million has in fact turned out very accurate for 1983-84. The internal Treasury forecast prepared at the time of the Budget was for an average of 2.87 million in 1984-85. Since then we have had the March figure of 2.90 million, seasonally adjusted.

In the light of the March figure, the Chief Secretary considered raising the assumption to 2.9 million. On balance, however, he does not feel that there are sufficient grounds for making any change.

For earnings, it is proposed to give the Government Actuary an average figure of 7 per cent for 1984-85. The figure published for that year in his November report was 6½ per cent. The latest monthly figure (for January) shows an underlying growth of 7¾ per cent. It has been steady at that figure since August, and the internal forecast for 1983-84 as a whole is 7.7 per cent. For 1984-85 the internal forecast at the time of the Budget was for an increase of 7 per cent. The main influence on this is the average level of settlements in the current pay round. In the private sector, settlements seem to be stabilising at about 5-6 per cent, perhaps a little higher than previously expected and not much lower than in the last round. Overall, it now seems more likely that the increase in earnings will be nearer 7½ per cent than 7 per cent.

Publishing an assumption as high as 7½ per cent for 1984-85 would however have an influence on expectations and pay negotiations. It is 2½ per cent above the expected May RPI increase, and 1 per cent above the assumption of 6½ per cent published in the GA's November report. Although it is described as an assumption, not a forecast, it could give a signal to pay negotiators that the Government is revising its earnings expectations upwards. The risk of this is however limited to some extent by the timing of the report: when it appears at end June/early July, the 1983-84 round of pay negotiations should be mostly complete, and the beginning of the 1984-85 round will be some time off. Publishing a 7½ per cent assumption in the Summer would be unhelpful, but there is potential for greater damage if a lower figure (say 6½ per cent) were published and subsequently had to be revised upwards in the November GA report, which comes at a sensitive time in the 1984-85 pay round.

On balance, Treasury Ministers feel an assumption of 7 per cent should be used. But to minimise the risk of any wrong signals being given to pay negotiators, we will tell the GA to include in his report the estimated outturn for average earnings in 1983-84, which is likely to be 7¾ per cent. This will make it clear that the assumption for 1984-85 represents a significant fall from the outturn for 1983-84.

Yours sincerely

Paul Pegler

PAUL PEGLER
Assistant Private Secretary

2

PRIME MINISTER

Mr. Fowler's Pensions Speech

You may be interested to see the attached copy of the speech given by Mr. Fowler in the pensions debate last week. The speech was not only an effective defence of the Government's record, but also contained the announcement of Mr. Fowler's pensions inquiry. If you have time, therefore, it is worth a glance.

28 November, 1983.

PENSIONS SPEECH

Mr Speaker, I welcome again the honourable Gentleman for Oldham to his new job and to our debates. It is true, of course, that the honourable Gentleman for Oldham comes to these debates with a record of his own. He was a junior Minister in the Department of Health and Social Security in the last Labour Government between June 1975 and April 1976. And that was a period which was significant for pensioners in a number of ways which doubtless, temporarily, have slipped the honourable Gentleman's mind.

First, he didn't say much about inflation, but at that period inflation was destroying pensioners' savings at a record rate - the highest rate of inflation for generations. 26.9 per cent was reached in August 1975 in his period of office at the DHSS and he must be uniquely qualified to talk about the effects of inflation on the pensioner.

Secondly, there is the matter of the Christmas bonus. Labour now say a great deal about increasing the Christmas bonus. But it is worth remembering that during this period the Christmas bonus was not paid at all.

And third, and most significant of all, was that he was a Minister at the Department of Health and Social Security when the Ministers there decided to change the basis of uprating. It was then that they decided that if they kept to the historic method and therefore looked back, they would have to pay more than if they looked forward and made a forecast for a period when inflation would be lower.

The result was that the Labour Government, which should have paid out 21 per cent on the historic method, paid out 15 per cent and saved itself £500 million - in today's prices over a billion pounds.

So, with respect to the honourable Gentleman, he and the team of Ministers at the DHSS in that period have precious little to boast about. And I must tell the House that the honourable Gentleman's reception from pension organisations during that period was less than ecstatic. If I can quote from The Times of March 11 1976 under the heading "Minister shouted down at pensions rally", the paper reports that "old age pensioners shouted down Mr Meacher, Under Secretary of State at the Department of Health and Social Security, yesterday as he tried to explain the Government's record on pensions".

And before the honourable Gentleman claims that that was a meeting of retired Conservative Agents, let me point out that it was a rally of 2,000 pensioners from all over the country organised by a trades union action committee. So I have to say to the honourable Gentleman that I believe that he has a great deal to be modest about his own record and that we on this side do not feel inclined to take lectures from him or his colleagues in this area.

And I say that for three main reasons. First, the motion which stands in the name of the honourable Gentleman and his colleagues condemns the Government for what it calls the attack upon the living standards of pensioners in this country. And the honourable Gentleman has ranged wide in his speech - from the new method of uprating to the changes in housing benefit. And I will come to both those points because they are clearly important.

But what I found strange about the honourable Gentleman's speech was not what it included but what it left out. It is a debate about living standards and one would have thought that the honourable Gentleman's starting point would have been that the rate of inflation in this country is now down to levels not experienced since the 1960s. Surely that is one of the most dramatic achievements of this Governmer and also one of the most dramatic contributions to the living standards of retired people in particular - who all too often in the past have seen their savings slashed in real value.

The single greatest threat to the financial security of old people would be the prospect of a return to the levels of inflation which so ravaged the economy in the mid-1970s. There was a period when that fact was recognised by the Labour Party. The White Paper entitled The Attack on Inflation published in July 1975 noted that prices had risen 25 per cent in twelve months. And in unequivocal terms it declared:

"This must not go on. Failure to control inflation would mean massive and indiscriminate cuts in public expenditure with crippling damage to the social services. Success in controlling inflation is the best guarantee against this."

The statement is as true today as it was then. The tragedy of the Labour Party is that the bitter truths learnt then have been forgotten now. But I must tell the honourable Gentlemen opposite that the people of this country have not forgotten the fact that they presided over a fall in the value of money of 110 per cent. That is particularly true of retired people who saw the value of their savings halved and the security of fixed incomes shattered. They look to

Government to protect their savings - and I believe that Government has a duty to do that. So it is not enough for any Government to say that they have kept National Insurance pensions in line with, say, the cost of living index and ignore the actual rate of price increases. Because if inflation rises at 20 per cent a year that not only erodes savings: it not only eats into occupational pensions which for so many are not index linked: but it also destroys the base of industry from which the resources for social services provision come. And so I say this first that any Government which is really serious about maintaining the living standards of pensioners must also be really serious about reducing inflation. And the public can judge for themselves in which party they have most confidence the

Second, I do not accept the charges made by the Opposition even on their own terms. I certainly accept that Government has a responsibility to provide not only for National Insurance pensions but also extra help to those who need it. But what are the facts there? The facts are that in spite of the worst recession since the end of the Second World War we are currently spending £35 billion a year on the social security budget. As the result of the Chancellor's statement last week, spending next year will increase to almost £37 billion a year. By any standards that is an enormous budget - amounting to over a quarter of all public spending - and over half of that budget is devoted to pensioners and to the elderly.

The improvements in benefits payable from this week mean that:

- pensions have increased from £32.85 to £34.05 for a single person and from £52.55 to £54.50 for a married couple. That means that the Government has more than fulfilled its pledge to protect the

real value of pensions because this week's uprating takes the pension rate to a figure 75 per cent above the rate in November 1978. And over the same period the Retail Price Index will have increased by about 71 per cent;

- as far as supplementary benefit is concerned, we have raised the capital limit for supplementary pensions by 20 per cent to £3,000. We have also increased the single payments limit by 66 per cent to £500. And we have introduced a £1,500 disregard of the surrender value of life assurance policies;

- while in the last budget tax thresholds were increased so benefitting in particular those on lower incomes and taking $1\frac{1}{4}$ million people out of tax altogether. About $\frac{1}{4}$ million of these were elderly taxpayers most of whom were pensioners.

- as far as the next uprating is concerned the honourable Gentleman will have heard the statement of the Chancellor of the Exchequer last week. He will know that as a result of that not only pensions but other benefits like supplementary benefit, unemployment benefit and child benefit will be increased in line with prices. Of course I concede that we have had to make some economies. It would have been remarkable in a budget of £37 billion had we not. But what the honourable Gentleman has to remember about housing benefit is this: Expenditure on housing benefits currently amounts to something

approaching £4 billion. It goes to almost 7 million households - affecting some 21 million people - over 40 per cent of the population. The changes to come into effect next April will amount to less than 5 per cent of total expenditure and will still leave some 6.3 million households receiving help. Moreover we have specifically designed the changes to protect poorer households, and pensioners in particular. The great mojority of pensioner claimants will be totally unaffected by the changes.

But then there is the further charge that the honourable Gentleman makes - namely that we have changed the system of uprating from the forecast to the historic or actual method to the disadvantage of beneficiaries. I have already touched on the reasons why we ever moved to the forecast system in the first place. And if anyone wants confirmation of the motivation of the then Labour Government for that change they only have to read the memoirs of the former Chief Secretary; Lord Barnett.

> "Later, I managed to obtain a change to fix the pension increase to be announced in the April, on the "forecast" increase in earnings or prices to the following November. The reason was simple: with inflation forecast to show a substantial fall, if we had not made such a change, we would be increasing pensions and other benefits by nearly 30 per cent". (Inside the Treasury, p.52).

So the fact was that the last Labour Government moved to the forecast method for no other reason than to make a once and for all saving at the expense of pensioners. There is no conceivable question of that. But what also became clear later was that the forecast method that they then lumbered us with was more often wrong than right. In the past seven years the forecasts have been wrong five times. Sometimes there has been an over-estimate of inflation; sometimes an under-estimate. But the measure used to determine pensions and benefits for millions of people was shown to be three times more likely to be wrong than right.

So in the Social Security and Housing Benefits Act which we introduced in April of this year the system was changed and we went back to the actual method of measurement. In other words what we do now is to have the benefit of an exact measurement of inflation between May in one year and May in another. That figure becomes available in June and it forms the basis of the November uprating.

But there is one significant difference between our proposal and what the Labour Party did in 1975. In 1975 the Labour Party made a once and for all saving. There was no way in which pensioners could ever catch up the £500 million they had lost. By definition what happens under our system is that if there should be an increase in inflation between May and the time of the November uprating then it is automatically taken account of in the following uprating. These arguments were fully and extensively debated earlier this year. We have had now an increase of 3.7 per cent - had we stuck to the old forecast method and had inflation been forecast at 6 per cent, then the result would have been taking account of an adjustment of 2.7 per cent in respect of the previous year's overestimate - an uprating of 3.3 per cent.

But, Mr Speaker, there are wider issues concerning pensions policy. The decisions we make now do affect the entitlement of people in twenty, thirty or forty years time. It is right for the honourable Gentleman to be concerned about the level of National Insurance pensions. But it is surely also right for him to be concerned about the conditions of occupational pensions. 11½ million people in this country are now covered by occupational pensions and it is right that we should see that their interests are protected as well. If I may say so, that was at least part of the intention of the 1975 Social Security Pensions Act. That was a Bill that this Party,

then in Opposition, gave an unopposed second reading. And we did that because in pensions policy it is necessary to have a degree of consensus between the parties on the way ahead. Prior to that Bill various schemes had been put forward and had perished. There was the Crossman scheme: there was the scheme of my right honourable Friend, the Member for Leeds. We on this side - and I was myself Chief Opposition Spokesman at the time - took the views of the pensions industry who overwhelmingly advised that we should proceed on the basis of the proposals contained in that '75 Bill and that there should be a firm, long-term basis for pensions development. The result has been a partnership between the Government and the occupational schemes in the provision of pensions and I would suggest that that partnership has been to the overwhelming benefit of the public.

But let me make this clear. Although occupational pension matters are generally negotiated between and financed by employers and employees, the Government nevertheless does have a role to play. Most employees in occupational schemes have no option but to join the scheme as part of their contract of service. The Government cannot, therefore, turn a blind eye to any situation in which members may find themselves joining schemes with apparently favourable terms only to find the unfairness of those terms should they later leave that job. Basically that is the problem of the early leavers. The problem is that someone who leaves a scheme and goes to another job often leaves behind him a pension entitlement but that entitlement is frozen in real terms until the age of retirement. Alternatively, if he transfers his pension then the transfer value also reflects the frozen rights.

I do not believe that that position can be justified. In their 1981 report the Occupational Pensions Board declared that it remains a fact that many early leavers lose and they often lose substantially. It cannot make sense when job mobility is much more common than it used to be that the present position should continue. It also cannot be just that early leavers from pension schemes should suffer in relation to those who stay.

It was because of this concern that in September I convened a conference on early leavers. I do not pretend that there is total agreement but I think that there is now a very wide consensus and acceptance that reform is needed. Consequently the Government have now decided that it would be right to legislate at the next suitable opportunity.

The legislative changes we propose will be broadly on the lines of the Occupational Pension Board's major recommendation. They will require schemes to revalue the pension rights of early leavers up to the time when they take their pension by 5 per cent a year or, if prices rise by less than 5 per cent, by that amount. Next week I will be issuing a consultative document setting out the Government's proposals in greater detail and I would like to have reactions and comments by the end of February so that we can keep open the option, which has many attractions, of legislating next session.

A linked area in which we look for improvement in the operation of occupational pension schemes is the disclosure of information to members. It is important that members of pension schemes should not only be provided with full information about their own individual pension rights, particularly when they change jobs, but also have access to information about the general situation of the scheme itself, as revealed by audited accounts, actuarial valuations, annual trustee reports, investment reports, and so on. This was the subject of a further report by the Occupational Pensions Board in 1982. At the time of publication I said that the Government accepted in principle the need to legislate on disclosure of information to members of occupational pension schemes. I also announced the setting up of a working group of officials to consider the pensions law. I am considering their conclusions, which also cover the possibility of a register of occupational pension schemes, the need for trustees' and employers' responsibilities to be clarified, and the question of supervision. I will also pay careful attention to the outcome of Professor Gower's study on the protection of investors in and beneficiaries from pension funds. Once I have those proposals,

which I understand will be very shortly, I intend again to publish a consultative paper on these matters also. Again, the aim would be to start the consultative process early in 1984 so that these disclosure measures might be included in the same legislation proposed for early leavers.

on early leavers and disclosure
This much then has been decided for legislation/. But one of the proposals which is now attracting a great deal of attention is the proposal that individuals if they wish may be given the chance to have their own personalised pensions. This includes the proposal for personal and portable pensions which has been put forward by among others Mr Nigel Vinson. The aim would be to encourage schemes in which the individual member can be told what his personal stake in the pension fund is and in which he can identify the units of pension wealth he has built up. At the minimum this would promote greater interest in the development and investment of funds. The ultimate aim would be that people leaving a job would be able to take with them the pension wealth that they had built up in it.

The debate which has been opened up by this proposal for a portable pension has demonstrated both that the concept has considerable attraction to many people but that also there are considerable practical problems to be overcome. For example, there is the problem of the contracting out conditions needed for money purchase schemes and there is also the whole issue of the employers' contribution. Nevertheless, I believe that this proposal deserves careful study and it comes together with a number of other very important questions which will require decisions over the coming years in both the field of State and occupational pensions.

The question of personal portable pensions is only one aspect of pensions. There are a number of other important aspects of pensions which, of course, are of interest to everyone in this country that require study. There is the question of pension age; there is the question of the balance between the working population and

the retired population; and there is the whole question of demographic growth. These are issues which will crucially affect the expectations of millions of the public for twenty, thirty, forty years ahead.

Accordingly, the Government believe that it is the right time to set up a special inquiry into provision for retirement which I shall myself be chairing and whose terms of reference will be:

> "To study the future development, adequacy and costs of State, occupational and private provision for retirement in the United Kingdom, including the portability of pension rights, and to consider possible changes in those arrangements, taking account of the recommendations of the Select Committee on Social Services in their report on retirement age".

Pension Age

I have already mentioned one of the important issues which the inquiry will need to look at in depth. That is the scope for personal portable pensions. Another major issue to be tackled by the inquiry is that of pension age. The House here has the benefit of the report of the Select Committee on Social Services on this subject but the decisions to be faced could involve very substantial costs to be borne by future generations of contributors. That cannot be considered in isolation from other pensions issues.

The House will be debating this matter on Friday when my right hon Friend, the Member for Eastleigh, moves the second reading of his bill on pension age. And I am tomorrow publishing the Government's response to that Select Committee report. It will, of course, refer to the forthcoming inquiry. This will all form an integral part of that inquiry.

DEMOGRAPHY

Another important issue is possible changes that might occur in the age structure of the population over the next forty years. The present projections show a patchwork with falls as well as rises in the numbers of old people relative to the rest of the population. The numbers of people over 65 - who have risen by more than one-third over the past twenty years - will now remain more or less stable as a proportion of the population until about 2010. Thereafter, they will increase quite rapidly.

Estimates of future pension costs must, of course, depend very much on assumptions about matters like the future age structure of the population. Other crucial assumptions are about price increases and earnings increases. Let me illustrate this from the recent report by the Government Actuary on long-term pension costs. On the least favourable assumption about the real increase in earnings, the Government Actuary's report shows that Class 1 contribution rates would increase from 15.4 per cent in 1985/86 to 21.9 per cent in 2025/26. On another assumption, that the real increase in earnings is in line with the historic growth of 2 per cent and that the pension remains price-protected, the contribution rate would fall in the same period from 15.4 per cent to 13.5 per cent. What this underlines is the importance of reviewing the whole position very carefully before taking decisions.

As to membership of the Inquiry, it will include other Government Ministers and the Government Actuary as well as figures from outside the Government. These will include Mr Stewart Lyon, President of the Institute of Actuaries, Mr Marshall Field, Chairman of the Joint Working Group of the main occupational pensions organisations and Professor Alan Peacock of the Independent University of Buckingham.

There is I think one other important point to make. No-one can doubt the public importance of pensions policy. These are issues for public debate and accordingly I would like to conduct this Inquiry as openly as possible. The public, employers, unions, pensions interests, will all be invited to express their views and they will be free to make their evidence public. Certainly also we will expect to have some public sessions. But I do not envisage this as an Inquiry which goes on for year after year.

My aim is to produce conclusions from the early stages, particularly on portable pensions, by the Spring. I hope that the Inquiry will be completed by next Summer [or Autumn], and the Government will publish their conclusions from it as soon as possible afterwards.

Conclusions

Provision for retirement is an issue in which we all have an interest. We have a duty to satisfy ourselves that the pension promises of today will become the pension payments of tomorrow. My aim in setting up an Inquiry is not to call in question the pensions structure that was established in the 1970s with all party agreement. On the contrary, it is to ensure:

- that our pensions structure is soundly based;

- that it is fair as between contributors and beneficiaries and as between all scheme members;

- and that it continues to command the support of the community as a whole.

A responsible Government must look ahead. Only in that way can we be sure that successive generations of pensioners get the pensions they need and deserve. We are proud of what this Government has done for pensioners since 1979. I want to see that record maintained for future generations of pensioners.

[Mr. Meacher]

consequences will not only be those set out in our motion —lower living standards. There will also be the loss of the care on which they depend and which they desperately need, and unquestionably for some it will mean premature death. Last Friday I visited Thornton Heath hospital in Bradford, of which the Minister will be aware, where 70 frail elderly patients are looked after lovingly by staff whose devotion to them led them to occupy the hospital. Now it is threatened with closure by the so-called Lawson cuts. It is the only home that those elderly and helpless patients know. If the Government cuts force its closure, and that of many similar hospitals, it will almost certainly mean that half of the patients will die within about three months. That is what happened when the Government forced the closure of St. Benedict's hospital, and the story is being repeated all over Britain. The elderly are suffering, and the consequences are tragic.

Is that what we have come to in Britain? Do not the pensioners, who have served Britain with their labour for all their lives, deserve better from us? Are not the indignities and deprivations that I mentioned, and the multiple hardships that are being heaped on millions of pensioners, an indictment of the nation and of this Government, who have made it all too clear that their priority is to stuff the pockets of the rich with gold, even if it means that the elderly and the poor go without food and suffer the cold?

We believe in a better society, a society where pensioners share in rising living standards, where expanding health and personal social services provide a base for security and dignity in old age, and where the needs of the elderly are not sacrificed to he interests of those who have wealth and power. It is because we not only believe in that but have shown in the past how on each count rhetoric can be matched by action, that I call on all my right hon. and hon. Friends and all other hon. Members who share our ideals to vote for our motion tonight.

Mr. Deputy Speaker: I inform the House that Mr. Speaker has selected the amendment standing in the name of the Prime Minister.

5.40 pm

The Secretary of State for Social Services (Mr. Norman Fowler): I beg to move, to leave out from "House" to the end of the Question and to add instead thereof:

"congratulates Her Majesty's Government for successive increases in retirement pensions which have increased the purchasing power of nine million pensioners since 1978-79; recognises the success of this Government's economic policies in reducing and controlling inflation; and notes that the greatest single threat to the security, savings, and living standards of pensioners would be the reversal of these policies."

I again welcome the hon. Member for Oldham, West (Mr. Meacher) to his new job and to his first debate in that capacity. He comes to these debates with a record of his own, because he was a junior Minister at the Department of Health and Social Security in the Labour Government between June 1975 and April 1976. That period was significant for pensioners in a number of ways which it appears have temporarily escaped the hon. Gentleman's memory.

First, my hon. Friend the Member for Birmingham, Edgbaston (Mrs. Knight) was right in what she said. The hon. Gentleman did not say much about the rate of inflation during his time at the Department of Health and Social Security. During that period, inflation was destroying pensioners' savings at a record rate. It was the highest inflation rate for generations. During his period at the DHSS it reached 26·9 per cent. So the hon. Gentleman is uniquely qualified to talk about the effects of inflation on the pensioner.

Secondly, there was the matter of the Christmas bonus. The hon. Gentleman did not mention that, although he mentioned virtually everything else. Opposition Members now say a great deal about increasing that bonus, but it should be remembered that in 1975 and 1976 the Labour Government did not pay a Christmas bonus at all.

Thirdly, and most significant — this is particularly important, bearing in mind the hon. Gentleman's remarks about cynically changing the system — he did not say that during his time as a Minister at the DHSS, Ministers decided to change the uprating basis. They decided to switch from the historic to the forecast method. That meant one thing, and one thing alone: they did not pay pensioners for the period when inflation was at its highest. As a result, the Labour Government, who should have paid 21 per cent. on the historic method, paid 15 per cent., thereby saving themselves £500 million. At today's prices that is more than £1 billion. Therefore, we shall not take lectures from the hon. Gentleman.

Mr. Meacher: No doubt the Secretary of State has had Conservative Central Office, as well as his Department, working flat out to find criticisms, so I hope he will accept that what he has said is remarkably feeble. Bearing in mind the three criticisms that he has made, will he confirm that pensions rose by 20 per cent. over and above inflation during the Labour Government's five years in office and that under his Administration and that of his predecessors pensions rose by 3 per cent.?

Mr. Fowler: If the hon. Gentleman regards the three criticisms that I made of his record as feeble, I should tell him that there are many other criticisms that we shall make of it. It would be a mistake for the House to believe that in his period at the DHSS he was seen as the unquestioned hero of the pensioners. I quote from *The Times* of 11 March 1976, which, for the hon. Gentleman, had the rather unpromising headline:

"Minister shouted down at pensions rally."

The report says:

"old age pensioners shouted down Mr. Meacher, Under Secretary of State at the Department of Health and Social Security, yesterday as he tried to explain the Government's record on pensions."

Before the hon. Gentleman claims that it was a meeting of retired Conservative agents, I should point out that it was a rally of 2,000 pensioners from all over the country, and it was organised by a trade union action committee. The hon. Gentleman has a great deal to be modest about on his own record, and we on the Conservative Benches do not feel inclined to take lectures from him.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Before the Secretary of State leaves the three points of criticism, one of which was the Christmas bonus, will he be announcing an increase in the Christmas bonus? Is he aware that to maintain it at the level at which it was introduced, it should now be £38? Will he accept the early-day motion that was signed by many of his colleagues,

including the hon. Member for Watford (Mr. Garel-Jones), who has conveniently disappeared? Ah, there he is! Will the Secretary of State announce an increase in the Christmas bonus today, because this is the perfect opportunity?

Mr. Fowler: The hon. Gentleman's eyesight is about as bad as his points. My answer is that we have no intention of abolishing it this Christmas, which is what the hon. Member for Oldham, West did.

Mr. Simon Hughes (Southwark and Bermondsey): Before the Secretary of State leaves the subject of meeting pensioners, is he prepared to say that he will leave the doors of his office and come and meet the hundreds of pensioners in Southwark who today said that the Labour Government's record was inadequate, but that this Government's record was considerably worse? Does he accept that pensioners in Britain are worse off than pensioners in any other state in the European Community?

