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PART B

PUBLIC EXPENDITURE
SURVEY 1987

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PART B

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CHIEF SECRETARY

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FROM: B T GILMORE

DATE: 17 July 1987

- cc **Chancellor**
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Hawtin
- Mr Turnbull
- Mr Fellgett
- Mr Kelly
- Mr Cropper
- Mr Tyrie

RECOVERING THE COST OF GM SCHOOLS

I submit a draft minute to the Prime Minister on the lines you indicated yesterday evening after discussion with Professor Griffiths.

2. We have told DES and DOE officials the general state of play. They are reasonably content, which I think satisfies the remit to consult their Ministers. In practice both Ministers are contributing their separate reasons for strongly preferring what used to be called a "levy".

3. I understand that E(EP) is likely to meet Tuesday and Wednesday mornings next week to consider the draft consultative paper on GM schools which the Secretary of State for Education has now circulated, this of course being one of the outstanding issues.

Handwritten signature of B T Gilmore
B T GILMORE

CONFIDENTIAL

DRAFT

FROM:

DATE:

July 1987

PRIME MINISTER

At E(EP) on 15 July I was invited to consider further with the Secretary of State for Education and Science and the Secretary of State for the Environment how best to construct an alternative to the proposed levy (paragraph 17 of Annex A of E(EP)(87)5) taking account of your summing up of our discussion on this point.

2. I should first say that the principle of financial neutrality, considered in Mr Unwin's report to you of 6 May and endorsed at your meeting on 7 May, is crucial. To depart from it could not only prove extremely expensive but would seriously undermine the whole policy.

3. Mr Unwin's report identified two basic ways to recover the cost of GM schools which preserve financial neutrality between the taxpayer and the community charge payer, and also between different local authorities. They are to reduce an authority's own grant (and the aggregate Exchequer grant) by the actual expenditure on GM schools in that authority; or for central government to recover the same sum by what amounts to precepting. The latter has the presentational problem that it might incite grievances within the locality against GM schools.

4. I have carefully considered alternative ways of dealing with the cost of GM schools so that options are financially neutral between local and national levels, and between different local authorities. The only third way I can see, beside the two ways presented in Mr Unwin's report, would be to recover the cost direct from the local ^{charge} ~~rate~~ payer, and that would be worse in cost, in administration and, not least, on the very presentational point we are considering.

6. As between the two basic approaches in paragraph 3 above there

is quite a fine balance of considerations. In particular:

- i. On the precepting option, we must certainly avoid the word "levy". It is in any case wrong: it implies that we determine the amount when the fact will be that the LEA does. My own preference would be for something ~~pretty obscure~~ like "schools equalisation payment".
- ii The underlying mechanics of the two options are not essentially different: even on the precepting option what would actually happen is that the Government would pay each local authority the net amount of grant due to it after deducting the amount which needs to be recovered.
- iii Either way, the total sum involved for each local authority will be clear, as will the cost per pupil in that area.
- iv. Kenneth Baker's minute of 16 July explains why, even if we chose to withhold the amounts concerned from grant, there might still need to be a residual power to recover the money until April 1990 from authorities which were not due to receive grant. ^{Thereafter} ~~Therefore~~ it could technically be withheld from grant or other payments (for instance NNDR or safety net money if necessary) for any area in the country.

6. At the presentational level, we can expect to be attacked by certain authorities either way. Either way it will be important to bring out that the funding of the GM schools in a community follows directly from the LEA's own decisions in funding its own schools. Between the two options, the presentational balance therefore seems close. To precept may have more the flavour of "taking" than "withholding". Against that, anything which can be presented as a "reduction in grant" has the added presentational problem of offering another excuse for the allegation that the Government is "pushing up the community charge by reducing grant"; this problem

is sharpened by the fact that grant under the new system will be paid to the authority which directly raises the community charge, which is not necessarily the education authority. Nicholas Ridley is also understandably concerned that the clear signals of his new grant system would be confused by this approach. If, however, the straightforward option of what amounts to precepting is ruled out, then I believe withholding the same amounts from the grant paid to each authority (and, if this reduces grant below zero, recovering the balance from other payments or even in the first year by billing the authority) has to be the alternative.

8. I would only add that it seems to me important to judge this matter against the fact that the financial arrangements were anyway recognised at your meeting on 7 May to be a temporary solution. We need to choose the option which will best take us through what is likely to be an unstable transitional regime.

9. I am copying this minute to the members of E(EP) and to Sir Robert Armstrong.

JOHN MAJOR

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Reference No E 0376

CHANCELLOR OF THE EXCHEQUER

Competition: DES policies and plans

E(CP)(87)3

CONCLUSIONS

You will wish the Sub-Committee to take note of the competition aspects of education policies as described in the Note circulated by the Education and Science Secretary (E(CP)87)3).

BACKGROUND

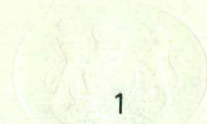
2. On 11 December last year E(CP) (E(CP)86)2nd Meeting, Item 2) invited the Secretary of State for Education and Science to prepare a paper on the competition aspects of education policies. E(CP)(87)3 is the result.

DISCUSSION

3. E(CP)(87)3 is essentially a factual account of measures taken or in prospect to foster competition. The major changes made or in prospect are being considered in other Sub-Committees (such as the Sub-Committee on Education Policy (E(EP))). It may be most useful for this Sub-Committee to concentrate on those points not being examined elsewhere. There are two of those in particular: school meals and school cleaning.

4. On both of these, similar points arise:

- Specific examples of privatisation are given, but no indication of the scale of change generally. On school meals the paper says that 'progress has so far been slow'. What proportion exactly of LEAs have undertaken initiatives in those areas, and how successful have they been?



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- The paper does not discuss at all whether the Department can do anything to encourage progress in these areas. On school cleaning there is an unimpressive reference to 'monitoring development'. Can they not give guidance or exert pressure? Can they do anything to establish a 'best practice' and see that it is disseminated?

- The paper mentions briefly that the scope for competition will be greatly increased by the proposed Local Government Bill, but there is no explanation of the provisions of this Bill, or how they might be used. Have the Department any ideas for making use of the opportunity this Bill will provide?

5. If it looks in response to these questions as if DES could do more than they now have in mind in these two areas, you could suggest a further report limited to them.

6. The only point you might note on education policy more generally arises from the discussion in items 7 and 8 of school examinations and vocational qualifications. The paper says that competition in these areas is undesirable and that action has been taken to reduce it. This reads oddly in an E(CP) paper and you may wish to probe it. But on the substance Mr Baker may be right

HANDLING

7. You will wish to invite the Secretary of State for Education and Science to present his paper. The Secretary of State for Trade and Industry may wish to comment on the implications for industry. The Secretary of State for the Environment may wish to comment on local authority aspects. Other Ministers - including the Economic Secretary, Treasury - may have views.

G W MONGER

Cabinet Office
17 July 1987

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HMT
BRIEF

E(CP)(87)3

COMPETITION: DES POLICIES AND PLANS

Note by the Secretary of State for Education and Science

Introduction

1. The DES paper outlines the current state of play on a range of initiatives within education policy. It invites the sub-committee to do no more than take note. The paper is complacent and rather lazy. It relies on anecdote, rather than any hard estimates of actual progress with many of those initiatives (eg school meals and cleaning). On the other hand - leaving aside the major education reform package, which is being taken forward in E(EP), and competitive tendering for LA services, on which DOE is firmly in the lead - there are few other areas of DES responsibility directly relevant to competition policy. The education contribution is much more towards competitiveness in a wider sense.

Treasury objective

2. There is no key issue at stake for the Treasury at this meeting. We recommend that you should agree to note the paper.

Points to make

3. We understand that only a very brief discussion is envisaged. There is no need for you to intervene.

4. Points you might wish to make if the issues are specifically raised are that:

- it is not obvious that the policies on access to higher education (item 9) announced in the recent White Paper will lead to increased competition. That policy is to provide higher education places for those who meet the requirements. An increase in those numbers, and a corresponding increase in places, will not of itself have increased competition; and

- achievement of rationalisation of provision in higher education will depend on a firm line by the Universities and Polytechnics and Colleges Funding Councils.

5. We understand that DTI Ministers will request an oral report on progress on the review of student support. The Treasury is represented at official level on that review. The next stage will be issue of a consultation paper early in the New Year. You need not intervene.

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FROM: B T GILMORE
DATE: 17 July 1987

CHIEF SECRETARY

cc Chancellor
Paymaster General
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Kelly
Mr Cropper
Mr Tyrie

✓

HMI EXPENDITURE REPORT

In his letter of 16 July to the Lord President, the Secretary of State for Education and Science accepts the substance of your comments on his proposed statement about this year's report by HM Inspectorate.

2. He also proposes to announce that he has "asked the Senior Chief Inspector to consider whether an annual report can be produced for publication which will distill the lessons to be gleaned from HM Inspectors' observations of teaching and learning in schools and colleges in a particular year. The report should aim to offer local education authorities, teachers and parents an independent view of the nature, quality and effectiveness of the education provided in schools and colleges."

2. So far as it goes, this is a welcome response to concern about the bitty and subjective nature of these reports to date. But, so far, it is only words, produced in a hurry, for comment in an even greater hurry. I recommend that you should comment as in the attached draft, welcoming the proposal but keeping tabs on the follow-up.



B T GILMORE

CONFIDENTIAL

**DRAFT OF A LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE
FOR EDUCATION AND SCIENCE**

HMI EXPENDITURE REPORT

I am content with the drafts attached to your letter of 16 July to Willie Whitelaw, both on the present report and on your decision (which I welcome) to ask the Senior Chief Inspector to consider whether an annual report can be produced for publication which would aim to offer local education authorities, teachers and parents an independent view of the nature, quality and effectiveness of the education provided in schools and colleges.

2. I look forward to learning what the Senior Chief Inspector thinks can be done to make an annual report more useful in this sort of way. The Chancellor commented, in the context of your consultation paper about financial delegation, on the importance of pressing ahead with the work you have in hand on performance measurement in schools. That work will also be important to enable HM Inspectorate to deal clearly and consistently with results and effectiveness.

3. I am copying this letter to the Prime Minister and other members of the Cabinet, and to Sir Robert Armstrong.



9/see also papers below
Alex
Just minute to PS/ST CR 17/7
Sub's phone

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Re
1 note Nick H R
to me
Plan

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

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Your ref:

17 July 1987

1 note Nick H R
to me
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Dear Lord President,

EXPENDITURE LEVEL OF THE ILEA IN 1988/89

Kenneth Baker has proposed in his letter to you of 10 July that the ILEA's expenditure level (EL) for the purposes of precept limitation in 1988/89 should be determined at £960 million.

Colleagues will be very much aware of the problem of ILEA's massive overspending - not least in the context of introducing the community charge, where it is proving a major obstacle to a satisfactory outcome in the inner London area. This must make it a high priority for us to keep ILEA's precept under stringent control in the run-up and transition to the new system.

I appreciate that the figure which Kenneth is proposing for 1988/89 is consistent with the treatment that I am using for rate-limited education authorities, and that it represents a substantial reduction on ILEA's likely level of actual spending this year. Nevertheless, the importance of increasing the pressure on ILEA and the fact that it is so exceptional in the extent of its overspending - 80% over GRE, compared with 24% for the next highest education authority - brings me strongly to the conclusion that its EL for 1988/89 should be set substantially lower than £960m.

The level of spending that we effectively allowed for ILEA in 1987/88, by virtue of the Local Government Finance Act earlier this year, was £943m. I consider that the maximum ILEA should be allowed in 1988/89 is a freeze on that amount. However bearing in mind that the starting point for 1987/88 was an EL of £915m there is a strong case - for the reasons I have given above - for squeezing the EL for 1988/89 back down towards that figure.

Since ILEA will have the opportunity to apply for a redetermination of the EL later this year, there is clearly every advantage now in starting with a very tough base figure. I hope also that Kenneth will, as I intend, keep his options open so far as imposing conditions on any redetermination are concerned.

I am copying this letter to members of E(LA) and E(LF), and to Sir Robert Armstrong.

Yours sincerely,

Nicholas Ridley

NICHOLAS RIDLEY
(Approved in draft by the Secretary of State and signed in his absence.)

SS/ENV
To
W. Res
17/7



CONFIDENTIAL

FROM: R FELLGETT

DATE: 17 July 1987

- 1. MR POTTER ^{BHP 17/7}
- 2. CHIEF SECRETARY

- cc
- Chancellor
 - Sir P Middleton
 - Mr F E R Butler
 - Mr Anson
 - Mr Gilmore
 - Mr Hawtin
 - Miss Peirson
 - Mr Turnbull
 - Mr Potter
 - Mr A M White
 - Mr Tyrie

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RATE SUPPORT GRANT SETTLEMENT 1988-89: WALES

This submission recommends an RSG settlement for Wales, as part of a strategy for settling Wales and Scotland.

Background

2. Our approaches to the settlements in Scotland and Wales need to be broadly similar: it would be very difficult to argue for different approaches in the two countries that were both advantageous to the Treasury; and they should, broadly, be based on the settlement agreed for England in E(LA).

3. The two main options are; either to settle provision for both Scotland and Wales by analogy with England as an uplift on local authorities' own budgets for 1987-88, or to add to the baseline provision in the White Paper for 1988-89 the amount determined by the rules normally used to adjust the Scottish and Welsh block budgets in the Survey.

Proposed Line

4. Taking Scotland and Wales together, the approach based on LAs own budgets yields higher and more realistic provision. It should also involve a smaller claim on the Reserve by giving

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the territories less provision than the settlement would require. (The block budget rules which they normally defend would force the territorial Secretaries of State to transfer provision from their central government programmes to close the gap, although in the past Treasury has argued that the block rules should not apply to LA provision)

5. This would particularly squeeze Scottish central government programmes by, perhaps, £50 million, depending on exactly how Scottish local authority provision is calculated. A reduction in Scottish central government programmes will yield more certain savings in public expenditure than any influence lower provision might have on Scottish local authorities; and our approach here is consistent with ST's recommended strategy for the Survey.

Wales

6. Welsh Office officials expect Mr Walker to want provision in line with that available for non rate-capped authorities in England. (They say he has already mentioned this to you.) He would find it hard to defend a settlement that gave less to Welsh shires than to their English equivalents. By coincidence, the calculation on this analogy produces, to within £1 million, the same figure as the block rules - £1642 million for provision.

7. If AEG for Wales is then calculated using a grant percentage of 66.6% applied to all Welsh relevant expenditure (including forecasts of financing items we have agreed with officials), the quantum would be £1256 million. This maintains the grant percentage which applied in Wales in the 1987-88 settlement after incorporating teachers' pay, and is therefore analogous to 46.2% for England.

8. If Welsh local authorities, which this year increased their spending by about the same percentage as English ones, increased spending in 1988-89 by 8%, Welsh rate rises will be 8%-9%.

9. A settlement on these lines has been discussed with Welsh Office officials. They are recommending it in parallel to Mr Walker.

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Scotland

10. For Scotland, we are already in touch with Scottish Office officials. The negotiations will obviously be more difficult and you may need to meet Mr Rifkind to discuss the settlement during next week. But if the settlement in England and Wales is broadly adhered to we will be able, as noted, ^{to} squeeze Scottish central government programmes.

Conclusion

11. I recommend that you agree to the following settlement for Wales:

(i) provision for local authority relevant public expenditure of £1642 million, an increase of £51 million above the White Paper baseline and £113 million above the settlement for 1987-88;

(ii) AEG of £1256 million, an increase of £82 million above 1987-88.

12. When we have heard that Mr Walker has agreed, you could write to confirm the agreement. A draft letter is attached. At this stage, there is no need to copy the letter widely, to avoid prejudicing the Scottish negotiations.

13. ST agree.

Robin Fellgett

R FELLGETT

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DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

TO: SECRETARY OF STATE FOR WALES

RATE SUPPORT GRANT SETTLEMENT 1988-89: WALES

I am writing to confirm our agreement to the following RSG settlement for Wales:

(i) provision for local authority relevant public expenditure of £1,642 million;

(ii) Aggregate Exchequer Grant of £1,256 million.

2. This package allows for an increase in Welsh local authority relevant public expenditure, compared to their budgets for 1987-88, of 4% plus allowances for the pay of teachers, policemen and firemen. This is similar to the increase available, within the total provision agreed in E(LA), for authorities in England who are not rate capped.

3. The figures are consistent with a grant percentage of 66.6%, as in the 1987-88 settlements after incorporating teachers' pay.

[J.M]

New Court
St Swithin's Lane
London EC4P 4DU

Telephone 01-280 5000
Direct Line 01-280
Telex 888031

17th July, 1987

Dear Nigel.

Thank you for your letter of 16th July. Great progress has been made and we are very grateful for all the help which has been put to work in this area.

We will certainly work as much as we can to make it a real success and we will watch the developments very closely.

Evelyn de Rothschild

Evelyn de Rothschild

The Rt. Hon. Nigel Lawson, MP,
Treasury Chambers,
Parliament Street,
London.
SW1P 3AG

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| CH/EXCHEQUER | |
| REC. | 21 JUL 1987 |
| APPROV | Mrs Komdex |
| COPIES TO | Mr Hett |
| | Mr Neilson |
| | Mr Board |
| | Mr Jones |

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FROM: JOHN GIEVE
DATE: 17 July 1987

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Sedgwick
Mr Luce
Mr Mowl
Miss Walker
Mr Tyrie

SURVEY PROSPECT

You asked why our latest forecast outcome showed such a large real increase in 1989-90.

2. The key figures are as follows.

| | Percentage increases in cash year on year | | |
|------------------------|---|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| Total of Programmes | 6.0 | 4.6 | 3.6 |
| Planning Totals | 6.2 | 6.5 | 5.3 |
| GGE (ex privatisation) | 5.8 | 5.6 | 4.5 |
| GDP deflator: FSBR | 4.0 | 3.5 | 3.0 |
| MTFS Variant (b)* | 4.5 | 3.5 | 3.0 |

* see my minute of 10 July

3. i. The forecast outcome of this Survey's negotiations on programmes does produce a declining rate of increase year on year; this would be sharper in 1989-90 but for the large increase in that year in our projected contribution to the EC (which rises from £500m in 1988-89 to £1500m in 1989-90 before falling back to £1200m in 1990-91).

ii. That decline is not reflected in the forecast path for the **Planning Totals** because of the pattern for the Reserves that we have included (£4 billion, £7 billion, and £10 billion). One important reason for providing such Reserves in the later years is the forecast overruns on local authority relevant and on social security; the former in particular reflects in good part an expectation that local authority pay and costs generally will not decline in line with the MTFS projections for inflation. To that extent you are right that the large real increase in 1989-90 reflects an assumption that inflation will not fall in line with the MTFS projections in that year.

iii. The projections for debt interest and other accounting adjustments that separate the Planning Total from **GGE** are expected to grow less fast than the Planning Total in 1988-89 and 1989-90 and to grow scarcely at all in 1990-91. As a result the growth rates for GGE are lower than for the Planning Total.

John Gieve

JOHN GIEVE



BF
17/7

FROM: A C S ALLAN

DATE: 13 July 1987

MR GIEVE

cc PS/Chief Secretary
 Sir P Middleton
 Sir T Burns
 Mr F E R Butler
 Mr Anson
 Mr Monck
 Mr Turnbull
 Mr Sedgwick
 Mr Luce
 Mr Mowl
 Miss Walker
 Mr Tyrie

SURVEY PROSPECT

The Chancellor has seen your minute of 10 July to the Chief Secretary, and Mr Butler's covering note.

2. He noted that your assessment of the increases in programmes that you may be able to negotiate is £5.5 billion in 1988-89 and £7.4 billion in 1989-90. This is virtually the same as the size of the existing reserves, and so implies that we might be able to set the Star Chamber the same remit as last year. He feels this is potentially a useful device and should be borne firmly in mind - though the numbers may of course change.

3. He wondered why, on your latest figures, there is such a large real terms rise in the planning total in 1989-90. Is this because of the mix of inflation assumptions chosen for the individual programmes and for the GDP deflator question or is there some other reason?

ACSA

A C S ALLAN

FROM: F. E. R. BUTLER
10th July, 1987.

CHIEF SECRETARY

c.c. Chancellor
Sir P. Middleton
Sir T. Burns
Mr. Anson
Mr. Monck
Mr. Turnbull
Mr. Sedgwick
Mr. Luce
Mr. Gieve
Mr. Mowl
Miss Walker
Mr. Tyrie

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SURVEY PROSPECT

The assessment of the outcome of the Survey negotiations with departments in Mr. Gieve's attached minute updates the assessment we gave you on 12th June before the bids had been received. It suggests that the additions to programmes we have to concede may be slightly lower than in that earlier assessment.

2. As you know, we expect that actual expenditure will be much higher in the event than the totals we negotiate. So Mr. Gieve's minute also contains a first assessment of what reserves we will need and will be able to afford.

3. The size of the reserves does not need to be decided yet. Following this morning's meeting with the Chancellor, the policy is clear - we negotiate the lowest totals we can and decide nearer the Autumn Statement how large reserves we can provide within the GGE/GDP proportions in the last White Paper.

4. So this submission is for information rather than decision: so far as it goes, it is a little more encouraging than our last assessment.

F. E. R. B.

F. E. R. BUTLER

FROM: JOHN GIEVE
DATE: 10 July 1987

1. MR F E R BUTLER
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Turnbull
Mr Sedgewick
Mr Luce
Mr Mowl
Miss Walker
Mr Tyrie

SURVEY PROSPECT

We have now completed our initial assessment of departmental bids in consultation with Expenditure Groups. I attach at Annex A a table setting out both the bids and our assessment of the likely outcome of the Survey negotiations. Also attached are short notes on each main programme summarising the bids, some options for reductions that expenditure divisions have identified, and a brief explanation of the basis for their forecasts of the outcome.

Additions to Programmes

2. In summary the assessment of the increases in programmes that we can negotiate is as follows:

| | £ billion | | |
|--|------------|------------|------------|
| | 1988-89 | 1989-90 | 1990-91 |
| Expected increase for l.a. relevant | 1.4 | 1.7 | 1.9 |
| Expected increase for nat industries | 0.7 | 0.8 | 0.4 |
| Expected increase for departmental programmes | 3.4 | 4.9 | 7.1 |
| TOTAL | 5.5 | 7.4 | 9.4 |

This forecast is slightly lower overall for both 1988-89 and 1989-90 than our earlier assessment (+ £6 billion and + £8 billion respectively). Annex B compares the two and shows that the main differences are for social security, health, and local authority capital for which we are now expecting slightly lower Survey outcomes than we were. Within the 'other' category there are a number of changes with the expected outcomes for overseas aid, education and industry substantially higher but employment, Home Office, and agriculture lower.

3. There are still, of course, a number of uncertainties. First the negotiations have yet to start. The assessment assumes we will achieve a few of the options circulated with Mr Butler's minute of 30 June (especially on employment and social security) but it does not assume delivery of the radical options on, for example, the Scottish block, defence, electricity charges, or regional policy.

