

*Left Hodgkins  
to Hoffman*

*C.D.  
MB.*

*Prime Minister*

*This seems a reasonable explanation. Mr Heseltine (who raised the point in Cabinet) doesn't wish to comment, and Mr Biffen (PlgA) is content. Agree conclusion at X?*

Prime Minister

IMPLEMENTATION OF SOCIAL SECURITY UPDATING

Cabinet asked me on 31 May to consider and report back on the possibility of reducing the time taken to implement social security updatings, once decisions have been announced. It has been a recurring cause of complaint for many years that "pensioners have to wait so long for their increases": it is widely believed -

- a. that if we could do the job quicker, pensioners would get their extra money sooner; and
- b. that the amount of the increase announced in the Spring is badly eroded by inflation by the time it is received in November, and that pensioners never catch up.

Both beliefs are wrong. Taking them separately -

a. GETTING THE MONEY SOONER

This belief is a relic of days when pensions were only uprated irregularly. It was then a matter for great criticism that increases which had been so long waited for should be delayed still further by administrative processes - particularly as there was no certainty about how long pensioners would have to wait for the next increase.

But we are now fixed on an annual updating cycle. Pensioners are assured by law of an annual review and of inflation-proofing as a minimum once a year. Current practice is to uprate each November. There is nothing in law to hold us to that month, but in practice it has proved convenient -

- i. it allows adequate operational time, following a Budget announcement in the Spring, during a period when other seasonal pressures on local office staff are at their heaviest;
- ii. it puts extra money into pensioners' pockets at the beginning of winter.

The administrative task for DHSS is to implement the annual updating as economically as possible, and it is strictly immaterial to pensioners, and the amount they receive, how long the Department takes over it. Even if we could uprate quicker, we still would not wish to pay the increases any sooner because of the extra cost of paying higher pensions from an earlier date.

If we wanted for some reason to shift the updating to another month this could be done without legislation, but only by making the updating earlier than November, because the law requires an updating at least once a year, and the change could not therefore be made by delaying the updating beyond November. This shortening of the gap between updatings at the time the change was made would have a significant public expenditure cost.



b. MAINTAINING THE VALUE OF THE PENSION AGAINST INFLATION

I am obliged by law to increase pensions and other benefits each year "at least to such extent as [I think] necessary to restore their value" - which means that the amount fixed for next November must be aimed at restoring its value then to at least what it was last November. In other words, the law provides for inflation-proofing over the whole twelve-month period, and there is no erosion or loss during the period between announcement and implementation - a forecast is made of inflation over that period, and it is allowed for.

This process does not of course protect pensioners against the impact of price rises as they occur between one November and the next - it compensates for them after an interval. This is a difficulty which is particularly acute this year, when large VAT increases in May will not be compensated for until November. But the only solution available would be to have more frequent upratings, and this is ruled out on grounds of cost alone.

Thus the two main grounds for complaint about the time taken to implement an uprating are misconceived; and we should try to meet criticism by explaining this, rather than by apologising for the time taken. There are in fact good reasons for the time taken, and I attach a note of explanation. The uprating process at present requires virtually the whole of the interval between a Spring Budget and November. The possibility of reducing this time has been examined many times in the past, in particular by a team led by Sir Richard Meyjes of Shell when he headed the group of businessmen that advised the 1970-74 Conservative Government on efficiency. No-one has been able to come up with a cost-effective solution: a quicker uprating can only be achieved at a higher cost in staff and other administrative expenses.

A shorter uprating period would offer two theoretical advantages:

i. we would have more flexibility to uprate more often than once a year if we wished. But expenditure constraints rule that out anyway;

ii. we should be able to reduce the period between announcement and implementation, and so shorten the period for which we had to forecast the rate of inflation. This would reduce the risk of error in the amount of the uprating. But in practice it has always been the wish of Chancellors in recent years to make the announcement at Budget time.

