

PRIME MINISTER

DRAFT SOCIAL SECURITY UPDATING STATEMENT

I attach Mr Newton's draft updating statement which he is proposing to make in the House tomorrow.

It follows the general lines agreed at your meeting yesterday. I have sidelined the three main announcements covering pensioner premium; the additional allowance for those in residential care or nursing homes; and the measures on child benefit.

Mr Newton has succeeded in de-linking the three major announcements so that none of them looks to be dependent on the other, within the overall constraint on available resources.

But I do not think the present drafts of paras 34 and 35 announcing the additional £1 per week for the first child are acceptable.

- i. Para 34 again uses the argument that it is the arrival of the first child which has much the largest financial impact; and that it is often associated with the loss of the wife's income. In the long term, this may be a defensible case. But in the short term, much of the extra child benefit will go to families with older, single children (or with one child still within the eligible age group). So in practice some of the additional money will flow to women who have been back to work for many years. The proposed line in this paragraph is not a sound basis on which to argue for the new proposals.
- ii. The beginning of para 35 is even more unwise. It seems quite extraordinary for this Government to argue that it is extending to all families a concept which originated in one parent families. That 'pilot' is surely not a defensible basis for the new arrangement.

iii. Also, the paragraph talks about the payment being set 'initially' at £1 per week. This phraseology is bound to excite speculation about the Government's future policies on family support.

Late though it is, I think these two paragraphs do need to be radically re-drafted.

Content for me (and Andrew Turnbull) to see whether a revised form of words which avoids these pitfalls can be negotiated tomorrow morning?

BHP

Perhaps the Treasury can help with (iii)
Yes not

BARRY H POTTER
23 October 1990

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From the Secretary of State for Social Security

cc Q
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POLICY IN CONFIDENCE

Barry Potter Esq
Private Secretary
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23 October 1990

Dear Barry,

I am enclosing a draft of the Uprating Statement my Secretary of State proposes to make to the House tomorrow, which was prepared in the light of his discussion with the Prime Minister yesterday. I should point out that the Chief Secretary has not seen the Statement yet and some of the minor measures are part of a nil cost package and still subject to his agreement.

I am copying this letter to Jeremy Heywood in the Chief Secretary's Office and Murdo MacLean, Chief Whip's Office.

Yours
Helen

HELEN DUDLEY
Private Secretary

DRAFT UP-RATING STATEMENT

1. With permission, Mr Speaker, I wish to make a statement about the up-rating of social security benefits. This will take place for most benefits, as is now the normal practice, in the first full week of the tax year - that is to say, the week beginning 8 April. The statutory instruments to implement my proposals, applying both to Great Britain and Northern Ireland, will in due course be laid before both Houses for debate.
2. As is customary, I will deal first with the main National Insurance benefits, including most notably the Retirement Pension which now goes to some 10 million people. The basis for the up-rating is the latest available figure for the increase in the Retail Price Index: the 10.9 per cent rise recorded for the year to September 1990.
3. The Retirement Pension will accordingly rise by £5.10 a week for a single person, from £46.90 to £52, and by £8.15 a week for a couple, from £75.10 to £83.25. This increase alone will cost some £2.5 billion, underlining once again our clear and continuing commitment to maintaining the pension's value.
4. Unemployment Benefit will rise from £37.35 to £41.40 for a single person and from £60.40 to £66.95 for a couple; and sickness benefit from £35.70 to £39.60 for a single person and from £57.80 to £64.10 for a couple.
5. National Insurance Invalidity Benefit will go up in line with the Retirement Pension. There will also be a 10.9 per cent increase in all other non-income-related benefits related to people who are sick for a long period, or disabled - Severe Disablement Allowance, Industrial Injuries Benefits, War Disablement Pensions, Invalid Care Allowance, Mobility Allowance and Attendance Allowance. The 615,000 people now receiving Mobility Allowance will see it rise by nearly £3 a week to £29.10. For the three-quarters of a million

people now receiving Attendance Allowance, there will be an increase of £2.75, to £27.80, in the lower rate, and of over £4, to £41.65, in the higher rate.