4. Secondly, we expect several of the bids to alter significantly before September. In particular the nationalised industries will be submitting revised bids at the end of the month, we expect a substantial extra bid on prisons from the Home Office, and we will face revised forecasts of social security. Divisions have tried to anticipate these bids in making their forecasts but some further revisions will be inevitable.

5. Finally the position for local authorities is unclear. We have included in the forecast the highest figure for provision for relevant expenditure that is being discussed in E(LA). In the event departments may settle for a lower increase, but if they do we will need to make a correspondingly higher provision in the Reserve. The picture on local authority capital is also uncertain. Departments' bids and our forecast of outcome assumes that baseline provision in 1988-89 will be consistent with £2½ billion of allocations. Current indications are that this figure may have to be reduced substantially and, as a result, we could face additions of £250m-£300m to the level of the bids.

The size of the Reserves

6. The totals above are for programmes. In order to forecast the increases in planning totals, we need to decide on the size of the Reserves. [The Planning Total also includes privatisation proceeds which could well be higher in some years than in the White Paper plans. I do not pursue this further here because you wish, if possible, to focus attention on the path of GGE excluding privatisation proceeds.]

7. In three areas we are confident that the Survey outcome will be greatly exceeded by actual expenditure. The differences between the forecast outcome of the Survey negotiations and our latest forecast of outturn in these areas are as follows.

| | £ billion | | |
|--|------------|------------|-------------|
| | 1988-89 | 1989-90 | 1990-91 |
| Local authority relevant | 1.6 | 3.3 | 5.6 |
| Social security | 1.3 | 2.8 | 4.3 |
| EC contributions (a move to 1.6 per cent VAT ceiling) | 0.2 | 0.1 | 0.1 |
| TOTAL | 3.1 | 6.2 | 10.0 |

8. In addition we must expect substantial additions, for example, for review bodies' awards (£400m this year), the unwinding of MOD's 'cushion' of end year flexibility (expected to be £300m to £400m in 1988-89), running costs in the later years, and genuine contingencies and new policy developments. More generally the June forecast is that public expenditure will be higher than the total of programmes above by

| | £ billion | |
|--|-----------|---------|
| | 1988-89 | 1989-90 |
| | 5.3 | 10.8 |

9. For 1988-89 we think it would be imprudent to set a Reserve of less than £4 billion and there may well be a case for setting

it higher still for example if E(LA) sets a lower provision for local authority current than the forecast attached.

10. For the later years we agreed that our approach should be to set higher Reserves than in the past; that these should be a little lower than our central forecast of what will be needed in practice but should be within the range of possible outcomes subject to the requirement that the Autumn Statement must show GGE continuing to decline in proportion to GDP as set out in the White Paper.

11. Work on the June forecast suggests that Reserves of the order of £5 billion in 1988-89, £10 billion in 1989-90, and, perhaps £15 billion in 1990-91 would be needed to produce realistic planning totals. Experience since 1982 also shows that Reserves would need to be in the ratios 1:2:3 to produce tenable planning totals in the later years.

12. To illustrate the implications of different figures the table below sets out the real growth paths and ratios for GGE excluding privatisation proceeds that would result from Groups' assessments coupled with two alternative paths for the Reserve and two alternative projections of inflation and money GDP. The first, (a), takes the June forecast of money GDP and the GDP deflator in 1987-88 (ie 1½% higher money GDP and ½% ^{higher} deflator than in the FSBR) and for later years adopts the growth rates set out in the FSBR. The second, (b), builds in ½% higher rate of growth of money GDP and inflation in 1988-89 as well as the latest forecasts for 1987-88 (ie it allows for inflation of 5% in 1987-88 and 4.5% in 1988-89 before falling back to the FSBR path of 3.5% in 1989-90 and 3% in 1990-91). In last year's Autumn Statement we adopted the equivalent of (b).

1986-87 1987-88 1988-89 1989-90 1990-91

Reserves of £4bill.,
£8 bill., £12 bill

| | | | | | | |
|---------------------|----------------|----|-----|-----|-----|-----|
| <u>Projection a</u> | % real growth | - | 0.8 | 1.6 | 2.6 | 1.9 |
| | % of money GDP | 44 | 43 | 42½ | 42½ | 42¾ |
| <u>Projection b</u> | % real growth | - | 0.8 | 1.2 | 2.6 | 1.9 |
| | % of money GDP | 44 | 43 | 42½ | 42½ | 42¾ |

Reserves of £4 bill.,
£7 bill., £10bill

| | | | | | | |
|---------------------|--|----|-----|-----|-----|-----|
| <u>Projection a</u> | | - | 0.8 | 1.6 | 2.1 | 1.4 |
| | | 44 | 43 | 42½ | 42½ | 42 |
| <u>Projection b</u> | | - | 0.8 | 1.2 | 2.1 | 1.4 |
| | | 44 | 43 | 42½ | 42¾ | 41¾ |

White Paper plans

| | | | | | | |
|----------------|--|-----|-----|------|-----|---|
| % real growth | | - | 1.8 | -0.2 | 1.4 | - |
| % of money GDP | | 44½ | 44 | 42¾ | 42¾ | - |

Summary

13. Decisions on the size of the Reserves and the Planning Totals will need to be taken in the light of the Survey negotiations and the autumn forecast. However this preliminary analysis suggests the following.

- a. For 1988-89 we should set a Reserve no lower than £4 billion. On the basis of our current forecast of the outcome on programmes this would produce an increase of about £4 billion in the Planning Total;

(implies same result to Steu Chamber
as last year. X

b. For the later years we will not be able to set sufficiently high Reserves to cover the expenditure suggested by the work on the June forecast;

c. including Reserves of £8 billion in 1988-89 and £12 billion in 1990-91 would produce planning totals to which we might be able to hold in practice (especially if inflation is lower than is now forecast); however it would probably involve publishing only a minimal decline in a ratio of GGE to GDP in the Autumn Statement and rather high real growth rates;

d. including Reserves of £7 billion and £10 billion would increase the probability that the planning totals would have to be raised again in the next Survey; but would produce more palatable paths in the Autumn Statement for both real growth and ratios (which would be below those in the White Paper in 1988-89 and 1989-90 with a further decline in the final year). The figures might be on the following lines.

GGE excluding privatisation proceeds

| | 1987-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 |
|--------------------|---------|---------|---------|---------|---------|
| Real growth rate % | - | 0.8 | 1.2 | 2.1 | 1.4 |
| GDP % | 44 | 43 | 42½ | 42¼ | 41¾ |

JA. Gieve

JOHN GIEVE

ANNEX B

COMPARISON OF THIS AND MAY ASSESSMENT

| | 1988-89 | | 1989-90 | | £ billion |
|-----------------|---------|-----|---------|-----|-----------|
| | This | May | This | May | |
| Social security | 1.0 | 1.2 | 1.4 | 1.5 | |
| LA relevant | 1.4 | 1.5 | 1.7 | 1.5 | |
| Health (UK) | 0.7 | 0.8 | 1.0 | 1.2 | |
| Defence | 0.2 | 0.2 | 0.4 | 0.4 | |
| LA capital (GB) | 0.2 | 0.3 | 0.2 | 0.4 | |
| EC | 0.1 | 0.1 | 0.5 | 0.4 | |
| Nat Industries | 0.7 | 0.6 | 0.8 | 0.8 | |
| Other | 1.2 | 1.3 | 1.4 | 1.7 | |
| TOTAL | 5.5 | 6.0 | 7.4 | 7.9 | |

SECRET
SUMMARY SCORECARD

Date of last update: 10/07/87

16.15
(£million)

| | 1988-89 | 1988-89 | 1988-89 | 1989-90 | 1989-90 | 1989-90 | 1990-91 | 1990-91 | 1990-91 |
|---|----------|------------------|---------------------|-----------|------------------|---------------------|-----------|------------------|---------------------|
| | BASELINE | DEPT POSITION | FORECAST OUTCOME | BASELINE | DEPT POSITION | FORECAST OUTCOME | BASELINE | DEPT POSITION | FORECAST OUTCOME |
| Ministry of Defence | 18,980.0 | 551.0 | 221.0 | 19,464.0 | 815.0 | 435.0 | 19,892.0 | 954.0 | 514.0 |
| FCO - Overseas Development Administration | 1,399.0 | 83.0 | 32.5 | 1,441.0 | 158.1 | 64.3 | 1,477.0 | 238.6 | 88.8 |
| FCO - Diplomatic, Information, Culture | 730.0 | -2.1 | -9.2 | 747.0 | 4.6 | -6.9 | 765.0 | 6.1 | -6.3 |
| European Communities | 440.0 | 50.0 | 50.0 | 1,060.0 | 450.0 | 450.0 | 1,087.0 | 130.0 | 130.0 |
| Intervention Board for Agricultural Produce | 1,782.0 | -131.5 | -100.0 | 1,878.0 | -94.0 | -100.0 | 1,925.0 | 18.8 | 0.0 |
| Ministry of Agriculture, Fisheries and Food | 747.0 | 36.7 | 30.0 | 749.0 | 49.5 | 30.0 | 768.0 | 42.7 | 15.0 |
| Forestry Commission | 54.0 | 6.9 | 5.0 | 55.0 | 11.4 | 10.0 | 56.0 | 10.9 | 10.0 |
| Department of Trade and Industry | 973.0 | 253.8 | 201.8 | 971.0 | 326.8 | 254.6 | 1,007.0 | 266.3 | 171.2 |
| Export Credits Guarantee Department | 111.0 | -8.6 | -8.6 | 47.0 | 76.7 | 76.7 | 48.0 | 69.9 | 69.9 |
| Department of Energy | 286.0 | 27.0 | 6.8 | 282.0 | 34.6 | 8.8 | 289.0 | 36.5 | 8.1 |
| Department of Employment | 4,117.0 | 207.4 | 149.3 | 4,216.0 | 237.4 | 151.9 | 4,322.0 | 235.2 | 103.0 |
| Department of Transport | 2,166.0 | 95.7 | 40.0 | 2,214.0 | 115.5 | 40.0 | 2,264.0 | 99.0 | 39.8 |
| DOE - Housing | 2,443.0 | 395.0 | 311.0 | 2,503.0 | 562.0 | 347.0 | 2,566.0 | 689.0 | 394.0 |
| DOE - Other Environmental Services | 904.0 | 134.0 | 35.0 | 913.0 | 148.0 | 30.0 | 936.0 | 144.0 | 27.0 |
| DOE - Property Services Agency | -99.0 | 45.4 | 20.0 | -101.0 | 42.0 | 0.0 | -104.0 | 48.6 | 0.0 |
| Home Office | 1,237.0 | 80.6 | 80.0 | 1,294.0 | 67.3 | 80.0 | 1,326.0 | 111.2 | 110.0 |
| Lord Chancellor's Department | 726.0 | 36.4 | 26.8 | 781.0 | 38.9 | 31.4 | 801.0 | 82.8 | 70.6 |
| Department of Education and Science | 3,851.0 | 557.8 | 241.0 | 3,966.0 | 687.9 | 317.7 | 4,065.0 | 782.9 | 342.3 |
| Office of Arts and Libraries | 367.0 | 49.9 | 19.3 | 377.0 | 62.9 | 29.3 | 386.0 | 68.6 | 36.5 |
| DHSS - Health and Personal Social Services | 16,932.0 | 956.0 | 610.0 | 17,743.0 | 1,384.0 | 827.0 | 18,187.0 | 2,196.0 | 1,353.0 |
| DHSS - Social Security | 47,258.0 | 1,201.5 | 1,026.0 | 49,123.0 | 1,545.1 | 1,352.5 | 50,351.0 | 2,997.0 | 2,847.5 |
| Scotland: negotiable | 4,687.0 | 16.3 | -17.5 | 4,863.0 | 26.8 | -9.0 | 4,984.0 | 29.2 | -18.3 |
| Scotland: formula | | 221.8 | 131.0 | | 304.0 | 161.9 | | 425.4 | 235.9 |
| Wales: negotiable | 1,933.0 | 47.6 | 30.7 | 1,995.0 | 40.7 | 25.2 | 2,045.0 | 42.7 | 27.2 |
| Wales: formula | | 108.0 | 63.6 | | 149.7 | 79.9 | | 206.9 | 114.4 |
| Northern Ireland: negotiable | 5,048.0 | 18.5 | 18.5 | 5,217.0 | 32.3 | 32.3 | 5,348.0 | 60.5 | 60.5 |
| Northern Ireland: formula | | 119.9 | 88.3 | | 157.1 | 108.0 | | 195.4 | 131.0 |
| Chancellor's Departments | 2,304.0 | 182.1 | 136.4 | 2,411.0 | 242.0 | 169.5 | 2,472.0 | 293.1 | 218.1 |
| Other Departments | 1,938.0 | -18.2 | -24.4 | 2,025.0 | 16.4 | 2.0 | 2,076.0 | 62.7 | 46.5 |
| Nationalised Industries | 348.0 | 927.3 | 730.0 | -56.0 | 1,211.7 | 750.0 | -56.0 | 1,237.7 | 400.0 |
| IFR memo items | 175.0 | 11.0 | 0.0 | 137.0 | 0.0 | 0.0 | 140.0 | 0.0 | 0.0 |
| Local Authority Relevant | 32,206.0 | 1,370.0 | 1,370.0 | 33,054.0 | 1,690.0 | 1,690.0 | 33,880.0 | 1,910.0 | 1,910.0 |
| Privatisation Proceeds | -5,000.0 | | | -5,000.0 | | | -5,000.0 | | |
| GRAND TOTAL | | 7,630.2 | 5,514.3 | | 10,594.4 | 7,439.2 | | 13,691.7 | 9,449.7 |
| Total Central Government | 11,359.0 | 4,452.7 | 3,078.7 | 115,773.0 | 6,737.5 | 4,674.5 | 118,615.0 | 9,529.5 | 6,843.5 |
| Total Local Authority Capital | 4,021.0 | 720.0 | 238.0 | 4,127.0 | 684.0 | 167.0 | 4,230.0 | 686.0 | 106.0 |
| Total Local Authority Other | 4,931.0 | 12.2 | 5.7 | 5,176.0 | 26.3 | 11.4 | 5,305.0 | 31.3 | 12.5 |
| Total Other Public Corporations | 870.0 | 133.4 | 91.6 | 962.0 | 244.9 | 146.6 | 986.0 | 296.4 | 177.9 |
| Total Science and Technology | | 371.4 | 217.8 | | 491.3 | 279.3 | | 483.7 | 222.7 |

ASSESSMENT OF SURVEY OUTCOME

MINISTRY OF DEFENCE

| | 1988-89 | 1989-90 | £m 1990-91 |
|--|---------|---------|---------------|
| 1. <u>Baseline</u> | 18,980 | 19,464 | 19,892 |
| 2. <u>Bids</u> | | | |
| (i) Lynx helicopters - agreed | 21 | 35 | 14 |
| (ii) Basic bid | 300 | 450 | 600 |
| (iii) Inflation adjustment (illustrative figures) | 230 | 330 | 340 |
| TOTAL | 551 | 815 | 954 |
| 3. <u>Reduced requirements</u> | 0 | 0 | 0 |
| 4. <u>Proposed net increase</u> | 551 | 815 | 954 |
| 5. <u>Probable outcome</u> | 221 | 435 | 514 |

Outcome assumes no concession on bid (iii) but partial acceptance of (ii). Probable 'unwinding' of end year flexibility in 1988-89 (£300m-£400m) will ease pressure in that year. Even so the increases are considerably below the MOD's costing of its current programme especially in the later years.

ASSESSMENT OF SURVEY OUTCOME

Foreign and Commonwealth Office (Diplomatic Wing)

| | £ million | | |
|--|-----------------------|-----------------------|-----------------------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 728.9 | 745.9 | 764.5 |
| 2. <u>Bids</u> | | | |
| (i) Refurbishment of Old Public Offices and running costs consequences | 4.7(cap) 1.2(curr) | 5.1(cap) 3.3(curr) | 4.0(cap) 3.7(curr) |
| (ii) BBC External Services Triennial review of funding (current only) | 4.5 | 8.5 | 12.5 |
| (iii) Follow up to the Prime Minister's visit to the Soviet Union | 0.6 | 0.9 | 0.9 |
| (iv) other minor bids | 1.4 | 1.3 | 0.8 |
| TOTAL | 12.4 | 19.1 | 21.9 |
| 3. <u>Reduced requirement</u> | | | |
| (i) overseas price movement | - 14.5 | - 14.5 | - 14.5 |
| (ii) asset recycling adjustment | - | - | - 1.3 |
| 4. <u>Proposed net increase</u> | - 2.1 | + 4.6 | + 6.1 |
| 5. <u>Treasury options</u> | | | |
| (i) reduce complement to s.i.p. - overseas and UK posts | - 6.9 | - 6.9 | - 6.9 |
| (ii) reduce BBC External Services capital programme due to interregnum | - 6.7 | - 8.7 | - 7.6 |
| 6. <u>Probable outcome</u> | | | |
| (a) excluding opm | + 5.3 | + 7.6 | + 9.5 |
| (b) including opm and its value remains unchanged | - 9.2 | - 6.9 | - 6.3 |

Concession of bid (iv) and part of (i), (ii) and resisting (iii), offset by part of options (i) and (ii). For (a) this would lead to a real decline of 1% by 1990-91 and for (b) a decline in real terms of 0.7% per annum from 1987-88 to 1990-91.

ASSESSMENT OF SURVEY OUTCOME

FOREIGN AND COMMONWEALTH OFFICE (OVERSEAS AID ADMINISTRATION)

£ million

| | 1988/89 | 1989/90 | 1990/91 |
|---|-----------|--------------|--------------|
| 1. <u>Baseline</u> | 1275 | 1315 | 1350 |
| 2. <u>Bids</u> | | | |
| i. Aid Programme. | | | |
| Increase to restore previous cuts, increase aid as % of GNP to .33% by 1990, and pay for cost of Chancellor's Sub Saharan Initiative, World Bank GCI increase, and additional cost of ATP soft loan facility. | 75 | 150 | 230 |
| ii. Superannuation Vote. | | | |
| To grant war service credit to members of the Colonial Service. | 6 | 6 | 6 |
| iii. Aid Administration Vote. | 1.8 | 2.1 | 2.6 |
| To ensure minimum standards of efficiency, via increased expenditure in such areas as IT, training and improvements in quality of aid management. Also increased admin cost of expanded aid programme. | | | |
| Staff required for war service credit. | 0.2 | | |
| TOTAL | 83 | 158.1 | 238.6 |
| 3. Reductions Proposed by ODA | | | |
| None | 0 | 0 | 0 |
| 4. Proposed Net Increase | 83 | 158.1 | 238.6 |
| 5. <u>Treasury options</u> | | | |
| (a) aid programme: | | | |
| i. Allow increase sufficient to keep aid programme constant in real terms, or pay for illustrative cost of Sub Saharan debt initiative, whichever is the greater, in each year. | 15 | 30 | 40 |

| | | | |
|--|------|-----|-----|
| (b) Allow part of AAV bid, excluding staff for war service credit. | 1.0 | 1.3 | 1.8 |
| (c) Refuse War Service Credit Bid | 0 | 0 | 0 |
| 6. <u>Probable Outcome</u> | | | |
| (a) On aid programme | 31.5 | 63 | 87 |
| (b) On AAV as 5(i)b | 1.0 | 1.3 | 1.8 |
| (c) On War Service Credit | 0 | 0 | 0 |

On the aid programme, there are three further options which provide useful fall back positions for any 'Star Chamber' or Cabinet discussion of the bid. These are:

1. Keep aid programme constant in real terms and allow for full illustrative cost of the Sub Saharan debt initiative: total cost of £25m, £50m and £67m in the three years.

2. As (1) but also include cost of IMF Structural Adjustment Facility: total cost of £31.5m, £63m and £87m in the three years. This is the forecast outcome of the Survey round.

3. A final position would be as (2) but also keep country programmes constant over the Survey period. This would reduce by two-thirds the projected decline in aid spending in GNP terms (achieving 0.31% in 1990/91 compared with the current projection of 0.29%). It would also address the Foreign Secretary's main concern, namely the bilateral country spending programmes.

IBAP AND OTHER CAP

ASSESSMENT OF SURVEY OUTCOME

| | 1988-89 | 1989-90 | £m 1990-91 |
|--|---------|---------|---------------|
| 1 BASELINE | 1782.0 | 1878.0 | 1925.0 |
| 2 BIDS | | | |
| (i) IBAP market support | .0 | .0 | 28.2 |
| (ii) Other market support | 47.7 | 9.3 | 8.0 |
| (iii) IBAP Admin. agency costs etc | 2.1 | 2.4 | 2.2 |
| (iv) IBAP Admin running costs | 4.0 | 4.1 | 4.7 |
| Total | 53.7 | 15.7 | 43.1 |
| 3 REDUCED REQUIREMENTS | | | |
| (i) IBAP market support | -180.0 | -95.0 | .0 |
| (ii) Other market support | -2.2 | -3.6 | -5.3 |
| (iii) ALURE Saving | -3.1 | -11.2 | -19.0 |
| Total | -185.3 | -109.8 | -24.3 |
| 4 PROPOSED NET CHANGE | -131.6 | -94.1 | 18.8 |
| 5 TREASURY OPTIONS | | | |
| (i) Storage | -5.0 | -10.0 | -15.0 |
| (ii) Remove assumption of 2% per annum price increase | -30.0 | -70.0 | -114.0 |
| (iii) CAP Reform | ? | ? | ? |
| 6 PROBABLE OUTCOME | -100 | -100 | 0 |

Explanation of outcome:

The probable outcome reflects the uncertainty surrounding the forecasts for market support, and an assumption that the current bid is more likely to be an under rather than an overestimate of likely expenditure under the CAP. The forecast of IBAP and other market support is subject to wide margins of error. The current forecast is particularly uncertain because it is too soon to have any clear indications of the likely effects of the reforms of the beef and dairy regimes agreed at the December 1986 Agriculture Council, in addition to the usual uncertainties about the cereals harvest, not only in the UK but in other Member States and third countries.

The forecasts will be updated in August to take account of the actual Price Fixing decisions, current exchange rates, etc.

A further update will be necessary in September to take account of the 1987 harvest. Each 1 million tonne increase in cereals production above the current 25 m. tonne assumption increases expenditure by £100m. in 1988-89.

Unless there is a substantial appreciation in sterling MAFF will certainly expect a further green £ devaluation next year. This would increase CAP prices in the UK, probably by more than the 2% increase built into the current forecasting. It may therefore be unrealistic to press option 5(ii).

The ALURE offsets are by no means secure.

