



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Great George Street  
LONDON SW1

31 May 1979

*Dear Chief Secretary,*

At Cabinet this morning colleagues expressed considerable doubts as to whether it would be possible to get through the House proposals to extend from three days to six days the number of waiting days which a person has to serve before becoming entitled to sickness or unemployment benefit. The matter was to be considered further at Committee E tomorrow and I am therefore circulating this letter to colleagues in advance of the meeting.

I attach a note about this proposal: despite all the obvious difficulties, it remains my view that this is the best available option, if savings of this order have to be achieved this year on the social security side. If colleagues are not able to accept that we should go forward with this proposal, then I have to say that it will be extremely difficult for me to find substantial savings - of the order of £30m - in this financial year, if the possibility of increased NHS charges for prescriptions and dental work is also excluded. (I am assuming that Cabinet's decision not to make good the shortfall in the 1978 uprating for those on short-term benefits which will save £10m in 1979-80 counts towards my overall target of £40m).

I have nonetheless considered in detail what savings could be made and I list below propositions which, to my mind, are frankly less acceptable than going for six waiting days but which are the only alternatives I can offer:-

- (a) abolish death grant. This would save £5m in 1979/80 and £16m in 1980/81. One could argue that those in financial difficulties with funeral expenses could claim supplementary benefit, as indeed they do at the moment. But: this would be fiercely opposed in Parliament, where all the recent pressure has been to increase the grant.
- (b) hold down on the uprating of child dependency allowances. If the increases in the child dependency allowances are restricted so that child support for those on national insurance benefit goes up only by the amount needed to inflation proof the dependency allowances themselves and not by the amount needed to inflation proof the total support for each child (including the child benefit element), as is provided for in

E. R.

the public expenditure programme, £10m would be saved in 1979/80 and £26m in 1980/81. If, more realistically, only the child dependency allowances paid with sickness and unemployment benefit were so restricted the savings would be about £5m and £12m respectively. But: this would be a subterfuge, yielding a much less generous level of child support. Coming on top of our decision not to uprate child benefit this November, it would be very damaging to our claim to concern for the family.

- (c) align supplementary benefit and national insurance main rates. The principal scale rates for married and single persons on supplementary benefit are slightly ahead of the principal national insurance rates (£31.55 for a married couple compared with £31.20 and £19.90 for a single householder compared with £19.50). If those rates were aligned with the new pension rates there would be a saving of £12m in 1979/80 and £30m in a full year. But: this would mean that supplementary pensioners got less than price protection in November, which would be inconsistent with our undertakings.
- (d) hold the uprating of family income supplement to the minimum. It would be possible to shave £2-£3m off the FIS uprating, final details of which have yet to be arranged. But: a "mean" FIS uprating is inconsistent with colleagues' aims to encourage people to stay in work rather than fall back on social security benefits.

Nonetheless these are the only immediate savings I can offer if colleagues do not wish to go ahead with the proposal to increase waiting days from three to six. Beyond these areas one moves into impracticable propositions such as attempting yet again to withhold unemployment benefit from occupational pensioners.

I have looked again at the possibility of making savings in the HPSS programme but the only way to secure such savings while not cutting expenditure would in fact be to increase charges. I am still ready to pursue this if colleagues so wish. I have considered but rejected the possibility of charging for family planning supplies or of curtailing the present welfare milk scheme. Reductions in health authority expenditure are ruled out by our Manifesto commitment; and the most I could do would be to make some comparatively small savings in centrally financed services, which cover for example research, training and grants to voluntary bodies. I may be able to save in all up to £5m spread over a number of sub-heads, which I am urgently reviewing.

For myself I would prefer to go ahead either with the extended waiting days or with the increased charges rather than put together a package of the kind I have outlined above, which would attract criticism on a number of fronts out of all proportion to the savings achieved.

*You vs necessity*

*S.H.F.H. Jernin*

117 PATRICK JERKIN  
(Approved by the Secretary of State  
and signed in his absence)

EXTENSION OF WAITING DAYS

Proposal

1. It is proposed that the 3 days for which unemployment, sickness and injury benefit are not paid at the beginning of a spell of unemployment or incapacity should be extended to 6 days.

Savings

2.	<u>Gross</u>	<u>Full year</u> <u>Net of Supp. Ben.</u>
Sickness Benefit and Injury Benefit	£63m	£60m
Unemployment Benefit	£15m	£10m

Only very rough estimates are possible. The latest available figures relating to claims for benefit show that in 1976/7 the total number of sickness benefit claims was 10 million, while the total number of unemployment benefit claims in 1978/9 was 4½ million.