Mr. Fowler: I shall do a deal with the hon. Gentleman. Rather than leaving the doors of my office, I will open the doors of my office and he can bring a delegation of pensioners to see me.

Mr. Hughes: The only problem is that the Minister's colleagues might be a little perturbed to see 700 pensioners coming up the escalators at Alexander Fleming house. However, if the offer is on, I shall certainly accept it.

Mr. Fowler: The offer is on, and I should be delighted to see a representative delegation.

I say that Conservative Members are not prepared to accept lectures from the hon. Member for Oldham, West for three major reasons. First, the motion that stands in the name of the hon. Gentleman and his colleagues is headed:

"Pensioners' Loss of Purchasing Power."

The hon. Gentleman in his speech ranged from the new method of uprating to the changes in housing benefit. I shall come to those points, because they are clearly important.

If this debate is about living standards, I should have thought that the hon. Gentleman's starting point would have been the rate of inflation. The fact that inflation is down to levels not experienced since the 1960s is surely one of the Government's main dramatic achievements and contributions to the living standards of retired people who, all too often in the past, saw their savings slashed in real value. The single greatest threat to the financial security of old people is the prospect of a return to the levels of inflation which so ravaged the country in the mid-1970s.

There was a period when that fact was recognised by the Labour Front Bench. The White Paper "The Attack on Inflation" published in July 1975 noted that prices had risen by 25 per cent.

In unequivocal terms it declared:

"This must not go on. Failure to control inflation would mean massive and indiscriminate cuts in public expenditure with crippling damage to the social services. Success in controlling inflation is the best guarantee against this."

That statement is as true today as it was then.

The tragedy of the Labour party is that the bitter truths that were learnt then have been forgotten, but the people of this country have not forgotten that the previous Labour Government presided over a rise in prices of 110 per cent. That is particularly true of retired people who, as my hon. Friend the Member for Edgbaston said, saw the real value of their savings eroded and the security of their fixed incomes shattered.

It is fair to say that retired people expect the Government to protect their savings, and I believe that the Government have a duty to do that. It is not enough for any Government to say that they have kept national insurance pensions in line with the cost of living index and to ignore the rate of price increases. If inflation rises at 20 per cent. a year, that not only erodes savings and eats into occupational pensions—many occupational pensions are not index linked—but it destroys the base of industry from which the resources for social provision can come.

Any Government who are serious about maintaining pensioners' living standards must also be serious about reducing inflation in this country. The public can judge for themselves in which party they have the most confidence.

I cannot accept the charges made by the Opposition, even on their own terms. I accept that the Government have responsibility to provide not just for national insurance pensions but for extra help for those who need it. The facts are that, in spite of the worst recession since the end of the second world war, we are currently spending £35 billion a year on the social security budget. As a result of the Chancellor of the Exchequer's statement last week, net spending next year will increase to almost £37 billion. By any standard, that is an enormous budget, amounting to nearly 30 per cent. of all public spending. Over half of that is devoted to pensioners and the elderly.

Mr. David Winnick (Walsall, North): Does the Minister accept that the increases in fuel prices will be a nightmare for many pensioners during the winter? Do the Government intend to help any of the 2 million pensioners who are not on supplementary benefit but are in receipt of rent and rate rebates and do not receive a penny towards their fuel bills? Does he recognise the hardship, nightmares and agony suffered by those who cannot afford an increase in fuel prices? The price of gas has increased by 116 per cent. during the past four years, which is double the increase in the retail price index.

Mr. Fowler: I recognise those problems. I hope that the hon. Gentleman recognises that expenditure on heating additions will be about £100 million more this year in real terms than during the last year of the Labour Government.

It is important to say that the improvement in benefits payable from this week means that the Government have more than fulfilled their pledge to protect the real value of pensions. This week's uprating takes the pension 75 per cent. above the rate in November 1978. Over the same period the retail price index increased by about 70 per cent.

We have raised the capital limit for supplementary pensions by 20 per cent. to £3,000. We have also increased the single payments limit and introduced a £1,500 disregard of the surrender value of life assurance policies. In the last Budget, tax thresholds were increased, benefiting people on lower incomes and taking about 1·25 million people out of tax altogether—and many of those were pensioners. The hon. Member for Oldham, West will have heard the Chancellor of the Exchequer's statement last week. He will know, therefore, that we have made provision for not only pensions but other benefits—supplementary benefit, unemployment benefit and child benefit—which will be increased in line with prices next year.

Mr. Jeff Rooker (Birmingham, Perry Barr): Will the Secretary of State assure the House that in operating the commitment that he has just given about the increase in

[Mr. Jeff Rooker]

benefit next year, there will be no fudging of figures as in the cuts in this week's increase to pensioners with children and widowed mothers?

Mr. Fowler: There will be no fudging of figures. I can also give an assurance on one of the points raised by the hon. Member for Oldham, West about widows. We do not intend to change the position of widows.

Mr. Rooker: I said "widowed mothers."

Mr. Fowler: We had to make some economies in this year's budget. We made no secret of it. It would have been remarkable in a budget of £37 billion had we not. The hon. Member for Oldham, West must remember that expenditure on housing benefit currently amounts to something approaching £4 billion. It goes to almost 7 million households and affects 21 million people. The changes to come into effect next April will amount to less than 5 per cent. of total spending and will leave 6·3 million households receiving help. Moreover, we have specifically desiged the changes to protect poorer households, and that includes the pensioners.

The hon. Gentleman made the further point that we have changed the system of uprating, from the forecast to the historic or actual method, to the disadvantage of pensioners. I have already touched on the reasons why we moved to the forecast system in the first place. If anyone wants confirmation of the motivation of the then Labour Government for that change, they have only to read the memoirs of the former Chief Secretary to the Treasury, Lord Barnett, who said:

> "The reason was simple: with inflation forecast to show a substantial fall, if we had not made such a change, we would be increasing pensions and other benefits by nearly 30 per cent."

There is no doubt why the Labour Government moved that way. They moved for no reason other than to make a once and for all saving at the expense of pensioners. What also became clear later was that the forecast method with which they then lumbered the country was more often wrong than right. During the past seven years, forecasts have been wrong five times. Sometimes there has been an overestimate and sometimes an underestimate of inflation. The measure used to determine pensions and benefits for millions of people was shown to be three times more likely to be wrong than right.

So in the Social Security and Housing Benefits Act which we introduced in April this year, the system was changed and we returned to the actual method of measurement. In other words, we have the benefit of an exact measurement of inflation between May in one year and May in another, and that figure becomes available in June and forms the basis of the November uprating.

If I may say so, there is one significant difference between our proposal and what the Labour Government did in 1976. In 1976, the Labour Government made a once and for all saving. There was no way in which pensioners could ever catch up with the £500 million that they had lost. By definition, as the hon. Gentleman said, under our system if there should be an increase in inflation between May and the November uprating, then it is automatically taken account of in the following uprating. These arguments were fully and extensively debated earlier this year, as the hon. Member for Birmingham, Perry Bar (Mr. Rooker) would be the first to confirm, not only in the House, but throughout the general election campaign. There was nothing hidden about the change.

There is one further important point that I should like to make. There are wider issues involving pensions policy. The decisions that we take now affect the entitlement of people in 20, 30 or 40 years' time. The hon. Member for Oldham, West is clearly right to be concerned about this year's uprating of national insurance pensions, but it is surely also right for him to be concerned about future generations of pensioners. There was little mention in his speech of occupational pensions.

At present 11·5 million people in this country are covered by occupational pensions. It is right that their interests should be protected as well, and that was at least part of the intention of the Social Security Pensions Act 1975. Like the hon. Member for Oldham, West I pay tribute to Brian O'Malley for his work on that Act. The Conservative party, then in Opposition, gave an unopposed Second Reading to that measure. We did so because on pensions policy it is necessary to have a degree of agreement between parties on the way ahead. Prior to that legislation various schemes had been put forward but had perished. There was the Crossman scheme and the scheme of my right hon. Friend the Member for Leeds, North-East (Sir K. Joseph). We on this side of the House—and I was chief Opposition spokesman at that time—took the view that this uncertainty could not go on. We sought the views of the pensions industry, which overwhelmingly advised that we should proceed on the basis of the proposals contained in the 1975 Bill and that there should be a firm long-term basis for pensions development.

Mr. Bidwell *rose*——

Mr. Fowler: The result has been a partnership between the Government and the occupational schemes in the provision of pensions. That partnership has been to the overwhelming benefit of the public.

Although occupational pensions matters are generally negotiated and financed by employers and employees, the Government have a role to play in this area. Most employees in occupational schemes have no option but to join the schemes as part of their contracts of service. The Government, therefore, cannot turn a blind eye when members join schemes with apparently favourable terms only to find the unfairness of those terms should they later leave that particular job. Basically that is the position of early leavers at the moment. The problem is that someone who leaves a scheme and goes to another job often leaves behind him a pension entitlement, but that entitlement is frozen until the age of retirement. Alternatively, if he transfers his pension, the transfer value also reflects the frozen rights. I do not believe that that position can be justified. In its 1981 report the Occupational Pensions Board declared that it remained a fact that many early leavers lose and often lose substantially and that it cannot be just that early leavers from pension schemes should suffer in relation to those who stay.

Because of this concern, in September I convened conference on early leavers. I do not pretend that the complete agreement, but there is now a wide con and acceptance that reform is needed.

Mr. Bidwell *rose*——

Mr. Fowler: Consequently the Government have now decided that it would be right to legislate at the next suitable opportunity.

The legislative changes we propose will be broadly on the lines of the Occupational Pensions Board's majority recommendation. They will require schemes to revalue pension rights of future early leavers up to the time when they take their pension by 5 per cent. a year or, if prices rise by less than 5 per cent., by that amount. Next week I shall be issuing a consultative document setting out the Government's proposals in greater detail, and I should like to have reactions and comments by the end of February so that we can keep open the option, which has many attractions, of legislating in the next Session.

Mr. Bidwell: We accept, because of the forward-looking projects with which the right hon. Gentleman has been dealing, that under any future Government pensioners, in relation to the rest of the country, will be better off because improvements in occupational pension schemes are proceeding apace. But the immediate problem involves those who had no chance of contributing in a substantial way to occupational pension schemes. Does the Minister accept that the more the value of the state retirement pension is eroded, flattened out or sustained, the greater will be the administrative costs of seeing whether people are entitled to supplementary benefit? The myriad extra benefits available to people struggling for dignity will mean more administrative costs. Has the Department taken that on board? I do not think that the previous Labour Government went into it exhaustively.

Mr. Fowler: The adequacy of pension provision now and in the future is a fundamental matter with which any Government must be concerned. I shall return to that point.

Mr. Meacher: The Secretary of State is apparently using the opportunity of the debate to make an important statement about the early leaver problem. Will he undertake to make a formal statement to the House, because there are many other issues, such as disclosure of information and the policing and regulation of schemes, on which the House has a right to question him? Will he make a statement on another occasion?

Mr. Fowler: I cannot give that undertaking, but it is fair in a debate on pension for me to announce the Government's pensions policy. If I do not have many more interruptions, the hon. Gentleman and other hon. Members who wish to take part in the debate will have a full three and a half hours to go over this point. I will do what I can to provide further information to the hon. Gentleman. I stand by what I said. It is important in this area to have as much agreement as possible. I appreciate and understand that there will be differences between us on pensions policy, but it is important to try to seek as much agreement as we can.

A linked area in which we look for improvement in the operation of occupational pension schemes is the disclosure of information to members, to which the hon. Member for Oldham, West has just referred. It is important that members of pension schemes should not only be provided with full information about their individual rights, particularly when they change jobs, but have access to information about the general situation of the scheme, as revealed by the audited accounts, actuarial valuations, annual trustee reports, investment reports and so on. There should be as much information as possible. That was the subject of a further report by the Occupational Pensions Board in 1982. At the time of publication I said that the Government accepted in principle the need to legislate on the disclosure of information to members of occupational pension schemes.

I also announced the setting up of a working party of officials to consider the pensions law. I am considering its conclusions, which also cover the possibility of a register of occupational pension schemes, the need for trustees' and employers' responsibilities to be clarified, and the issue of supervision. I shall also pay careful attention to the outcome of Professor Gower's study on the protection of investors in, and beneficiaries from, pension funds. When I have seen those proposals—which I understand will be ready very shortly—I intend again to publish a consultative paper with the aim of starting the consultative process early in 1984 so that those disclosure measures might be included in the legislation proposed for early leavers.

That much has been decided for legislation on early leavers and disclosure. But one of the proposals that is now attracting a great deal of attention is the proposal that individuals, if they wish, may be given the chance to have their own personalised pensions. This includes the proposal for personal and portable pensions, which has been put forward by, among others, Mr. Nigel Vinson. The aim is to encourage schemes in which the individual member knows what his personal stake in the pension fund is and can identify the units of pension wealth that he has built up. At the minimum, this would promote greater interest in the development and investment of funds, but the ultimate aim would be that people leaving a job would be able to take with them the pension wealth that they had built up in that scheme.

The debate that has been opened up by this proposal for a portable pension scheme has demonstrated not only that the concept has considerable attractions to many people, but that there are considerable practical problems to be overcome. For example, there is the old problem and question of contracting-out conditions, and the whole issue of the employer's contribution. Nevertheless, I believe that this proposal deserves careful study, and it comes together with a number of other very important questions that will require decisions in the coming years in relation to state and occupational pensions. There are the questions of pension age, of the balance between the working population and the retired population and of demographic growth. Those issues will crucially affect the expectations of millions of people for 20, 30, 40 years ahead.

Accordingly, the Government believe that it is the right time to set up a special inquiry into provision for retirement, which I shall be chairing, which will study the future development, adequacy and costs of state, occupational and private provisions for retirement in the United Kingdom, including the portability of pension rights, and consider possible changes in those arrangements, taking account of the recommendations of the Select Committee on Social Services in its report on retirement age.

The House has the benefit of the report of the Select Committee on Social Services on pension age, but the decisions to be faced could obviously involve substanti costs to be borne by future generations of contributors that cannot be considered in isolation from other pe

[Mr. Fowler]

issues. The House will be debating the matter on Friday, when my hon. Friend the Member for Eastleigh (Sir D. Price) moves the Second Reading of his Bill on pension age. I shall tomorrow publish the Government's response to that Select Committee report, and that will make it clear that the report will form an integral part of the inquiry.

Another important issue concerns changes that might occur in the age structure of the population in the next 40 years, and, if I may say so, it is important to look carefully at the position. The present projections show a patchwork that falls as well as rises in the numbers of old people relative to the rest of the population. The number of people over 65, having risen by more than one third in the past 20 years, will now remain more or less stable as a proportion of the population until about 2010. Thereafter, indications are that the proportion of elderly people will increase quite rapidly.

Estimates of future pension costs must also depend on assumptions about matters such as the future age structure of the population. But they also depend on other assumptions — for instance, about price and earnings increases. I will illustrate this from the recent report by the Government Actuary on long-term pension costs — a subject about which the hon. Member for Perry Barr often talks. On the least favourable assumption about the real increase in earnings, the Government Actuary's report shows that class 1 contribution rates would increase from 15·4 per cent. now to 21·9 per cent. in 2025. On another assumption—that the real increase in earnings is in line with the historic growth of 2 per cent. and that the pension remains price-protected — the contribution rate would fall in the same period to 13·5 per cent. That underlines the importance of reviewing the whole position carefully before reaching conclusions, and that basically is what the inquiry will be about.

The membership of the inquiry will include Ministers from the other Departments most concerned, the Government Actuary and figures outside the Government. I am not giving a comprehensive list, but they will include people such as Mr. Stewart Lyon, president of the Institute of Actuaries; Mr. Marshall Field, chairman of the joint working group of the main occupational pensions organisations; and the eminent economist, Professor Alan Peacock.

There is I think one other important point to make. No one can doubt the public importance of pensions policy. These are important issues for public debate, and accordingly I shall conduct the inquiry as openly as possible. The public, employers, unions and pension interests will all be invited to express their views, and they will be free to make their evidence public. Certainly, we will also expect to have some public sessions, but I do not envisage this inquiry going on for years. My aim is to produce conclusions—for example, on portable pensions — by the spring. I hope that the inquiry will be completed by next summer or autumn, and following that the Government will publish their conclusions as soon as possible.

Mrs. Jill Knight: Will my right hon,. Friend make sure that when the inquiry is at work it looks with a very jaundiced eye indeed at some of the figures that were put forward today by the hon. Member for Oldham, West (Mr. Meacher), who said that in Birmingham hundreds of thousands of pensioners were in difficulty over their rents —[HON. MEMBERS: "No."] I have checked the figures. Considering the size of the population of Birmingham and the fact that 40 per cent. of households may be receiving housing benefit, it would be impossible for the figure to be anywhere near that mentioned by the hon. Gentleman, even if no cases had been settled, but I know from experience that many have been settled.

Mr. Fowler: I am grateful to my hon. Friend. I am sure that the point she raised will be mentioned in the debate.

Provision for retirement is an issue in which hon. Members in all parts of the House have an interest. We have a duty to satisfy ourselves that the pension promises of today can become the pension payments of tomorrow. My aim in setting up an inquiry is not to call into question the fundamental pensions structure that was established in the 1970s with all-party agreement, and to which I was a party. Rather, it is to ensure that our pensions structure is soundly based, that it is fair as between contributors and beneficiaries as well as between all scheme members and that it continues to command the support of the community as a whole.

A responsible Government must look ahead. Only in that way can we be sure that successive generations of pensioners get the pensions that they need and deserve. We stand by what this Government have done for pensioners since 1979, and I want to see that record maintained for future generations of pensioners.

6.18 pm

Mr. Donald Stewart (Western Isles): The Secretary of State based much of his defence of the Government on the need to keep inflation down, and pensioners, like the rest of us, are happy to see inflation coming down. However, that is not sufficient to answer the charge that is being levelled against the Government in this debate.

Special housing, day care, residential and other facilities for pensioners are already inadequate. The social benefits system is already under strain and attack, and it also is inadequate. If there are problems now, there will be much greater problems in a few years. By 1986, there will a large bulge in the aged population, and in Scotland 864,000 people will fall into that category. In the following years, an increasing proportion of the population will be becoming elderly with a smaller proportion of the economically active population supporting them. If unemployment figures are not drastically reduced, the system will be even more insupportable.

The nost suitable accommodation for the growing number of frail and elderly people in Scotland will be sheltered houses and, in some cases, residential care. Officially, it is necessariy to have 50 sheltered houses per 1,000 people aged 65 and over. In my view, this is a gross under-estimation of needs, given the appalling housing conditions that many old people must endure.

According to "Scottish Housing Statistics" and the "Scottish Abstract of Statistics", the 1983 edition, 9,458 sheltered houses provided 15,500 places in 1981. I doubt that conditions have improved dramatically during the pa couple of years. Perhaps the Minister will enlighten u that point. According to projected 1986 figures f elderly in Scotland, we shall need 56,200 housing places. That is judged by the official 65 places per 1,000 people aged 65 and ove

The current level of pensions is scandalo have always been under-provided with pe

CONFIDENTIAL

c TF

Ref. No: SS (83) 17
22.11.83

28/11

Members of Parliament may find the enclosed useful for the debate on The Opposition Motion, The Government's Attack on the Pensioners' Standard of Living.

Wednesday 23rd November 1983

House of Commons

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Mrs Christina Dykes

Some 9 million people in the UK are over retirement age. In 1984/85 the Government will spend £36,850 million on social service benefits, about half going to pensioners.

1. Higher Pensions

The Government's pledge to protect the values of pensions against rising prices has been full redeemed. The retirement pension has risen as follows:

£ per week

	November 1978	November 1982	November 1983
Single	19.50	32.85	34.05
Married	31.20	52.55	54.50

This increase of 74.6 per cent compares with an estimated increase in prices over the same period of 69.1 per cent (assuming that inflation in November 1983 will be the same as in October 1983: a very large increase would be needed to take the figure over 70 per cent). So retirement pensions have increased in real terms since the Conservatives came to office.

Pensions have also risen faster than the pensioners' price indices. The Pensioners Price Indices provide a guide to price changes as they affect poor pensioner households - single pension or two pension households where at least ¾ of income derives from state pensions and benefits. The PPIs give greater weight of expenditure on basic essentials such as food and fuel and light when compared with spending on the RPI. However, the PPIs are not used as a measure of the general effect of price increases on pensioners for the following reasons.

a) The PPI's measure the changes in cost on pensioner households on low income ie a household in this context is generally one where at least ¾ of the total income comes from state pensions or benefits. As such they only apply to over 11 per cent of all households and they only cover two-fifths of pensioners.

b) They are not considered to provide a better indication of the spending patterns of pensioners generally than the RPI. The one person PPI in particular is especially influenced by the extreme patterns of expenditure which occur by there being only one person in the household.

c) The PPIs do not cover housing costs because of difficulties in measuring price changes for housing as they affect pensioners households.

Direct comparison between the PPIs and the RPI are difficult because the former is only measured quarterly. However, since the last quarter of 1978 to the latest available figures ie the third quarter of 1983 the PPIs have not risen as fast as the general RPI. For example, the one person PPI rose between these dates by 62.7 per cent and the two persons PPI rose by 62.4 per cent. The general RPI rose between November 1978 to Septmber 1983 by 67.7 per cent. (The RPI less housing rose slightly less in the same period than the PPIs - ie it rose between quarter 4 1978 and quarter 3 1983 by 61.7 per cent).

Above all these figures has been the pension increase to November 1983 of 74.6 per cent.

The magnitude of this achievement has to be seen in the context of the growth of the pensioner population. The number of pensioners has risen from 8.5 million in 1978-9 to 9.1 million in the benefit year of 1982-3 - a rise of 600,000 or 7 per cent.

Earnings Rule

The Government is committed to abolish the earnings rule as soon as it is able. Between November 1978 and November 1982 the earnings rule limit was raised from £45 a week to £57 per week. From November 1983 this limit will be raised by ₱4 per cent to £65 a week.

2. Methods of Calculating Pension Increases.

1 Recent History

Earnings Link. Under the last Conservative Government, the Social Security Act 1973 was passed to ensure that pensions and other social security benefits were raised each year at least in line with prices. When Labour came into office they introduced further legislation, the National Insurance Act 1974 which linked pensions and other long-term benefits to the movement of prices or earnings, whichever was more favourable.

In practice, the earnings link was too expensive for any government to sustain, and Labour was driven to some strange measures in order to get round it. For example, in 1976 pensions were raised by less than the increase in prices or earnings (see below); in November 1977 the earnings link did not apply as prices rose faster than earnings, but in November 1978 Labour gave a pension increase of 11.4 per cent, although earnings rose by 13.3 per cent. In March 1979, Labour proposed a pension increase of 12.8 per cent at a time when earnings were rising by about 15 per cent. (Hansard, 28th March 1979, Col 482).

The then Labour Secretary of State for Social Services, Mr David Ennals, made the surprising admission that the earnings link was not necessarily enforceable in a court of law. When tackled about the 1978 pensions deficiency, he replied cynically that:

> 'There is a statutory obligation to take these figures (ie earnings) into account, which was done, but no statutory obligation to get it right' (Pensioners Voice, January 1979).

The abolition of the earnings link under the Social Security (No 2) Act 1980 was therefore a sensible and overdue measure. Mr Patrick Jenkin, then Secretary of State for Social Services, emphasised that:

> 'The Bill contains a guarantee for pensioners against rising prices. My Right Hon friends and I have repeatedly committed ourselves to ensure that pensioners share in rising prosperity..... this is a more realistic a more honest and, above all, a more sustainable prospectus' (Hansard 20th December 1979, col 903).

Historic and Forecast methods. Up to 1976, increases in benefits were based on the historic or actual rise in prices or earnings that existed at the time of the uprating announcement. In March 1976, when the uprating for the following November was announced, this would have meant an increase in all benefits of 21.2 per cent to match the then rate of inflation. (Pensions and other long-term benefits, as explained earlier, were linked to the annual rise in prices or earnings; but earnings were rising by the lesser figure of 19.4 per cent, so the increase in prices was the one that would have counted.)

In the event, Lady Castle dispensed with the historic method of calculation and increased pensions by 15 per cent. This was done by switching to a forecast method, based on the estimated rise in prices or earnings in the year to November. This meant that pensioners and others received £500 million less than under the old system, a loss equivalent to about £1,000 million at current prices. (Hansard, 8th November 1982, col 400).

The forecast method had a further disadvantage. It was usually wrong. Even when the forecast was restricted to prices (the earnings link was abolished after 1979, as explained earlier), it proved to be 1 per cent too high in 1980, 2 per cent too low in 1981 and 2.7 per cent too high in 1982.

2. This Year's Increase

The Government has decided to revert to the historic method of calculating pensions increases. This year's increase of £1.20 for a single person and £1.95 for a couple or 3.7 per cent, will be based on the inflation rate last May. If the inflation rate rises between May and November 1983 then any shortfall will be accounted for in the calculation next year; IE any shortfall in 1983-4 will be balanced in 1984-5. It should also be borne in mind that the variations in the rate of inflation, whether up or down, are estimated to be small, perhaps of the order of one or two per cent, so that any temporary discrepancy between pension increases and inflation should be small.