DOMESTIC AGRICULTURE

£ million

| | 1988-89 | 1989-90 | 1990-91 |
|---|--------------|--------------|---------------|
| Baseline | 746.8 | 749.2 | 767.9 |
| Bids | | | |
| (i) Demand led estimating changes | + 9.1 | + 9.5 | + 4.3 |
| (ii) ALURE | +10.8 | +11.8 | +13.3 |
| (iii) MAFF running costs and administration | +13.2 | +24.2 | +28.0 |
| (iv) Other | +10.9 | +10.9 | + 9.6 |
| TOTAL | +44.0 | +56.3 | + 55.4 |
| 3. Reduced requirements | - 7.2 | - 6.5 | -13.4 |
| 4. Proposed net increase | +36.8 | +49.8 | +42.0 |
| 5. Treasury options | | | |
| (i) ALURE offset within capital grant envelope | -13.2 | - 6.9 | - 3.7 |
| (ii) Capital grants. Further Reduction in grant rates | - 1.8 | - 8.1 | -26.3 |
| (iii) ADAS Increase in costs recovered | 0 | -15.0 | -22.5 |
| (iv) R and D in industry funding | 0 | -30.0 | -60.0 |
| TOTAL Treasury options | -15.0 | -60.0 | -112.5 |
| 6. Probable outcome | +30.0 | +35.0 | +15.0 |

Concession of bids (i) and (ii) plus part of other bids offset by savings within the the programme and part of the options, particularly in 1990-91.

ASSESSMENT OF SURVEY OUTCOME

FORESTRY COMMISSION

£ million

| | 1988-89 | 1989-90 | 1990-91 |
|-----------------------------------|--------------|--------------|--------------|
| 1. Baseline | 54.2 | 55.1 | 56.5 |
| 2. Bids | | | |
| ALJURE grant costs | + 4.5 | + 7.0 | + 7.2 |
| ALJURE administration | + 0.6 | + 0.7 | + 0.7 |
| Other | + 6.6 | + 8.4 | + 8.3 |
| TOTAL | +11.7 | +16.1 | +16.2 |
| 3. Reduced requirements | - 4.8 | - 4.7 | - 5.3 |
| 4. Proposed net increase | + 6.9 | +11.4 | +10.9 |
| 5. Treasury options | | | |
| Increased-timber sales | - 5.0 | - 5.0 | - 5.0 |
| Reduction in administration costs | - 0.1 | - 0.1 | - 0.1 |
| 6. Probable outcome | + 5.0 | +10.0 | +10.0 |

An additional option is to increase Forestry Commission disposals, where the target increase is £10 million a year. Receipts accrue to the Privatisation programme.

DEPARTMENT OF TRADE AND INDUSTRY

| | 1988-89 | 1989-90 | 1990-91 ^{£m} |
|---|-------------|-------------|-----------------------|
| 1. <u>Baseline</u> | 983.2 | 980.6 | 1017.4 |
| 2. <u>Bids</u> | | | |
| (i) Launch aid (agreed net change) | 107.0 | 144.5 | 81.0 |
| (ii) RDG/RSA etc (Estimating Changes) | 88.8 | 77.9 | 75.9 |
| (iii) Inner Cities/BIS etc. | 23.6 | 41.1 | 49.0 |
| (iv) Industrial R and D | 25.0 | 50.0 | 75.0 |
| (v) Other | <u>21.9</u> | <u>27.1</u> | <u>29.4</u> |
| Total | 266.3 | 340.6 | 310.3 |
| 3. <u>Reduced requirements</u> | - 12.5 | - 13.8 | - 44.0 |
| 4. <u>Proposed net increase</u> | 253.8 | 326.8 | 266.3 |
| 5. <u>Treasury options</u> | | | |
| (i) Increase RDG waiting period to 4 and introduce similar period for RSA | - 17.0 | + 1.0 | 0 |
| (ii) Cash limit RSA to reduce value of new offers by 25 per cent | - 6.0 | - 16.0 | - 23.0 |
| (iii) Limit development areas to 10 per cent and cash limit Regional Assistance | - 5.0 | - 12.0 | - 18.0 |
| (iv) End RDG for new cases and cash limit RSA to the level of originally projected new offers (overlaps with options(ii) and (iii)) | - 15.0 | - 35.0 | - 53.0 |
| (v) Increase BOTB charges | - 7.0 | - 15.0 | - 21.0 |
| (vi) EIEC grant cut by 10 per cent | - 1.3 | - 1.3 | - 1.3 |
| 6. Probable outcome | +199.3 | +254.1 | +171.2 |

Implies concession of bid 1 (already agreed), bid (ii) and some of bids (iii) to (v) offset by reduced requirements and part of the savings from the Treasury options. To make any further substantial reductions in later years would require adoption of radical regional policy options on the lines of (iv) above.

ASSESSMENT OF SURVEY OUTCOME

EXPORT CREDITS GUARANTEE DEPARTMENT

| | | £m | | |
|---------------------------------|------------------------|-------------|-------------|-------------|
| | | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | | 110.6 | 46.7 | 47.9 |
| 2. <u>Bids</u> | | | | |
| | (i)) INTEREST SUPPORT | 15.2 | 83.4 | 77.8 |
| | (ii)) COST ESCALATION | 0.4 | 0.1 | 0.5 |
| | (iii)) | | | |
| | (iv) Other | | | |
| | TOTAL | 15.6 | 83.5 | 78.3 |
| 3. <u>Reduced requirements</u> | | - 24.2 | - 6.8 | - 8.4 |
| 4. <u>Proposed net increase</u> | | - 8.6 | 76.7 | 69.9 |
| 5. <u>Treasury options</u> | | | | |
| | (i)) | | | |
| | (ii)) | | | |
| | (iii)) | | | |
| 6. <u>Probable outcome</u> | | - 8.6 | 76.7 | 69.9 |

Demand-led expenditures which already take account of savings on interest support from swaps programme, capital market refinancing, reductions of margins paid to banks and recently negotiated changes to Consensus which reduce subsidy. No scope for significant further savings without fundamental reversal of UK policy of maintaining export support (whilst negotiating its reduction on multilateral basis).

ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF ENERGY

| | | £m | | |
|----|--|---------|---------|---------|
| | | 1988-89 | 1989-90 | 1990-91 |
| 1. | <u>Baseline</u> | 286 | 282 | 289 |
| 2. | <u>Bids</u> | | | |
| | (i)) Nuclear | 13.7 | 16.0 | 16.2 |
| | (ii)) Non-nuclear | 6.4 | 10.5 | 12.7 |
| | (iii)) Administrative expenditure | 7.2 | 8.1 | 7.6 |
| | TOTAL | 27.3 | 34.6 | 36.5 |
| 3. | <u>Reduced requirements</u> | 0.3 | - | - |
| 4. | <u>Proposed net increase</u> | 27.0 | 34.6 | 36.5 |
| 5. | <u>Treasury options</u> | | | |
| | (i) <u>Nuclear</u> | - 20.0 | -20.0 | - 20.0 |
| | Cuts in support for all thermal reactor research including safety research | | | |
| | (ii) <u>Non-nuclear</u> | - 18.0 | -18.0 | -18.0 |
| | Tighten criteria for support to achieve a 50% reduction in renewables and energy efficiency programmes | | | |
| 6. | <u>Probable outcome</u> | 6.8 | 8.8 | 8.1 |

Achieve sufficient of Treasury options (i) and (ii) to offset half of bid (i) and concede part of bid (iii) related to HQ move.

DEPARTMENT OF EMPLOYMENT

| | £ million | | |
|--|----------------|----------------|----------------|
| | <u>1988-89</u> | <u>1989-90</u> | <u>1990-91</u> |
| 1. <u>Baseline</u> | 4,107 | 4,206 | 4,311 |
| 2. <u>Bids</u> | | | |
| (i) Lord Young's 28 January 'package' | +157.4 | +147.4 | +151.2 |
| (ii) Withdrawal of SB from 16-17 year olds | + 50.0 | + 90.0 | + 84.0 |
| (iii) Tourism | + 5.0 | + 10.0 | + 15.0 |
| (iv) Publicity | + 10.0 | + 10.0 | + 10.0 |
| (v) Restart (Jobclubs) | + 8.7 | + 8.9 | + 9.2 |
| (vi) DE/ACAS running costs | + 26.6 | + 28.5 | + 28.5 |
| (vii) MSC running costs | + 15.2 | + 12.9 | + 12.5 |
| (viii) HSC/E running costs | + 7.7 | + 7.9 | + 8.1 |
| (ix) Other (non running costs) | + 21.9 | + 27.3 | + 39.4 |
| TOTAL | +302.5 | +342.9 | +357.9 |
| 3. <u>Reduced requirements</u> = total of bids (iii) to (ix) | - 95.1 | -105.5 | -122.7 |
| 4. <u>Proposed net increase</u> = total of bids (i) and (ii) | +207.4 | +237.4 | +235.2 |
| 5. <u>Treasury options</u> | | | |
| (i) YTS grants: employers to bear more of costs | - 5.0 | - 50.0 | -100.0 |
| (ii) CP: reduction in length of stay | -100.0 | -150.0 | -200.0 |
| (iii) Abolition of STA, cut in old JTS | - | - 40.0 | - 60.0 |
| (iv) Publicity: reduction in TV advertising | - 5.0 | - 5.0 | - 5.0 |
| (v) Jobcentres: reduction in/charging for services | - 15.0 | - 25.0 | - 30.0 |
| (vi) Miscellaneous training: cuts in smaller schemes | - 10.0 | - 20.0 | - 20.0 |
| (vii) Employment measures: smaller schemes | - 10.0 | - 15.0 | - 15.0 |
| (viii) Miscellaneous administration | - 5.0 | - 15.0 | - 20.0 |
| (ix) UBS: revised unemployment forecast | - 8.0 | - 8.0 | - 8.0 |
| 6. <u>Probable outcome</u> | +150.0 | +150.0 | +100.0 |

(i) and (ii) are agreed bids. Possible outcome would be concession of most of remaining bids (except for some running costs items) in return for reductions along lines of Treasury options - either cut in CP or a package of smaller savings. Scope for improvement if anywhere in later years. Would lead to 0.5 per cent annual real reduction from 1987-88 to 1990-91.

ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF TRANSPORT

| | | £ million | | |
|----|---|-----------|---------|---------|
| | | 1988-89 | 1989-90 | 1990-91 |
| 1. | <u>Baseline</u> | 2166 | 2214 | 2264 |
| 2. | <u>Bids</u> | | | |
| | (i) National roads; bridges | 40 | 40 | 40 |
| | (ii) Other national roads | 5 | 14 | 17 |
| | (iii) Local authority capital | 30 | 39 | 17 |
| | (iv) Running costs | 9.3 | 10.3 | 12.2 |
| | (v) Other | 12.3 | 13.6 | 14.8 |
| | TOTAL | 96.6 | 116.9 | 101.0 |
| 3. | <u>Reduced requirements</u> | -0.9 | -1.4 | -2.0 |
| 4. | <u>Proposed net increase</u> | 95.7 | 115.5 | 99.0 |
| 5. | <u>Treasury options</u> | | | |
| | Reduced provision for BR pension funds (Demand led but recent history of underspending) | -5 | -8 | -10 |
| 6. | <u>Probable outcome</u> | 40 | 40 | 40 |
| | Concession in part of bids (i), (iv) and (v), offset by Treasury option. Would lead to whole programme (excluding LA Current) declining annually by 1% or less in real terms from 1987-88 to 1990-91. | | | |

CONFIDENTIAL

ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF THE ENVIRONMENT - HOUSING

| | 1988-89 | 1989-90 | 1990-91 |
|--|------------|------------|------------|
| 1. <u>Baseline</u> | 2,443 | 2,503 | 2,566 |
| 2. <u>Bids</u> | | | |
| i. Housing benefit to DHSS (private sector rents) | 10 | 55 | 75 |
| ii. Housing Corporation new provision | 50 | 100 | 120 |
| iii. Estate Action | 100 | 100 | 100 |
| iv. LA mainstream renovation | 190 | 100 | 15 |
| v. Home improvement grants | 50 | 40 | 40 |
| vi. LA receipts shortfall | - | 151 | 286 |
| vii. Housing Action Trusts | 20 | 100 | 150 |
| viii. Other | - | - | 3 |
| TOTAL | 420 | 646 | 789 |
| 3. <u>Reduced requirements</u> | | | |
| i. Housing subsidy (LA) etc | -25 | -34 | - |
| ii. LA mainstream new provision | - | -50 | -100 |
| 4. <u>Proposed net increase</u> | 395 | 562 | 689 |
| 5. <u>Treasury option</u> | | | |
| LA mainstream new provision | -100 | -100 | -100 |
| 6. <u>Probable outcome</u> | +311 | +347 | +394 |

Outcome based on concession of parts of all bids and additional £46m a year for likely further bid from Secretary of State on housing benefit transfer to DHSS for increased LA rents. All reduced requirements included but success not assumed for Treasury option. Would lead to 0.2 per cent annual real growth from 1987-88.

ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF THE ENVIRONMENT - OTHER ENVIRONMENTAL SERVICES

| | 1988-89 | 1989-90 | 1990-91 |
|---|------------|------------|------------|
| 1. <u>Baseline</u> | 929 | 913 | 936 |
| 2. <u>Bids</u> | | | |
| i. Local Environment Services - Capital | 45 | 45 | 45 |
| ii. Urban Development Corporations | 15 | 95 | 95 |
| iii. Other | 29 | 23 | 19 |
| TOTAL | 149 | 163 | 159 |
| 3. <u>Reduced requirements</u> | 15 | 15 | 15 |
| 4. <u>Proposed net increase</u> | 134 | 148 | 144 |
| 5. <u>Treasury options</u> | | | |
| i.) LES - Capital | -50 | -50 | -50 |
| ii.) | | | |
| iii.) | | | |
| 6. <u>Probable outcome</u> | +35 | +30 | +27 |

Resistance of bid (i) and a reduction of baseline provision of £30 m in each year.

A concession of £65m in each year for bid (ii)

A concession of £15m in year 1, £10m in year 2 and £7m in year 3 for bid (iii).

This represents an annual growth of around 3%.

ASSESSMENT OF SURVEY OUTCOME

PROPERTY SERVICES AGENCY

| | 1988-89 | 1989-90 | 1990-91 |
|--|-----------|------------|------------|
| 1. Baseline | -99 | -101 | -104 |
| 2. Bids (i) Major New Works | 17 | 17 | 13 |
| (ii) Rents | 17 | 15 | 42 |
| (iii) Maintenance and other operating costs | 45 | 68 | 66 |
| TOTAL | 79 | 100 | 121 |
| 3. Reduced requirements | -33 | -58 | -72 |
| 4. Proposed net increase | 46 | 42 | 49 |
| 5. Treasury options | - | - | - |
| 6. Probable outcome | 20 | 0 | 0 |

After allowance made for reduced requirements forecast outcome for first year would enable PSA to increase spending on maintenance. Level of reduced requirements in second and third year considered sufficient to assist PSA in meeting its commitments without the need for increased provision.

CONFIDENTIAL

| HOME OFFICE | | 1988-89 | 1989-90 | £ million 1990-91 |
|--|------|---------|---------|----------------------|
| 1. <u>Baseline</u> | | | | |
| Prisons | 755 | 777 | 818 | 838 |
| Non prisons | 447 | 460 | 476 | 488 |
| Total | 1202 | 1237 | 1294 | 1326 |
| 2. <u>Bids</u> (NB incomplete) | | | | |
| i) Prison building | | 20.1 | 13.3 | 47.0 |
| ii) Prison other | | 22.2 | 20.7 | 26.3 |
| iii) Non prisons manpower | | 10.3 | 12.8 | 12.0 |
| iv) Non prisons other (including Crim Justice Bill costs) | | 29.1 | 23.0 | 31.0 |
| v) L A capital | | 5.1 | 5.0 | 4.3 |
| | | ----- | ----- | ----- |
| TOTAL | | 86.8 | 74.8 | 120.6 |
| 3. <u>Reduced Requests</u> | | -6.2 | -7.5 | -9.4 |
| 4. <u>Proposed Net Increase</u> (incomplete) | | 80.6 | 67.3 | 111.2 |
| 5. <u>Treasury options</u> | | | | |
| i) "Fresh Start" savings* | | -15 | -19 | 12 |
| ii) Prisons manpower (civilianise 1000 posts & contract out court escorts) | | - 12 | - 12 | - 12 |
| iii) Charge for immigration services | | - 10 | - 10 | - 10 |
| iv) VFM improvements (numerous small savings based on output & performance returns) | | - 13 | - 13 | - 13 |
| v) Increased LA capital receipts | | - 10 | - 10 | - 10 |
| vi) Increased fines receipts | | - 20 | - 20 | - 25 |
| | | ----- | ----- | ----- |
| TOTAL | | -80 | -84 | -92 |
| * Home Office savings to fund extra costs to territories, but liable to be eaten away by increasing Home Office costs. | | | | |
| 6. <u>Probable Outcome</u> | | 80 | 80 | 111 |

Assumes options for reductions only partly achieved; little scope for realistic trimming of these bids; and part concession of further bids on prisons and inner cities before Autumn Statement. Implies real terms growth of 5.4%, 0.8% and 1.5% in the three years.

ASSESSMENT OF SURVEY OUTCOME

LORD CHANCELLOR'S DEPARTMENT

| | 1988-89 | 1989-90 | 1990-91 |
|---|---------|---------|---------|
| 1. <u>Baseline</u> | 725.9 | 781.1 | 800.4 |
| 2. <u>Bids</u> | | | |
| (i) Court Services (Running Costs) | 14.3 | 23.5 | 35.1 |
| (ii) Court Services (Other) | 6.2 | 2.2 | 4.4 |
| (iii) Court Building | 19.9 | 21.5 | 25.6 |
| (iv) Legal Aid | - | - | 14.1 |
| (v) Legal Aid Admin. | 1.3 | 2.3 | 3.5 |
| (vi) Office & General Accommodation | 0.3 | 0.9 | 0.1 |
| | 42.0 | 50.4 | 82.8 |
| 3. <u>Reduced Requirements</u> | | | |
| (i) Legal Aid | -5.6 | -11.5 | |
| 4. <u>Proposed Net Increase</u> | 36.4 | 38.9 | 82.8 |
| 5. <u>Treasury Options</u> (below bid levels) | | | |
| (i) Court Building - challenge need | -8.0 | -10.0 | -12.0 |
| (ii) Legal aid - Green Form application fees and 1/3 contribution level | -8.0 | -8.0 | -8.0 |
| (iii) Legal aid admin - efficiency | -0.3 | -0.5 | -0.7 |
| 6. <u>Possible Outcome</u> | 27 | 31.5 | +70.5 |

The bids are effectively demand-led; outcome mainly assumes some reduction by challenging assumptions.

ASSESSMENT OF SURVEY OUTCOME
DEPARTMENT OF EDUCATION AND SCIENCE

| | £ million | | |
|---------------------------------|------------|------------|------------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 3,851 | 3,966 | 4,065 |
| 2. <u>Bids</u> | | | |
| (i) AIDS (agreed) | 6 | 8 | - |
| (ii) Academic pay (agreed) | 56 | 71 | 73 |
| (iii) ERASMUS | 3 | 5 | 6 |
| (iv) Universities | 121 | 131 | 146 |
| (v) Polytechnics & Colleges | 13 | 22 | 22 |
| (vi) Voluntary colleges | 11 | 12 | 13 |
| (vii) Science | 121 | 160 | 191 |
| (viii) Inner cities initiatives | 9 | 13 | 13 |
| (ix) National curriculum | 12 | 25 | 36 |
| (x) Admin - running costs | 10 | 13 | 18 |
| (xi) Admin - capital | 1 | 5 | 5 |
| (xii) Schools - capital | 180 | 195 | 225 |
| (xiii) Student awards | 12 | 24 | 29 |
| (xiv) Other | 3 | 4 | 7 |
| TOTAL | 558 | 688 | 783 |
| 3. <u>Reduced requirements</u> | - | - | - |
| 4. <u>Proposed net increase</u> | 558 | 688 | 783 |
| 5. <u>Treasury options</u> | - | - | - |
| 6. <u>Probable outcome</u> | 241 | 318 | 342 |

In addition to agreed bids (i) and (ii), concession of significant proportions of the large bids (iv), (vii) and (xii), and of less sizeable amounts on (v), (ix), (x), (xi) and (xiii). Would lead to 1.9 per cent annual real growth from 1987-88 to 1990-91.

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ASSESSMENT OF SURVEY OUTCOME
OFFICE OF ARTS AND LIBRARIES

| | £m | | |
|---------------------------------|---------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 367.0 | 377.0 | 386.0 |
| 2. <u>Bids</u> | | | |
| (i) British Library St Pancras | | | |
| (a) agreed | 6.2 | 9.2 | 9.4 |
| (b) other | 2.0 | 9.0 | 14.1 |
| (ii) Living arts | 17.0 | 19.0 | 21.0 |
| (iii) Museums and galleries | 17.0 | 17.5 | 17.5 |
| (iv) Other | 7.7 | 8.2 | 6.6 |
| TOTAL | 49.9 | 62.9 | 68.6 |
| 3. <u>Reduced requirements</u> | - | - | - |
| 4. <u>Proposed net increase</u> | 49.9 | 62.9 | 68.6 |
| 5. <u>Treasury options</u> | - | - | - |
| 6. <u>Probable outcome</u> | 19.3 | 29.3 | 36.5 |

Concession of nearly all of (i), about a third of (ii) and (iii), and a fifth of (iv). Would lead to a 2.1 per cent annual real growth from 1987-88 to 1990-91.

ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF HEALTH & SOCIAL SECURITY:
HEALTH AND PERSONAL SOCIAL SERVICES

| | £m | | |
|-------------------------------------|---------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 19,867 | 20,751 | 21,270 |
| 2. <u>Bids</u> | | | |
| (i) HCHS Current | 691 | 1,103 | 1,696 |
| (ii) HCHS Capital | 28 | 39 | 33 |
| (iii) Centrally Financed Services | 52 |58 |60 |
| (iv) Family Practitioner Services |136 |184 |407 |
| (v) PSS Capital |49 |0 |0 |
| TOTAL: | 956 | 1,384 | 2,196 |
| 3. <u>Reduced Requirements</u> | NIL | | |
| 4. <u>Proposed net increase</u> |956 | 1,384 | 2,196 |
| 5. <u>Treasury options</u> | | | |
| (i) Increase NHS efficiency savings | - 25 | ...- 50 | ...- 75 |
| (ii) NHS Car Park charges | ...- 25 | ...- 25 | ...- 25 |
| TOTAL: | - 50 | ...-.75 | ...-100 |
| 6. <u>Probable outcome</u> | 610 |827 | ..1,353 |

Probable outcome based on concession of part of bids (i), (iii) and (iv) (rejecting bid (ii)), offset by options (i) and (ii). Would lead to real terms increase in the three Survey years of 2.5%, 1.9% and 2.2% (compared with the FSBR projections of the GDP deflator)

ASSESSMENT OF SURVEY OUTCOME

DHSS: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

| | £m | | |
|---|---------------|---------------|-------------|
| | 1988-9 | 1989-90 | 1990-91 |
| 1. Survey Baseline | 47258 | 49123 | 50351 |
| 2. Proposed Additions | | | |
| Benefit Bids: | | | |
| i. Income Support compensation for 20% to rates * | 340 | 353 | 364 |
| ii. SDA (agreed) | 41 | 11 | 9 |
| iii. Other Policy Bids | 43.5 | 17.1 | 12 |
| | <hr/> | | |
| Total bids on benefits | 424.5 | 381.1 | 385 |
| Administration Bids: | | | |
| i. Running Costs: | 186 | 212 | 256 |
| ii. Other: | 73 | 164 | 135 |
| | <hr/> | | |
| Total administration bids | 259 | 376 | 391 |
| Forecasting Changes: | | | |
| i. Estimating Changes | 614 | 797 | 1871 |
| ii. Economic Assumptions | -21 | 81 | 433 |
| | <hr/> | | |
| Total forecasting changes | 593 | 878 | 2304 |
| 3. Reduced Requirements | | | |
| i. Alignment of Pay Periods | -25 | | |
| ii. Income Support for 16-17 year olds* | -50 | -90 | -84 |
| 4. PROPOSED NET INCREASE | 1201.5 | 1545.1 | 2996 |

* Agreed in principle but exact figures still to be settled.

| | | | |
|---------------------------------|---------------|---------------|-------------|
| 4. PROPOSED NET INCREASE | 1201.5 | 1545.1 | 2996 |
|---------------------------------|---------------|---------------|-------------|

5. Treasury Options :

Unspecified Measures on benefits
of -£450m, -£900m and -£1350m
to achieve savings of:

| | | | |
|----------------------------------|-------|------|------|
| | -150 | -200 | -250 |
| - Reduced bids in administration | -105 | -170 | -174 |
| - Further Economic Changes | -220 | -225 | -225 |
| + Further Estimating Changes | +300 | +400 | +500 |
| | <hr/> | | |
| total | -175 | -195 | -149 |

| | | | |
|----------------------------|-------------|-------------|-------------|
| 6. PROBABLE OUTCOME | 1026 | 1352 | 2847 |
|----------------------------|-------------|-------------|-------------|

ASSESSMENT OF SURVEY OUTCOME

SCOTTISH OFFICE

| | 1988-89 | 1989-90 | £m 1990-91 |
|---------------------------------|---------|---------|---------------|
| 1. <u>Baseline</u> | 4,687 | 4,863 | 4,984 |
| 2. <u>Bids</u> SDA/HIDB | 16.3 | 26.8 | 29.2 |
| 3. <u>Reduced requirements</u> | - | - | - |
| 4. <u>Proposed net increase</u> | +16.3 | +26.8 | +29.2 |
| 5. <u>Treasury options</u> | | | |
| (i)) Population Baseline Cut | -210.0 | -220.0 | -225.0 |
| (ii)) Block Programme Cuts | -60.0 | -100.0 | -100.0 |
| (iii)) Industry etc | -25.3 | -31.1 | -42.4 |
| 6. <u>Probable outcome</u> | -19.0 | -9.5 | -18.3 |

Concession of part of bid offset by *part of* Options (ii) and
 (iii).

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ASSESSMENT OF SURVEY OUTCOME

WELSH OFFICE

| | 1988-89 | 1989-90 | 1990-91 |
|---------------------------------|---------|---------|---------|
| | | | £m |
| 1. <u>Baseline</u> | 1,933 | 1,995 | 2,045 |
| 2. <u>Bids</u> (i)) RDG I/II | 33.5 | 31.9 | 35.5 |
| (ii)) WDA | 14.0 | 15.0 | 15.0 |
| (iii)) Other | 0.1 | 0.2 | 0.2 |
| 3. <u>Reduced requirements</u> | | | |
| RDG I | - | -6.4 | -8.0 |
| 4. <u>Proposed net increase</u> | 47.6 | 40.7 | 42.7 |
| 5. <u>Treasury options</u> | | | |
| (i)) Population Baseline Cut | -25.0 | -25.0 | -25.0 |
| (ii)) Industry etc | -11.4 | -14.6 | -18.7 |
| 6. <u>Probable outcome</u> | 30.2 | 25.2 | 27.2 |

Concession on Bid (i), offset by reduced requirement and part Option (ii).

NORTHERN IRELAND

| | <u>1988-89</u> | <u>1989-90</u> | <u>1990-91</u> |
|--------------------------------|----------------|----------------|----------------|
| 1. BASELINE | 4986.9* | 5160.0* | 5289.0* |
| 2. Bids | | | |
| (i) Formula Consequentials | 4.0 | 3.2 | 3.3 |
| (ii) Social Security Benefits | 6.0 | 21.1 | 47.8 |
| (iii) Job Training Programme | 2.6 | 2.6 | 2.7 |
| (iv) Availability Testing | 0.5 | 0.5 | 0.5 |
| (v) University Academics' Pay | 1.5 | 2.0 | 2.0 |
| (vi) Others | 4.5 | 4.2 | 4.2 |
| | TOTAL 19.1 | 33.6 | 60.5 |
| 3. Reduced requirements | | | |
| (i) Housing Loan Charges | -0.6 | -1.3 | 0.0 |
| 4. Proposed net increase | 18.5 | 32.3 | 60.5 |
| 5. Treasury options | | | |
| (i) Full population adjustment | 60.0 | 60.0 | 60.0 |
| 6. Probable outcome | 18.5 | 32.3 | 60.5 |

Depends on outcome of negotiations with Scotland and Wales on a population based adjustment to baselines.

* These figures exclude national agriculture schemes which are non-block

ASSESSMENT OF SURVEY OUTCOME

CUSTOMS AND EXCISE

| | | £m | | |
|----|--|---------|---------|---------|
| | | 1988-89 | 1989-90 | 1990-91 |
| 1. | <u>Baseline</u> | 482 | 491 | 503 |
| 2. | <u>Bids</u> | | | |
| | (i) Manpower | 5.1 | 13.6 | 24.1 |
| | (ii) Pay | 16.7 | 17.3 | 18.9 |
| | (iii) VAT skills | 7.0 | 8.0 | 9.0 |
| | (iv) Other net* | 16.9 | 31.4 | 41.2 |
| 3. | <u>Proposed net increase</u> | 45.7 | 70.3 | 93.2 |
| 4. | <u>Treasury options</u> | | | |
| | (i) VAT control - reduce visits to smallest traders | -2 | -2 | -2 |
| | (ii) Different manpower profile within year | -1 | -1 | -1 |
| 5. | <u>Probable outcome</u> | 35.0 | 49.4 | 64.1 |

Customs and Excise are bidding for a 15.7 per cent increase in running costs in 1988-89. Forecast outcome implies running cost increase of 14.8 per cent. To bring it below 10 per cent would imply reduction of £23.3 million in running costs bid.

*Includes further likely bids, not yet submitted, for accommodation PRS of £5.0m, £6.0m, £6.0m.

ASSESSMENT OF SURVEY OUTCOME

INLAND REVENUE

| | | £m | |
|----------------------------|--------------|--------------|--------------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 1,275 | 1,334 | 1,368 |
| 2. <u>Bids</u> | | | |
| (i) Manpower | 10.1 | 23.9 | 30.7 |
| (ii) Pay | 53.2 | 67.3 | 85.9 |
| (iii) LAPR/MIRAS | 40.0 | 40.0 | 61.0 |
| (iv) Other (net) | 19.0 | 27.6 | 36.4 |
| TOTAL | 122.3 | 158.8 | 214.0 |
| 3. <u>Probable outcome</u> | 95.9 | 117.4 | 175.8 |

LAPR/MIRAS demand led. Pay bid represents excess costs of 1986 and 1987 pay settlements and predicted costs of 1988 award. The bids would produce an increase in running costs in 1988-89 of 12% over current provision for 1987-88 (although the Revenue is likely to apply for an increase in that). The forecast outcome would reduce that to just under 10%.

ASSESSMENT OF SURVEY OUTCOME

OTHER CHANCELLOR'S DEPARTMENTS*

| | | £m | |
|-----------------------------|---------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 547 | 586 | 601 |
| 2. <u>Bids</u> TOTAL | 14.1 | 12.9 | -14.1 |
| 3. <u>Probable outcome</u> | 5.5 | 2.7 | -22.1 |

Reduced requirement for 1990-91 reflects non-carry forward of 1989-90 provision for European Election expenses.

*Excludes Inland Revenue and Customs and Excise.

ASSESSMENT OF SURVEY OUTCOME

OTHER DEPARTMENTS

| | | £m | |
|-------------------------------|---------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. <u>Baseline</u> | 1,938 | 2,025 | 2,076 |
| 2. <u>Bids</u> | | | |
| (i) Crown Prosecution Service | 2.3 | 15.4 | 29.1 |
| (ii) Parliament* | -1.5 | 11.8 | 5.1 |
| (iii) OPCS | 0.9 | 5.7 | 15.1 |
| (iv) Net other | -19.9 | -14.5 | 13.4 |
| TOTAL | -18.2 | 16.4 | 62.7 |
| 3. <u>Probable outcome</u> | -24.4 | 2.0 | 46.5 |

Increases unavoidable for the Crown Prosecution Service and the census (OPCS). Other bids include a large number of small increases offset by a reduced estimate of the costs of civil superannuation.

*Includes House of Commons and House of Lords (including House of Commons administration and PSA).

SECRET

FROM: JOHN GIEVE
DATE: 12 June 1987

- 1. MR F E R BUTLER
- 2. CHIEF SECRETARY

cc Chancellor
 Sir P Middleton
 Sir T Burns
 Mr Anson
 Mr Monck
 Mr Turnbull
 Mr Sedgewick
 Mr Luce
 Mr Mowl
 Miss Walker

Handwritten notes:
 I will write to have a meeting on 12/6
 handing paper to make the White Paper
 but consult. I do not find that expenditure up problems.
 (I'm not sure you want to make the White Paper
 0.5% of GDP target -
 AA

PUBLIC EXPENDITURE SURVEY PROSPECTS

The current Public Expenditure Survey was halted by the election at the point that departmental baselines were agreed. A separate submission sets out proposals for reactivating the Survey and suggests that you should ask Ministers to submit additional bids by 2 July. At about the same time the summer economic forecast will be completed. We will then let you have a considered assessment of the prospect for public expenditure. However, you may wish to have immediately our current best estimate of the position which draws on the views of expenditure groups and the forecasters' preliminary work. In what follows, I have concentrated on the first two years of the Survey, 1988-89 and 1989-90.

The current policy

2. The January White Paper set out detailed cash plans for each programme within the framework of the aims of reducing public expenditure in proportion to national output and of reducing the rate of growth of public expenditure in real terms (from nearly 3% a year in the 1970s and 2¼% from 1978-79 to 1982-83 and 1¼% from 1982-83 to 1986-87). The main figures were:

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 To
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 12 JUNE

| | % of GDP | | | | Average annual growth in real terms |
|--|----------|---------|---------|---------|-------------------------------------|
| | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 86-87 - 89-90 |
| General Government Expenditure (net of privatisation proceeds) | 43.25 | 42.75 | 41.75 | 41.25 | 1.1% |

Probable increases

3. The assessment of Treasury divisions is that departmental Ministers will bid for additions of about £7 billion in 1988-89 and £9 billion in 1989-90 within the main Survey and also seek substantial additions for local authority relevant spending which is discussed separately. While many of the bids will be resistible substantial additions will probably have to be agreed. At Annex A is a table setting out the existing planning totals broken down into their major components and expenditure groups' best guesses of the likely outcome of negotiations. Annex B comments in turn on the main components. In summary the position is as follows:

| | £ billion | |
|---------------------------------|-----------|---------|
| | 1988-89 | 1989-90 |
| Total programmes in White Paper | 153.7 | 159.0 |
| Probable increases | 6.0 | 7.9 |
| Starting Reserve | 5.5 | 7.5 |

4. The figures for probable increases reflect initial estimates of the increases in programmes that it will be necessary to concede during the coming Survey negotiations. In some cases they reflect increased forecasts of demand determined expenditure (eg social security, ECGD) and are effectively irresistible. In others, increases are discretionary (eg defence and health) but bids will be hard to resist.

5. Part of the increase in programmes can be met from the Reserves as they are rolled forward. Setting the new Reserves is a matter not

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only of making prudent provision for unforeseen contingencies but also of allowing a large enough Reserve to carry credibility with the press and financial markets. The Reserves in the current plans were considered on the low side when they were published last year and to combine an increase in the Planning Totals above previous plans with a reduction in the allowance for future overspends would be difficult to present, particularly if the Reserve in 1987-88 is fully spent or even overspent. In addition (see Annex B) we expect to have to meet further increases of perhaps £2.5 billion in 1988-89 and £4.5 billion in 1989-90 on social security and local authority relevant over and above the increases conceded in this Survey. Therefore, we expect you will wish to include Reserves at least as large as those in the current White Paper - ie at most £2 billion a year can be allocated to programmes in the Survey.

6. The implication is that, in the absence of specific policy changes, the Planning Total will need to be raised by £4 billion in 1988-89 and £6 billion in 1989-90. The early work by the forecasters on 1988-89 suggests a somewhat higher outturn still in that year.

Expenditure in proportion to GDP

7. It may well be possible to make some increases in the cash plans without abandoning the projected path for expenditure in proportion to GDP set out in para 2. At the time of the Budget, new projections for GDP and inflation were published as part of the Medium Term Financial Strategy which were higher than those underlying the figures in the White Paper. If the forthcoming economic forecast confirms these we would expect expenditure as a proportion of GDP to fall to 42.25% in 1987-88 if we hold to current plans. Holding to the cash totals for the later years would lower the proportion to 40.5% in 1989-90. Alternatively holding to the White Paper percentages for 1988-89 and 1989-90 would still show a decline on 1987-88 and would allow increases in the expenditure plans.

8. The table below shows the maximum levels of General Government Expenditure (GGE) in 1988-89 and 1989-90 which would be rounded to the same percentages of GDP shown in the White Paper on the basis of

SECRET

Budget MTFFS projections for GDP and inflation. It works back from those to the maximum Planning Totals* consistent with those GGE figures by deducting the debt interest and other adjustments figures that underlay the Budget forecast (but which were rounded up for presentational reasons in the published Budget documents). Latest indications are that the forecasts for debt interest may be slightly below those above but the outlook is still uncertain.

| | £ billion | |
|---|-----------|---------|
| | 1988-89 | 1989-90 |
| Max permitted level of GGE | 183.1 | 191.8 |
| Less: Debt interest | 18.0 | 18.1 |
| Other adjustments | 7.7 | 7.9 |
| Max planning total consistent with White Paper ratios | 157.4 | 165.8 |
| Present planning total | 154.2 | 161.5 |
| Max addition to planning total | 3.2 | 4.3 |

* See Annex A for an explanation of the relationship between GGE and the Planning Total.

9. The figures above include privatisation proceeds (ie the proceeds are counted as negative expenditure). If they are excluded from the calculations the roundings are less favourable and the maximum increases in the Planning Total would fall to £2.5 billion in 1988-89 and £4.0 billion 1989-90 (assuming that the programme of privatisation proceeds is held at £5 billion a year as in the last White Paper).

10. In real terms the additions above would lead to increases of 1.5% in 1988-89 and 1.3% in 1989-90 in GGE (including privatisation). Taken with the projected increase of 0.7% in 1987-88, these would give an average annual growth rate of a little over 1.1% for the period 1986-87 to 1989-90, much the same as projected in the White Paper.

11. Comparing the figures in paragraph 6 with those in the table above, Groups' initial estimates of the likely outcomes of the Survey programme by programme are higher by about £1 billion in 1988-89 and £1.5 billion in 1989-90 than the maximum increase consistent with the published plans for public expenditure in proportion to GDP. (The increases

projected by Groups would still provide a continuing decline in the proportions but at a slower rate than planned - about $\frac{1}{4}$ per cent a year higher.)

Handling

12. You will not wish to take a firm view yet on the handling of the Survey but the main issue for decision when Ministers' bids are in will be on what to recommend to Cabinet in July on the totality of public expenditure. Last year, we did not reveal right up until the Star Chamber the likelihood that the plans would need to be revised upwards. This led some Ministers to feel they had been negotiating on the basis of a false prospectus. It seems unlikely that similar tactics will work this year. The alternative (which Ministers favoured before the election) is to propose to the July Cabinet an increase in the cash plans, which should however be consistent with the policy that public expenditure should continue to decline as a proportion of GDP. On previous form, such a revision to the plans in July will have to be announced and it will be important, therefore, that there is no further change in the Autumn Statement.

13. We will put further advice to you on the approach to the July Cabinet once we have received and analysed the bids, now expected at the start of July, and have seen the revised economic forecast.

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JOHN GIEVE

| | £ billion | | | | | |
|---------------------------------------|------------------|--------------|--------------|--------------------|------------|--|
| | Survey baselines | | | Probable additions | | |
| | 1987-88 | 1988-89 | 1989-90 | 1988-89 | 1989-90 | |
| Social Security (GB) | 45.7 | 47.3 | 49.1 | 1.2 | 1.5 | |
| LA relevant current (GB) | 31.0 | 32.2 | 33.1 | 1.5 | 1.5 | |
| Health | 19.3 | 20.2 | 21.2 | 0.8 | 1.2 | |
| Defence | 18.2 | 18.9 | 19.0 | 0.2 | 0.4 | |
| LA capital (net of receipts) | 4.2 | 4.0 | 4.1 | 0.3 | 0.4 | |
| EC | 0.9 | 0.4 | 1.1 | 0.1 | 0.4 | |
| National Industries | 0.9 | 0.5 | 0.1 | 0.6 | 0.8 | |
| Other programmes | 29.8 | 30.2 | 31.3 | 1.3 | 1.7 | |
| TOTAL PROGRAMMES | 150.1 | 153.7 | 159.0 | 6.0 | 7.9 | |
| Reserve | 3.5 | 5.5 | 7.5 | (2.0) | (2.0) | |
| Privatisation proceeds | (5.0) | (5.0) | (5.0) | - | - | |
| PLANNING TOTAL | 148.6 | 154.2 | 161.5 | 4.0 | 5.9 | |
| Debt Interest | 17.9 | 18.2 | 18.7 | (0.2) | (0.6) | |
| National Accounts Adjustments | 7.0 | 8.1 | 8.3 | (0.4) | (0.4) | |
| GENERAL GOVERNMENT EXPENDITURE | 173.5 | 180.5 | 188.5 | 3.4 | 4.9 | |

Note: General Government Expenditure comprises the expenditure of central and local government including debt interest. It differs from the Planning Total by including debt interest, by including central and local government finance for public corporations rather than all the latter's external finance, and by various other adjustments which bring it onto a basis comparable to the national accounts.

The main increases summarised at Annex A are the following:

| | | | |
|-----|------------------------|---------|---------|
| (i) | Social Security | 1988-89 | 1989-90 |
| | | +1.2 | +1.5 |

Sizeable additions are unavoidable to take account of revised inflation forecasts and the pre-election decision to increase income support to compensate for the liability of some beneficiaries for 20% of rates. There is likely also to be a large bid for running costs. More important, the current provision makes inadequate provision for the underlying growth of social security expenditure reflecting both the proportion of those eligible taking up their benefits and the average payment to each beneficiary. The Treasury's own best estimate of the likely outturn points to increases of £2.5 billion and £4.0 billion respectively. However, DHSS are likely to put in lower bids in the current Survey on the grounds that the forecasting methods are not sufficiently proven to justify such large increases and, we suspect, as a tactic to reduce the pressure to find offsetting savings. They have underestimated the costs of their programme consistently for many years. The figures of £1.2 and £1.5 billion are an estimate of what might be added to plans in the Survey. The balance between that and the likely outcome will be a charge on the Reserves, and hence a reason for retaining large Reserves within the planning totals.

| | | | |
|------|---------------------------------|---------|---------|
| (ii) | Local authority relevant | 1988-89 | 1989-90 |
| | | +1.5 | +1.5 |

This expenditure is dealt with separately in Cabinet Committee. It covers nearly all local authority current spending; the main exceptions being housing benefit and student awards which are not 'relevant' for RSG and are dealt with in the Survey with other central government expenditure. The increases above are the minimum we consider could be presented as credible following a likely overspend in 1987-88 of over £1 billion. They would allow annual

cash increases of 4.7% and 2.7% in the two years over 1987 budgets. In practice on the basis of the present policies we expect the increases to be much higher than that perhaps 7% in 1988-89 and 5½% in 1989-90 (following 9% in 1987-88). These figures would add £1 billion to the increases above in 1988-89 and £2 billion in 1989-90, which again would be a charge on the Reserve.

| | | | |
|-------|---------------|---------|---------|
| (iii) | Health | 1988-89 | 1989-90 |
| | | +0.8 | +1.2 |

We anticipate bids in the Survey of over £1 billion in 1988-89 rising to perhaps £1.75 billion in 1989-90. The figures above assume policy savings in parts of the health service but allow for 2 per cent real growth in the cash limited hospital services in 1988-89 (compared with the 1 per cent in plans) and some real growth thereafter. It also takes into account the knock-on effects of the recent review body awards.

| | | | |
|------|----------------|---------|---------|
| (iv) | Defence | 1988-89 | 1989-90 |
| | | +0.2 | +0.4 |

The baseline for defence implies a cut in the budget in real terms of nearly 4% over the two years (following a reduction in the current year). This could require some major policy changes. Ministers agreed before the election that some increases were required. Those above are the minimum we are likely to have to concede pending further policy decisions.

| | | | |
|-----|--------------------------------|---------|---------|
| (v) | Local authority capital | 1988-89 | 1989-90 |
| | | +0.3 | +0.4 |

In the Survey discussion this provision will be negotiated department by department and will focus on the level of allocations (ie permissions to spend) that each department

may give local authorities. In practice, local authorities have authority to use allocations for whatever services they like and a great part of their spending is financed from their own capital receipts so it makes sense to forecast expenditure as a block. LG group expect the forecast of receipts in 1988-89 to be increased. That increase and the increases in net provision above would keep gross capital spending broadly constant in cash terms at its 1987-88 level.

| | | | |
|------|------------------------|--------|---------|
| (vi) | EC contribution | 198889 | 1989-90 |
| | | +0.1 | +0.5 |

This is highly uncertain because of the current negotiations in Brussels. The figures above reflect EC divisions latest forecast on the assumption that the 1.4 per cent VAT ceiling is maintained. This is unlikely to happen. A decision to increase the ceiling, for example, to 1.6 per cent could increase the figures perhaps towards + £0.3 billion and + £0.6 billion.

| | | | |
|-------|--------------------------------|---------|---------|
| (vii) | Nationalised industries | 1988-89 | 1989-90 |
| | | +0.6 | +0.8 |

The industries' preliminary bids have already been received and total £1 billion in 1988-89 and £1.3 billion in 1989-90 but they may be reduced before the bilaterals. Large increases are likely for the electricity industry's power station programme and for British Coal, but some increases will be difficult to avoid for British Steel and British Shipbuilders and London Transport.

| | | | |
|--------|--------------|---------|---------|
| (viii) | Other | 1988-89 | 1989-90 |
| | | +1.3 | +1.7 |

This covers a wide range of programmes. Increases have already been agreed for Airbus, employment measures, and university pay. The assessment above reflects groups views

that further substantial increases will be needed for ECGD, prisons, education, housing and urban development, the Inland Revenue, Customs and Excise, and Research and Development.