Effect on claimants

3. Beneficiaries would lose 3 days flat-rate benefit: £7.88 for a single person; £12.76 for a married couple; £14.46 for a married couple with 2 children.\* Perhaps 70% of men would be likely to have some sick pay cover for those 6 days and a rather higher proportion of women. The unemployed would receive no continuing payments from their employers but a considerable proportion receive an extra week's payment (a week in hand) when they are discharged and a number of them would have redundancy etc payments.

Historical

4. The waiting period for receipt of unemployment benefit when the scheme commenced in 1911 was 6 days. During the 1920s the period varied between 6 and 3 days; but it has been 3 days since 1937. From 1948 waiting days became payable retrospectively after there had been 12 days of sickness, unemployment or injuring during a period of interruption of

employment. In 1968 the Labour Government tried to make the 3 waiting days absolute but had to withdraw their proposals in the face of backbench pressure and Conservative opposition. In 1971, the Conservative Government made the 3 waiting days absolute in the face of very strong opposition from the Labour benches (3 mornings were spent on this subject in Committee).

#### In favour of the proposal

5. It would result in considerable savings (see para 2. above). It could be argued that since the period of 3 waiting days was last introduced the background has changed a great deal. Increasingly employers have provided sick pay for employees who are temporarily incapacitated. The Contracts of Employment and Redundancy Payments Scheme have increased considerably the provision made for a worker who becomes unemployed; and the number of workers who receive a week's wages in hand on the termination of their employment has also increased. The rates of national insurance benefit are now much higher than in 1948 and earnings and savings have also gone up considerably since then, and with them the ability of people to manage on their own resources during short interruptions of earnings.

#### Against the proposal

6. a. Many claimants would be worse off particularly those who are low-paid and those working in heavy industries such as coal mining, engineering and shipbuilding where the incidence of sick pay is not as great. Considerable opposition could therefore be expected from the Labour benches and from the TUC.

b. The fact that benefit will not be payable for the first 6 days of sickness will mean that many employers with sick pay schemes would either have to pay their employees an additional 3 days' benefit or re-negotiate the private insurance cover they have for sick pay schemes. The CBI would therefore be likely to oppose the proposals also.

c. More claimants would need to have recourse to supplementary benefit. It has been estimated that 14% of those becoming unemployed claim supplementary benefit during the first week of unemployment and 26% during the second week. A change to six absolute waiting days would mean an increase in these numbers.

d. Increasing the number of waiting days would be contrary to the ILO conventions on sickness and unemployment benefit. There could be difficulties for us in relation to the EEC, as none of the EEC countries has more than three waiting days for sickness benefit and only one (Italy) has more than three waiting days for unemployment benefit.

Administrative implications

7. The payment of unemployment benefit is mainly computerised and, because of the need to re-programme the computers, the change could not be made until January 1980. The sickness benefit rules could however be changed with effect from September 1979, assuming legislation is through before the summer recess. This would mean an awkward 4 months' period during which two benefits which have run in close parallel for 30 years had different rules and would be a complication which would be unwelcome to staff and beneficiaries alike. But it would not be operationally impossible to begin the new arrangements on different dates. On this basis the benefit saving in 1979/80 would be £40 million net.



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PRIME MINISTER

PUBLIC EXPENDITURE, SOCIAL SECURITY, etc.

(Item 4 for E Committee, 1 June)

Cabinet this morning decided that an increase in the 'waiting days' from 3 to 6, at a saving of £3 million, was politically unattractive. You had already rejected the main alternative of an increase in prescription charges (£40 million). You therefore asked Mr. Jenkin to discuss further alternatives with Mr. Prior and Mr. Biffen. But you said that if the result was still a recommendation in favour of 'waiting days', the final decision was reserved to Cabinet.

The three Ministers discussed the matter again this evening and Mr. Jenkin has since written (31 May) to set out his own proposals. I understand that three alternatives were considered:

1. Go back to prescription charges. Mr. Jenkin still prefers this, despite the RPI problem. He stresses the very large classes of exemptions, including children, pregnant women, etc. (the mothers would not be clobbered).

2. Waiting days. Mr. Jenkin's second preference. (It saves only £30 million; the remaining £10 million would come from failing to make good the uprating short-fall on short-term benefits.) Mr. Prior says this is political dynamite, and he will resist it.

3. Mr. Jenkin's third package, now set out in his letter. He says these are not 'straw men' but the best he personally can find, after crawling over the programme.

The main elements are

- abolition of death grant	£5 m
- hold back child dependency allowance	£5/10 m
- align SB and NI main rates	£12 m
- keep FIS uprating to minimum	£2/3 m
- balance from NHS	X
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	£30 m

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Primer has new  
45  
Derek Morris -

(A variant of this would involve increasing dental charges only, at a saving of £7 million.)