3. Inflation: the Pensioner's Greatest Enemy

Inflation is the greatest enemy of the retired because it erodes the value of their savings and any fixed income (eg a small fixed occupational pension) they may have. Under Labour, pensioners saw the value of their savings gravely undermined by rising prices. Mr Fowler pointed out that between 1974 and 1979:

> 'inflation went up by 110 per cent. Pensioners with savings of, say, £5,000 saw the real value of those savings halved under the Labour Government' (Hansard, 8th November 1982, cols 333-4).

The Government's economic strategy therefore continues to be directed towards reducing the rate of inflation, a process from which pensioners especially stand to gain. Indeed, pensioners have long recognised that their interests are best safeguarded by the Conservatives.

4. Christmas Bonus

The Christmas Bonus which Labour failed to pay in 1975 and 1976, will continue to be paid every year in accordance with the law passed by the Conservative Government in 1979. Mr Joel Barnett, then Labour's Chief Secretary to the Treasury, had revealed that even in 1978 the bonus had almost to be forced on DHSS Ministers: 'The Christmas Bonus was a very low priority for both David Enmal and Stan Orme, and it had to be almost forced on them' (Inside the Treasury, Andre Deutsch, 1982).

5. Supplementary Benefit

Supplementary Benefits, the 'safety net" providing a minimum level of income to many pensioners (among others). The supplementary benefit scale rates have been increased by 4.3 per cent in November 1983. This is in line with the Retail Price Index after the exclusion of housing costs

Thus the long term supplementary scale rates which since June 1983 men aged 60 or over on supplementary benefit can qualify for immediately (ie without having to wait for a qualifying year on the lower short-term rate), have been increased as follows.

	November 1978	November 1982	November 1983	%age increase
Long-term rate				
Single	19.90	32.70	34.10	71.3
Married	31.55	52.30	54.55	72.9

Heating Additions

Since November 1980, the basic heating additions is paid automatically to householders aged 70 or over on supplementary benefit. The rates have been increased substantially since 1978, with the two higher rates being consolidated into one. The increase in November 1983 (over November 1982 level) will be 8.6 per cent to reflect the rise in fuel costs in the last year.

£ per week

	November 1979	November 1980	November 1982	November 1983
Basic rate	0.95	1.40	1.90	2.05
Higher rate	1.90 or 2.85	3.40	4.65	5.05

Overall, the Conservative Government is providing more help with heating costs than was given by the last Labour Government, both in cash terms and in real terms.

The table below shows expenditure in Britain on help with heating costs under Labour and under the Conservatives. That includes supplementary benefit heating additions; extra help towards heating costs through Family Income Supplement; and expenditure through the Electricity Discount Scheme (in 1978-79) which was discontinued by the present Government:

Expenditure on Heating Costs

	Current Prices £m	Constant 1982-3 Prices £m
1978-9 (Labour)	125	201
1982-3 (Conservative)	325	325

(Hansard 16th April 1981, WA, col 289; 31st January 1983, WA col 27 and 11th March 1983, WA col 526).

6. Gas and Electricity Prices

The increase in Heating Additions (see above) of 8.6 per cent will protect the poorest pensioners - those on supplementary benefit against rises in energy prices. Other points which should be made include:

a) In real terms gas prices are closer to what they were in 1970 - prior to the massive increase in energy costs.

b) Energy subsidies are not efficient - they encouraged waste, and the depletion of fuel reserves. Funds which would be spent on subsidies (or revenues which are lost through not raising prices) are better spent helping the poorest to meet their fuel bills (through Heating Additions). In this way energy conservation, and protection of the poorest, can be pursued simultaneously.

c) Labour susidised domestic gas prices by overcharging industrial users. In 1979, when the Conservatives came to power, British Gas was making a loss on domestic gas sales. This inbalance has now been rectified: it is in everyone's interests that the wealth-producing part of society should have been given fairer treatment.

d) The electricity industry's so-called 'massive profits' represent a return of just 1½ per cent on captial employed.

7. Transport

i) Outside London

Concessionary fares for pensioners are a matter for local authorities. In many instances, concessionary fares are not seen as the most appropriate answer to local needs. The Secretary of State for Transport, Mr Nicholas Ridley, recently quoted the following statement from the Labour Government's 1977 White Paper on transport: 'The Government does not consider that a mandatory national concessionary fares schemes would be appropriate' (Hansard, 14th November 1978, col 600).

ii) London

The Government's policy is to transfer responsibility for pensioners' concessionary fares from the GLC (when abolished) to the boroughs. The London Boroughs Association, in a statement on 20th October 1983, agreed to take over the concessionary fares schemes, and to run it on the basis of the existing scheme. Some London boroughs have dissented: the Labour Association of London Authorities' has refused to discuss transfer of the scheme, because it has refused to accept the abolition of the GLC. (It should be remembered that abolition of the GLC is due to come into effect in April 1986.

8. Health Care

This Government has increased the number of doctors, dentists and nurses in the NHS, and will continue to take the measures necessary to care for the rising number of pensioners. In the 1983 Manifesto the Government pledged:

'The treatment of the elderly, the mentally handicapped and the mentally ill will continue to command our particular attention.'

Subsequently, the Secretary of State for Social Services, Mr Norman Fowler, has emphasised that pensioners are a priority group within the NHS.

'We are committed to a strong NHS and we have identified elderly people as one of the priority groups for whom services must be developed most intensely.' (Times, 6th September 1983)

Such pledges have been honoured in the recent announcement of spending plans for the NHS. Next year an additional £800 million will be allocated to the NHS in Great Britain - as pledged by the Prime Minister during the election campaign. These resources should provide a real growth of over 1 per cent for the NHS and as Mr Fowler has explained.

'In the hospital and community health services the growth should cover the expected increase in the number of very old people.' (Press Release, 17th November 1983)

9. Housing Benefit

From April 1983, housing benefits have replaced by both supplementary benefit provision for rent and rates assistance and local authority rent and rate rebate and allowance schemes. The objectives of the housing benefit scheme were to remove the confusion and complexity arising out of the old schemes. In particular it will be simpler for old people, especially local authority tenants on supplementary benefits to understand. They will no longer have to pay rent and rate on one hand while receiving benefit on the other. In future, under the housing benefit scheme they will be rebated in full.

No one on supplementary benefit should get any less help with rent and rates. In addition under the taper arrangements many old claimants of local authority schemes

(most of the poorer ones) will gain benefit, while others (those with income above the needs allowance) will get less. It is estimated that as many as 1 million gained from these arrangements.

The changes to Housing Benefits announced in the autumn statement will affect in general the relatively better-off households and those with non-dependents in work. who will in future be expected to make a higher contribution towards housing costs. In particular the increase to the tapers will have the general effect of concentrating help on those who need it most. Only the tapers above the needs allowance are affected - those above the needs allowance are the relatively better-off amongst housing beneft recipients.

Conservative Research Department
32 Smith Square, SW1

CAD/KEC
22.11.83

PRIME MINISTER

You saw an H paper over the weekend about the replacement of the non-contributory invalidity pension. As you suspected, the Secretary of State for Social Services has withdrawn this paper pending the outcome of the review of public expenditure.

25 July 1983

Surely bids for extra money cannot be agreed in this way? They must await the public expenditure review. 4

PRIME MINISTER

H COMMITTEE: INVALIDITY PENSION

Attached is an H paper by the Secretary of State for Social Services about the non-contributory invalidity pension which is available to men and single women on a test of incapacity for work. Married women can qualify for such a pension but only after a test to assess their capacity to do housework. The pension is worth £19.70 a week with increases for dependants.

Changes are needed because legal advice suggests that the household duties test offends against the EC Directive on Equal Treatment in Social Security which comes into force in December 1984. Unless the rules are amended nearly a quarter of a million more people will benefit at an annual cost of £275 million and a staff cost of £250 million. Primary legislation is needed.

Officials have produced six options of which the Secretary of State believes that two are runners.

Option 1: Favoured by the Chief Secretary

This proposes a new benefit payable only to people whose incapacity for work began before the age of 20. This would concentrate help on the priority group-those disabled either at birth or before qualification for a contributory pension. It would not discriminate against married women. It would, ~~therefore~~ however, disqualify from benefit some 50,000 people who now receive it. Particular examples include multiple sclerosis sufferers. Option 1 would bring savings rising to £25 million after ten years and £50 million after 30 - 40 years together with staff savings of about £50 million.

Option 2: Preferred by the Secretary of State for Social Services.

This proposes a new benefit which would go not only to those

/handicapped

handicapped at birth or in childhood but also to those handicapped later in life provided they are both incapable of work and have an 80% or more disablement. This would exclude some 16,000 married women who would have qualified under the old benefit but would bring in a number who don't now qualify. This option would cost £4 million extra in 1984/85, £15 million in 1985/86 and £22 million in 1986/87, but the extra cost would fall after about ten years. 50 extra staff would be needed at the outset falling after about 10 years.

Mr. Fowler invites H Committee to agree that legislation must be introduced and that it should be along the lines he proposes.

19 July, 1983

PRIME MINISTER

Mr. Fowler's statement on the Social Security uprating

Mr. Fowler had no problems in dealing with the questions arising from his statement (attached) on the social security uprating. Brynmor John argued that, if the rate of inflation in November is around 6%, the 3.7% uprating meant a claw-back equivalent to £1.20 per week for a retired married couple and 75 pence a week for a retired single person. This was, he said, equivalent to the confiscation of one week's pension over the course of a year. He welcomed, too, the restoration of the 5% abatement on unemployment benefit, but regretted that invalidity pension still suffered from the 5% cut. He also deplored the fact that the mobility allowance had been uprated not in line with the vehicles and transport component of the RPI, but by a smaller index which meant a cut of 55 pence a week. In reply, Mr. Fowler said that between the November 1978 uprating and the 1983 uprating pensions and the other benefits would have risen 74.6%, while prices only 70.7%. On mobility allowance Mr. Fowler said that it had been £10 a week in 1979 and would now be £19 a week - up 90% in cash and 9% in real terms. On the invalidity pension Mr. Fowler said that we would restore the 5% abatement when it was brought into tax.

Brian Mawhinney noted that the pension was now higher in real terms than in the last year of the Labour Government, and made a plea for the abolition of the earnings rule for pensioners. Clement Freud sought twice-yearly social security upratings and the abolition of the earnings rule. William Rees-Davies welcomed the increase in child benefit as particularly good for the low paid with families. Hugh Rossi took credit - and was given credit by Mr. Fowler - for the RPI-excluding housing formula, which had led to the 4.3% uprating for supplementary pensioners.

Andrew Bennett was one of a number of Labour MPs who accused the Government of cheating the pensioner by switching to the historic method; he also drew attention to the fact that the public expenditure White Paper allowed 4¼% for the uprating, and asked why the DHSS was not being given the proceeds of this saving. Jim Craigen and Dennis Skinner expressed incredulity

/ that

that it had to take from June to November to prepare the new pension books. Mr. Fowler's reply here was that, only by abandoning the books, and moving to an automated credit system could this delay be shortened: such a move was certainly not wanted by the pensioners.

MLS

23 June 1983

CONFIDENTIAL

CC NO.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16 May 1983

Michael Scholar Esq
10 Downing Street

Dear Michael,

PLEDGE ON FUTURE PENSIONS UPRATINGS

I told you that the Chancellor and the Chief Secretary had two comments on the DHSS draft letter to 'Age Concern' which was enclosed with Godber's letter of 13 May to you.

First, the new pledge, like the old one, extends only to pensions and related long-term benefits. The last sentence of paragraph 2 recognises this, but the preceding sentence refers to "pensioners and other long-term beneficiaries". The Chancellor thinks that this sentence should be amended or omitted so as to avoid any doubt about the extent of the pledge. The obvious amendment would be to refer simply to "pensioners": but the omission of the sentence might be the simplest solution.

Secondly, the last paragraph of the draft states that short-term national insurance benefits have been abated by 5 per cent "until they are brought into tax". This would in effect be a promise to restore the abatement when these benefits come into tax. Such a promise has already been made for invalidity benefit, but not for sickness benefit or maternity benefit. So the paragraph goes beyond current policy. And you will recall that when the first eight weeks' sickness benefit was effectively brought into tax by conversion into statutory sick pay, it was agreed that no adjustment should be made to the rates to restore the 5 per cent abatement.

Moreover, the Earnings-Related Supplement to Unemployment Benefit was abolished by this Government. It seems hard to reconcile the abolition of a benefit with the wording of the last paragraph.

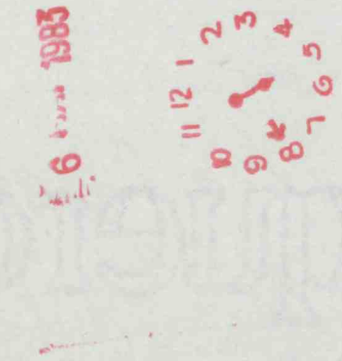
CONFIDENTIAL

Age Concern's main interest was with the pledged benefits rather than those to which the draft's final paragraph refers. In view of the difficulties which I have mentioned, the Chancellor and the Chief Secretary suggest that the paragraph be omitted.

Copies of this letter go to Steve Godber (DHSS) and Richard Hatfield (Cabinet Office).

Yours ever,
Jo Kerr.

J O KERR



CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

M Scholar Esq
Private Secretary
10 Downing Street
LONDON
SW1

13 May 1983

Dear Michael

PLEDGE ON FUTURE PENSION UPRATINGS

Your letter of 21 April to John Kerr recorded the agreement reached between the Prime Minister, the Chancellor and my Secretary of State that the Government's pledge on future pension upratings should be carried forward to the next Parliament. This is, I understand, to be included in the Manifesto but there remains the necessity of putting the Government's position on the record.

There is a convenient opportunity to do this in the outstanding letter which the Prime Minister has had from representatives of the voluntary organisations representing the interests of the main groups dependant on social security benefits. This letter was sent to us under cover of Tim Flesher's letter of 7 February to Colin Phillips.

My Secretary of State feels that a simple factual response to this on the lines of the attached draft would be most suitable. This could conveniently be sent at the beginning of next week in order to become public at about the time of the publication of the Manifesto.

I am copying this letter to John Kerr (HM Treasury) and to Richard Hatfield in Sir Robert Armstrong's office.

Yours

Steve

S A Godber
Private Secretary

CONFIDENTIAL

reply to the two letters.

DRAFT LETTER TO DAVID HOBMAN, AGE CONCERN

RESPONSE TO VOLUNTARY ORGANISATIONS

and the directors of other voluntary organisations, have written to me on several occasions

I am sorry that I have not been able to write to you before in response to the letter you sent me in February seeking "a firm assurance that a future Conservative Government would not abandon the present commitment to maintaining the real value of pensions and other long-term benefits".

I am happy to give you this assurance. Our determination to protect the interests of pensioners and other long-term beneficiaries has not altered. As the next Government, we would maintain the policy we set for this Parliament - which is to protect the value of pensions and related long-term benefits.

honoured our / the last / Indeed,

We have kept to our pledge in this Parliament. As you will appreciate, we have more than protected the value of pensions and related long-term benefits over the lifetime of this Parliament. This we have achieved despite the economic pressures of a world recession.

What is more, we have brought in legislation to improve the uprating system. The Social Security and Housing Benefits Act means that pensions and other benefits will in future be uprated on the basis of the actual change in prices not the forecast of how prices might change in the future. I am sure that the certainty and stability this will bring will be widely welcomed, especially by pensioners and other beneficiaries.

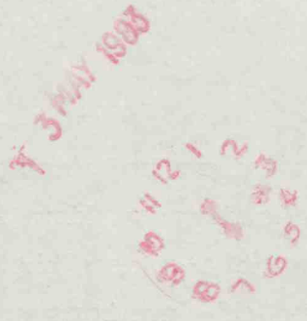
I am sending copies of this letter to the consignatories of your original letter.

The Government will also have maintained - or more than maintained - the value of the other regular benefits apart from the short-term national insurance benefits that have been abated by 5 per cent until they are brought into tax.

the last - as in the last - we shall protect the value of pensions and related long-term benefits.

In the next Parliament a Conservative Government will

Social Services : Uprating of Benefits. Pt 3



Social Services 21

SECRET

PRIME MINISTER

1983 Social Security Uprating

INTRODUCTION

At yesterday's meeting of the Cabinet the Secretary of State for Social Services raised orally the 1983 uprating of social security benefits. You will recall that, following changes in the uprating system agreed at the time of the Budget, this year's uprating should be based on the increase in the retail prices index (RPI) between May 1982 and May 1983, which will be published in the middle of June. The current estimate is that the figure is likely to lie in the range $3\frac{1}{2}$ to 4 per cent, with the mid point, $3\frac{3}{4}$ per cent, as the most likely single figure. The Secretary of State proposed yesterday that the Government should announce forthwith that the uprating will be $4\frac{1}{2}$ per cent.

In Action Faber under Michael Scholar Note.

2. We understand from Mr Fowler's Private Office that he is likely to minute you this evening setting out his views. But we have not been told precisely what that minute will say.

BACKGROUND

3. When they discussed public expenditure in November 1982, the Cabinet agreed that savings of £180 million in 1983-84 should be found from the social security programme; and this figure was mentioned in the Public Expenditure White Paper. It took account of the fact that the November 1982 uprating (based on a forecast made at the time of the 1982 Budget) made too large an allowance for inflation; but it allowed that not all the excess provision might be recovered, and that improvements might be made in social security benefits in order to make recovery of the excess politically more acceptable (CC(82)46th Conclusions, Minute 2).

4. In the event, the Cabinet decided later to proceed rather differently, by changing the basis of uprating from forecasts to actuals.

This was regarded as having the twin advantages of:

(a) securing the agreed savings in 1983-84; while

(b) avoiding all future difficulties about over-shoot and the so-called 'ratchet', whereby under-provision for inflation must always be made good while over-provision for inflation can never, in practice, be recovered.

5. This change was announced during the Budget debates. At the same time, Mr Fowler announced concessions in other aspects of the social security system costing £120 million.

6. We understand that the additional cost of an uprating of $4\frac{1}{2}$ per cent, compared with $3\frac{3}{4}$ per cent, would be £75 million in 1983-84 and £220 million in a full year. The Treasury say that this is equivalent to 0.2 per cent on total National Insurance contributions, or to 1.4 per cent on income tax thresholds.

MAIN ISSUE

7. The main issue before the Cabinet will be whether the Government should commit itself now to a particular figure for the 1983 uprating; and if so, what the figure should be. Mr Fowler's main argument is likely to be purely political; and this is a matter solely for Ministers' judgement. But he may also argue one or both of the following:

(a) that statements by Ministers at the time of the Budget have aroused expectations which cannot be disappointed; and

(b) that beneficiaries need immediate assurance.

Expectations

8. The Budget arithmetic was based on an assumption that the increase in the RPI in the 12 months to May 1983 would be $4\frac{1}{4}$ per cent. In his

Budget speech the Chancellor of the Exchequer said that it might be 'around 4 per cent'. Mr Fowler, in debates on the Social Security Bill, referred (incorrectly) to the 'Budget forecast' of $4\frac{1}{4}$ per cent. It is therefore true that those who follow these things could reasonably have expected an uprating of 4 to $4\frac{1}{4}$ per cent (so far as we know, a figure as high as $4\frac{1}{2}$ per cent was never mentioned).

9. On the other hand, these remarks must clearly be subject to Ministers' statements of intent to base the uprating on actuals. To prefer informal indications to actual figures would be to create a new 'ratchet' - and arguably a worse one than before, since at least the old one was based on a single, carefully considered forecast, and not the highest out of a range of informal indications in Ministerial speeches.

10. Moreover, if the uprating is less than previously indicated it will be because inflation is lower than expected. That helps social security beneficiaries: it is not somehow a reason for compensating them.

Reassurances

11. Any suggestion that beneficiaries need reassurance now would have little merit. It is inherent in the new system that the benefit rates from November will not be known until the preceding June. One would have thought that gave beneficiaries adequate time to arrange their affairs. If it is not adequate, that is a point that should have been made before the system was changed.

Other possibilities

12. We understand that uprating at different levels would provide the following rates of retirement pension (in £ a week):

	Present	After uprating at			
		3.75%	4%	4.25%	4.5%
Single	32.85	34.10	34.15	34.25	34.35
Married	52.55	54.50	54.65	54.80	54.90

If the Cabinet should decide that Government spokesmen must have something definite to say, and not only that the uprating would be based on the May RPI, a possibility that they might wish to consider would be an assurance that the married couple's retirement pension will be increased by at least £2 a week (which would imply an uprating of between 3 and $3\frac{3}{4}$ and 4 per cent). Even this, of course, carries the risk that if the May RPI increase is $3\frac{3}{4}$ per cent or less, the Government will have departed at the very outset of the new system from strict use of actuals.

HANDLING

13. The Secretary of State for Social Services will no doubt outline his proposals. You might then invite either the Chancellor of the Exchequer or the Chief Secretary, Treasury to comment. These Ministers have the main departmental interests; but other Ministers are likely to want to speak from a general political standpoint.

CONCLUSIONS

14. You will wish the Cabinet to reach conclusions on a form of words on the 1983 uprating for use by Government spokesmen in the Election campaign.

PLG

P L GREGSON
Cabinet Office.
11 May 1983

10 DOWNING STREET

Prime Minister

Meeting with the Chancellor

No particular items for the agenda – but recent issues have been

(i) Husband/wife taxation

(ii) Building Societies - legislation

(iii) Civil Service allowances + tax

I don't suggest you raise any of these.

MLS 11/5

PRIME MINISTER

please also see comment Alan Walters and Mr. Mount, also attached.

(please see his minute attached)

Mr. Fowler wants to announce that social security benefits will be uprated by 4½% (he may drop his sights to 4%). he has now - to 4¼%

I really think this is a monstrous attack on the Chief Secretary, who now stands to lose - again! - all the social security public expenditure savings agreed last autumn.

(4½%)

(1) it would cost £220m in a full year - 1.4% on income tax thresholds or 0.2% on total NICs.

(2) it would be inconsistent with all we have said about the actual figure, and brings us straight back into the ratchet - since although upratings can exceed inflation they can never fall short of it.

(3) it would give the beneficiaries (not just pensioners) a second bonus, within a year, since we cannot now recover an overshoot next year.

(4) it would worsen the unemployment trap and the poverty trap.

4¼%

(5) I think it would look like (whether at 4½% or 4%) a blatant bribe, and the antithesis of what this government has stood for.

MCS

11 May, 1983.

Mr Fowler would like a word before Cabinet. Agree to see him at 9.45?

Yes

MCS

CONFIDENTIAL

PRIME MINISTER

EXPENDITURE COMMITMENTS

Both Ferdy and I are worried by the mounting pressures that will arise from now until the Election for you to agree to additional expenditure items. These will be presented as attractive vote catchers. But in our view, one of your main strengths at the Polling Booth is that you are not a leader who attempts to buy the votes of the electorate.

We expect that there will be a number of seemingly attractive propositions, particularly from Norman Fowler and perhaps from Patrick Jenkin and others. But the warning noises we have from the Treasury suggest that the public sector is tending to overrun its target spending already. And any acceleration of public spending may cause the electorate to wonder whether the resolution has faltered. Your refusal to countenance any additional spending commitments will send the right signals to colleagues, party workers and the electorate.

ALAN WALTERS
11 May 1983

CONFIDENTIAL

20

PRIME MINISTER

PENSION UPRATING

As you know, I intend to raise the issue of pension uprating in Cabinet tomorrow. My reason is that I believe it is essential for us to defuse the pensions issue before the campaign begins and avoid an auction.

We have successfully completed the transition from the forecasting to the historic method of uprating; and we have largely won the presentational argument. But we face one major difficulty - the uncertainty about what the uprating will be. The opposition will claim that we will uprate only by the May RPI figure - which on the latest estimates could be as low as 3.6 per cent. Our very success in dealing with inflation will therefore be presented as something which harms pensioners.

I do not believe we can stand pat and say that the electorate must wait and see. To do so would be to give the field to Labour. But we have a credible alternative.

In the Financial Statement and Budget Report - we assumed an uprating of $4^1/_4$ per cent. Therefore, to decide now on an uprating of $4^1/_4$ per cent would cost us nothing; and would be in line with the Chancellor's Budget judgement and expenditure plans. Moreover, it would enable us to avoid any embarrassment about our continuing success in dealing with inflation. In effect, we would be saying to pensioners that, even though prices were falling even faster than we expected, we would stick to the pension uprating plans we made at the time of the Budget, and give them the benefit of lower inflation.

We will still have to defend ourselves against Labour claims that they would uprate on the forecast inflation rate in November and that this

E.R.

is likely to be 6 per cent. But we could point to the fact that inflation is now falling faster than forecast; no one can be certain where we will be in six months.