- (ix) Running costs Annex A is based on divisions assessments of the likely net increases in departmental programmes taken as a whole and does not identify separately increases in departmental running costs. However pressure on running costs is severe in some areas; we expect large bids amounting to perhaps £1 billion for 1988-89 and it will be difficult to avoid an increase of £500m, broadly the same as in last year's Survey. This outcome would be consistent with the totals in Annex A.

CONFIDENTIAL*Paper pso
1 Alex***FROM: M.GIBSON**
DATE: 17 July 1987*FW needs
Hole*

- MEP*
1. MISS PEIRSON
 2. CHIEF SECRETARY

cc **Chancellor**
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr McIntyre
Mr Hawtin
Mr Betenson

DEREGULATION OF PRIVATE RENTED SECTOR: HOUSING BENEFIT CONSEQUENCES

You asked us to secure some amendments to the draft E(LF) paper which we discussed with you on 16 July.

2. An amended paper is attached. The key points are:

- i. The changes to paragraphs 5 and 7 are intended to distance the 1988-89 arrangements from those needed for a deregulated market.
- ii. Paragraphs 18-20 now bring out the option of limiting the amount of benefit payable to 90 per cent of the market rent. It is not recommended in the paper, though it would be open for you or others to argue for it.

3. We have looked again at the costings. The figures given by DOE for the public expenditure costs of deregulated lettings compared with local authority accomodation depend on the assumption that rents are held down from full economic levels by competition from owner-occupation helped by tax relief. We would challenge this on the grounds that if the market worked perfectly landlords would be unwilling to continue to rent. But the market is not perfect (otherwise there would be no new private lettings under the present regime). And even if the competition assumption is excluded, the cost of HB would still only be in the range £47-

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£52 week, because of the exclusion of rents from the top slice of the market from HB. The calculation would still favour private sector renting over public provision. will also do further work on the costings.

4. We will let you have a brief note in time for Thursday's meeting on the longer term costs of deregulation (a 10 year perspective rather than 5). There will not be time to get them into the paper, unfortunately, since they will take some days to produce and agree.

5. You also asked for some market information. Regulated tenancies with registered rents represent about 22% of the current private sector market. Regulated tenancies without registered rents represent 46% - most are for furnished properties and there is a very rapid turnover. The remainder of the market is mainly tied accomodation and tenancies with resident landlords.

6. Because there is a rapid turnover of regulated unregistered tenancies, that proportion of the market is forecast to halve in the first 5 years of deregulation, with the tenancies becoming decontrolled. Although those tenancies remaining will no longer be open to registration by la's, individual tenants will be able to register. Only tenants already on HB will lack an incentive to do so, but their rents will be subject to the HB restrictions agreed for 1988-89 (subsidy not to be payable above 180% of registered rents). The paper attached now proposes this restriction will continue (paragraph 21). So the HB consequences of landlord/tenant connivance will remain constrained, and you can argue for reductions in the percentage limit in future if you wish.

M. Gibson

M GIBSON

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E(LF) (87)

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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

HOUSING POLICY : THE PRIVATE RENTED SECTOR :
HOUSING BENEFIT

Memorandum by the Secretaries of State for the Environment and Health and
Social Services

1. At its meeting on 7 July (E(LF) (87)13th), the Committee asked us to reconsider the proposals in E(LF) (87)22 for controlling housing benefit once the private rented sector has been deregulated. We have done this in consultation with the Chief Secretary.

2. There has long been agreement within the Party about the need to end the present system of rent control in the private sector. Colleagues decided in 1981 and again in 1985 that it was not then the right time to tackle this issue. However the Committee agreed on 6 May (E(LF) (87) 6th) to deregulation proposals and these were included in the Manifesto.

3. Rent controls have had the effect of all price controls : supply has shrunk rapidly. The excess demand has been thrown onto the public sector. Rising homelessness, especially in London, has been the most tangible result. If we want private investors to come back into rented housing rents will have to increase to the point where they can get a reasonable return. Many of the people for whom the private rented sector caters at present and for whom we would want it to cater cannot, however, afford to pay even the present controlled rents out of their own pockets. They need housing benefit and if rents are to rise HB expenditure will go up too. The Committee accepted this

in agreeing the proposals in E(LF)(87)11. That paper estimated that HB expenditure could increase in England by £54m in the first full year and that after 5 years this could have risen to £224m (though against this there would be a large increase in tax revenues giving a net increase in the PSBR of only £55m in year 5). These estimates are subject to further detailed consideration in PES discussions and to the proviso that adequate mechanisms can be devised to ensure that HB does not lead the market.

4. If we were to decide not to support market rents through the HB system, the supply of rented accommodation available to HB recipients would continue to decline rapidly. We estimate that up to 100,000 households who might otherwise have found private rented accommodation over the next 5 years would have to turn to the public sector and this would lead to substantially higher costs. The average cost of housing benefit for a household in a deregulated private letting, would be in the range £35-40 per week; the net weekly cost of housing such a family in an additional council house would be about £65 per week (average loan charges, plus running costs, less rent paid from HB recipients' own funds); the weekly cost of housing the family in bed and breakfast accommodation if it were in priority need would be on average £200. So, enabling the private sector to house these households is much the cheapest solution. Provision of an additional local authority dwelling also, of course, involves substantial capital expenditure at the outset.

INTERIM CONTROL OF BENEFIT UNDER THE REFORMED HOUSING BENEFIT SYSTEM

5. One effect of ^{the} new housing benefit system which comes into effect in 1 April 1988, and which was designed in the context of the present regulated market, is that once a tenant is eligible for HB, any increase in his rent is met in full. Because of this, it has already been recognised that special measures are needed to avoid landlords and tenants exploiting the Exchequer.

6. The proposals worked out by DHSS in consultation with the Treasury and DOE which are to come into operation in April 1988 are designed to give local authorities an incentive to use their discretion to limit benefit on unreasonably high private sector rents. Exchequer subsidy will be sharply reduced (from 97% to 25%) on any benefit which the authority decides to pay on rents in excess of a prescribed threshold which will be set at about 180% of the average "fair" rent in each authority's area. So the incentive operates by limiting the subsidy not by capping the amount of benefit. Authorities also have discretion to limit benefit on accommodation which is

too large for the tenant's needs. The circumstances in which an authority can use its discretion to limit benefit are however constrained in some circumstances. DHSS's regulations provide that the authority cannot restrict benefit for elderly or disabled tenants or for families with children, unless suitable alternative accommodation is available and it is reasonable to expect the claimant to move.

7. The new housing benefit system and these arrangements for limiting subsidy in 1988-89 have been devised in the context of a regulated market. They are based on fair rents which are to be abolished for future tenancies under our current proposals. The move towards a deregulated market requires a new approach.

CONTROL OF BENEFIT AFTER DEREGULATION

Limits on Benefit or on Subsidy

8. The Committee agreed at its meeting on 7 May (E(LF) (87)9th) to continue with the present approach of placing limits on subsidy, not on benefit, but at the meeting on 7 July, colleagues questioned this decision. The Committee was concerned about irresponsible authorities misusing their discretion at the ratepayers' expense. There is also a risk that if local authorities continued to have discretion, some landlords could exploit this knowing that the authority would accept an excessive rent rather than chance eviction of the tenant. But there are on the other hand very strong arguments for giving authorities freedom to exceed the limits in appropriate cases. It is the only way to cope with the hard cases which will inevitably arise and it would avoid central Government having to bear the odium of causing tenants to be evicted and either having nowhere to go or becoming a homeless family in priority need which the local authority must accommodate, probably at greater cost than if they had remained in private accommodation. Only local authorities have the knowledge of the housing situation in their area necessary to judge the cases in which exceptions need to be made. Moreover it is not clear that the existing legislation would allow benefit limits to be set on individual properties other than by the local authority. In our view the right course would be to continue to allow them discretion, but to look for further mechanisms through the subsidy system to force them to exercise it properly. There is an exception to this approach, however, in para 15 below in relation to unduly expensive accommodation, where we do propose a limit on benefit itself.

9. If the Committee agrees that is the right approach, there are several options for stiffening the subsidy rules in relation to individual cases where the local authority pays HB on rents which are assessed as unreasonably high :

- (a) subsidy could be withheld entirely on any benefit above the limit;
- (b) in addition the rate of subsidy on the amount of benefit paid up to the limit could be reduced to 50%; or
- (c) subsidy could be withdrawn entirely.

Given the RSG effect for most authorities of paying benefit without subsidy, all three options would provide authorities with a powerful incentive not to use their discretion except in genuinely deserving cases. If option (c), and possibly if option (b), were adopted, however, the present constraints on authorities' powers to limit benefit for elderly or disabled tenants, or for families with children, would need to be removed.

Area ceilings or individually assessed limits

10. The earlier proposals came down against area ceilings mainly on the grounds that it is very difficult to target them effectively. Any ceiling based on averages will exclude some rents which are entirely reasonable, while failing to bite on some unreasonable rents on property which is of poor quality or in the least desirable areas. There would be a tendency for lower rents to drift up to the ceiling. There are other problems. Selecting the right areas would be particularly critical - if the areas chosen were too large there would be unwelcome redistributive effects. Areas much smaller than local authority areas would be needed, yet this would pose formidable difficulties of collecting data sufficiently detailed to construct and up date the ceilings.

11. These particular difficulties do not arise with individually assessed limits. It is proposed therefore that the Rent Officer, who is independent of local authorities, should be given the task of scrutinising rent levels in housing benefit cases, and that where the rent is unreasonable for the individual dwelling in question he should set a maximum eligible rent. This could relate either to benefit payable or to subsidy, but for the reasons set out in para 8 we prefer the latter.

12. This comes as close as we can get to ensuring that benefit is not paid on excessive rents, while not inadvertently penalising other landlords and tenants. There is likely to be a small increase in administrative costs, but this is an acceptable price to pay for a system which is fair, publicly defensible and will keep rent allowance expenditure under close control. Rent officers would merely be doing what local authorities ought to be doing now if they were all exercising their scrutiny role effectively. There is no question of erecting an immense bureaucracy to deal with cases. The rent officer would have to fix a limit in those cases where the rent was unreasonable. However, there would not need to be close examination of many rents which were clearly reasonable by comparison with earlier decisions; the use of standard indices would avoid the need for detailed annual re-appraisal; and as described in E(LF) (87)24, rents for housing association tenancies will be, probably without exception, below market levels. So local authorities will not normally need to refer these cases to rent officers.

Maximum Rents Eligible for Subsidy

13. Rents for new lettings made after deregulation will be at market levels and we have argued that rents at these levels will need to be eligible for housing benefit. But as a significant proportion of private tenants are and will continue to be on housing benefit it is essential that rents met by benefit follow the market and do not lead to otherwise rent levels will simply spiral upwards. We propose therefore that when assessing rents for benefit purposes Rent Officers should be required to operate within guidelines laid down by the Secretary of State for the Environment. These would require the Officer to establish a market rent using evidence of bargains freely struck by tenants paying the rent entirely from their own resources. Where there is insufficient market evidence of this kind, the rent officer will be required to consider whether the landlord is receiving no more than an adequate return on his capital investment and would be given guidance on how to do this and on the rates of return which are to be considered adequate.

Unduly Large or Expensive Accommodation

14. The Committee was concerned that benefit should not be used to finance accommodation which was too large for the tenant's needs. From 1 April 1988 local authorities will have increased discretion to restrict benefit in such cases, but the proposed subsidy incentives for 1988/89 will not directly

impact on individual cases. We propose to require the rent officer to consider, using prescribed space standards whether a claimant is over-accommodated, and to notify the authority if this is the case. In these circumstances the local authority would be advised to inform the claimant and give notice of the need to seek more appropriate accommodation. Subsidy would be paid for a maximum of, say, 6 months after the notification. If the claimant had not moved after that period, and the local authority continued to pay benefit, subsidy on the rent in question would be reduced on a similar basis to the selected option in paragraph 9 above.

15. The Committee was also anxious to ensure that benefit recipients do not occupy unduly 'up-market' accommodation in cases where all the rent is being met by housing benefit. We propose to achieve this by setting a ceiling : benefit, and subsidy, will not be payable on that part of a rent which falls within the top end of the range for rental values in the local authority area.

16. It will take a little time before a sufficient evidence about market rents to fix a precise benefit cut-off. Initially, therefore, we propose that the rent officer should be required to notify the local authority if, in his view, the property is close to the top-end of the market. Guidance should be given on the factors to be taken into account. The local authority would then be expected to restrict benefit, after giving the tenant sufficient notice to move, to a rent level commensurate with a more reasonable dwelling. During this initial period, we propose that subsidy should not be reduced if the local authority does not accept the assessor's view, but it should have to record its reasons for differing. A fixed ceiling should come in as quickly as possible and preferably after the first year.

17. Broadly, we believe we should aim to exclude the top 10% of the market. But the percentage of high rents to be excluded may have to vary from area to area, and we should retain the flexibility to do this. Some authorities, particularly in London, may have a substantial proportion of up-market lettings. In others a high proportion of the rental market may involve HB recipients, and there may be a very small percentage of high rent properties in the market. We do not want to exclude properties in one town which are less desirable than properties which are not excluded in a neighbouring town. However, we have to recognise that it will be not be easy to arrive at ceilings in each area which exclude precisely the range of properties which we can envisage as being too up-market for benefit recipients. We shall need to

lay annually statutory instruments with schedules of maximum rents area by area which will invite critical scrutiny. Politically this could turn out to be very difficult. We should note also that the existence of a ceiling will increase pressure, which rent officers will have to firmly resist for rents to move up to that ceiling.

Less than 100% Housing Benefit for Market Rents

18. We have considered on previous occasions whether there is scope to require everyone on housing benefit to pay a proportion of the rent. This has twice been rejected in discussion within Government (as well as by the Housing Benefit Review Team) because the wide disparities in rents would lead to substantial losses for some people. Moreover it could create extra burdens on social security overall if those losses were compensated by higher income support.

19. A variant of this approach which has been suggested would be to limit housing benefit, to say 90%, in those cases where a market rent is payable. This would mean that, in the deregulated private sector, tenants could only occupy a property which was assessed as commanding a market rent if they met part of the cost out of their own resources. This would still require an assessment by the rent officer as to whether the rent demanded was the market rent, but the control would not be on subsidy but on the amount of benefit payable.

20. This option would undoubtedly constrain the increase in housing benefit expenditure arising from deregulation. Equally it would result in a number of tenants who are in the private sector, or who would seek private sector tenancies, being debarred from the deregulated market. This would both reduce the impact of deregulation on the supply of accommodation and would be likely to increase homelessness, with greater pressure on local authority accommodation and a probable rise in the number of families in bed and breakfast. Although we thought it right to raise this possibility it is not an option which we could recommend to colleagues.

Regulated Tenancies

21. Under the housing benefit subsidy arrangements agreed for 1988/89, where a rent has not been registered on a dwelling subsidy will be restricted if that rent is more than 180% of average registered rents in the area. This approach, which is intended to encourage authorities to make more use of their powers to limit benefit on unreasonable rents, will largely supercede the alternative whereby the authority uses its power under S68 of the Rent Act 1977 to have a fair rent registered. After deregulation, we expect the number of regulated tenancies without registered rents to fall rapidly. They are principally in the furnished sector, which has a high turnover of tenants. We envisage that the 180% threshold will continue beyond 1988/89 for this class of tenancy only, and that individual rent fixing will come in for these tenancies only when the numbers have diminished very substantially. This will enable the increased HB workload of rent officers to be matched to the declining rent registration workload, and minimise the staffing and administrative consequences. S68 of the Rent Act will become largely redundant as a result of this approach, but we consider it desirable to repeal it to prevent a few authorities using it for political reasons to undermine deregulation policy. Tenants with existing regulated tenancies will of course retain the right themselves to register a fair rent.

LEGISLATIVE AND OTHER IMPLICATIONS

22. Most of these proposals would not require primary legislation. It will be necessary to place a duty in the Housing Bill on rent officers to carry out this function and to take power for the Secretary of State to issue guidance. In most other respects the system can be put in place using existing powers under the Social Security Act 1986. The option of restricting benefit in individual cases, in particular the approach set out in paragraph 19 above, would almost certainly require changes to the Social Security Act 1986. Moreover, there would have to be a substantial amount of further work by officials to establish its practicability and its effects in detail.

Conclusion

23. The Committee will want to consider the further suggestion made in paragraph 19 on restricting the benefit payable on market rents. Subject to that we invite the Committee to reaffirm its earlier decision that housing benefit should be payable on deregulated lettings but that measures should be taken to control housing benefit expenditure. The Committee is further invited to agree :

- (a) that in general controls should bite on HB subsidy and not on benefit payable (para 8);
- (b) that individual rents should be referred to the Rent Officer who would fix a limit where the rent appeared to be unreasonable (para 11);
- (c) that the limits should be based on market rents subject to a rate of return test where insufficient evidence of freely struck bargains is available (para 12);
- (d) that subsidy should be restricted where the accommodation exceeds the prescribed space standards (para 14);
- (e) that benefit should not be payable on accommodation in the most expensive 10% of the market (paras 15-17);
- (f) that local authorities should lose the right to seek to register a rent (para 21).

The Committee is also invited to express a view on the options for subsidy incentives in individual cases (para 9).

CHIEF SECRETARY

FROM: J P MCINTYRE
DATE: 24 July 1987

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Turnbull
Mr Scholar
Miss Peirson
Mr Gibson
Mr Willis
Mr Tyrie

Handwritten notes in red ink:
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acceptance
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'progressive' nature of
country's
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SURVEY: AGENDA LETTER FOR SOCIAL SECURITY

I attach a draft agenda letter and table of key figures to go to Mr Moore covering social security benefits and administration. We propose you write separately on health and personal social services. There are two main issues to consider: the size of the offsetting savings we should seek, and the tactics we should use in handling the options for reductions on the benefit side. You may wish to discuss with us before you send the letter.

Policy Bids

2. Agreement in principle (if not on exact numbers) has already been reached on:

- (i) the addition to Income Support to help recipients pay 20 per cent of their rates;
- (ii) extra provision for the Severe Disablement Allowance and Attendance Allowance, reflecting the Clarke and Moran cases.

3. Of the other bids, you are in separate correspondence with Mr Moore about the Social Fund. On Mobility Allowance for the over-75s, you told us yesterday that you believe this will have to be conceded as part of the bargaining with the Department,

preferably with tighter regulations to contain the cost. The other policy bids are small. The draft letter assumes you will not want to concede any of these policy bids, at least initially.

Estimating Bids

4. Although the Department's proposals look big (broadly, an extra 600/800/1900), we doubt whether they are enough to reflect the rapid underlying growth of expenditure on benefits. The Treasury's own forecasts suggest that roughly 2000/3000/4000 would be justified, over and above what DHSS now propose. As you know, the Department's forecasting record has been poor. For example, the last five PEWPs have underestimated expenditure in Year 1 of the Survey period by an average of £1 billion, and the current year's experience so far is no better, despite the use for the first time in the 1986 Survey of the new FOSSE (CYMS) system.

5. However, as we discussed with you, you may not want to challenge Mr Moore on this point now. We will get a new forecast from DHSS at the end of August and we can consider what line you want to take then. For the moment, the draft letter reminds Mr Moore that you are aware of this problem, partly as a means of reinforcing your case for savings.

Savings

6. We suggest that the first point to make to Mr Moore is a reminder that he should come forward quickly with measures to meet the balance of his predecessor's savings commitments from the 1986 Survey. He still has to find £8 million in 1988-89, £164 million in 1989-90 and £150 million in 1990-91. These savings are already reflected in the baseline.

7. We next need to consider what our savings target should be for this Survey. Let us first take expenditure on benefits (administration is dealt with separately in paragraphs 16-22 below). Bearing in mind the scale of Mr Moore's bids on the benefit side (913/1162/2600) and our concern that the forecasts may not be picking up the full extent of the growth in spending, we think you should go for the maximum practicable policy savings. In doing

so, you might pray in aid the support for policy savings expressed by some colleagues at yesterday's Cabinet.

8. Turning to the possible means of achieving these savings, you said you were attracted by the idea of a single large measure, such as means-testing CB, which might avoid the need for battles with DHSS on a number of smaller options and could even provide scope for us to agree some policy increases to sugar the pill.

9. We are giving you a separate submission today on the CB options you wanted us to consider in this context. You will see from our other note that means-testing CB could produce a wide range of savings, depending on the point at which benefit begins to be withdrawn and the slope of the taper. While savings of as much as £2 billion or more would be possible, smaller savings would result if we were to begin withdrawal at significantly higher than average earnings levels and with a gradual taper. The message for the Survey is that, while we might embark on a major CB option with hopes of large savings, we could not rely on such large savings being produced, even if we win the argument on means-testing. We also need to bear in mind that we might not get the savings until 1989-90, given the commitment to no uprating in April 1988 (which could be an argument against other action on CB in 1988-89) and the time needed to put the administrative arrangements in place.

10. The conclusion we draw from this is that we need to put both the CB option and the other measures you endorsed at your 15 July meeting into play. If you agree, we now need to address how this should be handled in the agenda letter.

11. We recommend that you send your list of options to Mr Moore (copy attached at Annex A to the draft letter) and ask him to instruct his officials to discuss the costings with us so that there is an agreed table of options for reductions in time for the bilateral. Mr Moore would of course be free to bring forward alternative or additional measures as part of the exercise in order to find the required savings.

12. For the purposes of your list, you might include a round figure of £1 billion for the CB option, acknowledging in your letter that there is a large range of possibilities but stressing that you are interested in securing substantial savings. (We might hope to get roughly £1 billion by withdrawing benefit from those earning over £250 a week net, with a 50 per cent taper, keeping clear of the poverty and unemployment traps.)

13. The table below shows what the effect of these proposals on Mr Moore's bid would be if they were all implemented:

| | <u>£ million</u> | | |
|------------------|------------------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| Net Bid | 913 | 1162 | 2600 |
| Options for cuts | -875 | -1955 | -1955 |
| Reduced Bid | +38 | -793 | +645 |

14. This produces an uneven outcome, with a net reduction in benefit expenditure in 1989-90 compared with baseline. This is because the large saving on CB is introduced in that year, a year before Mr Moore's largest estimating increase (nearly £2 billion) comes into the picture. If you thought that proposing a significant reduction compared with baseline lacked credibility, we could solve this problem by phasing in the CB withdrawal (eg so as to achieve only £½ billion in 1989-90) or deferring it to 1990-91. However, deferral to April 1990 could carry strong political risks. And in view of the likelihood that we will not win the argument on a number of the smaller options and that the CB option itself may be watered down, it may be better to stick to the uneven profile these measures produce.