He and Mr. Prior believe this means four political rows instead of one, and would therefore agree that it is the worst of all options.

Mr. Biffen apparently expressed no preference, simply reminding the others of your insistence that £40 million be found from somewhere, without adding to the RPI.

This will have to be resolved, either at E tomorrow morning (when it is tentatively down as item 4) or subsequently. Although you said that Cabinet would have the last word, you may be prepared to regard E as an adequate substitute. There is no full Cabinet scheduled until 11 June - too late for the Budget.

P. MOUNTFIELD

Cabinet Office

31 May 1979



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PRIME MINISTER

Social Security Up-rating  
(C(79) 14)

BACKGROUND

This memorandum deals with two points arising from last Thursday's Cabinet:-

- (a) Should the "shortfall" in the 1978 up-rating of Social Security payments be restricted to pensions and other long-term benefits, excluding short-term payments such as sickness and unemployment benefits?
- + (b) The prospects for shortening time between announcing changes in benefits and their implementation.

HANDLING

2. The two issues here are not directly connected and you may wish to discuss them separately.

← 3. Payment of Shortfall to Recipients of Short-Term Benefits: You will want the Secretary of State for Social Services to speak to his paper and then to ask the Chancellor (or Chief Secretary) and the Secretary of State for Employment to comment. A saving of £10 million in 1979-80 and £30 million in 1980-81 would be possible if the shortfall was not made up for those on short-term benefits. Holding down the real value of these benefits might, as was argued in Cabinet last week, have some marginal effect on discouraging the "work shy". Your commitment in the House on 22nd May to make up the shortfall referred only to pensioners, as did the undertaking given by your predecessor on 28th March. In the context of the need to make a start on cutting public expenditure this year the £10 million, though small, is obviously attractive (it does not figure in the Chief Secretary's paper on public expenditure reductions (C(79) 13) because the cost of making up the shortfall whether for all or just for some recipients, will fall on the Contingency Reserve). Mr. Jenkin argues however that the savings would not be worth the controversy involved, particularly having regard to the other unpopular steps Cabinet have

attached

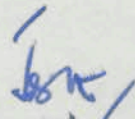
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agreed on Social Security (breaking the pensions uprating link with earnings and holding the child benefit at £4) and the separate proposal to save £40 million this year by making people wait 6 days rather than 3 days before they are entitled to unemployment or sickness benefit. The decision is essentially one of political judgment.

4. Shortening the time between announcing changes in benefits and their implementation: Again you will want the Secretary of State for Social Services to open and then have comments from the Chancellor and the Home Secretary (who raised the question in Cabinet last week). Mr. Jenkin's paper assumes that it is essential to announce the uprating in the Budget statement and that shortening the time of implementation, therefore, necessarily involves bringing forward the date of payment - which would be both very expensive and, Mr. Jenkin claims, operationally impossible. The key question therefore is whether the announcement has to be made at Budget time. If so Mr. Jenkin is right and no change can be contemplated this year. If, however, a delayed announcement is possible you will want to explore the latest operational date by which it must be made.

CONCLUSIONS

5. Subject to the discussion you will want to guide the Cabinet to agree:-
- (i) Either that the shortfall in social security benefits should be made up for long-term recipients only or for all recipients.
  - (ii) Either that the announcement of the changes in benefits, this year, has to be made in the Budget so that no shortening of the period before payment is possible or that the announcement of the uprating should be delayed as long as is operationally possible.

  
John Hunt

30th May 1979

Extract from a speech by the Prime Minister (Mr Callaghan) in the  
House of Commons - 23 March 1979.

Earnings last year rose faster than the forecast on which the Chancellor based his uprating at that time. He has taken account of this in the new increase that will operate for the next pension year from November. For a married couple, therefore, he has provided for an increase in the pension next November of about £4 a week to around £35, and for a single person of about £2.50 per week, to about £22. That is provided in the Estimates. That will be one more important step to reduce the gaps that still exist in our society—to remedy the injustices, to erase the class divisions and racial bigotry, to attack poverty and the lack of opportunity that still face many of our citizens. The difference between the Opposition and the Government is that we know that these problems will not be solved by a return to those policies of 1970 or by soup-kitchen social services. They will be overcome only if we harness the energy and the ideals of our people to build a fairer and more just society.

Hansard extract - 29 March 1979.

**Mrs. Thatcher:** As the Prime Minister mentioned his dislike of Dutch auctions in connection with what may occur during the next three or four weeks, may I make quite clear that we shall honour the pension commitments that he announced yesterday?