6. The age-related additions known as Invalidity Allowances, currently confined to those receiving Invalidity Benefit but being extended in December to give up to £10 a week extra to some 275,000 people receiving the non-contributory Severe Disablement Allowance, will rise further in April to a maximum of £11.10.

7. Similarly, 10.9 per cent increases will take place in Widows Pensions including Widowed Mothers Allowance, War Pensions, and all public service pensions, together with the special Ministry of Defence payment to the pre-1973 war widows, which my rt. hon friend the Secretary of State for Defence will raise from £40 to £44.36 per week.

8. For the income-related benefits - Income Support, Housing Benefit, Community Charge Benefit and Family Credit - the up-rating will be based, again as usual, on the RPI less housing costs. This is simply because, for those receiving these benefits, housing costs are directly taken into account in their Housing Benefit itself or through help with mortgage interest.

9. This index rose by 8.1 per cent in the year to September 1990, and the relevant benefit rates, with one exception to which I will come later, will go up accordingly. Thus Income Support for a single person under 25 will go from £28.80 to £31.15; the rate for an older single person from £36.70 to £39.65; and the higher pensioner premium from £17.05 to £18.45. For a family on Income Support with two children aged 10 and 12, benefit will rise by £7.75 a week to £103.30, plus full mortgage interest if they have been on benefit for more than six months, or full rent if they are tenants, and eighty per cent of their community charge.

10. On a detailed point, but one of considerable importance to the small number of families and individuals affected, I intend to relax the rule that at present automatically ends the Income Support of young people on their 19th birthday, even if they are still completing their studies at school. Proposals to allow benefit to continue to be paid in these circumstances will be referred to the Social Security Advisory Committee next week.

11. I turn next to Statutory Sick Pay and Statutory Maternity Pay, which as the House is aware, are both paid through employers. The link between the two schemes is frankly somewhat artificial resting more on considerations of administrative convenience than of consistency in structure or purpose. I have concluded that the sensible development of policy of both fields would now be better served by treating them separately.

12. So far as SSP is concerned, I propose to build on the re-structuring undertaken last year, taking account of the considerations I outlined to the House at that time. Occupational sick pay schemes have grown to such an extent that over 90 per cent of the work force now work for employers providing this cover, reflecting what is in my view a proper acceptance by employers of a much greater responsibility to cover short-term sickness amongst their employees. This in turn means that, for the great majority of those in work, the rates of SSP bear little or no relation to the amount they actually receive when sick. In these circumstances it is better for additional resources from the taxpayer to be concentrated more clearly on those least likely to have occupational provision, or in other areas of social security for which employers cannot be expected to provide.

13. I therefore propose to up-rate fully, from £39.25 to £43.50, the lower of the two SSP rates, which goes to the lower-paid employees who are generally less likely to be covered by occupational schemes; to extend the coverage of this rate across the whole range of earnings bands within which employers pay lower rates of contributions, which currently covers employees earning less than £175 a week; and to leave the higher rate of SSP unchanged at £52.50. These changes will reduce

expenditure by about £100 million in 1991-2, while fully protecting the lower-paid and with little or no effect for the great majority of others.

14. I intend also to adjust the arrangements under which employers are fully re-imbursed, by deduction from their remittances of National Insurance contributions, for the whole of their expenditure on SSP plus an amount to cover payments of such contributions on SSP itself. I propose instead to move to 80 per cent re-imburement. This will reduce public expenditure in this area by about £180 million in 1991-92. At the same time however, I propose to make offsetting reductions in the rates of employers National Insurance contributions. Full details will be given in the normal statement about contributions which is made at the time of the Chancellor's Autumn Statement. But I can indicate now that my intention is to reduce each of the lower rates - those which apply to employees currently earning up to £175 - by 0.4 per cent, at a revenue cost of about £150 million, and to reduce the standard rate by 0.05 per cent, at a further revenue cost of about £120 million. This overall reduction in employers' contributions of some £270 million takes account also of the compensation employers currently receive for contributions paid on SSP itself. Legislation will be required, with a view to implementing these changes from April 1991.