15. We recommend that, in view of the sensitivity of your list, it should be classified Secret and CMO and that your letter should make it clear that the list is not to be circulated outside the Secretary of State's office. (We would, however, show it to trusted opposite numbers at official level in order to carry forward the costings work.) I have arranged with your office that the Annex should be given this classification before the letter is sent.

Administration

16. Mr Moore has put in very large bids (264/381/396), only months after a large increase was agreed for 1987-88. The carry-through of that increase may have to be conceded, but it may be possible to offset it in part at least by measures to contain growth, as suggested in the draft letter.

17. The bids for running costs (186/212/256) have three principal elements: provision in future years for the additional manpower agreed since the last Survey; an amount to bring their assumption for future pay increases up to a realistic level; the remainder, about a third, to provide for a further substantial increase in manpower.

18. The first two of these elements will not be easy to talk down, but you will want to oppose the third as strenuously as possible.

19. The Department seems to take the view that any increase in workload, no matter how small, should be reflected in an additional bid. In part this reflects the rigid complementing system used and that, as you know, is to be replaced by a better, performance-based system, in time for the next Survey. Against the expectation that the complementing formula which underlies the bid will be replaced soon - and it is accepted by both sides to be unsatisfactory - and the background of the large increase in manpower agreed earlier this year, you will want to persuade the Department that they must absorb these increases in workload within existing provision.

20. Part of the bid relates to the Social Fund which is of course being discussed separately. If the Fund were to be introduced as originally planned, we would reject the Department's view that extra staff were needed compared with the number required for Single Payments. If the Fund is dropped, Mr Moore has already offered to withdraw this part of the bid; there would be a staff saving.

21. On capital, part of the bid is for the work associated with the Operational Strategy; eg the building of the Area Computer Centres and the work to install terminals in all of the local offices. But a large part of the bid is for improvements to accommodation in the Department's extensive office estate. Of the two broad categories of expenditure the accommodation bids are most susceptible to reduction, but you have seen Mr Moore's letter supporting PSA's push for substantial sums for repair and refurbishment of accommodation.

22. Whatever has to be conceded eventually, we recommend that your opening position on the Administration bids should be that the Department must get back to baseline, by reducing bids and finding offsets.

Conclusions

23. You are asked to consider the following main proposals reflected in the draft agenda letter:

(a) on benefits, we should aim for savings of 875/1955/1955 through the measures listed in the Annex to the draft letter, while inviting Mr Moore to consider alternative means to find these savings.

(b) On administration, we should aim to get back to baseline, implying cuts of 264/381/396 in Mr Moore's proposals.



J P MCINTYRE

DRAFT LETTER TO MR JOHN MOORE**1987 SURVEY: SOCIAL SECURITY**

Thank you for your letters of 2 July. Following the Cabinet discussion on 23 July, I am writing to propose an agenda for our bilateral meeting in September. There is a separate letter on health.

2. The attached table sets out the key figures for our discussion. Apart from the reductions I am proposing, they have been agreed between our officials and are therefore, I hope, an agreed starting point. As you say, officials will have revised forecasts of benefit expenditure available in August. I hope a revised table, including any forecasting changes, can be agreed between our officials and circulated before we meet.

Background to the Survey

3. The table sets out the various increases and reductions you have proposed. It also shows the further reduction in the programme which I believe is both necessary and achievable. Let me explain why I think this further reduction is essential.

4. There is first the general background of this Survey. As I made clear in the Cabinet discussion, substantial reductions in Departments' proposals will be needed in order to achieve the objective we have all endorsed of reducing public expenditure as a proportion of national income as set out in the White Paper. The Social Security programme, representing as it does such a large proportion of total public spending, must play its part in

achieving this objective. And I think this was recognised at Cabinet by a number of colleagues who expressed support for policy savings in this programme.

5. The other factor we need to recognise is the remorseless growth in social security expenditure. It has gone up by 180 per cent since 1978-79 (and this is nearly 40 per cent more than inflation). Under your proposals, it would rise by a further 16 per cent or £7 billion during the Survey period. If the programme were allowed to grow as you propose, it would be extremely difficult to accommodate it within the public expenditure position Cabinet has agreed.

6. Your proposals are dominated by large forecasting increases, accounted for almost entirely by estimating increases rather than new economic assumptions provided by the Treasury. Put simply, this means that, under existing policies and despite falling unemployment, you expect more benefit to be paid to more people. Furthermore, in considering your proposals, I need to keep in mind the history of under-estimating benefit expenditure by your Department. The current year's experience shows that, despite your predecessor's assurances of more realistic forecasting, this is a problem which is still very much with us. The outlook may therefore be even worse than your figures suggest. This is a question we will need to return to when your revised forecasts are available.

7. Against this background, we have no option but to look at all possible ways of reining back the growth in the programme.

Policy Bids

8. Turning first to your policy bids, I do not think the general picture I have described above is one in which we can afford any new policy initiatives, however small in relation to the total programme.

9. Some further work by officials is necessary on the amounts to be provided for the bids which have been agreed in principle. In particular, my officials have suggested ways of reducing the cost of the E(LF) decision to increase Income Support in respect of the 20 per cent of rates claimants will have to pay. Your figures (£340 million in the first year) include protection for a large number of non-householders who do not pay rates; E(LF) agreed that we should try to avoid this.

10. Our officials will also need to agree up-to-date estimates of the cost of the Moran and Clarke judgments affecting Attendance Allowance and Severe Disablement Allowance respectively, and also the size of the reduction to reflect withdrawal of Income Support for 16 and 17 year olds. Work is also being done on the cost of your proposal to extend Mobility Allowance to the over-75s.

11. I hope that all of these numbers can be agreed before we meet.

12. We are discussing your proposals for the Social Fund separately.

Reform Recosting

13. You mention the recosting of the reform proposals, which you say should not have PES consequences either way. This is obviously a most important exercise, and I hope you will have no objection to my officials having early access to the detail of the recosting so that we can discuss the precise implications. It is worth recalling that your baseline includes over £500 million additional resources for income support, including transitional protection and family credit compared to the present schemes. The extra resources provided for rates compensation will also improve the gainers and losers profile dramatically. In view of the large estimating bids you have submitted, we must consider what scope there is for savings in the setting of the new benefit rates.

Savings

14. We first need to agree on the measures required to meet the balance of the savings commitments outstanding from the 1986 Survey. The amounts outstanding are £8 million in 1988-89, £164 million in 1989-90, and £150 million in 1990-91. As I said in my letter of 16 July, it would be helpful if you could let me know as soon as possible how you intend to achieve this.

15. Turning to the current Survey, I have decided that in view of the overall public expenditure position we need to secure savings in benefits amounting to a further £875 million in 1988-89, and around £2 billion in 1989-90 and 1990-91.

16. There are different ways of achieving the required savings. In the attached Annex, I have set out a list of measures which could meet the objective. I would like to discuss them when we meet, and, in the meantime, I would be grateful if our officials could review the costings attached to each of them so that we have an agreed basis for the discussion. Please note the classification of the Annex. In view of the sensitivity of its contents, I would be grateful if you could ensure that it is not circulated outside your office. To facilitate the costings exercise, my officials will be in touch with yours about the list.

17. As I have said, there is more than one way of achieving the quantity of savings I have indicated. If there are measures not in Annex A which you would prefer to implement, these should of course be added to the list for the costings exercise by officials and our discussion in September.

18. You will see that there is one very major source of savings in the Annex, for which the costing is extremely broad-brush. A great deal would depend on exactly how we implemented this measure. But I am sure it is one we should aim to achieve substantial savings from.

Administration

19. Yet again your bids include substantial additions for social security administration. I appreciate that you have plans to deliver savings in manpower through the Operational Strategy, but the value of these savings will be wiped out if, in every Survey, additional provision is conceded. And I am sure you will agree

that your Department should develop the plans to make the savings, of at least 1½ per cent a year on the totality of your running costs, which Cabinet has agreed should be the minimum benchmark for all Departments.

20. I cannot accept that every increase in workload, no matter how small, should be translated automatically into additional provision. I know you accept this, and that your officials are working to devise a new means of establishing an appropriate complement, which will be performance based. However, you will need to identify additional measures to reduce the cost of social security administration. You might, for example, reexamine the need for so much routine work to be carried out within local offices, or to locate so many staff in expensive HQ buildings in London. I know that you are already planning a thorough review of the regional tier of social security offices.

21. I suggest that our officials should, between now and the autumn, explore how your bids (and indeed your baseline) can be reconciled with the manpower savings intended from the Operational Strategy and the requirement for at least 1½ per cent efficiency savings on the totality of your running cost activity. We will then be in a better position to judge to what extent, if at all, any increases over baseline are necessary to provide for pay increases at the level you have sought.

22. I am copying this letter to the Prime Minister and the Lord President.

DHSS: SOCIAL SECURITY

£ million (except where stated)

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 |
|---|---------|---------|---------|---------|
| A. Expenditure Baseline | | | | |
| A1. Benefit expenditure | 43674 | 45282 | 47104 | 48282 |
| A2. Administration (Prog 12) | | | | |
| - running costs | 1505 | 1437 | 1474 | 1510 |
| - other | 516 | 537 | 545 | 559 |
| Total baseline (excluding LA relevant current and IFR items) | 45695 | 47256 | 49123 | 50351 |
| B. Proposed Additions | | | | |
| B1. Income Support 20% (agreed)* | | 340 | 353 | 364 |
| B2. Effect of economic assumptions | | -21 | 81 | 433 |
| B3. Estimating changes | | 614 | 797 | 1871 |
| B4. Estimating reduction due to withdrawal of income support from 16-17 year olds (agreed)* | | -50 | -90 | -84 |
| B5. Severe Disablement Allowance (agreed)* | 11.5 | | 3.7 | 3.7 |
| B6. Attendance Allowance (agreed)* | | 16 | 15 | 5 |
| B7. Social Fund start up costs | | 25 | | |
| B8. Mobility Allowance (over 75s) | | | 0.5 | 4.5 |
| B9. SDA (16-19 year olds) | | 0.7 | 0.6 | 0.5 |
| B10. Reduced Earnings Allowance | | 1.8 | | |
| B11. Occupational Deafness | | | 1 | 2 |
| B12. Administration | | | | |
| - running costs | | 186 | 212 | 256 |
| - capital | | 60 | 154 | 121 |
| - other | | 18 | 15 | 19 |
| Total | | 1202 | 1542.8 | 2995.7 |
| C. Proposed Reductions | | | | |
| (i) Identified by Departmental Minister | | | | |
| C1. Alignment of Pay Periods | | -25 | | |
| Sub-total | | -25 | | |
| (ii) Further specific proposals by Chief Secretary | | | | |
| C2. Reductions in benefits | | -875 | -1955 | -1955 |
| Total | | -900 | -1955 | -1955 |

* Agreed in principle but exact figures not yet settled.

1988-89 1989-90 1990-91

D. Gross Running Costs

Class XV - Social Security and central HPSS administration

| | | | |
|-------------------------------------|------|------|------|
| (i) Baseline | 1564 | 1603 | 1643 |
| (ii) Dept's Proposal | 1750 | 1815 | 1899 |
| (per cent changes on previous year) | | | |
| (i) Baseline | -4.0 | +2.5 | +2.5 |
| (ii) Dept's Proposal | +7.5 | +3.7 | +4.6 |

E. Manpower

| | 1.4.86 | 1.4.87 | 1.4.88 | 1.4.89 | 1.4.90 | 1.4.91 |
|--------------------|--------|--------|--------|--------|--------|--------|
| Baseline | 92467 | 95826 | 98850 | 93350 | 93450 | 93450 |
| Proposed Additions | - | | 4043* | 6432\$ | 6437\$ | 4769\$ |

* already agreed and included in 1987-88 estimates (XV,5)

\$ Includes agreed carry-forward from 1987-88 Estimates
Class XV, vote 5:

| | 1.4.89 | 1.4.90 | 1.4.91 |
|--|--------|--------|--------|
| | 3050 | 3050 | 3050 |

Note This table includes manpower figures for Class XIV Vote 3, (Health, special hospitals etc.) but the proposed additions are in respect of Class XV Vote 5, (Social Security administration.)

ANNEX ASOCIAL SECURITY BENEFITS: OPTIONS FOR REDUCTIONS

| | 1988-89 | 1989-90 | £ million 1990-90 |
|---|---------|---------|----------------------|
| 1. Child Benefit: means-testing | | 1,000 | 1,000 |
| 2. New Benefit Rates: lower by 50p compared with Tech. Annex | 300 | 300 | 300 |
| 3. Christmas Bonus: restrict to supplementary pensioners | 80 | 80 | 80 |
| 4. Housing Benefit: increase rates taper from 20% to 25%, and rents taper from 60% to 65% | 100 | 100 | 100 |
| 5. Abolish entitlement to benefits below £5 | 50 | 50 | 50 |
| 6. Attendance Allowance: reduced rate for children of all ages | 50 | 50 | 50 |
| 7. Boarders: no uprating of Income Support limits | 25 | 25 | 25 |
| 8. Unemployment Benefit: tighten entitlement rules | 20 | 100 | 100 |
| 9. One Parent Benefit: abolish | 100 | 100 | 100 |
| 10. Widows Benefit and Retirement Pension: introduce £100 earnings rule | 100 | 100 | 100 |
| 11. Income Support: offset Mobility Allowance for those in residential care | 50 | 50 | 50 |
| | ----- | ----- | ----- |
| | 875 | 1955 | 1955 |
| | ----- | ----- | ----- |

pup

FROM: J P MCINTYRE
DATE: 1 September 1987

CHIEF SECRETARY

cc Chancellor 12/2nd
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Scholar
Mr Turnbull
Miss Peirson
Mr Gieve
Ms Boys
Mr Gibson
Mr Watts
Mr Tyrie

*I have discussed
X - ask WR 1
Ch
Brief itself not attached
AA
(Spk if unclear)
EST.
Finding*

SURVEY: SOCIAL SECURITY

I attach briefing for your bilateral with Mr Moore next week. You may like to look at this in advance of our briefing meeting with you tomorrow. I am sending you separately an outline agenda for tomorrow's meeting.

2. After the core brief, there is a brief on each of the options for reductions and the Department's bid for the Social Fund, followed by a brief on Administration provided by ST(2).

Overall Position: Changes since Agenda letter

3. Since your 31 July letter to Mr Moore, the overall numbers have been moving against us. The Department's estimating bid has gone up, and some of the other bids have also been revised upwards. The changes are:

| | <u>£ million</u> | | |
|--------------------------|------------------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| Estimating Bids | 450 | 600 | 600 |
| Economic assumptions | (200) | (150) | (90) |
| Other benefit bids (net) | 35 | 41 | 52 |
| Administration bid | (17) | (21) | (21) |
| | — | — | — |
| Net Increase in Bid | 268 | 470 | 541 |

As a consequence our estimate of the forecast outcome has deteriorated in line with the increased bid.

4 The main factor (apart from the estimating change) is the recosting of compensation for the 20 per cent contribution to rates. In addition, the recosting of the reforms has led to a new bid of £10 million a year to provide for full uprating of the Technical Annex rates. We will provide a separate note on reform recosting before the weekend.

5. The estimating bid (now worth 1064/1397/2471 after the upward revision) is welcome in so far as it represents a step towards more realistic projections by DHSS. We will let you have a breakdown of this bid as soon as we get it from DHSS. The totals go further than we expected. It still seems likely, however, that they are under-estimating the underlying growth of expenditure. The June Treasury forecast indicated that something like an extra 2000/3000/4000 was needed;

though this will come down in the new forecast DHSS are still some way short.

6. While there are some important points to be made in the bilateral about forecasting, we think it would be fruitless to press Mr Moore to put in a still higher bid in this Survey. As it stands, the bid is big enough to justify your proposed savings - except in Year 2, where you can point to the poor forecasting record and the general public expenditure position in justification. This is the line assumed in the core brief.

7. The revised list of bids is shown at Annex B to this note. The remaining individual notes on bids will be submitted in the next few days. The possibility of handling minor bids so as to avoid discussion at the bilateral is dealt with in Mr Gibson's submission of 28 August.

8. On the savings side, the position has also worsened. The options identified in your 31 July letter are worth about 400/360/350 less than we then estimated. There are three reasons for the deterioration. First, Mr Moore has proposed a £100 common earnings rule to meet part of his 1986 Survey commitments, removing this option from your current Survey list. Second, the costing exercise has substantially reduced the estimated savings from several of our options, notably the 50p cut in new benefit rates and steeper housing benefit tapers. Third, £66 million a year of savings are non public expenditure. The effect of these changes is shown in the revised version of the list you sent to Mr Moore (Annex A - 1st revise) immediately following this covering note.

9. Against this background, there are in principle three choices:

- A. Increase Agenda letter savings targets to broadly 1050/2300/2400 to reflect Mr Moore's increased bids (mainly estimating);

- B. Stick to Agenda letter savings targets of 775/1855/1855.
- C. Accept lower savings targets of 378/1476/1506, resulting from Mr Moore's pre-emption of the common earnings rule and the costing of our other proposals.

10. You will want to consider, against the background of the overall Survey position, whether you want to go as far as A or aim for the more modest objective of B (which would require identification of further savings measures of around £400 million in the first year). Accepting C at this early stage of negotiations could seriously damage the credibility of the argument you have put to Mr Moore that the general public expenditure situation requires social security savings of 775/1855/1855.

11. If you agree, that further measures need to be identified to make up the shortfall, you could put these forward, or Mr Moore could be asked to do so. To assist our discussion tomorrow, I attach at Annex C to this note a list of some savings options not so far put to DHSS.

Child Benefit

12. The first of the individual briefs is on Child Benefit, and you will no doubt want to discuss with us how this should be handled.

13. You may recall that, at your meeting on 15 July, you asked us to look at two broad approaches to this. The further work on these is set out in my minute of 24 July. The first involves freezing or cutting the rate for first or subsequent children. The second involves means-testing (you asked us to consider in particular withdrawing CB from those on above average incomes). It is the second approach which is proposed in your agenda letter to Mr Moore, and the briefing assumes that you will not want to be driven into accepting the much smaller savings which we would be likely to get from the first.

14. However, the brief also assumes that you will not want to insist on means testing beginning at average earnings. This would affect roughly 3½ to 4½ million families (earning upwards of £150-£185 net a week, depending on the precise definition of average earnings chosen), out of the 7 million families currently in receipt of CB. By moving up to a threshold of £250 net, we can reduce the number of losers to around 1.7 million (about a quarter of families now receiving CB) and keep well clear of poverty and unemployment trap problems. Accepting a 50 per cent taper, rather than complete withdrawal of benefit after £250, may also make the proposal more palatable. The brief assumes that this is the option you will want to press on Mr Moore.

15. There are of course risks in quickly abandoning the tougher options of withdrawal above average earnings. We would lose the chance of making bigger savings, and there would no doubt be attempts to drive us down to still weaker measures, such as freezing the rate for first children. Against those considerations, you will want to put your weight behind a proposal which is credible and would also meet our stated requirement of saving roughly £1 billion.

16. We are attempting to agree with DHSS officials a factual paper setting out the options, to which you and Mr Moore could refer in the bilateral. We hope to have this agreed by the end of the week.

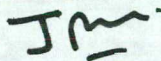
17. I understand that Mr Moore's reaction to our proposal is that he is interested in it and wants it pursued further. However, he is keen to see taxation, as well as means testing, explored. Unless you object, the taxation option will also be discussed in the officials' paper. The case for including it is that it will be difficult to prevent any discussion of it if Mr Moore wants to raise it, and we may as well have the discussion properly based on a factual note agreed between the two Departments. Moreover, Mr Moore might well say we are being unreasonable if discussion of the tax option is simply ruled out of court; it is after all one way of reducing the net cost of CB to the government. For these reasons, I think you should allow taxation onto the agenda.

Year 1 versus Year 2

18. Mr Felstead's minute of 17 August recorded your comment that we might direct much of our fire on year 2 rather than year 1, given that Mr Moore already has a difficult Bill to take through and difficult inherited commitments.

19. In one important respect, our proposals already take account of this point in that we are looking for savings of nearly £900 million next year but nearly £2 billion in 1989-90 and 1990-91. This is because the child benefit option would not be implemented until April 1989.

20. However, this may not be of much help to Mr Moore in easing his problems with the Bill and his inherited commitments. Means testing of CB would have to be announced along with all the other Survey decisions, because it would be too important a part of the arithmetic to be concealed (even if that were desirable). Moreover, some of our other options (Christmas bonus, and offsetting mobility allowance against IS for those in care) require primary legislation, and so we would need to get these into the Bill. And all of the options, except CB, are planned to generate savings from 1988-89.



J P MCINTYRE

ANNEX A (1st Revise)SOCIAL SECURITY BENEFITS: OPTIONS FOR REDUCTIONS

| | £ million | | |
|---|-----------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. Child Benefit: means testing | - | 1,000 | 1,000 |
| 2. New Benefit Rates: lower by 50p compared with Tech. Annex (i) | 156 | 156 | 156 |
| 3. Christmas Bonus: restrict to supplementary pensioners | 96 | 96 | 97 |
| 4. Housing Benefit: increase rates taper from 20% to 25%, and rents taper from 60% to 65% (i) | 46 | 46 | 46 |
| 5. Abolish entitlement to benefits below £5 | | | |
| 6. Attendance allowance: reduced rate for children of all ages (ii) | 45 | 48 | 52 |
| 7. Boarders: no uprating of IS limits (i) | 8 | 8 | 8 |
| 8. Benefits for unemployed: | | | |
| (a) Extra claimant advisers | 20 | 20 | 20 |
| (b) Benefit Plus | 5 | 120 | 125 |
| 9. Widows Benefit & Retirement Pension: introduce £100 earnings rule (iii) | - | - | - |
| 10. IS: offset Mobility Allowance for those in residential care | 2 | 2 | 2 |
| | <hr/> | <hr/> | <hr/> |
| | 378 | 1496 | 1506 |

Memorandum:

Non-PE savings are as follows:

| | | | |
|--------|-------|-------|-------|
| A2(i): | 15 | 15 | 15 |
| A4(i): | 51 | 51 | 51 |
| | <hr/> | <hr/> | <hr/> |
| | 66 | 66 | 66 |

Notes:

(i) Detailed estimate for 1988-89 only. Later years' figures may differ.

(ii) Assumes no transitional protection.

(iii) Proposed by DHSS to meet part of 1986 Survey savings commitments.

