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CABINET

## UPRATING OF SOCIAL SECURITY BENEFITS

Memorandum by the Secretary of State for Social Services

1. The social security uprating must take place no later than 12 November. Decisions are now required on our policy for determining the new rates so that an announcement can be made in the Budget Statement. I have discussed the main uprating issues with the Chancellor and the Chief Secretary, Treasury, who are broadly in agreement with my proposals.

## THE MAIN RATES

2. Existing legislation requires us to increase pensions and other long-term benefits in line with the forecast increase between last November and next November in earnings or prices, whichever is the higher. Sickness, unemployment and other short-term benefits must be increased by the forecast movement of prices over the same period. Firm forecasts are not yet available. The price forecast in particular may be affected by Budget measures.

3. I propose that in future we should limit our statutory commitment to uprating long-term benefits in line with prices. If this is agreed, we should announce the change soon, preferably during the Budget debate. The change will be severely criticised, but we can point out that it will be open to the Government to give a larger increase than the price movement if economic circumstances permit. Indeed, at this uprating if the earnings forecast exceeds the price forecast by only a small amount, I propose to use the higher forecast.

4. If the earnings forecast turns out to be substantially higher than prices we shall need urgent amending legislation to give statutory authority to the rates we shall be announcing and in that event I would propose to use the Christmas Bonus Bill. If we are not under that compulsion, then since the change will be very controversial and we need to get the Christmas Bonus Bill through as quickly as possible, it would be possible to include the necessary legislation in a later Social Security Bill planned for the Autumn. The Chancellor, however, feels that it might be as well to legislate immediately in any event.

### SHORTFALL

5. There is, however, a decision to be made. The forecasts used for the last uprating were 1.9 per cent (earnings) and one per cent (prices) short of the actual movements in earnings and prices. The present single person rate of £19.50 for long-term benefits and £15.75 for short-term benefits should have been £19.85 and £15.90. While there is no statutory obligation to take account of this shortfall, the previous Administration announced that it would do so. I propose that we follow suit. This both keeps our promise to honour the pension commitments of the previous Administration and will make our new uprating policy of price protection a little more acceptable.

### CHRISTMAS BONUS

6. We promised to continue the Christmas bonus and I propose that we should announce, as part of the uprating statement, a £10 bonus to be paid in the first week of December to the same categories as last year. There may be some disappointment that the rate remains the same, but I do not feel justified in making any greater demand this year. Legislation will be needed to pay the bonus. A question for consideration is whether this should include a commitment to paying a bonus annually in future. Our promise to "continue" the bonus has undoubtedly given rise to an expectation that we shall do so, and this would be my preference. The Chancellor would prefer our commitment to this to be limited to one year only.

### CHILD BENEFIT

7. Child benefit was increased by £1 to £4 last April as the final stage to phasing out child tax allowances. I would have liked to have been able to increase this to £4.25 in November in order to maintain its value - we shall have a rough ride in view of the last Government's promise of £4.50. Nevertheless, I accept that this must give way to the overriding necessity of restricting public expenditure. However, I propose that the premium paid to one-parent families, not increased for a year, should be increased from £2 to £2.50. This will bring some extra help to a needy group.

### MOBILITY ALLOWANCE

8. Mobility allowance was last increased to £10 in July 1978. A rate of around £11.50 would be required by November to maintain its value and I consider that it would be in accordance with our general approach to the problems of disabled people to pay a little extra, ie a rate of £12.

### DISTRIBUTIONAL EFFECTS

9. A large number of those on low incomes are pensioners and 64 per cent of the expenditure on the Christmas bonus would go to households in the bottom 40 per cent of the income distribution (adjusted for household size and composition). Some 77 per cent of the expenditure on uprating the one-parent family premium would go to households in the bottom 60 per cent of the income distribution.

## COSTS

10. The costs of these proposals may be summarised as follows:-

United Kingdom 1979 Survey Prices

	Benefit	1979-80 Administration	Manpower (included in admin. cost figure) <u>man years</u>
	<u>£m</u>	<u>£m</u>	
Taking account of shortfall	80-90*	NIL	NIL
Christmas bonus	104.5	3.5	100
One-parent family premium	3	0.2	25
Mobility allowance	2	NIL	NIL
Delay in announcement of general uprating	NIL	0.9	45

and in 1980-81 and subsequent years there will be a benefit cost of £200-£220 million\* for making good the shortfall, £7.6 million for the premium, and £6 million for mobility allowance. These figures total for benefit £189.5 million in 1979-80 and £213.6 million (or £318.1 million if the bonus is to be continued) in subsequent years, and for administration £4.6 million in 1979-80. There is no provision in the public expenditure programmes, nor is there provision for the administrative cost in the 1979-80 cash limits and provision for the additional manpower is required outside the 3 per cent cut agreed at Cabinet on 17 May. The total benefit and administration cost will have to be borne by the Contingency Reserve. (\*The cost would depend on whether or not the shortfall to be taken into account (35p on the single pension) were calculated in terms of 1978 money values without adjustment for loss of value since then.)

## CONCLUSION

11. I invite my colleagues to agree that:-

- i. we change the uprating commitment for long-term benefits to price movements only and legislate immediately if necessary;
- ii. last year's shortfall should be taken into account (paragraph 5);
- iii. a Christmas bonus of £10 should be paid this year (paragraph 6);
- iv. the one-parent family premium should be increased to £2.50 in November (paragraph 7);
- v. mobility allowance should be increased to £12 in November (paragraph 8);

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- vi. provision is made for the total additional costs, including administration costs, to be borne by the Contingency Reserve.

I also invite my colleagues to consider:-

- vii. whether, even if legislation is not immediately necessary on the changed uprating policy, we should in fact legislate at the earliest opportunity or whether the matter is better left; and
- viii. whether we should commit ourselves now to annual bonuses in future on the basis of permanent legislation.

P J

Department of Health and Social Security

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