15. The arrangements for Statutory Maternity Pay, where occupational cover is very much less extensive, will be left entirely unchanged, except for any minor modifications needed in consequence of the separation from SSP. That separation, however, enables me to go further on the standard rate of SMP than I have proposed for SSP. I intend not only to increase it by the RPI, which would take it from £39.25 to £43.50, but by a further £1 a week to £44.50. An additional £1 will also be added to the National Insurance Maternity Allowance, taking it from £35.70 to £40.60 instead of the £39.60 which an RPI up-rating alone would have indicated. There will thus be a real increase in benefit for some 315,000 mothers-to-be in the course of a year, at a cost of about £5 million.

16. Apart from this increase in maternity pay, my proposals on SSP open the way to a number of other important improvements both small and large which I believe strike a sensible new balance in the partnership between the State and employers which has developed in this field.

17. In turning to those improvements, I should make one point clearly to the House. This is that support for families does not relate only to families with children, important though that is. It must acknowledge responsibilities towards the old as well as the young, and not least the particular pressures families can face arising from disability, or the need for special care. In framing my proposals I have sought to take account of all those strands

18. I come first to the needs of disabled people and their carers, where we are already carrying through the major programme described in my up-rating statement last year. Last April we made real increases in the Income Support disability premiums, including in particular those for children; extended Mobility Allowance to the deaf-blind; and extended Attendance Allowance to disabled babies under 2. This month we have introduced a carers' premium into Income Support, and extended Attendance Allowance to the terminally ill without the normal time limit. In December we shall make the increases in Severe Disablement Allowance to which I have already referred. And we are preparing new benefits for introduction in 1992 to help those disabled people who wish to work and further extend help with disability costs.

19. Against that background, I cannot of course propose further measures on the same scale. But what I can and will do is to make five more specific improvements specifically directed at the needs of some of the most severely disabled people and their carers.

20. The Independent Living Fund, now providing extra help - averaging £74 a week but in some cases several hundred pounds a week - to some 6,000 severely disabled people in the community, will have its resources nearly doubled to £62 million next year. It will thus have risen twelvefold, from an initial £5 million in only three years.

21. We shall make an immediate additional grant to Motability of £250,000 in the current year, and £1 million a year thereafter, to enhance the assistance it can give with the expensive adaptation of cars which severely disabled people often need.

22. I intend too to modify Mobility Allowance regulations to help those particularly unfortunate people who suffer the amputation of both legs. The House will be aware of two recent cases - Mrs Sandra Stones in Durham and Sergeant Andy Mudd in Colchester - where doubt has been cast on their continuing entitlement. While this doubt may be removed by review or appeal - as has indeed already happened in the case of Sergeant Mudd - it seems to me that we ought to do everything possible to avoid this sort of uncertainty and the distress it can cause. I therefore propose an amendment to put the payment of Mobility Allowance in such cases beyond doubt.

23. I propose also two further useful improvements for carers. The amount which can be earned without affecting entitlement to Invalid Care Allowance, increased last year from £12 to £20 a week, will in April go up by a further 50 per cent to £30 a week. And I intend to provide that the carers' premium just introduced in Income Support, which as things stand would cease immediately on the death of the person being cared for, can continue to be paid for up to eight weeks thereafter.

24. Next, pensioners. As I have said on a number of occasions in the House and elsewhere, in welcoming the rise in pensioners real average net incomes which has taken place as a result of the spread of occupational and personal pensions and the growth of savings, we must not overlook those who have not yet gained from those trends.

25. I therefore propose to make this year a real increase in the basic pensioner premium in Income Support, which will go up by £1 a week more for a single pensioner, and £1.50 more for a couple, than in a straightforward up-rating. It will thus rise by £1.95 from £11.80 to £13.75 for a single pensioner and by £2.95 from £17.95 to £20.90 for a couple.

