SECRET

Copied to: Social Services
Prime Minister PT2: Benefits.

The Chancellor proposes to hand this round at Cabinet. In view of its sensitivity, I suggest that you (or he) ask that the copies be left in the Cabinet Rm.

TL
3/11

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

PRIME MINISTER

PUBLIC EXPENDITURE: SOCIAL SECURITY

We agreed that Cabinet should discuss the Social Security on Tuesday, 4 November.

2. I enclose a copy of the paper I propose to circulate at this meeting, which is based largely on the minute, agreed with Patrick Jenkin, I sent you on 28 October. I have added a reference to the proposal on public sector pensions. I think it would be convenient for Cabinet to take a decision in principle on this as well, though the details can be discussed later with our colleagues who would be concerned.

3. I am sending a copy of this minute to the Secretary of State for Social Services.

P.S. Jenkins
for (G.H.)
31 October 1980
Approved by the Chancellor and signed in his absence.

SECRET

DRAFT PAPER FOR CABINET

PUBLIC EXPENDITURE: SOCIAL SECURITY

Memorandum by the Chancellor of the Exchequer

This paper outlines my proposals for savings on the Social Security programme and on public sector pensions.

Social Security

2. The attached Annex outlines 3 proposals. The Secretary of State for Social Services is prepared to accept proposals A and B (savings on shift to monthly payment of child benefit following the Rayner study, and 2 per cent cut in cash controlled expenditure affecting mainly administration). He points out, however, that the proposal to pay child benefit four weekly in arrears has yet to be agreed in its own right, and to that extent the savings must be regarded as provisional. I accept this.

3. Proposal C - a reduction in real value of all benefits in November 1981, including retirement pensions - is clearly very difficult. We shall be accused of "attacking the poor" and of breaking our pledges. Nevertheless in the present situation, given the size of the social security programme, the very difficult proposals we are putting in respect of other programmes, and the fact that we expect prices to be increasing slightly faster than earnings over the next year or so (ie the standards of living of people in work are likely to fall) we have no choice but to tackle this area. The Secretary of State accepts the proposals in principle. But there are, however, some outstanding points yet to be settled.

4. First, exceptions. The Annex also sets out certain exceptions which the Secretary of State would wish to make to the across the board reduction, together with their cost. I believe that in principle there should be no exceptions, but I am ready to concede the first two in the list - war pensioners, and mobility allowance and attendance allowances.

5. The Secretary of State also considers that invalidity benefit recipients, having already received a 5 per cent reduction in this year's uprating, should not suffer a further 3 per cent. In addition the Secretary of State feels that some exception for the poorest of all, namely those on the short term rate of supplementary benefit, is needed if the other reductions are to be carried. This could be done either by continuing to price protect the short term supplementary benefit rates (thus preserving the safety net for those on the lowest rates) or by allowing the long term unemployed, who at present have to make do with the short term rates however long they have been unemployed, to qualify for the long term rates after one or two years of unemployment. In my view to go further than I have indicated would cut excessively into the savings we are looking for and, because a good case can always be made out for a social security benefit, end up creating resentment and risking having to concede more.

6. Second, there is the question of presentation of our decision and the timing of the necessary legislation on pensions. The Secretary of State and I both feel there would be advantage particularly in the context of wage negotiation in announcing a decision soon in terms of "'x' per cent increase" (which on present forecasts would be 8 per cent), rather than "3 per cent reduction". A decision to announce an "8 per cent increase" now would however have to be provisional, in case my final forecast of inflation differs from 11 per cent. The legislation that will be necessary need not be introduced until after the Budget, and the exact form can be settled nearer the time.

7. Finally, I should report that in order to ensure that the PSBR as well as public expenditure benefits from the holding back of contributory benefits, I propose that the legislation include a power to reduce as appropriate the Treasury Supplement to the National Insurance Fund. However as an entirely separate matter I may wish to look to a reduction in the Supplement anyway as a means of helping the next year's PSBR.

Public Sector Pensions

8. As a parallel to the proposals on Social Security I propose that index-linked public sector pensions should be held back at the next uprating also by 3 per centage points. My reason for making this proposal is not solely financial. If state pensions are to be held back it is inconceivable that

We should not take similar action in the area of public sector pensions. We have set up the Scott Enquiry to look at the values of the deduction for index-linking for current employees, but we have not yet touched past employees. For these reasons I would wish the coverage to be as wide as possible. Since this concerns a number of colleagues I propose that the Chief Secretary should circulate a separate paper on the legislative and administrative details. Meanwhile I invite colleagues to endorse the principles of this proposal.

Conclusion

9. I ask my colleagues to :

i. agree the proposals A, B and C in the attached Annex.

ii. consider the possible exceptions discussed in paragraphs 4 and 5 above.

iii. agree the abatement of public sector pensions proposed in paragraph 8, in principle.

ANNEX

£ million 1980 Survey price

	1981-82	1982-83	1983-84	
Proposal A				
Savings on shift to monthly payment of child benefit, following Rayner study	- 61	- 1	- 13	
Proposal B				
2% cut in cash controlled programmes				
(i) effect in 1980-81 cash limits squeeze	- 11.1	- 11.1	- 11.1	
(ii) further proposed reduction	- 6.3	- 6.3	- 6.3	
Proposal C				
Uprating of all benefits in November 1981 by 3 percentage points less than needed to give full price protection	-175	-504	-504	
Agreed minor additional bids	+ 9	+ 12	+ 14	
Net saving	-168	-492	-490	
Exceptions to C, proposed by Secretary of State				Manpower effect
- Agreed (i) War pensions	+ 4	+ 3	+ 10	Nil
(ii) Mobility and attendance allowances	+ 3	+ 9	+ 9	Nil
Net saving on proposal C	-159	-480	-471	
- Not agreed				
(i) Invalidity benefit	+ 8	+ 24	+ 24	slight saving
(ii) Either short term supplementary benefit	+ 11	+ 31	+ 31	+220
or give long term rate of supplementary benefit to the unemployed either after 2 years	+ 15	+ 46	+ 51	+ 45
or after 1 years	+ 26	+ 74	+ 84	+190
Public sector pensions : proposed abatement - public expenditure savings	- 10	- 30	- 30	(estimated)