If you and colleagues accept my view on this, we will need to consider how and when to present it. On timing I am attracted to the notion that we might announce our commitment on the uprating shortly after the April RPI becomes public. In terms of presentation, it would fit naturally into a statement which stressed (i) our record in this Parliament; (ii) our determination to remove uncertainty for the future by changing to the historic method; (iii) our decision to stick by our Budget plans for pensions, giving pensioners the benefit of more rapidly falling inflation; and (iv) our commitment to price-protect pensions through the next Parliament.

I am not copying this minute to our colleagues. I hope we may have a word about it before Cabinet.

11 May 1983

N F

19A

FROM: G W MONGER
DATE: 9 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Bailey
Mr Wilding
Mr Mountfield
Ms Seammen

SOCIAL SECURITY UPRATING

I understand informally from DHSS officials that Mr Fowler intends to argue at Cabinet tomorrow that social security benefits should be uprated by 4½% this November.

The History

2. Under the new legislation this year's uprating must be at least equal to the annual RPI increase shown in May. The Budget arithmetic assumed that this would be 4¼%, the best estimate at the time. This was the figure in Ministers' minds when the decision was taken to return to the historical basis of uprating. But of course there was never a decision to do other than apply whatever the May RPI turned out to be. Public presentation of the change assumed that the May outturn would be used. The Chief Secretary warned Mr Fowler very clearly at the time that this was his position.

(bookmakers were exclaimed — bonkers even!)

3. In your Budget speech, to guard against the possibility that the May forecast would come down, you said that it might be "around 4%". But Mr Fowler in the later debates on the Social Security Bill more than once referred to the "Budget forecast" of 4¼%.

4. The prospect now is that the May RPI will be in the range 3½-4%, with the mid-point of this range as the most likely single figure.

(and for NW 5½-6)

Arguments for keeping to the May RPI

5. First, there is the argument of cost. An uprating of, say, 3¾%, would save, as compared with Mr Fowler's 4½%, £75m in 1983-84 and about £220m in a full year. This is equivalent to 0.2% on total NICs or 1.4% on income tax thresholds.

6. Secondly, you could say that the increase proposed by Mr Fowler would be inconsistent with the purpose of the new system. It is meant to eliminate the arguments that arose under the old system because upratings exceeded, or fell short of, inflation. Mr Fowler himself justified the change as providing a surer and more automatic method of uprating. But once it becomes accepted that under the new system too the RPI increase can be exceeded, we shall be back to the old arguments. And once again, as with overshoot and undershoot, we shall be operating a ratchet for, although the uprating can exceed inflation, it can never fall short of it.

7. Thirdly, you could point out that social security has already done well from the recent public expenditure decisions. Last autumn Cabinet decided to save £180m in 1983-84. This would be achieved by having an uprating 1¾% below what it would otherwise have been. The change to the historical method was designed to produce approximately this saving. But in the Budget concessions costing £120m were announced, and indeed Mr Fowler, in debates on his Bill, used a figure of £220m, which allowed also for changes in expectations on inflation. So even without Mr Fowler's further proposal, last autumn's decision to make savings on the social security programme has already been largely or wholly frustrated.

8. Finally, there is the argument that higher increases in the short-term benefits will worsen both the poverty trap and the unemployment trap. The Prime Minister might be especially concerned about the effect on unemployment benefit and supplementary benefit. But of course it is hard to argue that a difference of ¾% is decisive.

The new levels for the retirement pension

9. We have looked at the actual and prospective levels of the retirement pension to see what figure would be produced by an uprating at the level we would like. The figures are (£/week):

	Present	After uprating at			
		3.75%	4%	4.25%	4.5%
Single	32.85	34.10	34.15	34.25	34.35
Married	52.55	54.50	54.65	54.80	54.90

Unfortunately, these figures do not help. There is no good round figure for an uprating below 4.5% - unless you think that the £2 extra on the married couple's pension at 3.8% qualifies. Indeed, Mr Fowler might even be tempted to go for the £55 a week figure for the married pension which an uprating of 4.7% would produce.

Mr Fowler's arguments

10. You should be prepared for two arguments from Mr Fowler.

11. The first is that we were already budgetting for 4¼%, so that anything less would be an uncovenanted bonus for us. This might be an effective point. You could point out that we assumed no increase in real terms, whereas Mr Fowler's 4½% would give a real increase of about ¼%.

12. The second possible argument by Mr Fowler is that the Government must be able to say during the Election campaign what the size of the uprating will be. This argument may have been strengthened by the decision to hold the Election before the May RPI is published on 17 June. If it were to be accepted that benefeciaries cannot be left in uncertainty until then the way is open to Mr Fowler's proposal which is essentially to give a politically attractive minimum figure. I suspect that in political terms this will be a hard argument to refute. Perhaps it could be said that the Government would not in practice get any extra credit by giving a figure which (even with Mr Fowler's 4½%) will look low, and will certainly be outbidden by the Opposition.

Compromise positions

13. What will be acceptable to Cabinet is of course very much a matter of political judgement, especially at present. But it may well be that with an Election imminent they would not be willing to stand on the May RPI figure (especially since that will not be known until 17 June). Whether to offer a 4% uprating is a matter of tactics. Mr Fowler's decision to go for the unexpectedly high figure of 4½% suggests that he is playing a tactical game himself.

Other Social Security Matters

14. DHSS have a number of other smaller points some of them on the November uprating. They do not expect Mr Fowler to raise them tomorrow but in case he does a short annex on them, prepared by Ms Seammen, is attached.

G W MONGER

PS. I have just heard from DHSS that Mr Fowler may also propose tomorrow that his statement on the uprating should ~~also~~ announce the renewal of the pledge for the next Parliament. No doubt it is realistic to accept that this decision has now been taken. It is important however that the pledge should be restricted to the same benefits as before. Those are "pensions and related long-term benefits." DHSS believe that this is what Mr Fowler will propose.

Secret and Personal

ANNEX

POSSIBLE BIDS

1. Child dependency additions to short term benefits

The intention is to abolish them but the power to do so was removed from the current Bill. There is no provision in PESC for their continued payment. They could be maintained at their current level of 30p, or reduced. A level of 30p costs £3m. A reduction to the minimum (5p) would be possible but perhaps have political disadvantages.

A reasonable compromise might be 20p, and to confirm the intention (subject to legislation) to abolish from November 1984.

2. Housing benefit children's needs allowance

The bid is for a real increase of £1. It was given a low priority during pre-Budget discussions. Full year cost is £11.7 million, but savings are available from 1984-85 onwards. Partyear cost (1983-84) is £3.9m.

This bid further extends the 'benefit society'. Housing benefit is already payable a long way up the income scale.

3. Mobility Allowance

Bid is for a 6% uprating, to match exactly the amount new lessees will pay for their car under Motability leases. Full year cost is about £5m.

This was rejected at Budget time. Mob A has done well under this Government. We cannot undertake to tie upratings to decisions taken by Motability on the terms of their leases. After all, by no means all Mob A recipients get Motability cars.

4. Earnings rule

(a) Uprating in line with prices would give an increase from £57 to £59; in line with earnings would give £61. There is no established procedure for uprating. Cost about £1 million in full year.

Possible compromise might be £60.

(b) More important is need to maintain flexibility about phasing out rule. PESC includes provision for withdrawal, starting December 1984; full year (1986-87) cost about £400m.

To put want new commitment to abolish in next Parliament, still less announcement

Secret and Personal

that money provided for. Might well want money for other things. Little pressure for abolition; other Government policies eg JRS encourage early retirement.

5. Household duties test/new disablement allowance.

The test will become illegal from the end of 1984 under an EEC directive. Simple abolition would cost about £275 m a year in housewives non contributory invalidity pension (HNCIP). Proposal is to abolish HNCIP and NCIP and replace by new non-contributory benefit payable on test of incapacity for work and 80% disablement. Full year extra cost of £22m, allowing for preservation of rights of those currently receiving HNCIP and NCIP.

Clear that some action, probably along these lines, necessary and desirable. But we have doubts about some of the details; and we are not yet convinced that preserved rights are absolutely necessary. Without them, a nil net cost package could be constructed.

6. Death grant

No proposal yet put to us. But likely to take the form of a substantially increased grant (from current level of £30) payable selectively, to produce nil net cost packag

Treasury wants to abolish grant. Clearly a nonsense as it stands (funerals cost at least £300). Would produce savings of about £17m* (nearly enough to pay for 5. above.) Selective scheme was publicly canvassed but received virtually no support; if put forward now would not gain Government any credit and would lead to pressure to increase level further and to extend eligibility.

* plus admin savings of about £7m

7. War widows' pensions

Proposal (not yet put to us) likely to be to pay war widows' pension to widows of 100% disabled war pensioners, whatever the cause of death. Benefit cost about £7m, plus revenue forgone of £1.5m, because war widows' pension is tax free.

Rejected at Budget time. Not desirable to extend scope of tax free war widows' pensions. May be no connection between husband's cause of death and disability (eg deaf man falls off ladder). Would lead to greater pressure to make all widows' pensions tax free.

8. Family income supplement

We have supported at official level extending the FIS uprating by the amount of the real terms increase in child benefit, so as to reduce the number of families in the poverty trap without creating any losers.

SECRET FILE da

19

10 DOWNING STREET

From the Private Secretary 3 May 1983

1983 Christmas Bonus

The Prime Minister was grateful for your Secretary of State's minute of 29 April about the PQ for answer on Thursday 5 May by Mr. Andrew Bennett MP.

The Prime Minister agrees a holding reply on Thursday 5 May, and to your Secretary of State announcing the bonus before 16 May as he proposes. The Prime Minister has commented that we must be careful not to give the impression that the bonus may rise above £10.

B/F

I am sending copies of this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Steve Godber, Esq.,
Department of Health and Social Security.

SECRET

SECRET

Prime Minister 18/

Yes - but we must NOT give the impression that the Commons may sit [illegible]

Andrew Bennett's question (Flag A) is near the bottom of the order paper and your answer will go written. Agree a holding reply?

PRIME MINISTER

PQ BY MR ANDREW BENNETT MP ON 1983 CHRISTMAS BONUS

Mr Bennett's question to you for answer on Thursday May 5 points to a problem we have in the next few weeks. I was proposing, with your agreement, to announce the amount of the bonus in early May, as we need to do if we are to be sure that pensioners will get their money in time.

The background is this. We legislated in 1979 to give the pensioners a statutory right to the bonus. The only question to be settled each year is the amount of the bonus. Up to now this has been announced as part of the uprating package at the time of the Budget, and arrangements for paying it could proceed from mid-May in the normal way.

But this year the uprating announcement will not be until June, and if we leave the bonus announcement until then some pensioners will not get this money in time, because the bonus sticker which is attached to the Christmas week counterfoil will not be in some of the six-monthly order books spanning Christmas which are prepared for issue in May.

I propose that the amount of the bonus should be £10, as in the past. We considered in last year's PES round whether to increase it but concluded that this was not a high priority. The Opposition have promised at least £20, and the only reason for delaying an announcement would be to avoid difficulties in the run-up to an Election. My view, however, is that delay would give us the worst of both worlds: in not announcing the £10 and in not making arrangements in time to ensure that pensioners got their bonus by Christmas. Pensioners with order books spanning Christmas will realise in June that they have not received their bonus stickers and will make enquiries to our embarrassment.

29/4

SECRET

E[redacted].

I should like therefore to announce the £10 bonus before 16 May, and I would propose then that you should give a holding reply on Thursday.

I am copying this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

29 April 1983

N F

29 APR. 1885

*†54 **Mr Ronald Leighton** (Newham North East): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†56 **Mr A. J. Beith** (Berwick upon Tweed): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†58 **Mr Lawrence Cunliffe** (Leigh): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†59 **Mr Robert Adley** (Christchurch and Lymington): ~~To ask the Prime Minister, if she will list her official engagements for 5th May.~~ wd 22.4.83

*†61 **Mr Andrew Bennett** (Stockport North): To ask the Prime Minister, when she expects a decision to be announced as to the level of Christmas bonus to be paid to pensioners in 1983.

*†63 **Mr Alfred Dubs** (Wandsworth, Battersea South): ~~To ask the Prime Minister, if she will list her official engagements for 5th May.~~ wd 22.4.83

*†64 **Mr Toby Jessel** (Twickenham): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†66 **Mr David Alton** (Liverpool, Edge Hill): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†67 **Mr Dennis Canavan** (West Stirlingshire): ~~To ask the Prime Minister, what are her official engagements for 5th May.~~ wd 22.4.83

*†69 **Mr Geraint Howells** (Cardigan): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†70 **Mr Clement Freud** (Isle of Ely): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†72 **Mr Jack Ashley** (Stoke on Trent South): To ask the Prime Minister, if she will list her official engagements for 5th May.

SDP *†74 **Mr Simon Hughes** (Southwark, Bermondsey): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†75 **Mr David Winnick** (Walsall North): To ask the Prime Minister, if she will list her official engagements for 5th May.

*†76 **Mr George Foulkes** (South Ayrshire): ~~To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.~~ wd 28.4.83

*†77 **Mr Allan Roberts** (Bootle): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

*†79 **Mr Tim Eggar** (Enfield North): ~~To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.~~ wd 27.4.83

*†81 **Mr Colin Shepherd** (Hereford): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

*†82 **Mr Tim Sainsbury** (Hove): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

Friday 22 April - Votes 101

*118 **Mrs Helen McElhone** (Glasgow, Queen's Park): To ask the Prime Minister, if she will list her official engagements for 5th May.

*119 **Mr John Townend** (Bridlington): To ask the Prime Minister, if she will list her official engagements for 5th May.

*120 **Mr Richard Needham** (Chippenham): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

*121 **Mr John Hunt** (Bromley, Ravensbourne): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

*122 **Mr Robin Squire** (Havering, Hornchurch): To ask the Prime Minister, what are her official engagements for Thursday 5th May.

SNP *123 **Mr Gordon Wilson** (Dundee East): To ask the Pime Minister, if she will list her official engagements for 5th May.

*124 **Mr A. E. P. Duffy** (Sheffield, Attercliffe): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

*125 **Mr Tim Brinton** (Gravesend): To ask the Prime Minister, if she will list her official engagements for Thursday 5th May.

46

2

PRIME MINISTER

You were asking at the meeting yesterday with the Chancellor and Mr. Fowler, about whether the bill on changing the method of pensions uprating could be speeded-up in the House of Lords.

The bill has just gone to the Lords. At our request, the Second Reading has been brought forward from Thursday 5 May to Tuesday 3 May. I am assured that this is the earliest possible date without a major row in the Lords, given that the business up till then has already been announced, and this is the minimum interval which the Lords specify from the introduction of the bill to its Second Reading. The Chief Whip in the Lords will be considering next week how to speed up the subsequent stages.

MCS

22 April 1983

Social Services
uprating of pensions

SECRET AND PERSONAL

SUBJECT

cc Mallis

10 DOWNING STREET

From the Private Secretary

21 April 1983

Dear John,

Pledge on Future Pension Upratings

The Prime Minister had a discussion this afternoon with the Chancellor and the Secretary of State for Social Services about the Government's pledge on future pension upratings.

After discussion it was agreed to carry forward to the next Parliament the pledge the Government gave for the present Parliament to price-protect pensions and associated benefits. It was also agreed that there should be no acknowledgement in the pledge that, if there were an economic crisis, the pledge would need to be abandoned. The argument here was that, if there were a crisis this would happen in any event, so that there would be no need to create suspicions by announcing this in advance.

In a separate discussion about this year's uprating it was agreed that, if there were to be a June election, consideration would need to be given from the outset about what should be said about the May RPI figure, to be announced on 17 June, which was to be the basis of the November uprating. Meanwhile, the formula to be used about the June figure should continue to be that it would be "in the region of 4 per cent".

I am sending a copy of this letter to Steve Godber (Department of Health and Social Security), and to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely,

Michael Scholar

John Kerr Esq
HM Treasury.

SECRET AND PERSONAL

CC N.O.

16

Prime Minister

There are 4 minutes for this meeting - including this new one.

MES 28/4

PRIME MINISTER

PLEDGE ON FUTURE PENSION UPRATINGS

Before the discussion you propose to have on the uprating of long term benefits in the next Parliament, I ought to respond briefly to the further minute Geoffrey Howe sent you on 11 April.

2. Geoffrey focusses on the public expenditure implications of pledging to maintain the value of pensions and related long term benefits in the next Parliament. Of course, if we did cut the value of pensions, then we could make substantial public expenditure savings. But for the reasons set out in my earlier minute of 31 March on pledges and long term public expenditure, I do not believe it is realistic to expect to make further savings in this way. The course we have already set implies that pensioners and other beneficiaries will become worse off in relation to those in work, and that the share of national resources going to the elderly by way of social security benefits is unlikely to change very much until the mid-1990s at least. This reflects the fact that our earlier changes will produce a steadily growing saving in the social security programme by comparison with what it would otherwise have been.

3. In general, my view of trends on social security expenditure is rather different from Geoffrey Howe's:

- the increase in social security spending in this Parliament has been mainly due to more beneficiaries, particularly the unemployed, rather than to raising the real value of benefits or extending the scope of the benefits system;

- whilst it is true that the number of pensioners has been increasing, the trend is now slowing and in a very few years the number of pensioners will stabilise, and remain stable for some 20 years. Moreover, there

E.R.

are falling trends elsewhere. For example, the number of children for whom child benefit will be payable will fall from 13.5 million in 1978/79 to 11.8 million in 1988/89;

- even quite modest reductions in unemployment, generated by the success of our economic policies, would more than cancel out the effect of pension increases. The full year cost of an increase of 1 per cent in pensions and other long term benefits in 1984/85 is estimated to be about £200 million. Each reduction of 100,000 in the number of unemployed people would save about £180 million in benefit expenditure and, in addition, there would be increases in tax revenue and national insurance contributions.

4. By the way they have mishandled their pension proposals, the Opposition have made it much easier for us both to defend our pensions record in this Parliament and to resist extravagant demands for the future. This is despite the fact that for reasons we all recognise, we have not been able to match the real increases of previous Governments, and UK pensions remain low by comparison with most comparable industrial nations.

5. Against this background, the last thing we should now be doing is handing the Opposition an opportunity to regain the initiative. If we promised less for the next Parliament than for this Parliament, we should be doing just that. People will understand and respect our refusal to enter into an auction of pension promises. But they would not understand - or accept it - if we refused to undertake not to cut the value of pensions. We could not sustain that position - and, as I said previously, we must start off with a position we can hold. I believe that to be the position commended in my earlier minute.

E.R.

6. I am copying this to Geoffrey Howe. I would also suggest that because of its obvious electoral importance we might widen our discussion on Thursday to include at least Cecil Parkinson - and possibly also Willie Whitelaw and Michael Jopling.

20 April 1983

N F

20 APR 1965

BF for Mtg folder

10 DOWNING STREET

Caroline

Have you got a date for this meeting please?

Nicky 13/4

Tuesday 21st April 1715 - 1745. 14/4

10 DOWNING STREET

Michael (Or)

You will wish to tie up the PMs comments on this with her comments on the other two minutes (top enclosures) on the question of Pensions & Benefit upratings.

It may be best for her meeting with Fowler & the Chancellor to cover the minute below as well.

CR 8/4

CFM

Prime Minister 15.

We are arranging a short discussion with the Chancellor & Mr Fowler.

MES 12/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

You envisage a discussion of the minutes of 30 and 31 March which Norman Fowler and I sent you about what should be said about the uprating of social security benefits in the next Parliament.

2. I have been thinking about your preliminary comment - John Coles letter of 6 April - that the Government should "price-protect" the basic retirement pension, "and that we are the more able to do this because inflation will be kept down." It isn't in fact easy to argue that price protection is simpler when inflation is low. Pensions which have been uprated by 4 per cent when prices are rising at 4 per cent a year cost as much in real terms as pensions which have been uprated by 15 per cent when prices are rising at 15 per cent a year.

3. But I know you feel that the real issue is a more general one. One of our main objectives over the next Parliament will be to contain the growth in public expenditure, and if possible reduce it. We both realize only too clearly that unless we can do that, we shall still fall well short of what we want to do in cutting the tax burden. And that must require us, despite all we have already done, to secure still more effective control over social security expenditure. It is the biggest single programme, costing £34bn ~~last~~ this year and accounting for nearly 30 per cent of the total. Its growth has made things enormously more difficult for us during this Parliament: the increase in this programme alone, between 1978-79 and 1982-83, more than accounts for the increase in cost terms in the total of public expenditure between those years.

4. Unless we can find ways of preventing it, the prospects are for continued growth in expenditure which could hamstring us in the next Parliament. Expenditure on social security could rise between 1982-83 and 1985-86, by some £5 billion. The prospect is made even more difficult by the continuing increase in the number of pensioners, which is expected to grow by the end of 1985-86 by another 200,000, on top of the 500,000 extra since the start of this Parliament. The same trends are likely to continue in the longer term.

5. I realize, of course, the immense political difficulties involved in all this, particularly for a Government entering its second term - during which the economic difficulties are expected (rightly, as a result of our actions so far) to be less pressing than in our first Parliament. But if we really want to contain public expenditure, then we have to think long and hard before closing our options on social security benefits in the next Parliament. That is why I am so anxious that we should not repeat the pledge which so constrained us in this Parliament. Restricting the pledge to the basic retirement pension hardly helps, since this accounts for some three-quarters of expenditure on the pledged benefits and we should, in practice, find it difficult not to extend it so the remainder (such as war pensions and widows' pensions).

6. I am sending a copy of this minute to Norman Fowler.

(G.H.)

11 April 1983

SECRET AND PERSONAL da

Social 14
Services

6 April 1983

The Prime Minister has seen the minute of 30 March by the Chancellor of the Exchequer relating to the Government's long term intentions on social security benefits.

The Prime Minister would like to discuss the contents of Sir Geoffrey Howe's minute with him and with the Secretary of State for Social Services. She has made the preliminary comment that she believes that the Government must "price protect" the basic retirement pension and that we are the more able to do this because inflation will be kept down.

We shall make arrangements separately for a meeting.

I am copying this letter to Colin Phillips (Department of Health and Social Security).

JOHN COLES

John Kerr, Esq.,
HM Treasury.

SECRET AND PERSONAL

SECRET AND PERSONAL

da

13

6 April 1983

Your office kindly drew my attention to the fact that my letter of 5 April to you about social security benefits had been wrongly copied to Barnaby Shaw in the Department of Employment. Would you please destroy my letter of 5 April and substitute the enclosed. I have asked Barnaby Shaw to return to me his copy of my original letter.

Received 7/4

JOHN COLES

John Kerr, Esq.,
HM Treasury.

SECRET AND PERSONAL

cc. W.O

12

PRIME MINISTER

PLEDGE ON FUTURE PENSION UPRATINGS

I have been discussing with the Chancellor and the Chief Secretary what we say about future pension upratings. The Chancellor and I take a different view on this. It seemed best that each of us should set out how we see things. This minute sets out my view.

My judgement, and that of colleagues here, is that we cannot do less than promise to maintain what we achieved in this Parliament. Accordingly I maintain my preference for the approach set out in my letter of 14 March to the Chancellor, which was copied to you:

> "We stand by what we said in this Parliament - that we shall maintain the value of pensions and related long-term benefits."

I should make it clear that I am proposing this pledge for the lifetime of the next Parliament. I do not believe it would be realistic to set our sights lower than this.

We have already limited our future commitments - first, by legislating for prices-only upratings and second, by deciding to restore the historic method and so avoid unintentional bonuses. (The Opposition of course are promising to restore the link between earnings and pensions.) We are already saving £500 million a year by breaking the earnings link and this could grow to £2 - £3 billion a year by the end of the decade.

Looking at this from the point of view of the pensioner, giving no more than price protection will mean - on past experience and present expectations - that there will be a growing gap between the standard of living of those who are retired and those still in work. This can be illustrated dramatically by looking at what has happened since 1948. If we had uprated pensions only in line with prices since 1948, a married couple's pension now would be £22 a week not £52.55 a week.

E.R.

If we seek to offer less than we promised in this Parliament we shall be asked a number of questions to which there are no politically sustainable answers. For example:

> If you thought it right to give a promise in these terms for this Parliament, why is it wrong to do so for the next Parliament?

If we expect to be able to continue to price protect pensions, and accept that it would be unrealistic to seek to do less, the right answer is to say now that we will continue to pledge into the next Parliament. I do not believe we could hold the position if we watered down the pledge. Moreover, once we had to give ground, we might finish up with a formula which is not as tight as the one I have suggested. And of course a pledge given under pressure would carry much less weight than one offered freely at the outset.

The difficulty is pursuing any alternative course to the one I propose is amply demonstrated by paragraph 6 of the Chancellor's minute. The first and inevitable supplementary question which would follow such a statement would be - does this mean that pensions will be price protected or not?

I am copying this to the Chancellor of the Exchequer, the Chief Secretary and Sir Robert Armstrong.