26. This will cost nearly £80 million, and assist some 3.5 million people through Income Support, Housing Benefit and Community Charge Benefit. Taken together with the premium increases for the older and more disabled pensioners which took place in October 1989, over eighteen months there will have been a real increase in every one of the premiums applying to around 6 million less well-off pensioners, at a total costs of about £300 million.

27. I propose also, thirdly, a major upward adjustment in Income Support in a field which brings together the interests of both elderly and disabled people and the families to which they belong: the limits relating to residential care and nursing homes.

28. The survey of costs we commissioned from Price Waterhouse to help us make better judgements in this field is being placed in the Library today. In brief, it shows that, while the limits for residential care are reasonably close to median costs across the country, those for nursing homes are significantly too low; but it does not provide evidence of a significantly clear pattern of geographical variation, except for Greater London, to justify the introduction of further such variations at this stage.

29. What I now propose takes account both of the Price Waterhouse results and of the many other representatives to us by voluntary and charitable bodies and organisations of home owners.

30. For residential care, the basic limit will rise by £5 a week to £160. There will be larger increases of £15 to £185 for the category covering the very dependent and blind elderly, which includes for example Alzheimer's Disease cases; and for those covering the mentally handicapped and physically disabled.

31. For nursing homes, the increases will be much larger: £45 a week, to £255 a week, for the main category catering for the elderly; £35, to £260 a week, for the mentally handicapped; and £35, to £290 a week, for the physically disabled. The increase for terminal illness homes will be somewhat smaller, at £15 to £275 a week, taking account

of the fact that this type of home received the largest increases last year, that the distinction between these homes and others is becoming increasingly artificial, and that voluntary hospices - many of which do not seek to make use of Income Support anyway - are now receiving extra financial help specially geared to their needs under the arrangements introduced this year by my Rt hon and learned Friend the Secretary of State for Health.

32. As the House knows, pending the changes now planned for 1993, the Income Support limits in the field are, and always have been, designed to cover not only income maintenance but also housing and care costs. It has never been the intention, nor is it sensible, that in the generality of cases Housing Benefit itself should be available as an alternative to Income Support. An anomaly exists in the regulations, which has enabled such claims to be made; and in the light of the large increases in limits which I have announced, I intend to consult on amendments to re-establish the policy intention more clearly.

33. Last but not least, Mr Speaker, I intend to make an increase in Child Benefit, which is and will remain a strong element in our policies for family support. It will not perhaps however surprise the House, in the light of what I have said in the last few minutes and what I said earlier about balancing a variety of different family needs, that I am not able simply to up-rate it across the board, at a gross cost of over half a billion pounds.

34. In fulfilling my statutory duty of review, I have looked not only at whether there should be an increase, but at what I believe to be the desirability of giving greater recognition to the contemporary reality that, for the great majority of parents, it is the arrival of the first child which has much the largest financial impact. This is of course because it is so frequently associated with the loss of one partner's income, or at least with a substantial and sometimes prolonged reduction in their earning capacity.

35. What I propose, therefore, is to extend to all families the concept [which was the original basis of One Parent Benefit] - that is to say, an additional payment for the first or eldest eligible child. It will be set initially at £1 a week, payable of course normally to the mother, in addition to the present weekly payments of £7.25 per child. Since it will go to all families, and will be larger than an RPI increase in One Parent Benefit itself would have been, I do not propose this year to increase One Parent Benefit as well.

36. The measure thus complements what we have done in recent years to steer some £350 million of real extra help to low-income families through Family Credit and Income Support. The increase will go to nearly 7 million families, at a gross cost of over £350 million.

37. Mr Speaker, this up-rating statement will result in extra expenditure of nearly £5 billion, and take the social security budget to a total of £66 billion a year. But more important than those figures is what it does in terms of people. It helps families with children, and families-to-be. It helps large numbers of less-well-off pensioners. It will ease the anxieties of families concerned with the care of elderly or disabled relatives, and of those relatives themselves. And it builds on what we are already doing to give greater help to disabled people.

38. In short, it carries forward the re-shaping of our social security system, conceived in the 1940s, to meet the needs of the 1990s.