DHSS: SOCIAL SECURITY

£ million (except where stated)

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 |
|--|---------|---------|---------|---------|
| A. Expenditure Baseline | | | | |
| A1. Benefit expenditure | 43674 | 45282 | 47104 | 48282 |
| A2. Administration (Prog 12) | | | | |
| - running costs | 1505 | 1437 | 1474 | 1510 |
| - other | 516 | 537 | 545 | 559 |
| Total baseline (excluding LA relevant current and IFR items) | 45695 | 47256 | 49123 | 50351 |
| B. Proposed Additions | | | | |
| B1. Economic assumptions | | -221 | -69 | 343 |
| B2. Estimating changes | | 1064 | 1397 | 2471 |
| B3. Estimating reduction due to withdrawal of income support from 16-17 year olds (agreed)** | | -51 | -88 | -83 |
| B4. Reform Recosting | | 10 | 10 | 10 |
| B5. Income Support 20% * | | 378 | 392 | 405 |
| B6. Severe Disablement Allowance (agreed)** | | 11.5 | 3.7 | 3.7 |
| B7. Attendance Allowance (agreed)** | | 16 | 15 | 5 |
| B8. Social Fund start up costs | | 25 | | |
| B9. Mobility Allowance (over 75s) | | | 0.5 | 4.5 |
| B10. SDA (16-19 year olds) | | 0.7 | 0.6 | 0.5 |
| B11. Reduced Earnings Allowance | | 1.8 | | |
| B12. Occup. Deafness | | - | 1 | 2 |
| B13. Administration | | | | |
| - running costs | | 169 | 191 | 235 |
| - capital | | 59.3 | 153.8 | 120.8 |
| - other | | 16.4 | 18 | 20.1 |
| Total | | 1479.7 | 2025.6 | 3537.6 |
| C. Proposed Reductions | | | | |
| (i) Identified by Departmental Minister | | | | |
| C1. Alignment of Pay Periods | | -25 | | |
| C2. Excess savings from PES 1986 | | -11.6 | -10 | |
| Sub-total | | -36.6 | -10 | |
| (ii) Further specific proposals by Chief Secretary | | | | |
| C2. Reductions in benefits | | -775 | -1855 | -1855 |
| Total | | -811.6 | -1865 | -1855 |

* Agreed in principle for rate-payers but exact figures need to reflect E(LF) decision on avoiding windfall gains for non-householders.

** Agreed in principle but exact figures not yet settled

1988-89 1989-90 1990-91

D. Gross Running Costs

Class XV - Social Security and central HPSS administration

| | | | |
|----------------------|------|------|------|
| (i) Baseline | 1564 | 1603 | 1643 |
| (ii) Dept's Proposal | 1750 | 1815 | 1899 |

(per cent changes on previous year)

| | | | |
|----------------------|------|------|------|
| (i) Baseline | -4.0 | +2.5 | +2.5 |
| (ii) Dept's Proposal | +7.5 | +3.7 | +4.6 |

E. Manpower

| | 1.4.86 | 1.4.87 | 1.4.88 | 1.4.89 | 1.4.90 | 1.4.91 |
|--------------------|--------|--------|--------|--------|--------|--------|
| Baseline | 92467 | 95826 | 98850 | 93350 | 93450 | 93450 |
| Proposed Additions | - | | 4043* | 3960§ | 4439§ | 2790§ |

* already agreed and included in 1987-88 estimates (XV,5)

§ Includes agreed carry-forward from 1987-88 Estimates
Class XV, vote 5:

| | | | |
|--|--------|--------|--------|
| | 1.4.89 | 1.4.90 | 1.4.91 |
| | 3050 | 3050 | 3050 |

Note This table includes manpower figures for Class XIV Vote 3, (Health, special hospitals etc.) but the proposed additions are in respect of Class XV Vote 5, (Social Security administration.)

SOCIAL SECURITY BENEFITS: FURTHER SAVINGS OPTIONS

| | £million | | |
|--|----------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| 1. New Benefit Rates: lower by £1 compared with Tech. Annex (i) | 150 | 150 | 150 |
| 2. Offset occupational pensions against UB for all pensioners (ii) | - | 10 | 20 |
| 3. Earlier implementation of common earnings rule at £100 (iii) | 60 | - | - |
| 4. Offset occupational pensions against sickness and invalidity benefit for those aged 55 and over (from April 1988) | 100 | 100 | 100 |
| 5. Limit amount of Mobility Allowance where higher rate AA in payment (reduce it by difference between higher and lower rates - £11) | 10 | 10 | 10 |
| 6. Increase illustrative rents taper to 70% (leave rates taper at 20%) | 50 | 50 | 50 |
| 7. Income Support/Housing Benefit Increase tapering of entitlement when claimants have more than £3000 capital (iv) | 25 | 25 | 25 |
| 8. Increase non-dependent deductions from rent rebates (v) | 25 | 25 | 25 |
| 9. Social Fund: savings in later years | | 5 | 5 |
| | — | — | — |
| TOTAL | 395 | 350 | 360 |

Notes:

- (i) Figures are for extra savings, compared with 50p cut already proposed by Treasury.
- (ii) Figures are for extra savings, compared with offset for 55-60 year olds only, already proposed by DHSS.
- (iii) Figures are for extra savings from implementation in April 1988, compared with January 1989 already proposed by DHSS.
- (iv) Target figure, subject to costing by DHSS.
- (v) " " , " " " " " " .

McIntyre
4/9/87

Pur

BILATERAL BRIEF: DHSS - SOCIAL SECURITY

Briefing table attached at Appendix 1, manifesto commitments at Appendix 2.

1. OVERALL OBJECTIVES FOR PROGRAMME

Main aim on benefits is to secure maximum policy savings to offset large estimating increases; on administration, to eliminate all new bids.

2. INTRODUCTORY SPEAKING NOTE

Cabinet agreed we should stick as close as possible to our existing cash planning totals and should continue to reduce expenditure as a proportion of national income as set out in the White Paper. This is essential if we are not to damage market confidence nor jeopardise our objectives on taxation and borrowing. As I said at Cabinet, this requires large reductions in the bids I have received. Social Security accounts for 30 per cent of public spending by Departments and so must play full part in this process. Several colleagues supported cuts in Social Security at 23 July Cabinet.

Net bids (benefits and administration) are for broadly 1450/2000/3550. Clearly inconsistent with Cabinet decision: not credible to seek sufficient offsetting savings from other Departments. Accept that bulk of bids on benefit side are estimating. But that means examining policy changes to contain growth in spending to acceptable levels.

Proposals in my 31 July agenda letter total of savings needed each year (800/1850/1850) for benefit expenditure to make appropriate contribution to overall Survey objective. Also looking for elimination of new administration bids (ie cuts in bids of 244/360/374). Since then, total bids have been revised upwards by 268/470/541 mainly for estimating increases. Even more important therefore to achieve savings targets.

Propose agenda:

- (i) Savings options;
- (ii) Policy Bids;
- (iii) Administration;
- (iv) Timing of Uprating Announcement.

3. HANDLING THE BILATERAL

Assessment: Programme will have to go to Star Chamber, and second bilateral probably necessary in meantime. Although Mr Moore has indicated he might accept one of our ideas for savings (CB), he will resist most and want colleagues' backing for any difficult measures.

Timetable: September RPI announcement on Friday 9 October likely to be followed by pressure for early announcement of new benefit rates. Such pressure should be resistible at least till Parliament returns (21 October). We should keep open options on timing of announcement (including waiting till Autumn Statement time) to allow adequate time for discussion of difficult savings measures. (Star Chamber unlikely to start until 12 October).

Agenda: Take savings options before policy bids to avoid bids taking up too much time. See Introductory Speaking Note.

Fallback: Concede nothing on savings targets at 1st meeting; wait for Mr Moore's initial response on each option before deciding next step. If discussion on savings options has gone well, you could concede four minor bids (B8 to B11 inclusive) subject to offsetting savings. On administration, resist **new** bids: concede only carry forward into 1988-89 of increase in manpower agreed earlier this year (3050 posts). Decisions on manpower for 1989-90 and 1990-91 deferred till next Survey.

End Meeting: On benefits, welcome any moves to accept savings measures. Suggest further work by officials to prepare 2nd meeting, with view to narrowing differences. On administration, go for 2nd bilateral (ie keep out of Star Chamber if possible). On timetable, avoid commitment to early announcement and agree to clear a line to take following RPI publication on 9 October.

4. KEY POINTS TO MAKE

Positive

(i) Programme has already enjoyed massive growth: up £30 billion, or 180 per cent since 1978-79 (40 per cent real). Time to call a halt. Mr Moore's proposals would add further £8 billion (cash) to annual total by 1990-91; compared with this year's baseline: not acceptable.

(ii) Forecasting record strengthens case for savings. eg Last 4 PEWPs have underestimated first year spending by average of £1 billion.

(iii) Reforms next April provide unique opportunity to make further changes. New benefit rates should be trimmed to increase incentives, and reduce poverty and unemployment traps. On current plans, £750 million extra public expenditure being put into new benefits.

(iv) Good time to put through savings, early in Parliament.

(v) Housing Benefit, and sickness and invalidity benefits have risen by one third in real terms since 1978-79. Supplementary Benefit has risen by one quarter in real terms over this period. Expenditure on each of these benefits continues to rise rapidly. Should make more realistic estimates and take policy action to offset them.

Defensive(i) Cuts politically impossible

No. Best time to put through savings. More difficult later in Parliament. Government on good ground as long as it can show help being concentrated on those in need.

(ii) Increases due to Treasury assumptions

No. Mostly result of growth in programme, despite falling unemployment. New economic assumptions available before Star Chamber may change picture a little but unlikely to affect expenditure much.

(iii) Staff increases essential: local offices on point of breakdown

Two large increases in staff numbers last year and this. Cannot continue with endless increases. Should plan to manage with numbers agreed necessary only a few months ago.

5. DETAILED BRIEFING

Additional briefing is attached on:-

(a) individual bids and savings options. Bids are labelled B1 etc, as in Appendix 1 which lists the bids. Savings options are labelled A1 etc, as in the Annex to the Agenda letter sent to Mr Moore on 31 July.

(b) manpower, running costs, and computerisation.

6. OVERALL OBJECTIVES

| | <u>£ million</u> | | |
|--|------------------|---------|---------|
| | 1988-89 | 1989-90 | 1990-91 |
| DHSS proposal (net of offered savings) | 1443 | 2016 | 3537 |
| Treasury Opening Position | 318 | -296 | 1195 |
| (Treasury fallback) | 378 | 294 | 1121 |
| Forecast outcome | 1205 | 1541 | 3003 |

APPENDIX 1

£ million (except where stated)
1986-87 1987-88 1988-89 1989-90 1990-91

A. Present Plans (excluding LA relevant current and IFR items)

| | | | | | |
|----------------------------|-------|--------|--------|--------|--------|
| -cash | 44238 | 45695 | 47258 | 49123 | 50351 |
| (of which running costs) | | (1505) | (1437) | (1474) | (1510) |
| -% change on previous year | | (+3.3) | (+3.4) | (+3.9) | (+2.4) |

| B. Proposed additions | <u>Opening Position</u> | | | <u>Fallback</u> | | |
|--|-------------------------|---------------|---------------|-----------------|---------------|---------------|
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| B1 Econ assumptions | -221 | -69 | 343 | -221 | -69 | 343 |
| B2 Estimating changes | 1064 | 1397 | 2471 | 1064 | 1397 | 2471 |
| B3 Estimating change on IS (under 18s) * | -51 | -88 | -83 | -51 | -88 | -83 |
| B4 Review Recosting | 10 | 10 | 10 | 10 | 10 | 10 |
| B5 Income Support 20% | 300 | 300 | 300 | 300 | 300 | 300 |
| B6 SDA * | 11.5 | 3.7 | 3.7 | 11.5 | 3.7 | 3.7 |
| B7 Attendance Allow * | 16 | 15 | 5 | 16 | 15 | 5 |
| B8 Social Fund Start Up | 0 | - | - | 20 | - | - |
| B9 Mobility Allow | - | 0 | 0 | - | 0.5 | 4.5 |
| B10 SDA (16-19s) | 0 | 0 | 0 | 0.7 | 0.6 | 0.5 |
| B11 Earnings Allow | 0 | - | - | 1.8 | - | - |
| B12 Occup. Deafness | - | 0 | 0 | - | 1 | 2 |
| B13 Administration | | | | | | |
| -running costs | 0 | 0 | 0 | 38 | 0 | 0 |
| -capital | 0 | 0 | 0 | 0 | 0 | 0 |
| -other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 1129.5 | 1568.7 | 3049.7 | 1190 | 1570.8 | 3056.7 |

C. Proposed reductions

| | | | | | | |
|-------------------------|---------------|--------------|--------------|---------------|--------------|--------------|
| (i) identified by Dept | | | | | | |
| C1 Pay Period Alignment | -25 | - | - | -25 | - | - |
| C2 PES 86 savings | -11.6 | -10 | - | -11.6 | -10 | - |
| Subtotal | -36.6 | -10 | - | -36.6 | -10 | - |
| (ii) proposed by CST | | | | | | |
| C3 Benefit Reductions | -775 | -1855 | -1855 | -775 | -1855 | -1855 |
| Total | -811.6 | -1865 | -1855 | -811.6 | -1865 | -1855 |

* Subject to further discussion by officials of likely cost

| | <u>Opening Position</u> | | | <u>Fallback</u> | | |
|--|-------------------------|--------|---------|-----------------|--------|---------|
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| D. TOTALS | | | | | | |
| 1. implied net change from present plans (B-C) | +317.9 | -296.3 | +1194.7 | +378.4 | -294.2 | +1120.7 |
| 2. implied new programme total (A+B-C) | | | | | | |
| -cash | 47576 | 48827 | 51546 | 47636 | 48829 | 51552 |
| -% change on previous year | (4.1) | (3.3) | (4.9) | (4.3) | (3.3) | (4.9) |
| E. Gross running costs | | | | | | |
| | 1437 | 1474 | 1510 | 1475 | 1474 | 1510 |
| % increase on previous year | (-4.5) | (+2.5) | (+2.4) | (+3.8) | (-) | (+2.4) |
| % increase in running costs per man year | | | | | | |
| F. Manpower | | | | | | |
| | 1.4.88 | 1.4.89 | 1.4.90 | 1.4.91 | | |
| Present plans | 98850 | 93350 | 93450 | 93450 | | |
| Departments proposal | 102893 | 99782 | 99887 | 98217 | | |
| Opening Position | 98850 | 93350 | 93450 | 93450 | | |
| Fallback | 98850 | 96400 | 93450 | 93450 | | |

Note This table includes manpower figures for Class XIV Vote 3, (Health, special hospitals etc.) but the proposed additions are in respect of Class XV Vote 5, (Social Security administration.)

APPENDIX II

MANIFESTO COMMITMENTS

1. "We will continue to maintain the value of the state retirement pension."

2. "To bring more help to low income families.

Child benefit will continue to be paid, as now, and direct to the mother. Families on income support - which replaces supplementary benefit - will benefit from the new family premium. In addition, we will introduce the new family credit which will benefit twice as many low income families in work as family income supplement."

3. "To improve the framework of benefits for disabled people.

The introduction of the new disablement premiums will bring an extra £50 million per year to disabled people. We are carrying out a major new survey of the needs of disabled people. This will be completed next year".

REDUCTION A1: CHILD BENEFIT - MEANS TESTING

| | Opening Position | | | <u>£ million</u> Fallback | | |
|--------------|------------------|-------|-------|------------------------------|-------|-------|
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A1 | - | 1,000 | 1,000 | - | 1,000 | 1,000 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Main objective for first meeting is to get Mr Moore's agreement to principle of means-testing as way of achieving substantial savings. Implementation, notably precise income level at which withdrawal/tapering begins, can be settled later if necessary. Any proposals by Mr Moore to substitute freezing of rate in 1989-90 or taxation should be rejected.

2. History of government commitments on CB is at Annex I to this note. [Agreed note by officials on options/administration is at Annex II: to follow.]

3. POINTS TO RAISE

- i. Hard to justify maintaining CB as universal benefit given other pressures on programme and need to focus help on those in need.
- ii. Great deal of CB is paid to those who do not need it. In 1987-88, over one quarter of CB expenditure (£1.1 billion) was paid to families earning over £250 a week net (equivalent to £18,300 a year for one earner couple). Difficult to see why State should pay people in this comfortable position a further £377 a year for each child.

- iii. Important to bear in mind recent strong growth in earnings. This has put many people in better position to do without CB. Average male earnings will have risen by 22 per cent (pre-tax) between 1978-79 and 1987-88. Average real earnings of top income groups have risen even faster eg those at upper quartile have enjoyed real increase of 23 per cent (pre-tax) since 1978-79; those at upper decile up 28½ per cent real.
- iv. Our taxation policies have also helped. Since 1978-79, basic rate down from 33 per cent to 27 per cent; top rate on earnings down from 83 per cent to 60 per cent; personal allowances and higher rate thresholds up by more than inflation. Those on incomes over £20,000 have gained over £2,000 since 1978-79 (average per tax unit), over and above annual upratings for inflation.
- v. Even after means testing above £250, CB expenditure will be over £3½ billion, still over £700 million more than in 1979-80.
- vi. Against this background, propose means testing families on over £250 a week net (Option X in paper by officials). This avoids worsening poverty and unemployment traps, and leaves three quarters of families receiving CB unaffected while saving around £1 billion in public expenditure.

4. POINTS TO WATCH OUT FOR

- i. Green and White Papers committed government to CB remaining universal benefit, as did Chancellor's Green Paper on Reform of Personal Taxation.

Manifesto left this open - "child benefit will continue to be paid as now, and direct to the mother." Policy change can be well defended on two grounds:

- (a) Enables help to be concentrated on those who need it;
- (b) Right that better off (who have been doing very well) should bear brunt of measures to contain soaring cost of social security budget.

Green Paper also spelled out shortcomings of CB in helping needy - "...any increase is expensive because it goes to all families. Each extra £1 on CB has a net extra cost of £½ billion a year. This would not be a sensible use of resources in an already expensive social security programme. The Government's aim is to direct help more effectively where it is most needed. A substantial real increase in CB would move in the opposite direction."

ii. Incentives would be damaged and unemployment/poverty traps worsened

Depends on where in income scale withdrawal of CB begins and rate of withdrawal. Favour withdrawal above £250 net incomes, well clear of unemployment/poverty traps. Also favour 50 per cent taper to avoid severe marginal rates and loss of incentives.

iii. Heavy administrative cost

Needs to be seen in context of considerable savings. No difficulty in providing resources for necessary additional manpower. [Further comment depending on what is said about this in paper by officials]. [Compare possible admin cost, as percentage of expenditure, with other benefits in Table 3.15.20 of PEWP.]

iv. Taxation a more cost-effective solution

Taxation would hit more families than means-testing. eg one earner families on only £73 a week would lose nearly £2 a week in CB for each child. Means testing a better instrument for targeting withdrawal of benefit.

- v. Family Credit will do the job of helping families on low incomes: no need to change CB for this purpose.

Family Credit will cost £400 million, twice as much as FIS. This and other factors are driving up expenditure. Means testing CB will help to offset this.

- vi. Any announcement on means-testing must be accompanied by full uprating in April 1988

No. Cannot agree to reverse decision to freeze rate in April 1988. Important savings (£140 million in 1988-89) already part of Survey arithmetic. In any case, decisions quite consistent. Can argue that rate is being frozen because of enormous cost of increasing universal benefits. Thus the change to more selective CB in 1989-90, avoiding payment to those who do not need it.

- vii. Any announcement on means-testing must be accompanied by pledge to full uprating in future years.

No. Over 50 per cent of benefit spending already covered by pledge. Wrong to box ourselves in any further. But we might say that some increase in future years more affordable once CB is related more closely to need.

- viii Over 1½ million households will lose some/all benefit, even under Option X. Unacceptable to have so many losers

Justify by making more resources available for those who really need it. Cannot get better targeting without some losers. Under Option X, three quarters of families do not lose. All losers have incomes over £250 a week net (£300 or more gross).

ix. Transitional protection

No. This would prevent significant savings being made for many years. Freezing rate for those on over £250 a week would save only £40 million in 1989-90 and £80 million in 1990-91. Inequitable to continue benefit for existing children by deny it for future children.

x. Widespread support for State helping all families to bring up children

Not all families need CB, and State's role should be to help those in need. In any case, considerable help will continue to be available to all families in other ways eg free prescriptions to under-5s (worth £X million); free dental treatment (£Y million); VAT exemptions on childrens clothing and footwear (£Z million); and most important, education provision (£A billion). So we have good answers to those who might claim we are neglecting the family.

xi. Means testing will lead to low take-up, undermining objective of helping needy

[]

xii. Proposal needs to be assessed in full tax/benefit context. What are tax plans?

Decisions on tax must await Budget. Those affected by means testing above £250 have already enjoyed substantial tax cuts [quantify/illustrate].

xiii Means testing rejected by 1985 Review of Benefits for Children and Young People

Review saw 4 main disadvantages:

- (i) Too many losers. ANSWER: Review assumed average earnings should be threshold for cut-off. Treasury proposal would affect those above £250, well above average earnings, reducing number of losers to around 1.7 million.
- (ii) Effect on Poverty and Unemployment Traps. ANSWER: Again, higher threshold for withdrawal would avoid worsening traps.
- (iii) Could end payment to wives. ANSWER: Officials paper shows payment to wives feasible. Agree we should retain this.
- (iv) Administration Costs (eg extra Y civil servants). ANSWER: Still cost-effective when set against public expenditure savings.

ANNEX 1

CHILD BENEFIT: GOVERNMENT STATEMENTS

Prime Minister, in letter to Brynmor John MP, 20 May 1983

"There are no plans to make any changes to the basis on which the benefit [Child Benefit] is paid or calculated".

June 1985 Green Paper "Reform of Social Security" (Vol. I)

8.8 "Nor does the government accept the alternative proposal that child benefit should be increased but subject to a means test or be taxed. To do so would result in an unacceptable degree of "churning" (where the same people receive money through the benefit system and pay it back through the tax system) and means testing. It would also go against the government's belief that the responsibilities of all families with children should be recognised.

8.9 We do not therefore propose any changes to the basis of universal child benefit. Child benefit will continue to be paid to all mothers as a contribution to the cost of bringing up children."

June 1985 Green Paper "Reform of Social Security" (Vol 2)

4.33 "It is very doubtful if the price for such a change [means-testing or taxing CB] would be worth paying.

4.34 If the payment of child benefit were based on family income, it would mean a major extension of income-testing. The effect would be greatly to increase the number of families in the poverty trap; 'marginal tax rates' would reflect not just the rate of tax and national insurance but the rate at which child benefit was reduced as income rose. It would be very expensive to administer, because it would affect such a large number of families. At higher income levels, it would mean

A1 (contin)

that families received no help with the cost of bringing up children - either in the tax system or the benefit system. This country would be virtually alone amongst developed countries in failing to recognise that families with children had more expenses than those without children. The Government do not consider that this would be acceptable.