With our present systems a shorter uprating period involves a higher cost in staff time: but computerisation of the payment of incapacity and supplementary benefits, for which we are preparing a pilot scheme, may help us to do the job quicker and more economically in the future. That lies some years ahead, and in the meantime we shall have to operate on the present timetable. As I have explained, this does not penalise pensioners in any way, and it is the cheapest and most efficient way of doing the job.

I am copying this to Cabinet Colleagues and Sir John Hunt.

2 October 1979

PS



## TIME TAKEN TO UPRATE BENEFITS

The uprating process has to cover all social security benefits - not merely pensions - because they interact on one another. The time needed overall is therefore determined by the benefit that requires the most complicated and time-consuming work ("the slowest ship in the convoy"). This is supplementary benefit, where every case has an individual assessment which is affected by changes in other social security benefits. There is no alternative to examining and reassessing three million supplementary benefit cases individually at each uprating. This is a complicated task and has to be done by experienced staff in addition to normal work.

After reassessment, payment documents at the increased rates have to be prepared and sent to beneficiaries. Most supplementary benefit payments are made by order books lasting for 26 weeks, and each case is reviewed once every 26 weeks. The most economical way of paying uprating increases is to include them when cases come up for renewal in the normal course. They can then be "taken in stride" without any extra staff time spent on special and expensive additional payment measures. This also spreads the examination and reassessment work over a 26 week period, and keeps to a minimum the extra staff time required for the uprating.

The work of renewing an order book has to start three weeks before the old book expires, to allow for the renewal process of identifying and examining cases, preparing books, and sending them through the post to beneficiaries. Further, more than half supplementary benefit cases are pensioners, and before uprating calculations can start in local offices the individual pension rate for each case (under the new pensions scheme) has to be worked out by computer at Newcastle Central Office and sent to the appropriate local office. This takes about four weeks.

Thus the time needed to uprate supplementary benefits in the most economical way is:-

	26 weeks (examination and reassessment during payment renewal cycle)
	plus
	3 weeks (to ensure arrival of order books before first payment dates)
	plus
	4 weeks (calculation and notification of retirement pension increases)
Total	<hr/> 33 weeks <hr/>

This can just be accommodated in the interval between an early Budget announcement and a November uprating. It is possible to uprate in less than 33 weeks by applying extra staff time, but the cost of doing so rises for each week by which the period is shortened. For example to shorten the uprating period from 33 to 20 weeks would require the reassessment of supplementary benefit cases to be completed in 13 weeks instead of 26; 2100 extra staff would be needed for those 13 weeks, and there would be substantial other expenses, eg higher Post Office charges of more than £1 million. Leaving aside considerations of cost, it would be most unlikely that such an amount of extra staff time could be found for a short period in the year.







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Services

10 DOWNING STREET

From the Private Secretary

15 October 1979

Implementation of Social Security Uprating

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 2 October on the above subject, and she has also read the Chief Secretary's comments as recorded in Alistair Pirie's letter of 12 October.

In the light of the explanation set out in Mr. Jenkins' minute, the Prime Minister agrees that the present uprating timetable should continue for the time being - at least until computerisation makes it possible to operate a shorter timetable.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet and to Martin Vile (Cabinet Office).

TPL

Don Brereton, Esq.,  
Department of Health and Social Security.

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Treasury Chambers, Parliament Street, SW1P 3AG

T P Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
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12 October 1979

*Dear Tim,*

IMPLEMENTATION OF SOCIAL SECURITY UPDATING

The Chief Secretary has seen the minute of 2 October by the Secretary of State for Social Services to the Prime Minister, and agrees that the present updating timetable must remain at least for now.

However, he notes that while for the immediate present the need to update Supplementary Benefit manually dictates the broad timetable, this may not necessarily be so in the future. Clearly the application of computer based techniques should in the longer term lead to quicker and more economical implementation of updating decisions. Any additional flexibility which these developments might afford the Government in the handling of one of the main expenditure decisions would be valuable and no doubt the possibilities will be kept under review. The Chief Secretary would like to be kept in touch with developments.

I am copying this to the Private Secretaries to members of the Cabinet and to Sir John Hunt.

*Yours sincerely,*

*Alistair Pirie*

A C PIRIE

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