31 March 1983

N F

NO.

Prime Minister

Please also see Mr Fowler's minute (attached).

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Yes - but I think we must give prior notice - Agree to a talk with the various ministers concerned - Agree to a talk with the Chancellor and Mr Fowler? We can do this after we have talked to Mr Fowler?

PRIME MINISTER

Cabinet on 3 March discussed the presentation of the Government's long-term intentions on social security benefits.

2. The important question is how we should respond when asked whether we intend to carry forward to the next Parliament the pledge we gave for this Parliament to maintain the real value of pensions and associated benefits.

3. One possibility would be simply to repeat this pledge for the next Parliament. This is what Norman would prefer, along the lines set out in his letter to me of 14 March.

4. In my view it is most important that we should avoid a commitment. Social security accounts for 30 per cent of public expenditure. Our policy of containing expenditure, and avoiding commitments which might increase it, can hardly be effective if it does not apply to this, the largest single programme.

5. Nor need the avoidance of a commitment be politically damaging to us. We can point to our record on pensions and refer to our intention to continue to give the needs of pensioners high priority. We can also point out that no responsible Government can commit itself regardless of circumstances, and draw a contrast with the extravagant promises made by the Opposition. These points can and should be made explicitly and positively.

6. The line I would prefer would therefore run broadly as follows:-

> "During this Parliament we have more than protected the value of pensions and other related long-term benefits against rising prices. We have also brought inflation down very considerably. During the next Parliament we intend to keep inflation under control, and this will continue to benefit pensioners, who will not see the value of their pension eroded as it has been in the past. No responsible Government can commit itself for ever on this or any other major item of expenditure regardless of economic circumstances. But it is plain from our record that we have given a high priority to protecting the living standards of pensioners. This we shall continue to do."

7. A copy of this minute goes to Norman. You will probably want to discuss it with him and me before we consult colleagues generally.

(G.H.)
30 March 1983

Social Services: Uprating of Benefits Pt 3

SECRET AND PERSONAL

Copy No 1

10

Social Services

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

30 March 1983

Dear John

PLEDGE ON FUTURE PENSION UPRATINGS

At this morning's meeting on commitments for the next Parliament on the uprating of pensions, I understand that my Secretary of State agreed to give the Chancellor an opportunity to comment on the draft of a minute he intends to send to the Prime Minister. I attach a draft - which the Secretary of State has not yet seen - on which I would be grateful for comments.

We were surprised to see that the Chancellor had already sent his own minute to the Prime Minister without, as far as I can tell, any consultation with us. The Prime Minister will, no doubt, wish to consider the two minutes together.

I would be grateful therefore for comments as early as possible tomorrow.

I am copying this letter (but not the enclosure) to Michael Scholar.

Yours
Steve

S A Godber
Private Secretary

SECRET AND PERSONAL

FERB.

Many thanks

FERB

21.3

10 DOWNING STREET

I have annotated Mr Fowler's draft with the PM's comments.

I passed them on to Carol Souter on Saturday morning.

Mal

19/3.

Prime Minister 1

I have asked DHSS also to clear with the Treasury and have alerted the Chancellor's office. Any comments which you have should be phoned to Mr. Fowler's office on Saturday. I have asked Trina and the Duty Clerk to arrange.

FERB

18.3.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

18 March 1983

Dear Willie

I attach a draft of a letter which my Secretary of State hopes to send this weekend to The Times, and a copy of the leader to which it refers.

As yet this is only a draft: Mr Fowler hopes to work on it tomorrow morning so that the letter can be delivered in time for publication on Monday - ie by lunchtime on Sunday. If there are any substantive amendments to the draft I will ring the duty Private Secretary tomorrow to discuss them. In the meantime I would be grateful for clearance of the draft as it stands - with apologies for the rush!

Yours

Mrs C L Souter
Private Secretary

TIMES PAST
THE TIMES

P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

THE CHANCELLOR'S CLAWS

It is generally held that inflation is a solvent not only of the economic order but, in time, of the social attitudes of the nation. Yet in recent years there has been a remarkably strong consensus that the working population should maintain its support of the elderly and infirm and, specifically, that the elderly should be adequately protected from the debauch of money values.

The present government was not convinced that old people should share in any gains in real income and, in its 1980 social security amending legislation, uncoupled pensions from the movement of earnings. But ministers have flocked to re-affirm their oaths on the up-rating of pensions in line with the movement of prices. The problem has been the mechanism for indexation. The 1975 scheme of annual up-rating according to the forecast movement of prices has, Sir Geoffrey Howe said on Tuesday, "never worked well."

The trouble has been the pattern of repeated over-and under-estimation of prices followed by politically embarrassing bids to retrieve any real increase in pensions. Since last November a cabinet committee has been commissioned to find a method of avoiding such bouts of unintentional Treasury generosity. But on the evidence of the Budget statement, that committee (or perhaps more accurately put, the Treasury in response to it) has not saved the government's face nor discovered a more just or lasting system of indexation.

At best the switch to historic estimation of price movements will save public money in the short run; over a longer period it will benefit the Treasury only if inflation is on an upward course – something of a paradox for the present Government, it must be said. Meanwhile the switch-over has not been judiciously managed.

American social security administrators have a useful term – "grandfathering in" – to describe the way in which present beneficiaries are given a place in a new system without necessarily being made worse off. This Sir Geoffrey has failed to do. Pensioners' benefits in the period from November 1983 to November 1984 will be based on an estimate of inflation in the year from May 1982 to May 1983: by the end of October 1984 there will be a gap of 30 months in the movement of prices. Sir Geoffrey insists that this is not a claw-back of the over-estimation benefiting pensioners between November 1982 and November 1983; it none the less looks like one.

There is of course a better way. In principle – and in the comparative practice of other western countries – there is no reason why social security benefits should not be uprated much more frequently than once a year, so minimizing the leads and lags. Indeed officials of the Department of Health and Social Security concede that old age pensions could be reviewed and re-priced more quickly. Five months are needed for uprating, they say, because of supplementary benefit, which is indexed along the same lines as old age pensions. As a means-tested payment open to many local and personal amendments, supplementary benefit has to be recalculated for a host of individuals.

Here is more ammunition – if more is needed – for that thoroughgoing review of supplementary benefits that has been required for years. It is a review accomplished in many of its aspects by Professor David Donnison, the former chairman of the Supplementary Benefits Commission; it is part of that now pressing need for reform of our multiplicity of social benefits. For the present there is that deus ex machina the computer. Sir Geoffrey Otton, DHSS second permanent secretary, has described computerization in his field as a task akin to lunar travel with benefits to match.

Sir Geoffrey Howe cannot wait for the machines. His own forecast that by November this year the annual inflation rate will be 6 per cent makes his arrangements for indexation look mean. It could be that by mid-1984 a lowered rate of inflation will make him once again look generous, if injudicious. However Mr Richard Crossman, that pensions afficionado, once noted in his diary, "the Budget disappeared from public view, apart from its effect on old age pensioners." That political maxim may return in the autumn to haunt the Chancellor.

ST PATRICK ON PARADE

For years there has been much anxiety in the United Kingdom and among upholders of constitutional authority in the Republic of Ireland over the support given by Irish Americans to the IRA. Some of this support has been financial – quite a bit of money has been channelled to the terrorists over the years through the Irish Northern Aid Committee (Noraid) in the United States – but far more of it has been psychological. There is

not be represented today, and all federal military bands have been forbidden to participate.

Not all leading New York politicians are taking an equally responsible attitude. The new Governor Mario Cuomo, Mayor Ed Koch, and Congressman Mario Biaggi, who runs the Congressional Ad Hoc Caucus for Ireland, are all expected to take part in the parade. None of them is an Irish American, which is more th[illegible] coinci-

associates are the big names, the natural leaders of the Irish American community. Their disapproval of the IRA becomes easier for other Irish Americans to understand as the consequences of terrorism are made evident on television.

The Mountbatten assassination had a profound effect upon American opinion on the Irish issue. Not only was Lord Mountbatten a member of the royal family; he was also a

Lives in mec students' ha

From Dr A. N. Pain

Sir, Following the rec about student locums i feel compelled to write my views.

On the night of your (March 14) I was worki casualty department a qualified doctor in the To assist me as part of had a fourth-year medi Throughout, his help luable, as many seriousl came in under my care,

At one point durin three patients arrived almost simultaneously a decide which patient to s

Having seen the most patient, I felt that it was in the situation for me patient myself and so d treatment to the medi whom I knew to be co proceeded to take ar gases, give an intraven of a potentially dang (having assured myself aware of the possible co and monitor the patient'

This left me free to t patient whose life migh compromised by unnece

Students in my casu ment are required, as p course, to spend time helping the doctor on policy was abandoned, d publicity of the isolat Sheffield, then the ludi ation of the medica spending five years "voyeurs" and being overnight to totally doctors would arise.

Yours sincerely,
ASHLEY PAIN
12 Liggett Hill,
Roundhay,
Leeds,
West Yorkshire.

Dr Strauss's pos

From Mr Forrest E. Stude

Sir, It is an admirable, amusing aspect of your that views of every poli find an airing in your Thatcher's extremes of glory, Mr Foot's stro Labour woods, Enoch pontifications cannot coverage of French, Ge sian or Gambian events.

Why then, in this political analysis, from politics in Britain to "c West Germany, does Hr alone seem to draw such condescension? One s Hitler would – in mode tive – draw a better p *Times.*

DRAFT LETTER TO THE TIMES

May I comment on the inaccuracies ~~and eccentricities~~ in your first leader on Thursday on the Government's decision to change from the forecast to the historic (or actual) method of uprating pensions and other benefits? It is an important ~~issue~~ matter and it is important therefore to make the position clear.

Omit?

It might be helpful to your readers if I first explained what we are proposing to do and why we are doing it, since I am afraid many may have been ~~puzzled~~ confused by what you said. (I have in mind in particular your reference to the 1983 uprating being "based on an estimate of inflation from May 1982 and May 1983, and later comment that "a lowered rate of inflation will make him [the Chancellor] once again look generous if injudicious.) If Parliament approves the Government's proposals, the uprating this November will be based on the actual increase in prices between May 1982 and May 1983, instead of the forecast increase between November 1982 and November 1983. So the November uprating will be certain. By definition there will be no need for any subsequent alteration, either up or down. And any increase in prices between May and November 1983 will automatically be taken into account in the next (1984) uprating.

Indeed the main reason why the Government has decided to restore the certain historic method is that the forecast method has proved itself to be unrealistic and unsatisfactory. On five of the seven occasions forecasts have been used they have turned out to have been incorrect. This has led either to a shortfall or an overshoot in the uprating which successive Governments have had to consider adjusting at the next uprating. So far as I am aware, no-one now argues that the forecast method, introduced by the last Government simply in order to save money, is better. ~~[Perhaps the Times would like to say where it stands? The Guardian in its Wednesday leader accepted the historic method was better.]~~

Omit?

(published on June 17)

I should also make clear how pensioners and others are affected by the upratings in 1982 and 1983. Over this period, pensioners will not lose out compared with what would have happened under the forecast method. Indeed, they are likely to gain a little. And over the period between November 1978 and November 1983, pensions are expected to have gone up by around 75 per cent, while prices are forecast to go up by around 70 per cent.

What will happen in 1983 is in marked contrast to what happened in 1976 under the last Labour Government. Then, the Government switched from the historic method to the forecast method in circumstances which produced a £500 million saving at the time - worth £1 billion today. Moreover, the 1976 switch meant that no account was ever taken of 8 months of high inflation in 1975 - pensioners lost out permanently. By contrast, as I have explained, any increase in prices between May and November this year will be compensated for in the 1984 uprating.

There are two other points where I should like to clear up any misunderstanding. I find the reference to a "30 month" gap difficult to follow. Under the Government's proposals, the most recent actual prices taken into account will be those for May 1983 so that the gap you refer to until the November 1984 uprating will be 18 months. Had we followed the forecast method at Budget time this year, the most recent actual prices taken into account would have been those in January 1983, 4 months earlier. The latest month covered by the forecast would, by definition, have been 12 months ahead of the 1984 uprating.

Finally, you suggested there should be upratings "much more frequently than once a year": I do not accept this at all. We are not living in a Weimar Republic. Inflation has now been brought down to comparatively low levels and we intend to keep it under control. I do not believe we should legislate for 6-monthly or quarterly upratings any more than we should expect pay rises of such frequency.

Hansard 10.3.83

Q3. **Mr. Race** asked the Prime Minister if she v
her official engagements for Thursday 10 March.

The Prime Minister: I refer the hon. Gentleman to t
reply that I gave some moments ago.

Mr. Race: Does not the Prime Minister realise that th
creation of mass unemployment implies the creation of
mass poverty? Does she not know that this year her
Government have cut £610 million from benefits to retired
people, £300 million from benefits to the sick and the
disabled, £300 million from the benefits to the
unemployed, £50 million from the benefits to widows and
orphans and £150 million from benefits to families? When
will the Prime Minister stop hiding behind the phrase
"Don't blame me, I'm only the Prime Minister".

The Prime Minister: It is not a phrase I have ever
used. May I add to what the hon. Gentleman stated that
in the four pension upratings since this Government took
office, the pension has increased—*[Interruption.]*
Pensions are benefits. The pension has increased by 68·5
per cent. During that period, the retail price index rose by
64 per cent. and the pensioners' price index by less. We
have put up pensions by more than the cost of living. I also
remind the hon. Gentleman that, in addition to putting up
each pension by that amount, there are now about 600,000
more pensioners than at the time when the Labour
Government left office. Their pensions have also had to
be funded by payments in national insurance
contributions.

Hansard 10 · 3 · 83

Q3. **Mr. Race** asked the Prime Minister if she v her official engagements for Thursday 10 March.

The Prime Minister: I refer the hon. Gentleman to t reply that I gave some moments ago.

Mr. Race: Does not the Prime Minister realise that th creation of mass unemployment implies the creation of mass poverty? Does she not know that this year her Government have cut £610 million from benefits to retired people, £300 million from benefits to the sick and the disabled, £300 million from the benefits to the unemployed, £50 million from the benefits to widows and orphans and £150 million from benefits to families? When will the Prime Minister stop hiding behind the phrase "Don't blame me, I'm only the Prime Minister".

The Prime Minister: It is not a phrase I have ever used. May I add to what the hon. Gentleman stated that in the four pension upratings since this Government took office, the pension has increased—*[Interruption.]* Pensions are benefits. The pension has increased by 68·5 per cent. During that period, the retail price index rose by 64 per cent. and the pensioners' price index by less. We have put up pensions by more than the cost of living. I also remind the hon. Gentleman that, in addition to putting up each pension by that amount, there are now about 600,000 more pensioners than at the time when the Labour Government left office. Their pensions have also had to be funded by payments in national insurance contributions.

F E R Butler Esq.

CABINET OFFICE

With the compliments of
The Private Secretary to the
Secretary of the Cabinet

70 Whitehall, London SW1A 2AS
Telephone 01-233 8319

9

SECRET AND PERSONAL

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB.CVO

Ref. A083/0751 7 March 1983

The Cabinet Conclusions for Thursday 3 March (CC(83) 7th Conclusions) record that under Item 5 the Cabinet discussed certain other business. I attach a record of that discussion.

The Prime Minister has particularly asked that knowledge of the contents of that discussion should be confined to as few people as possible until 16 March. I should therefore be grateful if you would treat the attached record as purely for the personal information of the Chancellor of the Exchequer and it should not be shown to anyone outside the Private Office until after 16 March.

I am copying this letter and the attached record to David Clark in Mr Fowler's office and should be grateful if he would observe the same conditions. A copy also goes to Robin Butler at No. 10.

R. HATFIELD

(R P Hatfield)
Private Secretary

J O Kerr Esq.

SECRET AND PERSONAL

8

Ref. A083/0705

PRIME MINISTER

Cabinet: Uprating of Pensions and Benefits

You have it in mind to raise orally after the Industrial Affairs item the uprating of pensions and benefits, on the basis FLAG A of the Chancellor of the Exchequer's minute to you of 1 March which has been copied only to the Secretary of State for Social Services. We understand that Mr Fowler is also minuting you today setting out the position more fully.

BACKGROUND

2. In the course of its discussion of public expenditure on FLAG B. 2 November 1982 the Cabinet (CC(82) 46th Conclusions, Minute 2):

(i) Endorsed the principle of recovering the excess provision for inflation in the November 1982 uprating of social security benefits, up to a maximum of 2½ per per cent.

(ii) Agreed that, after allowing for the recovery and for any offsetting improvements in social security benefits, net savings should be made of £180 million in 1983-84, £530 million in 1984-85, and £600 million in 1985-86. (These figures were included in the Public Expenditure White Paper.)

(iii) Took note that you would make arrangements for a group of Ministers to discuss the presentational aspects of these matters, and the possibility of breaking the existing statutory link between increases in state retirement pensions and index-linked pensions in the public services.

3. Two Ministerial Groups were set up. One (MISC 88), under the Lord President's chairmanship, had the task of considering, within the public expenditure constraints, how big the recovery should be, what offsetting improvements there should be in social security benefits, what the scope of the legislation should be,

and how the issues might best be presented. The other (MISC 89), under the Chancellor of the Exchequer's chairmanship, was to consider the desirability of breaking the link with public service pensions.

4. Neither Group has reported. As the Chairman of each Group is aware (but not most of its members), this is because we arranged for no further meetings to take place from the time when you began discussing with the Chancellor and the Secretary of State for Social Services a fundamentally different approach to the uprating from that envisaged by the Cabinet on 2 November 1982. The position which had been reached was that MISC 88 was likely to recommend a 2 per cent recovery of overshoot, with some offsetting improvements in benefits, notably the restoration of the 5 per cent abatement of unemployment benefit. It was also likely to recommend legislation to provide permanent powers to adjust for overshoot as well as undershoot. MISC 89 had agreed that there was a good case in principle for breaking the link with public service pensions, but had not decided whether to recommend legislating to this effect during the present Parliament.

HANDLING

5. You will not wish to encourage a lengthy discussion; but it will be necessary to explain to the members of MISC 88 and MISC 89 (who account for about half the Cabinet) that the work which they have been doing on the basis of the Cabinet's earlier remit has been overtaken. The main objective will be to reach new Cabinet conclusions which replace those of 2 November 1982.

6. After telling the Cabinet why you favour a new approach which does away with the need to recover overshoot this year and which re-establishes the historical basis for uprating, you may wish to invite the Chancellor of the Exchequer and the Secretary of State for Social Services to fill in the details as necessary.

CONCLUSIONS

7. You will wish to seek the Cabinet's endorsement of the following conclusions:

(i) That the excess provision for inflation in the November 1982 uprating of state retirement pensions and other social security benefits should not be recovered.

(ii) That legislation should be introduced to provide that the November 1983 uprating and subsequent upratings should revert to the historic method; and that the Retail Price Index outturn for the twelve months to the previous May should be the basis for the November 1983 uprating.

(iii) That public service pensions should be treated in the same way as state retirement pensions, ie that there should be no recovery of the November 1982 overshoot and that they should be uprated in future by the historic method.

(iv) That the 5 per cent abatement in unemployment benefit should be restored.

8. You will no doubt wish to stress the desirability of keeping these decisions secret until they are announced at the time of the Budget.

RtA

ROBERT ARMSTRONG

2 March 1983

SECRET

Prime Minister

MES 2/3

7

Prime Minister

1983 UPRATING OF PENSIONS AND OTHER BENEFITS

I agree with the Chancellor's minute to you today.

2. If you decide to report these developments to Cabinet tomorrow yourself, the attached notes may be helpful.

3. I am copying this to the Chancellor and to Sir Robert Armstrong.

2 March 1983

N F

1983 UPRATING OF PENSIONS AND OTHER BENEFITS

1. Last Autumn we decided to adjust the 1983 uprating of social security benefits to take account of the 2.7 per cent overshoot in the 1982 uprating. This was announced in the Chancellor's Autumn Statement, when we said we would reduce the social security programme in 1983-84 by £180 million.

2. We inherited the forecast method of uprating from the previous Labour Government. The Conservative Government before this used the historic method. We can only get away from the recurrent problems of overshoot and shortfall by moving to the historic method. Pensioners prefer the certainty and stability of the historic method and organisations representing them have asked for it to be restored.

3. It would not be possible to revert to the historic method if it meant pensioners and other beneficiaries were worse off or if the change could not be accommodated within the public expenditure figures. In fact, both these conditions can be met in 1983 - probably the first such year since the forecast method was introduced.

4. What is proposed therefore is that we should introduce a Bill immediately after the Budget to enable us to return to the historic method. The 1983 uprating would then be based on the increase in prices between May 1982 and May 1983, which is published on 17 June. This is the latest date we can manage for operational and Parliamentary reasons.

5. On present estimates, this would mean a pension increase of $4\frac{1}{4}$ per cent under the historic method. This compares with a pension increase of 3.3 per cent under the forecast method - this is a 6 per cent forecast increase in prices, less a 2.7 per cent adjustment. In other words, by reverting to the historic method

pensioners would get an uprating about 1 per cent higher, provided there were no adjustment. No adjustment would therefore be made to take account of the 1982 overshoot.

6. Public service pensioners would be treated in the same way.

7. There will be two major advantages in returning to the historic method:

*First, the Bill we shall have to take through will be much less contentious than a Bill which was simply regarded as a 'clawback' Bill. There is no doubt that however we presented it, a 'clawback' Bill would be unpopular. Pensioners organisations have made this plain to me. Moreover some of our own backbenchers have made their unease clear, both publicly and privately.

*Secondly, if we restore the historic method, we shall have a much more acceptable and defensible position on the future uprating of pensions. The historic method brings back certainty and stability, since there would be no more short-falls or overshoots. This is what pensioners want.

8. The Government's proposals would be announced by the Chancellor in his Budget speech.

pensioners would get an uprating about 1 per cent higher, provided there were no adjustment. No adjustment would therefore be made to take account of the 1982 overshoot.

6. Public service pensioners would be treated in the same way.

7. There will be two major advantages in returning to the historic method:

*First, the Bill we shall have to take through will be much less contentious than a Bill which was simply regarded as a 'clawback' Bill. There is no doubt that however we presented it, a 'clawback' Bill would be unpopular. Pensioners organisations have made this plain to me. Moreover some of our own backbenchers have made their unease clear, both publicly and privately.

*Secondly, if we restore the historic method, we shall have a much more acceptable and defensible position on the future uprating of pensions. The historic method brings back certainty and stability, since there would be no more short-falls or overshoots. This is what pensioners want.

8. The Government's proposals would be announced by the Chancellor in his Budget speech.

2 MAR 1983

SECRET

Prime Minister

cc 5.V

6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Norman Fowler and I have discussed the social security uprating and, subject to your views, have agreed on the following.

2. The 1983 uprating will be based on the historic method, using the RPI outturn for the 12 months to May 1983. Norman's advice is that this is the latest monthly figure which it is practical to use particularly bearing Parliamentary considerations in mind. There is still considerable uncertainty about what the outturn for May will be, but the best present estimate is about 4¼ per cent (which on present prospects will be the lowest of the year). Public service pensions will be treated in the same way.

3. An uprating of 4¼ per cent would be higher than pensioners and other beneficiaries would have expected to get under the forecast method, with full recovery of overshoot. On present prospects, inflation in the 12 months to November will be 6 per cent, so that full recovery of the 2.7 per cent overshoot would have given an uprating of 3.3 per cent, almost 1 per cent less than is now in prospect.

4. The other side of this coin is that some offsetting savings will be necessary to avoid an increase in public expenditure, from the change in uprating method. A 4 per cent uprating would not cost extra: but at 4¼ per cent there will be a cost of about £30m in 1983-84, or £90m in a full year. We think that restoration of the 5 per cent abatement in Unemployment Benefit is unavoidable in any case. We shall therefore have to look again at the other benefit improvements we have been considering: I shall be pursuing this further with Norman Fowler.

SECRET

5. If you agree with these proposals, you may wish to make a brief oral report to Cabinet on Thursday. Alternatively, Norman or I could do so if you wished.

6. I am copying this minute to Norman Fowler and to Sir Robert Armstrong.

(G.H.)
1 March 1983

SECRET AND PERSONAL

(2) 5

Prime Minister

PRIME MINISTER

MLS 24/2

UPRATING OF PENSIONS AND OTHER BENEFITS

As you may know I had a meeting yesterday with a delegation from the National Federation of Old Age Pensions Associations (Pensioners' Voice) who represent a membership of about 400,000 pensioners. They had a number of points to make to me about pensions uprating, but their major point was to urge the Government to move back from the forecast to the historical method of uprating. They said that in this way we would avoid the annual problem (which the delegation accepted was an inherent part of the forecast method) which has confronted successive Governments of trying to guess the future rate of inflation. I of course maintained our present public position but I thought you would be interested to know this - which confirms my own view that a return to the historic method would be easier to argue.

I am copying this minute to the Chancellor of the Exchequer.

24 February 1983

N F

SECRET AND PERSONAL

Social Services: Uprating Social Security Benefits Pt 3

SECRET AND PERSONAL

SUBJECT.

cc Master

4

cc: HMT
Chief Sec's Office.
CO (Gregson
4 RTA

10 DOWNING STREET

From the Private Secretary

21 February 1983

Dear David.

UP-RATING OF PENSIONS AND OTHER BENEFITS

The Prime Minister held a discussion this afternoon of the matters set out in your Secretary of State's minute of 11 February, and the Chief Secretary's minute of 15 February. In addition to your Secretary of State, the Home Secretary, Chancellor of the Exchequer, Chancellor of the Duchy of Lancaster, the Chief Secretary, and Mr. Gregson, Cabinet Office, were also present.

The Prime Minister explained the background to the discussion. She saw considerable attraction in the longer-run in moving from the forecast to the historic method of up-rating. Such a move would enable the Government to by-pass continuing political difficulty in years to come stemming from over-shoots and under-shoots. She would prefer the historic method to be based, if possible, on the June RPI figure which would become available in July; but she recognised that this would depend upon how quickly the pension, and so on, books could be produced.

The Chancellor said that it would be most important for his Budget arithmetic to secure the savings which were shown in the Public Expenditure White Paper on account of recovery of last year's over-shoot. Your Secretary of State's proposal was designed to be neutral on this point, on the basis that the November RPI figure, whatever it was, minus the 2 per cent adjustment was likely to be roughly equal to the May RPI figure, whatever that proved to be. From the pensioners' point of view, therefore, the cash increase would be the same whatever method of up-rating was chosen.

In discussion it was argued that a return to the historic method would make the handling of the social security up-rating much easier in political terms not only this year but in the future. Only twice since the forecast method had been adopted had forecasts proved correct. The Opposition would have difficulty in attacking the Government for making this move, given the circumstances in which the Labour Government moved from the historical to the forecast method. The attraction of making the change now

/was that it

was that it would be a very expensive change to make when inflation was falling; the present situation, in which the change could be made without cost to Government or pensioner, would not easily recur. Furthermore, a move to the historic method on the basis proposed might well seem to the Government supporters to produce a deal generous to the pensioners in relation to what the Public Expenditure White Paper had led them to expect. Against this it was argued that a move to the historic method involved a greater risk of a more expensive uprating than otherwise would occur. The cost of every additional one per centage point would be £100 million in the first year and £300 million in a full year. It would not be possible to choose this course in preference to various improvements in other social security benefits, since some of these improvements were in any event inescapable: restoration of the 5 per cent abatement of unemployment benefit now seemed unavoidable; nor did it seem likely that the increase in child benefit could be kept down to 3 per cent. In addition to these financial arguments, a political case could also be made: since the Government would not be giving up the savings it had scored for recovery of over-shoot, its critics would direct all their fire against the move to the historic method. They would charge the Government with being devious as well as mean. Finally, the change would be taken as a signal that the Government believed inflation would rise rapidly.

Summing up the discussion, the Prime Minister said that it was agreed that the Government should seize this opportunity of returning to the historic method of uprating, which was methodologically far more satisfactory. She would wish to consider further how public service pensioners should be treated, but her initial conclusion was that they, too, should be switched to the historic method. She would raise the matter orally at Cabinet on 3 March. Knowledge of the decision should be restricted to as few people as possible: the Prime Minister asked your Secretary of State to consider whether the timetable made it necessary for legislation to be prepared in the meantime.

I am sending copies of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and Peter Gregson (Cabinet Office). I should be grateful if you and they would ensure that it is neither copied nor circulated outside your Private Offices; and that it is seen by only those specifically authorised by your Ministers to do so.

Yours sincerely,

Michael Scholar

David J. Clark, Esq.,
Department of Health and Social Security.

Meeting folder

SECRET

Prime Minister

3

FROM: CHIEF SECRETARY
DATE: 15 February 1983

cc P Gregson
DHSS

PRIME MINISTER

You asked me recently whether we might give up our proposal to make an adjustment to this year's social security uprating on account of last year's overshoot and instead return to the historical method of uprating.

2. I have discussed this idea with the Chancellor. We have considerable reservations about it.

Disqm

3. First, reversion to the historical method is unlikely to be less controversial than making the adjustment, and could be more so. If the historic method produced an uprating equal to that which would have been produced by the forecast method less the adjustment, then it would appear that the Government, having calculated that it would fail to carry the adjustment, was just trying to achieve the same result by different means. What matters to the pensioner is the level of the uprating, not how it was calculated. By using a different method of calculation, the Government would appear devious as well as mean.

4. I deal with the possible outcomes for the uprating below. But it looks now as though the May inflation figure, on which a historical uprating would logically be based, could well be the lowest of the year. The Government would be accused of having chosen this month, of all possible months, as the basis for the uprating, purely in order to save what it would otherwise have saved by the adjustment. We would stir up an entirely new argument about the merits of the alternative uprating methods; and our change of tactics would be taken as an admission that inflation was on the way up again, not only through 1983 but afterwards.

5. We could only escape the accusation of meanness if it were clear that the uprating which would be produced by historical method were higher than that produced by the forecast method less the adjustment. But that of course would mean additional public expenditure.

6. In practice, there may not turn out to be much in it either way. On present prospects, the May inflation rate will be in the range 3½%-5%, with perhaps the most likely outcome giving an uprating of 4%-4½%. The Budget forecast of inflation in the twelve months to November is likely to be in the range 5-7%, with 6% as the most likely figure, giving an uprating after the adjustment of 4%. There is a range of possible outcomes but a risk of additional expenditure. If the historical method uprating were 1% higher than the forecast method, it would mean additional public expenditure of about £100 million in 1983-84 and about £300 million in a full year.

Conflict with Mr Fowler's estimate

7. We shall not know which method would be more expensive until June, when the May inflation rate is known. But there is a real risk that sums of the order of £300 million in a full year could be at stake, and this uncertainty about public expenditure could be damaging at Budget time. Under the forecast method of course the uprating is fixed at Budget time on the basis of the Budget forecast, so that the effect on public expenditure is known.

8. We do not underestimate the difficulties of getting the adjustment. But they should be reduced by the benefit improvements which we have in mind. The Chancellor expects to announce a caring package in the Budget which will include several attractive, though inexpensive, measures to help the sick and disabled. There should also be a big increase in child benefit which will restore it to its real level when we entered office.

9. A last point is that a return to the historical basis would strengthen indexation by making the link between benefits and prices more certain and automatic. It would be difficult, if

not impossible, to avoid giving full price protection in the necessary legislation to all benefits, including those not covered by the present pledge of full price protection. Specific primary legislation would be needed in every year if we wished to increase benefits by less than the full amount of the historic inflation rate. Moreover, it would be much more difficult to carry through de-indexation in a new Parliament if we had just legislated to confirm indexation in the last year of the previous Parliament.

10. The balance of argument is clearly a matter of judgement. But we prefer to keep to the announced policy because the alternative could be equally or more controversial, would risk increasing public expenditure, and would strengthen indexation.

JSt. Claire

for LEON BRITTAN
15 February 1983

[Approved by Chief Secretary]

SECRET AND PERSONAL

Prime Minister 2.

2

→ for meeting with the Chancellor 16/2

PRIME MINISTER

UPRATING OF PENSIONS AND OTHER BENEFITS

Following up our discussion yesterday, I attach a note setting out the position. It summarises the present arrangements for uprating, the case for changing back to the historic method, and what the practical and financial implications of this would be.

The main points that the note brings out are:

* We can only get away from the recurrent problems of overshoot and shortfall by moving to the historic method.
* If we do move to the historic method, we have an acceptable and defensible position on the future uprating of pensions.
* If we do not take back the overshoot from the November 1982 uprating, we should ensure that at the November 1983 uprating pensioners and others are not worse off under the historic method than they would be under the forecast method.
* It should be possible to accommodate the change to the historic method within the overall public expenditure figures, with perhaps no more cost to the Contingency Reserve than if we kept to the forecast method.
* Given that accommodation within the overall public expenditure figures, there ought not to be any backwash on to the Government's overall economic strategy and market confidence in that strategy.

The other factor of course is the position in Parliament. I know that the Chief Whip is anxious about the position. We would not want to get into a situation where we had made significant concessions to enable the primary legislation to get through and then lose all or part of that legislation. In that case we would lose out both ways.

11 February 1983

N F

SECRET AND PERSONAL

UPRATING OF PENSIONS AND OTHER BENEFITS

Present arrangements

1. Pensions and other benefits are currently uprated by the forecast method. In fact, this is not an accurate description, since the uprating is intended to reflect the rise in prices over the previous 12 months not the rise over the following 12 months. Because of the time needed to carry out the uprating, the estimate of price rises over the previous 12 months which determines the amount of the uprating is partly based on the actual price rise and partly on the expected price rise over the latter part of the period. Last year's forecast was based on what was known at the March 1982 Budget. The latest date to which we can delay making a forecast is mid-June, ie using the May RPI.

2. Initially, therefore, the element of forecast in the current method of uprating means that the uprating can be too high (overshoot) or too low (shortfall). Overshoots and shortfalls both produce difficulties for the Government of the day. There is no way of entirely resolving these difficulties. In only two years (1977 and 1979) since the forecast method began has the Government got it right.

Historic method

3. By contrast, the historic method avoids the controversy and uncertainty that are inherent in the forecast method. Pensioners know that the uprating reflects the actual price rises. The Government can budget more accurately for the cost of the uprating: no allowance has to be made for possible overshoot or shortfall.

4. There are two points to be borne in mind if we revert to the historic ~~forecast~~ method:

* For operational reasons, we should (at present) have to use the May to May RPI figures which come out in June. We shall therefore have to convince pensioners that the certainty of the historic method makes it worthwhile not being able to take account of price rises between May and November in that year's uprating. The obvious answer here is that the increases would, of course, be reflected in the following year's uprating.

* We need to ensure that in the year of the changeover, pensioners do not get less than they would have got under the forecast method. We do not want to be accused of saving money at their expense, even though of course they would be "compensated" in the following year when the uprating reflected price rises between May and November.

5. If we reverted to the historic method in 1983 we should be able to avoid any danger of pensioners losing out by leaving the 2.7 per cent overshoot on the 1982 uprating. This would provide a substantial cushion against rising prices between May and November, sufficient, on present forecasts, to leave pensioners and other beneficiaries with an overall bonus. Pre-budget estimates suggest that the May - May

inflation rate will be between 4½ per cent and 5½ per cent while the November - November rate will be between 6 per cent and 7 per cent. If, conservatively, we take the difference as 1 per cent, this would leave a bonus of 1.7 per cent.

Implications of reverting to the historic method

6. For pensioners and other beneficiaries. The effect on the 1983 uprating depends on how much of the overshoot would remain a bonus. The amount by which November to November price rises exceed May to May price rises will reduce that bonus. The following table shows the comparative effects on the 1983 uprating of retirement pension and child benefit. There would be similar effects on other benefits, although for supplementary benefit the overshoot was only 2 per cent not 2.7 per cent.

Pension Rate

November 1982 rate	£32.85
November 1983 rate with 3 per cent uprating (ie MISC 88 recommendation - 5 per cent price rise, 2 per cent adjustment, 0.7 per cent bonus)	£33.85
November 1983 rate with 4 per cent uprating (ie MISC 88 recommendation, but November - November price rise is 6 per cent, not 5 per cent)	£34.15
November 1983 rate with 5 per cent uprating (ie make no adjustment, revert to historic method, May to May price rise is 5 per cent)	£34.50

Child Benefit Rate

November 1982 rate	£05.85
November 1983 rate with 3 per cent uprating	£06.05
November 1983 rate with 4 per cent uprating	£06.10
November 1983 rate with 5 per cent uprating	£06.15
November 1983 rate at April 1979 value restored, assuming 5 per cent price rise November to November	£06.40

Note

To restore the April 1979 rate of child benefit would require a rate of £6.40, assuming prices rise by 5 per cent between November 1982 and November 1983. The extra cost of increasing child benefit from £6.15 to £6.40 would be £45 million in 1983/84 and £130 million in 1984/85. If, however, prices between November 1982 and November 1983 go up by 6 per cent as assumed in paragraph 5 above we should require a rate of £6.45. The extra cost of increasing the rate to £6.45 would be £55 million in 1983/84 and £155 million in 1984/85.

7. For public expenditure. The appendix shows that the most likely outcome is that the changeover, including no adjustment for overshoot, could be accommodated within overall public expenditure totals and without making any extra call on the Contingency Reserve other than that needed under the forecast method.

8. For longer term public expenditure, it is irrelevant whether we use the historic or forecast method since, over a period of years, both are intended to achieve the same objective. If we are to make any savings from the uprating of benefits, this requires a political decision. We do not limit our freedom of manoeuvre by moving to the historic method. Indeed, the historic method has the advantage of avoiding fortuitous gains through overshoot.

9. For the Government's economic strategy. There is no reason why the change should have any effect, provided the overall public expenditure totals are maintained.

10. If it is argued the change means the Government are concerned by rising prices, the answer is that the effect of this would have been seen in the forecast method anyway. The reversion to the historic method was not made for that reason, or to save money but simply because it was a more satisfactory method of uprating.

11. For social security policy. The change will mean that the Government has a defensible long-term position on uprating policy. For example, we could say:

> "We have legislated so that pensions and other benefits go up in line with the known movement of prices. This means we have no more worries about overshoot and shortfall, as we now have under the forecast method of uprating introduced by the previous Government. With the backing of a satisfactory method of uprating we shall continue during the next Parliament to protect the value of pensions and other benefits subject only to overriding economic circumstances - a qualification which must apply to any Government policy in any area."

12. For National Insurance Contributions. If there were no adjustment (the last contributions review assumed, in effect, a 1.7 per cent adjustment) that would add nearly ½ per cent to the contribution rate. But under the forecast method, if November to November prices went up by 6 per cent, not 5 per cent, more than half of that increase would be needed anyway.

13. For public service pensions. As things stand, these go up in line with the additional (earnings related) component of the retirement pension. The Social Services Select Committee recommended full adjustment of 2.7 per cent.

14. If we revert to the historic method, but do not provide any cushion by allowing the overshoot to continue, public service pensioners would be worse off than under the forecast method if, as assumed, November to November price rises are 1 per cent higher than May to May. They could be left in a neutral position, ie not worse off, if 1 per cent of the overshoot were left.

15. A one-off adjustment of the public service pension uprating, whether of 2.7 per cent or 1.7 per cent, could be simply provided for in the Uprating Bill we should need for reverting to the historic method.

ANNEX

EFFECT ON PUBLIC EXPENDITURE

Add	1983/84 (part year)	1984/85 (full year)
1. Cost of 5 per cent uprating of all benefits in November 1983 instead of 3 per cent uprating (ie not making a 2 per cent adjustment; 0.7 per cent is already a bonus)	+ 215	+ 596
2. Cost of restoring balance of 5 per cent abatement of unemployment benefit (ie 2.3 per cent, after allowing for 2.7 per cent overshoot)	+ 10	+ 27
3. Cost of increasing capital limit for single payment of supplementary benefit from £300 to £500	+ 1	+ 3
	+ 226	+ 626
Deduct		
4. Package of benefit improvements arising from MISC 88 (details overleaf)	- 35	- 101
5. Possible Budget concessions (details overleaf)	- 72	- 200
6. Extra cost of 1983 uprating under forecast method if November to November price rises exceed May to May prices by 10 per cent	- 107	- 298
7. Partial adjustment (1.7 per cent) of public service pensions	- 19	- 53
	- 233	- 652
	- 7	- 26

Notes

1. The full year position in 1984/85 would be similar in subsequent years, after adjustment for the appropriate public expenditure assumptions.

2. MISC 88 package of benefit improvements	1983/84	1984/85 (2)
Restore 5 per cent abatement of unemployment benefit	21.8	59.5
Supplementary benefit single payments limit (£300 to £500) and price protection	1.1	3.2
Supplementary benefit capital cut-off (£2,500 to £3,000) and price protection	2.2	7.9
War Pensioners Mobility Supplement	0.2	1.8
2 per cent real increase in Mobility Allowance	2.0	6.0
Real increases in Therapeutic Earnings Limit for incapacity benefit	0.1	0.3
Remove the invalidity trap (1)	7.4	22.6
	34.8	101.3
	(35 rounded)	(101 rounded)

Notes

(1) Cost in 1984/85 would be met from unallocated housing benefit savings.

(2) Treasury would have to find £12.7 million new money for 1984/85.

3. Possible Budget concessions		
(1) Restore April 1979 value of child benefit	70	195
(2) Real increase in one parent benefit in line with percentage increase in child benefit	2	5
	72	200

Both improvements require new money to the amounts shown which Treasury would have to find.

CONFIDENTIAL

(1)

Social Services

PRIME MINISTER

Social Security Uprating

I have been thinking further about how to achieve your objective about the November uprating. You have mentioned the matter to the Chief Secretary and he will no doubt be thinking about it but there are, I think, three further things that will need to be done.

First it will be important to get the Chancellor on side and I would suggest that you have an early talk with him next week when he returns from Washington.

Second, MISC 88 and 89 are at work following Cabinet on 2 November which agreed in principle an adjustment of overshoot of up to 2½ per cent (savings of £180 million in 1983-84, £530 million in 1984-85 and £600 million in 1985-86 - figures since published in the Public Expenditure White Paper). MISC 88 has already decided in favour of a 2 per cent adjustment of the uprating, legislation to give the Government discretion to adjust for overshoot as well as undershoot in future years, restoration of the 5 per cent abatement of unemployment benefit (regarded as unavoidable) and some douceurs to encourage doubting backbench MPs. It has not yet submitted a report because it is waiting for MISC 89 to decide finally whether to use this opportunity to break the link between the uprating of state retirement pensions and public service pensions. If we are to follow the course of action you have in mind, it would be very inconvenient to have a report to the Cabinet from MISC 88 and 89 constructed on an entirely different basis. Twelve members of the Cabinet are involved in these two Groups and it would be very awkward if, as happened with the MISC 79 report on local government matters, their report was leaked and then subsequently rejected. Should we not stop the work of MISC 88 and 89 before they get to the stage of submitting their report?

/Third,

CONFIDENTIAL

Third, the Cabinet will need to revise the conclusions which it reached on 2 November.

Perhaps the best way forward would be, once you have the Chancellor lined up, to convene a small meeting of Ministers principally concerned (Home Secretary, Chancellor of the Exchequer (who is Chairman of MISC 89), Lord President (who is Chairman of MISC 88), Chief Secretary, and Secretary of State for Social Services) to settle the course of action to be followed. The work of MISC 88 and MISC 89 would then be discontinued and they would not report. As soon as possible thereafter the question of the social security uprating would be taken by the Cabinet, perhaps on the basis of a joint paper by the Secretary of State for Social Services and the Chief Secretary, Treasury.

Agree to an early talk with the Chancellor?

MLS

9 February, 1983

10 DOWNING STREET

Prime Minister

Mr Fowler has asked if he can have a word with you about upratings. I was a bit doubtful; but suggested 4 pm.

Agree?

MLS 9/2

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 ot £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.

22.11.82.

CONFIDENTIAL

Social Security

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Dear Michael

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.S. Grice

M. Scholar.

CONFIDENTIAL

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.

CONFIDENTIAL

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."

TIMES

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 handouts 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.

Howe . . . has £4billion to help industry

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 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.

7 1/4 4

MIRROR

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.

FINANCIAL TIMES

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 our 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

GUARDIAN

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 authorites 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 spending 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 ½ 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.

EXPRESS

Tax cuts on way and jobs boost

By JOHN WARDEN
Political Editor

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 rates by ½ 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.

SM

DB 21/7

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Tim Flesher Esq
Private Secretary
10 Downing Street

20 July 1982

Dear Tim

QUINQUENNIAL REVIEW OF SOCIAL SECURITY FINANCE

I attach a copy of the Confidential - Final Revise "National Insurance Fund Long Term Financial Estimates" which is the Report by the Government Actuary on the First Quinquennial Review under Section 137 of the Social Security Act 1975.

I also attach copies of the Parliamentary answer and press notice by which we intend to announce publication tomorrow.

I am copying this letter and enclosures to Private Secretaries to Members of Cabinet and the Chief Whip.

Yours ever
Mary McVerry

MARY McVERRY (MRS)
Private Secretary

DRAFT PQ

SOCIAL SECURITY FINANCES

To ask the Secretary of State for Social Services if he has yet received a report by the Government Actuary on the operation of the Social Security Acts since 1975.

2. Mr Norman Fowler: I have laid before the House today the report which the Government Actuary has made on the operation of the Social Security Acts between April 1975 and April 1980 in accordance with S 137 of the Social Security Act 1975. The report provides principally a detailed analysis of the possible future costs of benefits paid out of the National Insurance Fund and of the contributions that will be needed to pay for them. The Government will be considering this report very carefully before reaching any conclusions. We shall also be consulting widely with interested organisations and inviting comments by the end of this year.

VR

PRESS RELEASE

REVIEW OF SOCIAL SECURITY FINANCE

Norman Fowler, Secretary of State for Social Services, today laid in the House of Commons a report by the Government Actuary on the operation of the Social Security Acts between 6 April 1975 and 5 April 1980 as required by Section 137 of the Social Security Act 1975. Mr Fowler said:

> "I welcome this report, which looks at the experience of the early years of the new pension scheme, and provides a detailed analysis of possible future contributory benefit costs, on a variety of assumptions.
>
> Pension costs are much the largest element in the overall costs. The Government must keep under careful review the developing costs of the social security system as a whole, including in particular the possibility of increasing costs for contributors. Equally we must keep under review the effectiveness of that system in meeting its underlying objectives, and must do so in the context of our wider social and economic policies. This report will be a valuable contribution to that process.
>
> We shall now be studying in detail all the implications of this report, but, in view of the importance of pensions and their complicated, long-term nature, it is likely to be some time before we reach any conclusions. To assist in this, I shall be inviting all those concerned, including the Select Committee on Social Services, the Social Security Advisory Committee, the Occupational Pensions Board, both sides of industry and the pension organisations to let me have their views and comments by the end of the year."

2. Mr Fowler announced the publication of the report in reply to a written Parliamentary Question from [ ]. A copy of the Answer is attached.

3. Also attached is a summary of the conclusions reached by the Government Actuary.

4. Comments should be sent to [B2, DHSS].

SUMMARY OF CONCLUSIONS

1.1 Since April 1978 the National Insurance Fund has collected earnings-related contributions from employed contributors and in return has promised them earnings-related pensions in due course on top of the flat-rate pensions and other benefits traditionally provided. It will be about 60 years before expenditure on the new earnings-related pensions reaches its full level and meantime the contribution rates required to balance outgo are at a significantly lower level than will later prove to be necessary. The amount in the National Insurance Fund has become, and is likely to remain, no more than a modest working balance and will contribute little real income to the Fund.

1.2 On the basis of population projections in which the total population increases gradually from 54½ million in 1979 to 59 million in 2029, and ultimately becomes stationary at about 60 million, the Class 1 standard contribution rate for National Insurance Fund benefits is estimated to increase from 15.4 per cent in 1985-86 to 16.7 per cent in 2005-6 and to 21.9 per cent in 2025-26. However the new earnings-related pension scheme is then still some way from full maturity in regard to benefit expenditure and further increases of up to 2 per cent may be expected in the standard contribution rate after 2025-26. This assumes that earnings and prices increase at the same rate in future and that unemployment is at the level of 6 per cent throughout. (With unemployment at 12 per cent the contribution rate is currently about 17 per cent of earnings.)

1.3 If, as seems more likely, earnings increase at a higher rate than prices, the standard contribution rate in the long term would be 1 or 2 per cent lower if post-award increase in earnings-related pensions continued to be in line with prices but other benefits were increased in line with earnings.

1.4 If flat-rate benefits too were uprated over a long period at a lower rate than earnings, for example in line with prices or at some intermediate rate between earnings and prices, the increase in the standard contribution rate would be less steep and it might even not increase at all depending upon how big was the difference between earnings and benefit increases. In that event, the basic benefit rates would in due course become very much lower than at present compared with the level of earnings, even if the purchasing power of those benefits had been maintained or improved. (For particulars of the estimated standard contribution rates in future years see Table 14 in section 9 of the report.)

1.5 If the proportion of employed persons who are contracted out remains constant, then in the long term the effect of contracting out on the Fund is not likely to be great, contribution reductions and guaranteed minimum pensions each year being almost equal in amount and relatively small in relation to total income and total expenditure. In the short term, because the total of guaranteed minimum pensions is very small, the greater the number contracted out and paying reduced contributions the greater the standard contribution rate required from all contributors. (See section 10 of the report.)

1.6 If fertility, which is currently below replacement level, remains below replacement level in future, then the relative number of pensioners and contributors will gradually become less favourable to the Fund and the standard contribution rate greater. With fertility consistently one-seventh below that necessary for replacement, for example, the contribution rate would ultimately be about one-sixth higher than with a stationary population. If there is a significantly greater increase in longevity than assumed in the present official population projections, that too would increase the contribution rate in the long term.

1.7 Over the years, the contribution reductions allowed for members of occupational pension schemes who are contracted out gradually fall as the guaranteed minimum pensions to be provided for each year's contributions fall. As a result, the reductions made in deriving the contribution rates for Classes 2, 3 and 4 from the Class 1 rates also fall, with the consequence that the Class 2, 3 and 4 rates and the Class 1 contracted-out rates increase more than proportionately to the Class 1 standard rate of contribution in future years.

MO
OU

Social Service 1.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

(2)

Prime Minister

I/m may care to glance at the Gov't Actuary's conclusions.

PLS 12/7

The Rt Hon William Whitelaw CH MC MP
Secretary of State for The Home Department
Home Office
50 Queen Anne's Gate
London
SW1

9 July 1982

Dear Willie.

QUINQUENNIAL REVIEW OF SOCIAL SECURITY FINANCE

I am writing to seek your agreement, as Chairman of the Home Affairs Committee, to the way in which I propose to handle the Government Actuary's report on his quinquennial review of the National Insurance Fund.

The background is this. S.137 of the Social Security Act 1975 requires the Government Actuary to carry out a review of the National Insurance Fund each five years. The object is "to determine the extent to which the level at which the National Insurance Fund stands from year to year may be expected in the longer term to bear a proper relation to demands in respect of payments of benefits". The review is therefore restricted to benefits payable out of the National Insurance Fund - which are about two thirds of all social security payments. The report is made to me and I must lay a copy before Parliament.

The Government Actuary has now reported. A summary of the report's conclusions is at the back of the attached draft PQ and press notice. With your agreement, I propose to arrange for the report to be laid and published on or about 21 July - the exact date to be settled in the light of the timing of the debates on the various benefit uprating orders.

My officials have been considering with officials from the Treasury and the Government Actuary's Department how we should respond to the report when it is published. They have advised that we should take a neutral stance - simply welcoming the report, promising to study it carefully and inviting comments from those concerned.

I am sure this is the sensible approach. Roughly three quarters of the Fund goes to pay retirement pensions. We ought not to appear to be calling into question the pension rights building up under the Social Security Pensions Act 1975, an Act which has our backing when we were in opposition, before we have had a chance to study the report. If at this stage we did suggest that we might possibly cut back on pension benefits we could only alarm contributors and pensioners alike.

E.R.

On the other hand, we must be seen to be taking seriously any report on national insurance finances, given the substantial proportion (about one sixth) of public expenditure that this represents. Accordingly, I propose to welcome the report and make it clear that we shall be studying it carefully in the light of the general response to it. I attach a draft Question and Answer and press notice on this basis.

I understand that Geoffrey Howe is content that I should proceed with the publication of the report on the general lines I propose. I should be glad if you could let me know if you too are content.

I am copying this to the Prime Minister, to other members of H Committee, to Patrick Jenkin and to Sir Robert Armstrong.

Yours ever Norman

NORMAN FOWLER

ANNEX 1

DRAFT PRESS NOTICE
REVIEW OF SOCIAL SECURITY FINANCE

Norman Fowler, Secretary of State for Social Services, today laid in the House of Commons a report by the Government Actuary on the operation of the Social Security Acts between 6 April 1975 and 5 April 1980 as required by Section 137 of the Social Security Act 1975. Mr Fowler said:

"I welcome this report, which looks at the experience of the early years of the new pension scheme, and provides a detailed analysis of possible future contributory benefit costs, on a variety of assumptions.

Pension costs are much the largest element in the overall costs. The Government must keep under careful review the developing costs of the social security system as a whole, including in particular the possibility of increasing costs for contributors. Equally we must keep under review the effectiveness of that system in meeting its underlying objectives, and must do so in the context of our wider social and economic policies. This report will be a valuable contribution to that process.

We shall now be studying in detail all the implications of this report, but, in view of the importance of pensions and their complicated, long-term nature, it is likely to be some time before we reach any conclusions. To assist in this, I shall be inviting all those concerned, including the Select Committee on Social Services, the Social Security Advisory Committee, the Occupational Pensions Board, both sides of industry and the pension organisations to let me have their views and comments by the end of the year."

2. Mr Fowler announced the publication of the report in reply to a written Parliamentary Question from [ ]. A copy of the Answer is attached.

3. Also attached is a summary of the conclusions reached by the Government Actuary.

4. Comments should be sent to [B2, DHSS].

DRAFT PQ

SOCIAL SECURITY FINANCES

To ask the Secretary of State for Social Services if he has yet received a report by the Government Actuary on the operation of the Social Security Acts since 1975.

2. Mr Norman Fowler: I have laid before the House today the report which the Government Actuary has made on the operation of the Social Security Acts between April 1975 and April 1980 in accordance with S.137 of the Social Security Act 1975. The report provides principally a detailed analysis of the possible future costs of benefits paid out of the National Insurance Fund and of the contributions that will be needed to pay for them. The Government will be considering this report very carefully before reaching any conclusions. We shall also be consulting widely with interested organisations and inviting comments by the end of this year.

SUMMARY OF CONCLUSIONS

1.1 Since April 1978 the National Insurance Fund has collected earnings-related contributions from employed contributors and in return has promised them earnings-related pensions in due course on top of the flat-rate pensions and other benefits traditionally provided. It will be about 60 years before expenditure on the new earnings-related pensions reaches its full level and meantime the contribution rates required to balance outgo are at a significantly lower level than will later prove to be necessary. The amount in the National Insurance Fund has become, and is likely to remain, no more than a modest working balance and will contribute little real income to the Fund.

1.2 On the basis of population projections in which the total population increases gradually from 54½ million in 1979 to 59 million in 2029, and ultimately becomes stationary at about 60 million, the Class 1 standard contribution rate for National Insurance Fund benefits is estimated to increase from 15.4 per cent in 1985-86 to 16.7 per cent in 2005-6 and to 21.9 per cent in 2025-26. However the new earnings-related pension scheme is then still some way from full maturity in regard to benefit expenditure and further increases of up to 2 per cent may be expected in the standard contribution rate after 2025-26. This assumes that earnings and prices increase at the same rate in future and that unemployment is at the level of 6 per cent throughout. (With unemployment at 12 per cent the contribution rate is currently about 17 per cent of earnings.)

1.3 If, as seems more likely, earnings increase at a higher rate than prices, the standard contribution rate in the long term would be 1 or 2 per cent lower if post-award increases in earnings-related pensions continued to be in line with prices but other benefits were increased in line with earnings.

1.4 If flat-rate benefits too were uprated over a long period at a lower rate than earnings, for example in line with prices or at some intermediate rate between earnings and prices, the increase in the standard contribution rate would be less steep and it might even not increase at all depending upon how big was the difference between earnings and

benefit increases. In that event, the basic benefit rates would in due course become very much lower than at present compared with the level of earnings, even if the purchasing power of those benefits had been maintained or improved. (For particulars of the estimated standard contribution rates in future years see Table 14 in section 9 of the report.)

1.5 If the proportion of employed persons who are contracted out remains constant, then in the long term the effect of contracting out on the Fund is not likely to be great, contribution reductions and guaranteed minimum pensions each year being almost equal in amount and relatively small in relation to total income and total expenditure. In the short term, because the total of guaranteed minimum pensions is very small, the greater the number contracted out and paying reduced contributions the greater the standard contribution rate required from all contributors. (See Section 10 of the report.)

1.6 If fertility, which is currently below replacement level, remains below replacement level in future, then the relative numbers of pensioners and contributors will gradually become less favourable to the Fund and the standard contribution rate greater. With fertility consistently one-seventh below that necessary for replacement, for example, the contribution rate would ultimately be about one-sixth higher than with a stationary population. If there is a significantly greater increase in longevity than assumed in the present official population projections, that too would increase the contribution rate in the long term.

1.7 Over the years, the contribution reductions allowed for members of occupational pension schemes who are contracted out gradually fall as the guaranteed minimum pensions to be provided for each year's contributions fall. As a result, the reductions made in deriving the contribution rates for Classes 2, 3 and 4 from the Class 1 rates also fall, with the consequence that the Class 2, 3 and 4 rates and the Class 1 contracted-out rates increase more than proportionately to the Class 1 standard rate of contribution in future years.

Cc JV
AW

Treasury Chambers, Parliament Street, SW1P 3AG

8/4

Willie Rickett Esq
Private Secretary
10 Downing Street
London SW1

7 April 1982

Dear Willie,

CHILD BENEFIT FOR SCHOOL LEAVERS

I have seen Brendan O'Gorman's letter of 31 March with the proposed announcement about withdrawing entitlement to child benefit for those school leavers who start work immediately or a YOP course.

As Brendan says this was a saving identified during the 1981 PES discussions. The Chief Secretary is therefore content that the announcement should be made and with the form of the answer to the draft question.

I am sending a copy of this letter to Brendan O'Gorman.

Yours sincerely

Terry Mathews

T F MATHEWS
Private Secretary

8 APR 1308

10 DOWNING STREET

From the Private Secretary

5 April 1982

CHILD BENEFIT FOR SCHOOL LEAVERS

Thank you for your letter of 31 March, in which you set out your Secretary of State's proposals for announcing a change in the rules applied to the payment of child benefit. The Prime Minister is content with your Secretary of State's proposals. I understand that you are planning to answer the inspired PQ attached to your letter tomorrow afternoon, after Prime Minister's Questions.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office, HM Treasury).

W. F. S. RICKETT

Brendan O'Gorman, Esq.,
Department of Health and Social Security.

RM

JW

cc AW
JV

2.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

1 Mr Pattison cc Mrs Ingham
2 Prime Minister

Willie Rickett Esq
Private Secretary
10 Downing Street
London SW1

31 March 1982

Mr Fowler proposes to announce that he is ending the payment of Child Benefit to school leavers who get a job or join a YOP scheme. He is aiming to answer the attached PQ next ~~Monday~~ Tuesday 6 April, after 3.30 pm.

WR 31/3

Dear Willie

CHILD BENEFIT FOR SCHOOL LEAVERS

The Prime Minister will wish to know that my Secretary of State is about to announce a change in the rules which apply to the payment of child benefit. At present, child benefit continues in payment until the end of the school holiday after a young person leaves school even if that young person starts work immediately or starts a Youth Opportunities Programme course. This is administratively convenient for the Department but clearly it is difficult to justify in the knowledge that the young person concerned may be receiving pay from a full-time job or receiving a Youth Opportunities Programme allowance of £25 a week.

The possibility of saving between £8 and £10 million a year by bringing this payment of child benefit to an end, only when a young person has left school and started full-time work or started a YOP course, was identified when we were carrying out our review of public expenditure towards the end of last year and the proposed change was reflected in the figures in the public expenditure White Paper: although the savings were not mentioned specifically.

In order to take full advantage of the potential savings they should start to accrue from 31 May this year and we shall have to introduce regulations, subject to negative procedures, which will apply to the first of this summer's school leavers. My Secretary of State proposes to announce the change in policy by means of an inspired PQ in the next few days, and I attach a copy of the draft Question and Answer.

As soon as the regulations have been made we shall write to the mothers of the prospective school leavers, individually, and advise them of the change in the law: in fact, we have already prepared a suitable notice.

I am copying this letter to Terry Matthews in the Chief Secretary's Private Office.

yours ever.

Brendan

BRENDAN O'GORMAN
Private Secretary

SUGGESTED PQ

To ask the Secretary of State for Social Services in what circumstances child benefit is payable to the mothers of young people who have left school.

SUGGESTED REPLY

Child benefit can at present be paid in respect of a young person who has left school up to the end of the school holiday which follows the term in which education ceased. The formal dates are the first Monday in January, the Monday following Easter Monday, or the first Monday in September, as appropriate.

This is the situation even for those young people who have in fact started full-time work during the relevant holiday period and on the general principles of the child benefit scheme it is difficult to justify the continued payment of child benefit in these circumstances. I therefore propose shortly to make regulations which will terminate entitlement to child benefit in respect of young people who start full-time work or start a Youth Opportunities Programme course from the date when they do so. These provisions will be effective from 31 May this year and will apply, therefore, to young people who leave school this summer.

FROM: G W MONGER
DATE: 17 March 1982

CHIEF SECRETARY

cc Chancellor
Economic Secretary
Financial Secretary
Minister of State C
Minister of State L
Sir A Rawlinson
Mr Barratt
Mr Byatt
Mr Evans
Mr Mountfield
Mr White
Mr Ridley

ABATEMENT OF UNEMPLOYMENT BENEFIT

My minute of this morning said that Mr Fowler would probably minute the Prime Minister today about the line to be taken about the 5% abatement of Unemployment Benefit when the subject is discussed during Report Stage of the Social Security Bill tomorrow. Mr Fowler's object may well be to lead the Prime Minister to say that the abatement should be restored. The draft put to Mr Fowler recommends a promise, without commitment, that the matter should be reviewed between now and the presentation of the uprating order in June.

2. Mr Fowler is unlikely to send the minute until late this evening. But he needs an answer by about mid-day tomorrow. The subject may therefore be raised at Cabinet tomorrow, or perhaps at a smaller meeting afterwards. You might therefore like to have this note on the arguments.

Background

3. The 5% abatement was made in 1980 when the Government decided that UB should be brought into tax. This was partly as a proxy for tax, but there was never any commitment to restore the abatement when tax was imposed, as it will be this summer. The Government said only that it would reconsider the abatement when this happened.

4. There are signs that the Prime Minister might want to restore the abatement. She asked DHSS recently why it should not be restored. Yesterday at Question Time she said that final decisions had yet to be taken. [– text below]

M. Schaw says she doesn't want to do so.

5. The arguments against a concession are those of cost, repercussion and effect on incentives.

Cost

6. The public expenditure cost of restoring the abatement would be £20m in 1982-3, and £60m in a full year. (The PSBR cost would be about two thirds of this because the increase in the benefit would be liable to tax).

Repercussions

7. This concession would lead to pressure for the restoration of the 5% abatement made at the same time on certain other benefits: invalidity benefit, sickness benefit, injury benefit and maternity allowance. The public expenditure cost of this would be £24m in 1982-3 and £70m in a full year. In the case of invalidity benefit, which accounts for about two-thirds of these costs, there is a firm commitment to restore the abatement when the benefit comes into tax. Imposition of tax has now been postponed indefinitely, so there is a strong case on merits for restoring the abatement on this benefit now.

Incentives

8. Restoration of the abatement would of course further narrow the gap between in work and out of work incomes. The figures for total income for a man with two children are: for November 1982:

At work, on ½ average earnings	£73.50 per week
Unemployed, dependent on UB with abatement	£57.80
Unemployed, dependent on UB with abatement restored	£59.85

(this is a very hasty calculation)

An alternative concession

9. I see that according to today's FT (page 10) some Government backbenchers are concerned about three points on social security: the failure to restore the UB abatement, the new method of uprating Supplementary benefit (SB), by taking housing costs out of the calculation, and the small rise in the SB capital disregard.

10. There is a strong case for a concession on the second point. Mr Fowler has announced that the new method of uprating will produce an increase for SB of 10½% in November, compared with 11% for other benefits. The savings resulting from the ½% differential are £10m in 1982-3 and £30m in a full year. These are only half the cost of restoring the 5% abatement on UB. But the more important point is that even these savings may not materialise in practice. The calculation is sensitive to changes in the mortgage rate which has of course fallen sharply. If the rate fell again the differential between the RPI and the RPI less housing costs would disappear. There would then, other things being equal, be a shortfall of ½% on SB, which it would be very hard to resist restoring in 1983. In that case, there would be no net benefit to public expenditure, taking the affected years together. Moreover, in subsequent years the effect of excluding housing costs from the RPI is very uncertain, and might be adverse from the start.

Strong Case = Nil cost. Hear, Hear!

11. I would therefore recommend offering a concession on this point in lieu of one on UB. But you should be aware that Mr Fowler is now much attached to the new method of SB uprating, and that to give it up would require him to eat a lot of words (but, equally, a concession on UB would mean an overt change of line, and be inconsistent with the new levels for the benefit announced in the Budget speech). You might also bear in mind that the Prime Minister, although initially doubtful about the SB change, is now an advocate of it, and some care may be needed in revealing that the benefits from it are now doubtful.

G W MONGER
17 March 1982

Secondary Education (Manchester)

6. **Mr. Marks** asked the Secretary of State for Education and Science when he expects to complete consultations on the Manchester local education authorities' revised proposals for secondary education; and if he will announce his decision in time for implementation in 1982.

Dr. Boyson: I wrote to the hon. Member on 10 March advising him that, immediately following the completion of consultations, my right hon. Friend the Secretary of State had approved Manchester's proposals.

Mr. Marks: I welcome the early announcement, that will enable change to take place this year, although it is 18 months since Manchester submitted its application. Does not the Minister agree that Manchester acted urgently and correctly in recognising the problem of falling school rolls? The Government have since told all local education authorities to do the same. What has been the response?

Dr. Boyson: I appreciate the hon. Gentleman's kind remarks about the early announcement. I should tell him that we had the new proposals for only about two weeks before we approved them. That is productivity of which the country can be proud. With regard to the rest of the country, the number of places taken out of use last year with Government approval was twice that of the previous year.

Mr. Silvester: What undertakings have been given by the Manchester city council to ensure that there is no bad effect arising from the city council's policies, on the recruitment to the three excluded schools, or on the careers structure of their staff?

Dr. Boyson: I am aware of my hon. Friend's concern about that matter. My right hon. Friend the Secretary of State met the Manchester education committee to discuss that matter and to ensure that there was no movement away of child population that would deprive the three retained sixth forms of their natural catchment. An assurance was given by the authority that that would not happen.

Local Authority Higher Education Advisory Board

17. **Mr. Norman Hogg** asked the Secretary of State for Education and Science what arrangements are being made for representation of, and consultation with, non-teaching staffs and colleges and polytechnics by the new Local Authority Higher Education Advisory Board.

Mr. Waldegrave: The National Advisory Body for Local Authority Higher Education is in the process of constructing effective liaison machinery for those interest groups without direct representation on its board.

Mr. Hogg: Does the Minister appreciate that the composition of the board does not include the National and Local Government Officers Association, which has 10,000 members in polytechnics and a large number of members in colleges? Will he take steps to ensure that non-teaching unions are represented?

Mr. Waldegrave: I am sure that the hon. Gentleman will be pleased to hear that the president of the union that he mentioned, by which I believe the hon. Member is sponsored, has been invited to join one of the working groups on the national advisory board.

PRIME MINISTER

Engagements

Q1. **Mr. Beith** asked the Prime Minister if she will list her official engagements for Tuesday 16 March.

The Prime Minister (Mrs. Margaret Thatcher): This morning I had meetings with ministerial colleagues and others, including one with the President of the Council of Ministers and the President of the Commission of the European Community. Later I was present at the arrival in London of His Majesty the Sultan of Oman. In addition to my duties in the House I shall be having further meetings later today. This evening I shall attend a State banquet given by Her Majesty the Queen in honour of the Sultan of Oman.

Mr. Beith: Will the Prime Minister find time today to read again the promise that was made to the House by the Secretary of State for Social Services two years ago to the effect the 5 per cent. abatement of unemployment benefit would end when that benefit was brought into tax? Is it not a gross breach of faith with the House and the unemployed that the Chancellor of the Exchequer now proposes not to give back that 5 per cent? Why should the unemployed, of all people be subject to double taxation?

The Prime Minister: Final decisions on that matter have yet to be taken. If extra is to be found, it will probably come once again from the national insurance contributions.

Mr. Dover: Will my right hon. Friend accept that the key issue in the North-West of England at the moment is one of law and order? Will she be willing to break with tradition and allow another debate on capital punishment in the lifetime of this Parliament?

The Prime Minister: I accept that the question of law and order is one of those foremost in the public mind, and for good reasons. We have already had one debate on capital punishment. I would have considerable doubts about whether another one would produce a different result, but this is a question for my right hon. Friend the Leader of the House.

Mr. Foot: Does the right hon. Lady think that there is any connection between the record rates of crime and of unemployment that have come about under her Government?

The Prime Minister: No, Sir. There is not a direct relationship in any wayy. The right hon. Gentleman has only to look at the way in which the crime figures rose through periods of increasing prosperity and decreasing unemployment. They steadily rose. For obvious reasons, street crimes take place very much in the centres of our cities. Idle hands get to mischief. However, in my view that is not the reason for the sharp increase in crime.

Mr. Foot: Will the right hon. Lady apply her mind directly to the question of what is likely to happen to crime and unemployment figures if the community enterprise programme of the Manpower Services Commission is cut by the Secretary of State for Employment? Does she not think that that could also contribute to crime and unemployment?

The Prime Minister: The community enterprise programme is being expanded by a further 5,000 to 30,000.

18 MAR 1982

Prime Minister

RESTORATION OF THE FIVE PER CENT ABATEMENT OF UNEMPLOYMENT BENEFIT

Since my uprating statement last week, there has been a lot of adverse comment on the absence of any proposal to restore the five per cent abatement of unemployment benefit after it comes into tax next July.

The pressure will be renewed tomorrow at the Report Stage of the Social Security and Housing Benefits Bill, when we debate a new clause put down by the Opposition which would require the abatement to be made good in November.

The line I have taken so far is that there would be a heavy extra benefit cost in restoring the abatement but that we will continue to keep the matter under review. When you were questioned about this yesterday you too referred to the extra cost and said that a final decision had yet to be taken.

For tomorrow's debate, we have a choice between sticking to the line that nothing can be done this year, but promising to review the matter in time for the 1983 uprating, or undertaking, without commitment, to review the matter between now and when the uprating order is presented by June this year.

I favour the latter course. We shall be in great difficulty if we try to play it any other way. There is no denying that although the abatement was a public expenditure saving, it was presented as an interim measure in lieu of taxation and that is how it has been seen. Despite our cautious words about considering the restoration of abatement "in the light of economic and other circumstances prevailing at the time that the benefit comes into tax", there has been a general expectation that we shall restore the abatement of unemployment benefit when it is taxed and things have been said which encouraged that belief.

As you are well aware, our present stance is being attacked, not least by some of our own back benchers, as a breach of faith and I

think there will be trouble tomorrow if we do not take the sort of conciliatory line I am suggesting. Nor is the pressure likely to die down. It would be surprising if there isn't a similar amendment put down in the Lords when the Bill gets there.

One of the problems, of course, apart from the feeling that we may be going back on our word, is that the taxation of unemployment benefit is expected to yield around £500 million a year, and against that the extra benefit cost of restoring abatement - £60 million a year - is not seen as a formidable obstacle.

I should be grateful if you and the Chancellor, to whom I am copying this minute, would let me know whether you agree with the line I am proposing to take in tomorrow's debate.

I am sending a copy also to the Chief Whip.

17 March 1982

NF

Hansard 10.3.82

Social Security Benefits (Uprating)

3.51 pm

The Secretary of State for Social Services (Mr. Norman Fowler): I will, with permission, Mr. Speaker, make a statement required by the Social Security Act 1975 about the annual uprating of social security benefits which will come into operation in the week beginning 22 November. For the convenience of the House, a detailed schedule of the new rates of benefits, which forms part of this statement, has been placed in the Vote Office and will be included in the *Official Report*.

The new rates reflect the estimate that the general level of prices will increase by 9 per cent. between November 1981 and November 1982. Benefits generally will be uprated in line with that forecast, and in addition the 2 per cent. shortfall at the 1981 uprating will be made good—not only for pensions and other related long-term benefits, as we had already promised, but for all other weekly benefits. This gives a total increase for most benefits of 11 per cent.

Turning first to the uprating of national insurance benefits, the standard rate of basic retirement pension for a single person will go up by £3·25 a week from £29·60 to £32·85. The rate for a married couple will go up by £5·20 from £47·35 to £52·55. The standard rate of sickness benefit and unemployment benefit will 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.

The same percentage increase of 11 per cent. will apply to the earnings-related additional component to national insurance pensions; to pensions payable under the old graduated pension scheme; to those who receive guaranteed minimum pensions from contracted-out occupational pension schemes; and to public service pensions. It will also apply to all other weekly national insurance benefits, including industrial injuries benefits, and to war pensions.

Child benefit will also be increased, by over 11 per cent., from £5·25 to £5·85, an increase of 60p per qualifying child. One-parent benefit will go up by the same percentage from £3·30 a week to £3·65. So a one-parent family with two children not in receipt of any other social security benefits will find the amount paid for the children rising from £13·80 a week to £15·35.

After taking the increases in child benefit into account, as has been the practice in previous years, the dependency additions for children paid with short-term national insurance benefits will be 30p a child compared with 80p at present. The child dependency additions payable with retirement, widow's or invalidity pensions will increase from £7·70 a child to £7·95.

Family income supplement is payable to people in work where the family's gross income, apart from child benefit and one-parent benefit, falls short of a prescribed level. The prescribed level of income for family income supplement will go up by £8·50 to £82·50 weekly for one-child families, and the additional amount for each further child will be raised from £8 to £9 a week. The maximum payment for a one-child family will rise from £18·50 to £21 a week, and the addition for each further child will go up by 50p to £2. This means that the increases will be particularly helpful to larger families with the lowest incomes.

instruction right up to later days. Not only would I recommend "The Art of the Possible" to anyone who wishes to know how the Conservative Party has survived so long against all the odds, but I would also recommend the introduction to Disraeli's "Sybil" which I believe was one of Rab's last writings.

Contrary to any supposition that there might be, Lord Butler was not an admirer of Disraeli. I know that fashions change in these matters. Indeed, I suppose that in a sense, although he would never have used the term himself, Lord Butler might have been described as the original "wet".

Lord Butler approached his own politics in his own way, and although he was scornful of Disraeli in many respects, in his introduction to Disraeli's "Sybil", with the touch of irony that added to everything that he said, he wrote:

> "Even today there is in Britain a 'one nation group' led by Lord Hailsham and Lord Hinchingbrooke which is dedicated to uniting the rich and the poor."

As I believe the right hon. Member for Down, South (Mr. Powell) wrote in *The Times* this morning, the witticisms of Lord Butler were always deliberate and I think that they were deliberate in the sentence that I have quoted. I doubt whether Lord Hailsham and Lord Hinchingbrooke have exchanged a word in the past two decades. Moreover, I doubt whether Lord Butler, who was never a member of the "one nation" group, was as enthusiastic about it as that sentence might suggest.

Lord Butler presented politics to the nation in an original manner and tone and the Opposition are happy to join the Prime Minister in the tribute that she has paid.

3.43 pm

Mr. J. Grimond (Orkney and Shetland): The Liberal and Social Democratic Parties would like to be associated with the tributes that have been paid to Lord Butler and with the sympathy offered to his widow.

Together with Harcourt and Joseph Chamberlain, Rab was one of the trio of leading politicians of their time who never became Prime Minister. Yet he has left an imprint on our affairs greater than that left by many Prime Ministers. The background against which all parties have developed their policies on education and the Home Office derives not only from the reforms that he introduced but from his capacity to crystallise opinion and to generate consensus. Butskellism can be seen as the practical application of the doctrines of Keynes—the patron saint of responsible capitalism and the mentor of those who try to manage the mixed economy.

Rab was at once a reforming and a unifying figure in a post-war world in which, without him, politics might have been much more abrasive. I personally regret that he did not become Prime Minister after Suez. I believe that Britain at that time was ready for wider reforms of the type at which he excelled and which, had they been carried out with the good will that he engendered, would greatly have improved the performance of our industry, our industrial relations and the well-being of our country.

His talents, his kindness and his taste are celebrated. Everyone was always glad to see Rab. People gravitated towards him and were often rewarded by the latest Rabism. His illuminating ambiguities said more than many straight answers, and the expected oblique was part of his charm. I once asked him to dinner on a certain

I turn now to supplementary benefit. As the House will be aware from the proceedings last week in the Committee stage of the Social Security and Housing Benefits Bill, we propose to increase the scale rates of supplementary benefit from next November in line with the forecast increases in the general level of prices, after excluding housing costs. This is because both under the present scheme, and when housing benefit is introduced, the housing costs of supplementary benefit claimants are met separately. Supplementary benefit is different in this respect from all other benefits. The treatment of housing costs distinguishes those costs from all other day-to-day living expenses that are covered by the supplementary benefit scale rate.

The Government's approach recognises this, and, in effect avoids double-counting, while maintaining full price protection for all claimants. In addition, as with other benefits, we shall be making good the 2 per cent. short fall. The effect of this will be that the increase in the scale rates will be 10·5 per cent. but housing costs will, of course, be paid on top of that.

The ordinary supplementary benefit scale rate will, therefore, rise from £23·25 to £25·70 for a single householder and from £37·75 to £41·70 for a married couple. The long-term scale rate will rise from £29·60 to £32·70 for a single householder and from £47·35 to £52·30 for a couple. The scale rates for children will rise from £7·90 to £8·75 for children aged 10 and under, and from £11·90 to £13·15 for children aged 11 to 15.

There has been a great deal of concern about the effects of the capital limit for supplementary benefit. This is the limit on the amount of capital a person can have and still get supplementary benefit. It has been argued that the current limit of £2,000 set in November 1980 is now too low. The Government recognise the force of the argument and propose to raise the limit by 25 per cent. to £2,500. This will fully restore the value the limit held when it was introduced.

We also propose a further small but worthwhile improvement in the supplementary benefit scheme. We are increasing the amount of occasional payments by way of a gift, for example at Christmas or for a birthday, which can be disregarded. At present, any excess over £20 is deducted from benefit. We propose to increase the amount that can be totally disregarded to £100.

Supplementary benefit heating additions are now paid to over 2 million families. In 1980 we boosted them with a record increase. The 1981 uprating turned out to be more than enough fully to protect this increase against rising fuel costs. For 1982 we propose to increase the heating additions from this higher base in line with the expected rise in fuel prices between November 1981 and November 1982. The standard amount will rise from £1·65 to £1·90 a week, and the higher rate from £4·05 to £4·65.

As the Chancellor of the Exchequer announced yesterday, mobility allowance will no longer be subject to tax. I am sure the whole House will welcome that change, which will benefit some 40,000 recipients who have other taxable income. In addition, the rate of mobility allowance will be increased in November from £16·50 to £18·30. This means that since coming to office we have increased the rate of mobility allowance by 83 per cent. These measures will help even more disabled people to take advantage of the motability scheme for leasing or buying cars on advantageous terms.

I have also decided to make an improvement in the rules affecting invalid care allowance. The weekly amount which can be earned by someone who is looking after a severely disabled person will be increased from £6 to £12. The disregard has been £6 since the benefit was introduced in 1976 and the increase will restore its original value.

A further improvement affects the therapeutic earnings limit, which helps people recovering from illness who want to get back into full-time work. The present earnings limit is £16·50. I intend to raise that by 21 per cent. to £20.

The Christmas bonus of £10 will be paid on the same basis as last year in the week commencing 29 November. I also propose to increase the earnings rule limit for retirement pensioners in November from £52 to £57, the first such increase in three years.

The total cost of the uprating will be close to £3 billion in a full year, of which about £2 billion will fall on the national insurance fund, the balance coming out of the Consolidated Fund. The House has already approved the changes in contribution levels in 1982-83, set out in the Social Security (Contributions) Act 1982, and I shall, as usual, further review contribution rates in the autumn. Any necessary changes will take effect from April 1983.

The proposals mean that annual expenditure on social security benefits will rise to over £30 billion in 1982-83, which represents about 26 per cent. of all public spending. The changes that I have announced mean: full price protection of all weekly benefits; the 2 per cent. shortfall in 1981 made good for all benefits; the supplementary benefit capital limit increased to £2,500; supplementary benefit heating additions protected against rising fuel costs; the retirement pension earnings rule increased for the first time in three years; mobility allowance taken out of tax and fully price protected; a doubling of the earnings disregard for those receiving invalid care allowance; and an increase of more than 20 per cent. in the therapeutic earnings limit for those receiving incapacity benefits.

The measures will particularly benefit the elderly and disabled people. They will also give valuable extra help to all families with children. They are designed to bring practical help to those who most need it.

[Mr. Brynmor John]

he said that they have been calculated using yet another price index—the "Rossi" price index—which does not include housing costs, but since it was casually and inadequately explained to a rather startled Standing Committee, will he tell us exactly how the housing costs have been removed and give the House his estimate of their expected rise by next November? By how much, therefore, will the base rate for supplementary benefit uprating have been lowered?

Will the right hon. Gentleman consider the greatest crime of the Budget? Does he share with the rest of the House the belief that our financial treatment of children is the greatest cause of poverty to the low-paid and those on social security? If so, how does he justify increasing child benefit by only 60p a week, thereby cutting its real value since 1979 by 40p a week? Does that not represent a fall in child benefit of 6½ per cent. during the Government's reign?

Does the right hon. Gentleman agree that total child support for short-term beneficiaries, such as the unemployed who have children, will have fallen since November 1979 by 23 per cent. while support for long-term beneficiaries, such as widows with children, has fallen by nearly 12 per cent.? Is that not an absolute disgrace?

How does the right hon. Gentleman justify his decision not to make good the 1980 5 per cent. abatement on unemployment benefit? It was supposed to be an interim measure until taxation was introduced, as it will be in July. The House was assured that the abatement would then cease. It will not. Does that not amount to a gross breach of faith, and will the invalidity pensioner eventually be treated in the same shabby way as the recipients of unemployment benefit?

The Government have assumed a 9 per cent. increase in inflation, but is it not right to err on the high side, bearing in mind the bitter experience of the 2 per cent. shortfall and the incompetence of the Chancellor of the Exchequer? Is it not a fact that an underestimate now

to the scale rates and they are met in full. In that respect it is different from all other benefits, and we are proposing a 10½ per cent. scale increase, plus full housing costs.

The cost of the child benefit increase is about £400 million this year. The total cost of the benefit and the one-parent benefit is about £4 billion a year. That shows the Government's commitment to bringing support to children.

The unemployed will obviously be helped by the decision on the shortfall. A heavy cost would be involved in restoring the 5 per cent. unemployment abatement, but clearly we shall continue to keep that under review.

Several Hon. Members *rose*——

Mr. Speaker: Order. There will be plenty of opportunities for these matters to be pursued in the Budget debate. Therefore, I shall limit questions to 15 minutes today.

Mr. Paul Dean (Somerset, North): I welcome the increases in pensions and other benefits, the making up of the 2 per cent. shortfall and the increase in child benefit, all of which show the Government's continued commitment to protect the most vulnerable sections of the community.

I welcome also the increase in the capital limit for supplementary benefit and ask my right hon. Friend whether, to encourage thrift, that can be indexed so that it does not fall behind in future years? In regard to the long-term unemployed, will my right hon. Friend give increasing attention in future plans to the mounting evidence that those who have been unemployed for a long time, particularly those who have dependent children, do not have arrangements that give them adequate support?

Mr. Fowler: My hon. Friend knows that the Government have already improved the position for the over-60s and we shall continue to keep the matter under review. I am grateful for my hon. Friend's comments on the supplementary benefit capital disregard figure and on the other benefits that we are increasing. The present capital disregard is a disincentive to thrift. The cut-off level is too low, which is why we are improving it and increasing it. I cannot give a commitment on indexation, but we shall keep it under review.

Mr. Harry Ewing (Stirling, Falkirk and Grangemouth): The Secretary of State mentioned the Social Security and Housing Benefits Bill, which is in Committee. Is he aware that clause 18 removes from local authorities in Scotland their discretion under the Local Government (Scotland) Act 1973 and the Housing Finance Act 1972 to disregard completely war widows' pensions and war disablement beneficiaries' pensions for the purposes of rent rebates? Can the Secretary of State reassure the Royal British Legion in Scotland that that discretion will be restored when the Bill comes back for Third Reading?

Mr. Fowler: The discretion remains with the local authorities. The Royal British Legion can be reassured on that.

Mr. Patrick Cormack (Staffordshire, South-West): May I add my thanks to my right hon. Friend and say that I believe that the package will be warmly received generally? However, will my right hon. Friend reconsider the capital limit on supplementary benefit? Does he accept that many people in their fifties, who are out of work

file TMP

SOR Secy

10 DOWNING STREET

From the Private Secretary

3 March 1982

Dear Brendan

I wrote to you this morning about the Prime Minister's discussion last night with your Secretary of State and the Chief Secretary on the treatment of housing needs for supplementary benefit purposes.

The Prime Minister was grateful to Mr. Fowler and Messrs. Heppel and Chislett for coming across this afternoon to pursue her concerns in more detail. As she made clear at that meeting, she is content to stand by the decision which has now been announced. She recognises that it will be presentationally very difficult to take any other course. She nevertheless wished to satisfy herself both that the decision was soundly based and that she understood its ramifications sufficiently to enable her to deal with any references at Question Time over the next few weeks.

The Prime Minister's second concern was adequately dealt with. Mr. Chislett agreed to provide us with a factual note, covering the effect on various categories of supplementary benefit claimant, for Questions purposes, and I understood that the note will be with us by noon tomorrow.

The Prime Minister was also satisfied about the logic of the change, and the steps which have been taken to deal with the foreseeable anomalies created by the move to UHB. The Prime Minister concluded that the real difficulty lies in the much earlier decision to treat housing expenses as a separate item in payment of supplementary benefit, and that the effect of this arrangement created a form of double counting which is not directly paralleled elsewhere within the SB scheme.

tomorrow Mr. Chislett also undertook to telephone us at the end of Committee proceedings, so that we can be informed of any further unexpected development which might conceivably be raised in the House at 3.15.

I am sending a copy of this letter to Terry Mathews (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Mike Pattison

Brendan O'Gorman, Esq.,
Department of Health and Social Security.

RR

CONFIDENTIAL

Social Services HL.

Subject of master

file CBI.

10 DOWNING STREET

From the Private Secretary

3 March 1982

Dear Brendan

RPI treatment of housing costs for supplementary beneficiaries

As you know, your Secretary of State and the Chief Secretary met the Prime Minister at the House of Commons last night to discuss the announcement made by Mr. Rossi in Committee that morning.

Mr. Fowler apologised to the Prime Minister for the failure to alert her before Question time about the unexpected developments in the Committee, which were the result of a successful ambush by Mr. Jeff Rooker. The announcement had been timed for Thursday's Committee proceedings.

The Prime Minister said that she was concerned not only with the position in which she had found herself at Question time, facing a challenge on a matter of which she knew nothing, but about the substance of the change which was proposed in the regulations. She recognised that the change was among a number of items which may have been summarised to her in the course of public expenditure discussions last November, but she was clear that the implications had never been spelt out. Now that the announcement had been made. there would be considerable difficulty in changing the decision. But she nevertheless believed that the implications had not been thought through.

In the discussion that followed, the Prime Minister posed two questions. First, she wanted to be convinced that the new arrangements would apply fairly to all recognisable categories of those claiming supplementary benefit. She was concerned about the position of a claimant who might be living with family, making some contribution to household expenses but not making an identifiable rent or rate contribution. It seemed that such a person would not have access to UHB, but would nevertheless be penalised in supplementary benefit uprating. Secondly, she believed that there was no logic in tackling only this apparent anomaly in the relevance of the RPI to the needs of those on supplementary benefit. There were many items in the RPI calculation which were relevant to the lifestyles of only a proportion of people. The implication of the change was that this was a unique case of possible double counting. Yet all those on supplementary benefit were automatically entitled to prescription charge exemption, so it could be argued that the prescription charge item should also be eliminated from

CONFIDENTIAL

/ the RPI

the RPI for SB claims. Similar arguments might be advanced on, for example, fuel costs and travel costs given the concessions to various categories of people.

Your Secretary of State agreed that it would be useful to have some further discussion of these points. He emphasised that there was no presentational problem over the Prime Minister's exchange in the House with Mr. Rooker. The only relevant "Act" was the Social Security Act 1980, which dealt with pensions in relation to the RPI. Supplementary benefit was not the subject of separate legislation.

We have now arranged a further discussion for 1630 hours this afternoon here.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

Yours ever

Mike Pattison

Brendan O'Gorman, Esq.,
Department of Health and Social Security.

10 DOWNING STREET

From the Private Secretary

CHIEF SECRETARY

Changes in the Uprating of Social Security Benefits

I thought I ought to record a couple of points made to me by David Butler this evening about your meeting with the Prime Minister. — this evening

David Butler says that the savings which arise as a result of taking the double counted housing component out of the RPI uprating amount to £30m. in 1982/83 and around £50m. a year in 1983/84 and 1984/85. His advice is that, if it becomes unavoidable to concede the loss of these savings, you should try to extract from Mr. Fowler a commitment to make up the savings from some other source; one possibility he suggests is that there should be a claw-back in November 1982 of the overshoot between November 1980 to November 1981 in respect of heating additions to supplementary benefit. This measure on its own would yield some £10m. Clearly, you would not wish to get into detail at tonight's meeting, but Mr. Fowler could be asked to agree with you some compensating saving.

The attached note of a MISC 62 meeting is the only record I can find on our No.10 files of this issue - please see paragraph 4.

M. D. SCHOLAR

2 March 1982

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 19 NOVEMBER 1981 AT 12.15PM TO DISCUSS PUBLIC EXPENDITURE ON HEALTH AND SOCIAL SECURITY

Present

The Prime Minister
Home Secretary
Chancellor of the Exchequer
Secretary of State for Social Services
Chief Secretary, Treasury

Sir Robert Armstrong
Mr P L Gregson

****

The meeting had before it the annexes on Health and Social Security to the Home Secretary's draft paper on the work of MISC 62, circulated by the Prime Minister's Private Secretary on 13 November, and a minute from the Secretary of State for Social Services to the Prime Minister of 17 November.

On health, the meeting agreed:

1. That prescription charges should be increased to £1.30 rather than £1.50 as envisaged by MISC 62.

2. That increases should be made in charges for dental treatment and spectacles, as proposed by the Secretary of State for Social Services in MISC 62, subject to the Secretary of State's providing the Prime Minister with details of the dental charges.

3. That, in relation to the provisions for the Hospital and Community Health Service (HCHS):

   i. no increase should be made to compensate for price increases in 1981-82 in excess of the cash limit factors;

ii. the proposed reductions of £93m in 1982-83, £98m in 1983-84 and £101m in 1984-85 should not be made, in order to permit a 1.7 per cent real growth increase between 1981-82 and 1982-83;

iii. there should be further increases of £43m in 1983-84 and £91m in 1984-85 to permit a small real growth increase in those years.

4. That no extra provision should be made to permit certain groups of NHS staff to receive increases of more than 4 per cent in the next pay round on the understanding that the Secretary of State for Social services would use his best endeavours to keep increases to not more than 4 per cent but might need to re-open the matter in the light of developments.

5. That, subject to approval by the Cabinet, legislation should be introduced to charge motor vehicle insurers for the cost of treating casualties in road traffic accidents either in the 1982 Finance Bill (if this proved practicable) or in the 1982-83 Session.

6. That the National Health Contribution should be increased by 0.1 per cent.

On social security the meeting agreed:

1. That, contrary to the conclusion reached in MISC 62, the pensioners' Christmas bonus should remain at £10, with no change in coverage, subject to further consideration of whether the savings to be derived from excluding those under 70 would justify the controversy which might be provoked.

2. That supplementary benefit should be withdrawn from 16 year olds (offset by payment of child benefit in respect of them) from November 1982.

3. That the phasing out of the earnings rules for pensioners should be deferred until 1984.

4. That savings should be made from miscellaneous amendments to supplementary benefit rules amounting to £50m a year in 1983-84 and 1984-85, and a smaller sum in 1982-83.

5. That further consideration should be given to a package of proposals by the Secretary of State for Social Services with the following elements:

i. a revised proposal relating to the abatement in invalidity pensions which would involve increases of only £7m in 1982-83, £21m in 1983-84 and £22m in 1984-85;

ii. withdrawal of the proposal to make good the 2 per cent shortfall in non-pensioner supplementary allowances;

iii. withdrawal of the proposal of a 5 per cent abatement in the Novembe 1982 uprating of short term benefits not subject to an absolute pledge of price protection.

19 November 1981

HL

bcc John Vereker Social Services

10 DOWNING STREET

From the Private Secretary

18 February 1982

C

Announcement of Uprating 1982

During their discussion yesterday the Prime Minister and the Chancellor had a further word about the timing of this year's social security uprating announcement.

The Chancellor said that he remained of the view that the social security decisions needed to be taken in the Budget context: the Government would inevitably face questions about the effect of Budget decisions on families which could be answered sensibly only by reference to child benefit. He also saw difficulty about making an announcement about the shortfall on unpledged benefits while leaving the precise figure for uprating until later.

After discussion, the Prime Minister said that, on reflection, she was content for him to include the uprating announcement in the Budget.

I am sending a copy of this letter to David Clark (Department of Health and Social Security).

M. C. SCHOLAR

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

(1)

10 DOWNING STREET

Prime Minister

Yes

Announcement of Uprating 1982

I ought to record, for Norman Fowler's benefit, the conclusion of one part of your discussion with the Chancellor this evening – about the date of the social security uprating announcement.

Content for me to say that you are, on reflection, willing for the Chancellor to include it in the Budget?

MCS 17/2

CONFIDENTIAL

Social Services

15 February 1982

Announcement of Uprating 1982

The Prime Minister was grateful to the Chancellor and the Secretary of State for Social Services for their minutes, dated 10 and 5 February about the timing of this year's social security uprating announcement.

The Prime Minister would prefer to delay the announcement until after the Budget. She has commented, however, that if we are going to make good the shortfall, this should be announced at the time of the Budget, leaving the precise figure for uprating until later.

I am sending a copy of this letter to David Clark (Department of Health and Social Security).

M C SCHOLAR

John Kerr, Esq.,
HM Treasury

CONFIDENTIAL

(1)

10 DOWNING STREET

Prime Minister

You saw these papers on Wednesday.

Do you think the uprating should be announced in the Budget, or later?

MLS 12/2

I should prefer to delay. If however we are going to make good the shortfall, this should be announced at the time of the Budget, leaving the precise figure for uprating until later.

CONFIDENTIAL

AW
AD
JV

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

I have seen a copy of Norman Fowler's minute of 5 February about delaying an announcement on social security benefit upratings until May.

2. I see major disadvantages to this proposal.

3. First, it would commit us to the publication of three forecasts of inflation during the year. Two are required by the Industry Act, at Budget time and in November. I do not think we should go out of our way to add another.

4. Second, on past performance, we cannot be sure that the forecasts would be more accurate if delayed three months. You may recall that there was considerable speculation in July 1980 that the price forecast made at Budget time (16.5 per cent) might be too low by 2 or 3 percentage points. Instead the outturn proved to be 15.3 per cent. It was this which caused us to pass legislation in the Social Security Act 1981 to make the initial forecast of price movements the operative one for the uprating, so that the Secretary of State was not required to take a fresh view if the implementing regulations were delayed. A change in the decision date would appear inconsistent with that.

5. Third, I think it important that these social security decisions be taken in the Budget context. For example, we should inevitably face questions about the effects of Budget decisions on families which could only be answered sensibly by reference to child benefit. There is also an inevitable

cross-relationship between the single personal tax allowance and benefits paid to widows and single women over retirement age. And this year in particular I do not believe we could defer yet again an announcement about the shortfall on unpledged benefits. Indeed commitments made in the debate on 8 December related specifically to an announcement at Budget time.

6. We could of course try to steer round these problems if we thought the game worth the candle. But in my view it would not be. We should be asked why we were deferring the decision; and the only reason we could give would cast doubt on the accuracy of the forecasts made in the Budget, and hence undermine its credibility.

7. I am sending a copy of this to the Secretary of State for Social Services.

(G.H.)

10 February 1982

10 FEB 1982

cc AW
AD
JV

(1)

Prime Minister

The Chancellor argues strongly against postponing the uprating announcement to May.

Agree that it should be for the Budget?

Prime Minister

ANNOUNCEMENT OF UPRATING 1982

The more I think about the suggestion you made to me on Monday that this year's uprating announcement should be deferred until well after the Budget, the more I am attracted by it. MLS 10/2

It is only in the last few years that the announcement has been made in the Budget. The advantages of this are that the Chancellor can frame his Budget and the accompanying Financial Statement in the certain knowledge of what the uprating is going to cost. It also enables my Department to plan and implement the uprating operation in the most economical way.

But the major disadvantage is that we have to take a view on the likely movement of prices so far in advance of the uprating date itself that the possibility of getting it wrong is very great indeed. This is especially so this year, with the Budget brought forward to 9 March and the uprating not until 22 November (a gap of 37 weeks). Trying to make reliable forecasts over a period that long is almost impossible. If we get it wrong - as seems almost inevitable - we shall either have another shortfall, with all the political odium that that entails, or we shall overspend, which is something we want to avoid if we can.

Reaching a decision on the new rates and announcing them much later would reduce the risk. Obviously, we can never be sure that any forecast will turn out to be correct, but the more we can defer the moment of decision, the better our chances are of getting it right.

I shall need to look carefully at the cost and operational constraints that govern what is, as you know, a very large-scale operation. However, I am sure we could defer the announcement until some time in May.

It seems to me that delaying the announcement minimises the risk of getting into a fresh political row this time next year on either "shortfall" or "over-shoot". I think that anything that can be done to avoid this is to the good.

I am copying this minute to the Chancellor of the Exchequer, who will no doubt want to consider your suggestion.

5 February 1982

NF

5 FEB 1982

PART 2 ends:-

8.4.81

PART 3 begins:-

Dec '81

~~5.2.82~~

IT8.7/2-1993
2009:02

Image Access

IT-8 Target

Printed on Kodak Professional Paper
Charge: R090212