- 4.37 The Government's conclusion from their study of the role of child benefit was that it had underlined the fact that there were two clear and distinct aims in helping families with the cost of bringing up children. The first is to provide help for families generally while the second is to provide extra help for low-income families. It would be a serious mistake to confuse these quite distinct purposes or to seek to restructure a benefit designed to meet one aim in order to meet the other aim. Child benefit is designed to meet the needs of families generally. As such, it is (as the recent survey showed) simple, straightforward, well understood and preferred as it is. The case for changing it has not been made out. The Government do not therefore propose to alter its basis or structure.

December 1985 White Paper "Reform of Social Security"

- 3.67 "...Increasing child benefit but containing the net cost by taxing it...would mean that many wage and salary earners would experience a sharp drop in their take-home pay."
- 3.77 "...We re-emphasise that child benefit, which will continue to go to all families whether or not they are in receipt of income-related benefits, will go to the mother as it does now.

March 1986 Green Paper "The Reform of Personal Taxation"

3.17 "The Government have already announced major proposals to strengthen and rationalise the support provided for families with children. Details were set out in the Social Security White Paper in December 1985. General support will continue to be provided through the universal, flat rate child benefit..."

June 1987 Manifesto

page 53 "Child benefit will continue to be paid as now, and direct to the mother."

REDUCTION A2: NEW BENEFIT RATES: LOWER BY 50p COMPARED WITH TECHNICAL ANNEX

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening Position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-01 |
| Reduction A2 | 156 | 156 | 156 | 156 | 156 | 156 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

After CB, this is largest savings option. Important to make savings in this Survey. Unless Mr Moore makes substantial move (ie no less than 25p off), stick to 50p and be prepared to go to Star Chamber.

2. POINTS TO RAISE

- (i) Transition to new benefits offers unique opportunity to make savings. Existing provision contains £750 million extra for new benefits.
- (ii) Reform recostings, based on fully revalued Technical Annex rates (plus £1.30 for rates compensation), show 4.5 million gainers and 3.7 million losers. These compare with 2.2 million gainers and 3.8 million losers in Technical Annex. So in presentational terms these are cuts we can afford.
- (iii) Technical Annex rates assume £20 million extra provision for Income Support and Family Credit (£40 million if p.e savings on HB are taken into account). £1.30 rates compensation adds further £380 million. Cannot afford all of this in view of rapid growth in spending since TA rates were published in December 1985. Table shows how position has changed since then. [Hand over copy of table to Mr Moore].

| | <u>Benefit Expenditure: £ billion</u> | | | | |
|--|---------------------------------------|------------|------------|--------------|---------|
| | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90 |
| Jan 86 PEWP | 39.4 | 41.1 | 42.6 | 43.9 | - |
| Outturns and DHSS proposals in 87 Survey | 39.6 | 42.5 | 44.4 | [46.2] | [48.3] |
| Increase | <u>0.2</u> | <u>1.4</u> | <u>1.8</u> | <u>[3.6]</u> | |

Less than a quarter of increases accounted for by economic factors and policy changes. Underlying growth in benefit spending responsible for most of increase. In this context, proposals for reductions of 156/156/156 a modest response.

- (iv) Will increase work incentives: key element in supply side strategy. Unemployment trap still affecting 800,000 heads of households who can get equivalent of over 80 per cent of income from work in benefits.

4. POINTS TO WATCH OUT FOR

- (i) Technical Annex rates already reflect big cuts for some groups. eg still 800,000 pensioner losers, of whom 300,000 lose over £5 a week. Impossible to do more.

~~eg +~~

Even with cuts I propose, we have good story to tell, especially in increasing help for low income families eg expenditure on Family Credit will be twice that on FIS. Reductions justified by enabling more resources to go to more deserving.

- (ii) Technical Annex does not include losses from replacing single payments with Social Fund (£140 million)

Abolition of single payments justified on merits.

(iii) PSBR cost of reforms much less than Public Expenditure

Survey objective is control of public expenditure. In any case, reform recosting still shows net PSBR cost (excluding single payments savings) of £300 million.

REDUCTION A3: CHRISTMAS BONUS: RESTRICT TO SUPPLEMENTARY
PENSIONERS

£ million

| | Opening Position | | | Fallback | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-01 |
| Reduction A2 | 96 | 96 | 97 | 96 | 97 | 97 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Secure Mr Moore's agreement to putting clause in new SS Bill to restrict payment of bonus from Christmas 1988, thus producing savings in 1988-89 onwards. If Mr Moore suggest different (ie softer) basis for restriction, reject unless he argues that his alternative can deliver bulk of £96 million savings - then officials to consider before next meeting.

2. POINTS TO RAISE

- (i) Average pensioners' incomes up by more than one third in real terms between 1970-1985 and 60 per cent of this improvement has taken place since 1979.
- (ii) Most of this improvement due to increase in real value of pensioners' benefits, up 15 per cent since 1979.
- (iii) Proposal in line with general policy of concentrating aid on needy. Poorest [] pensioners ([] per cent) protected.

3. POINTS TO WATCH OUT FOR

- (i) Serious political difficulty, especially as 1986 SS Act provided for automatic payment each year, removing need for annual orders.

Our own supporters can be reassured that payment still automatic for those in need. Labour in no position to complain, having twice failed to pay any bonus.

- (ii) Must be combined with increase in rate.
Prepared to consider modest increase. But each extra £1 would reduce savings by £[2] million. [If pressed: Let officials consider before next meeting].
- (iii) Would need primary legislation: new Bill already has several difficult measures.

Inclusion in Bill essential if savings to be achieved in 1988-89. Advantages in putting through with other measures, early in life of Parliament.

REDUCTION A4: HOUSING BENEFIT: INCREASE RATES TAPER FROM 20 PER CENT TO 25 PER CENT AND RENTS TAPER FROM 60 PER CENT TO 65 PER CENT

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening Position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-01 |
| Reduction A4 | 46 | 46 | 46 | 46 | 46 | 46 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Secure full savings. Refer any counter-proposals on HB to officials if Mr Moore offers substantial savings.

2. POINTS TO MAKE

- (i) HB (excluding rate rebates) has risen sharply, from £2½ billion in 1983-84 to over £3½ billion this year. Further steps needed to contain growth.
- (ii) HB extremely generous. Goes to third of all households, New scheme gives 100 per cent help with higher rents.

3. POINTS TO WATCH OUT FOR

- (i) £450 million savings already made by reforms. Further savings politically difficult.

Much has changed since £450 million savings announced as table shows. [Hand over table to Mr Moore.] Against background of £300-500 million a year increase, extra £50 million in further savings a modest response.

£ million

HB: Public Expenditure

| | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|-----------------------------------|------------|------------|------------|------------|
| Jan 86 PEWP | 3068 | 3154 | 3200 | 3300 |
| Outturns/Latest DHSS forecasts | 3126 | 3454 | 3686 | [] |
| Increase | <u>312</u> | <u>300</u> | <u>486</u> | <u>[]</u> |

A4 (contin)

- (ii) Would worsen unemployment and poverty traps. Combined tapers would be 90 per cent, instead of 80 per cent. So no fundamental change. Change to net income basis will in any case remove worst effects of traps. And separate tapers for rents and rates will protect owner occupiers.

REDUCTION A5: ABOLISH ENTITLEMENT TO BENEFITS BELOW £5

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening Position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A5 | [] | [] | [] | [] | [] | [] |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Abolition of payments below £1 considered with DHSS in 1986 Survey but ruled out before bilaterals. DHSS have not costed this proposal. They believe there is little scope for administrative savings; if anything, they believe administration costs might rise. On benefit savings, they see difficulty in depriving people of small amounts of contributory benefit, and DHSS Ministers apparently took the view earlier this year that removing eligibility to small amounts of income related benefits should not be pursued. In the light of this, we need to consider whether to press the proposal further.

REDUCTION A6: ATTENDANCE ALLOWANCE - REDUCED RATE FOR CHILDREN OF ALL AGES

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A6 | 45 | 48 | 52 | 45 | 48 | 52 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Proposed savings would require 50 per cent cut in rates for all children. Main objective to get Mr Moore's agreement in principle to children deserving lower rates. If this is achieved, officials can be left to consider any counter-proposals on size of reduction and/or age group to be covered. At later stage (not at this meeting), we might accept softer option eg cutting rates for under 5s only.

2. POINTS TO MAKE

- (i) Normal children also require special care and supervision compared with adults.
- (ii) Many disabled children also cared for at special schools during the day.
- (iii) Other benefits also contribute towards cost of child care, such as Child Benefit and child additions to Income Support and Family Credit.

3. POINTS TO WATCH OUT FOR

- (i) Highly controversial change for politically sensitive group.

Nevertheless justified on merits. Disabled lobby will get concession on Mobility Allowance for over-75s (see Bid B9).

- (ii) Low income families would suffer more from this change since Attendance Allowance is not taken into account as income for Income Support. So they would not be compensated for lower AA by increased Income Support. But AA is based on need for care not on means of carcr.
- (iii) Changes in benefits for disabled should await results of OPCS Survey. No. Best to propose these changes early in Parliament. Also helpful to present alongside improved position of families generally under IS.

A7

REDUCTION A7: INCOME SUPPORT - NO UPDATING OF LIMITS FOR ORDINARY BOARDERS.

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A7 | 8 | 8 | 8 | 8 | 8 | 8 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Secure full savings. One of easiest options in presentational terms. Reject any counter-proposals from Mr Moore for updating less than general IS increase.

2. POINTS TO MAKE

- (i) IS rates for boarders frozen since Nov 1985, with little adverse reaction. Proposal is simply to extend freeze for further year till new HB arrangements take effect.
- (ii) Ordinary boarders should be mobile. Proposal would increase work incentives.

- (iii) Freeze in limits would ease transition to new system in April 1989, which is expected to pay boarders less in HB and IS than under present arrangements.

3. POINTS TO WATCH OUT FOR

- (i) Would increase young homelessness.

Wrong to encourage young to live in Costa del Dole. Also wrong to weaken work incentives through more generous IS rates for certain people.

- (ii) Landlords' complaints.

Reject. DHSS Survey showed most have no alternative clientele; some advertise for DHSS claimants.

A8

REDUCTION A8: BENEFITS FOR THE UNEMPLOYED - EXTRA CLAIMANT ADVISERS AND BENEFIT PLUS

| | <u>£ million</u> | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A8 | 25 | 140 | 145 | 25 | 140 | 145 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

Measures mainly for discussion with Mr Fowler. But seek Mr Moore's agreement in principle.

2. POINTS TO MAKE

- (i) Only those genuinely seeking work should receive benefits for the unemployed.

- (ii) False claims defraud the Government and inflate the unemployment figures. First year a good one to crack down on black economy and scrounging.

3. POINTS TO WATCH OUT FOR

- (i) Would be seen as attack on unemployed No one genuinely unemployed will be affected.

A9

**REDUCTION A9: WIDOWS BENEFIT & RETIREMENT PENSION - £100 EARNINGS
RULE**

Proposed by Mr Moore to contribute to 1986 Survey commitments.

REDUCTION A10: INCOME SUPPORT - OFFSET MOBILITY ALLOWANCE FOR THOSE IN RESIDENTIAL CARE

| | <u>£ million</u> | | | | | |
|---------------|------------------|-------|-------|----------|-------|-------|
| | Opening position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Reduction A10 | - | 2 | 2 | - | 2 | 2 |

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

No compromise at this stage. But welcome any counter-proposals from Mr Moore for savings in this area (eg offsetting $\frac{1}{2}$ Mob A) and get officials to agree costings before next meeting.

2. POINTS TO MAKE

- (i) Care for elderly funded by Income Support includes help with mobility. No need for double provision.
- (ii) Most residential homes should assist residents' mobility anyway. Wrong to give as much benefit to those in care as to those not.

3. POINTS TO WATCH OUT FOR

- (i) Poorest would lose.

Issue is mobility not means. Those in homes do not need this extra help.
- (ii) Any changes in benefits for disabled should await results of OPCS Survey.

No. Best to propose these changes in first year of government.

B8 SOCIAL FUND START UP COSTS

| | 1988-89 | 1989-90 | 1990-91 |
|--------------|---------|---------|---------|
| Bid | +25 | -5 | -5 |
| Treasury aim | 0 | -5 | -5 |
| Fall Back | +20 | -5 | -5 |

Points to make

- i. Latest figures discussed between officials show need for only £20 million extra expenditure (£120 million total) and lower costs when Fund is steady state (195m total, showing savings of £5m compared to baseline).
- ii. Latest figures are on conservative assumptions about recovery to meet concessions expressed by Secretary of State eg no further money received once claimants leave benefit, recovery over 104 weeks (the maximum period) in 20% of cases.
- iii. Figures still allow for £60 million community care grants, twice level underlying original estimates for Fund.

Points to watch for

- i. Fund will be under great pressure from welfare groups. In HMT's interest that it is properly funded at outset

Accept principle of higher first year cut, but recovery of loans should mean savings in later years.

SOCIAL SECURITY: ADMINISTRATION

B12: Administration (244/360/374)

| | Opening Position | | | Fall-back | | |
|---------------|------------------|-------|-------|-----------|-------|-------|
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Running Costs | 0 | 0 | 0 | 38 | 0 | 0 |
| Capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |

Treasury Objectives/Negotiating Position

1 To wake up DHSS to need for radical new look at social security administration by refusing to concede any part of bid, except the consequential increase in running costs for 1988-89 conceded earlier this year.

2 Ultimately, you will need to concede more on running costs and capital - if only to ensure successful delivery of the Operational Strategy. But a concession now will only re-inforce the belief that higher costs, changes in workload, and every other difficulty should be dumped at the Treasury's door, to be solved by more money.

Issues

3 Annexes A, B and C give details on components of the bids. Main components are additional manpower (111/123/143), other running costs (58/67/92), capital (59/152/119), with other costs accounting for only (16/18/20).

4 DHSS will plead heavier workload, including new work (eg Social Fund - where we expected manpower savings rather than an increase), need for realism on pay, and higher costs now expected for implementing the Operational Strategy on time. Many of these factors are real - but it is up to DHSS to find new efficiency savings to keep expenditure within existing cash plans.

Points to Raise

5 Cannot go on, year after year, adding to the bill for administration costs of the social security system. In last 2 Surveys, additional provision [of 314/272/181] was conceded for 1987-88 to 1988-89. In February this year, a further addition [of £43m] was made for 1987-88.

6 I am prepared, exceptionally, to allow you more time to come up with a fresh approach by conceding the carry forward to 1988-89 of the special addition made in February. So an additional £38m can be added to your baseline for 1988-89. But the ball is now in your court to find new ways of delivering the service at lower cost, so as to live within this baseline.

7 You have in hand some further work that recognises performance in establishing staffing needs. And I understand that you have also initiated a study of where best to locate work, given the difficulty of recruiting staff in areas like London and the South East and higher accommodation costs. If you moved work to where you can recruit good staff easily, you should be able to make substantial savings by reducing the level of advance recruitment. It would be wrong to increase provision on the basis that your efforts will come to nothing, as is assumed in your bids.

Points to watch for

What about the extra I need to implement the Operational Strategy, on which scored savings depend?

8 If you are prepared to withdraw those of your bids that are **not** associated with the Operational Strategy, I would be prepared to consider this again.

Failure to recognise irresistible pressures will lead to industrial action.

9 You successfully demonstrated in July, when you replaced civil servants with consultants on the Operational Strategy, that when a tough line is necessary, it pays to take it.

If no extra conceded, savings from fraud will disappear, as staff are diverted to deal with claims.

10 It is up to you and your managers to ensure that our priorities - which certainly include the rigorous pursuit of fraud - are implemented by local managers.

Will lead to lengthy delays for claimants.

11 The rapid catch-up from dislocation caused by industrial action this summer shows that performance is capable of improvement. The wish to maintain an acceptable service level provides a strong incentive for you and your staff to find necessary efficiency savings.

BID B12 - ADMINISTRATION

ANNEX A

RUNNING COSTS (169/190/235)

| | £ million | | | | | |
|--------------|------------------|-------|-------|----------|-------|-------|
| | Opening position | | | Fallback | | |
| | 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| Manpower | 0 | 0 | 0 | 38 | 0 | 0 |
| Non-manpower | 0 | 0 | 0 | 0 | 0 | 0 |

Treasury objective/Negotiating position

1 Reject all bids, but be ready to concede 1988-89 carry-forward of extra-staff agreed earlier this year.

MANPOWER RELATED BID - there are two main elements

(i) The carry forward of the increase conceded for the current year, into the three years of the Survey.

(ii) New work and increased workloads

Manpower

2 The present method of determining staff complement on which the current year increase was based, has been discredited and is to be replaced by a better system in time for the 1988 Survey. Much of the bid for new work and increased workloads, relies on the present method and it would seem sensible to wait until we have an improved system in place than to build on unsound foundations.

3 On this basis no further increases in staff should be made. But realistically, many of the extra staff agreed earlier this year are in post, and more are being recruited, so provision must be made for them. So the carry forward for 1988-89 can be conceded.

Finance

4 The bid for financial provision is in three parts

- (i) To cover the Complement Review carry forward
- (ii) For new work and increased workloads
- (iii) Pay assumption

5 We are content with the calculation of the pay assumption bid but it is based on the total additional manpower bid: it will need to be recalculated once the numbers of staff are agreed.

Issues

6 DHSS will argue that additional provision is necessary to ensure that the Social Security reforms are introduced smoothly, to maintain services to claimants at the present level, and to continue with effective action on fraud. They will also plead that implementation of Operational Strategy should not be hindered by a lack of funds.

7 Apart from doubts about the method of assessing manpower requirements, we question the need for the additions now sought for these and the other new work bids.

8 Tables attached detail the Running Cost bids and the bid expressed in manyear terms for permanent staff and manpower substitutes (casuals and overtime). They reflect reductions from the latest estimating revisions.

PES - DHSS ADMINISTRATION - SOCIAL SECURITY AND HPSS

Social Security and HPSS central administration (Class XV,5)**Permanent Manpower - staff in post figures**

| | 1.4.86 | 1.4.87 | 1.4.88 | 1.4.89 | 1.4.90 | 1.4.91 |
|---|--------|--------|--------|--------|--------|--------|
| Baseline | 88358 | 91371 | 94132 | 88539 | 88544 | 88544 |
| (i) Addition agreed and included in 1987- 88 Estimates (XV,5) | | | 4043 | - | - | - |
| (ii) Carry forward of (i) | | | - | 3050 | 3050 | 3050 |
| (iii) Further additions sought | | | - | 1027 | 1470 | -164 |
| Total target sought | | | | 92616 | 93064 | 91430 |

MAN-YEARS PROVISION**Social Security and HPSS central administration**

| | 88-89 | 89-90 | 90-91 |
|--|--------|--------|---------|
| i. Permanent posts | | | |
| Department's proposal | 95,204 | 93,398 | 992,623 |
| Provision including Estimates carry forward | 93,641 | 91,831 | 91,831 |
| Additional Bid | 1,563 | 1,567 | 792 |
| Manpower substitutes | | | |
| ii. Casuals | | | |
| Departments's proposal | 2,386 | 2,125 | 2,353 |
| Provision | 1,839 | 1,649 | 1,649 |
| Additional Bid | 547 | 476 | 704 |
| iii. Overtime | | | |
| Department's proposal | 2,511 | 2,247 | 2,474 |
| Provision | 1,132 | 1,132 | 1,132 |
| Additional Bid | 1,379 | 1,115 | 1,342 |

DHSS MANPOWER - SOCIAL SECURITY AND HPSS ADMINISTRATION

The manpower bid, expressed in **man years**, in excess of the 1987-88 Estimates carry forward is as follows:

| | 1988/89 | 1989/90 | 1990/91 |
|-----------|---------|---------|---------|
| Permanent | 1563 | 1567 | 792 |
| Casuals | 547 | 476 | 704 |
| Overtime | 1379 | 1115 | 1342 |

2. The main components, with particular reference to **1988/89**, are set out below:

- | | | |
|--|-------------|---|
| 1. Social Fund | 470 | SF more labour intensive than single payments. (LOs) |
| 2. New work in LOs | 1100 | Implies 2 more staff in every office |
| a. NI changes | 550 | |
| b. Mortgage interest | 300 | |
| c. Liaison with IR | 200 | |
| d. Budget changes | 50 | |
| 3. Demand led increases | 400 | Drake case for IC, with backlog of cases to clear. (NFCO.) Increased activity on CB. (NCO.) |
| Invalid care | 250 | |
| Child Benefit | 100 | |
| Others | 50 | |
| 4. Advanced recruitment and tutelage | 550 | Training margins for new recruits and transfers. |
| 5. Reforms implementation | 1000 | To cover the April 88 transition and "closing down sales". |
| 6. Operational Strategy | 461 | A collection of small increases in several different areas. |
| a. RP & DCI | 200 | |
| b. Service Management | 180 | |
| c. Training in RD | 150 | |
| d. RD implement etc | 80 | |
| e. Contributions project deferment by 1 year | -149 | |
| 7. Complement review | 250 | Correction of statistical error. |
| 8. July economic assumptions | -667 | |

DHSS - SOCIAL SECURITY & HPSS ADMINISTRATION

Running costs £ million

| | 1988-89 | 1989-90 | 1990-91 |
|-------------------------|---------|---------|---------|
| 1. Salaries * | | | |
| (a) carry forward | 38.0 | 40.0 | 41.0 |
| (b) new manpower | 43.1 | 42.1 | 44.4 |
| (c) pay assumption | 30.0 | 41.0 | 58.0 |
| Total salaries | 111.1 | 123.1 | 143.4 |
| 2. Overheads | 7.3 | 9.4 | 9.3 |
| 3. Accommodation | 13.8 | 13.0 | 14.9 |
| 4. Office services | 22.7 | 28.5 | 42.1 |
| 5. Services | 11.8 | 15.0 | 12.2 |
| 6. Adjudication | 1.9 | 3.7 | 4.7 |
| 7. Other | 9.1 | 11.7 | 14.3 |
| Total non manpower bids | 66.6 | 81.3 | 97.5 |
| TOTAL | 177.7 | 204.4 | 240.9 |
| LESS reductions | 9.0 | 14.0 | 6.0 |
| Net bid (rounded) | 169 | 190 | 235 |

* approximate breakdown

BID B12 - ADMINISTRATION

ANNEX B

CAPITAL (59/152/119)

| Opening position | | | £ million Fallback | | |
|------------------|-------|-------|-----------------------|-------|-------|
| 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 |
| 0 | 0 | 0 | 0 | 0 | 0 |

Treasury objective/negotiating position

Reject all bids at this stage.

1 The total bid, gross, amounts to:

| £ million | | |
|-----------|---------|---------|
| 1988-89 | 1989-90 | 1990-91 |
| 75.9 | 153.2 | 119.9 |

Of this, the following sums relate to the Agency payment to the Department of Employment for capital improvements to unemployment benefit offices, and will be dealt with at the Department of Employment bilateral :

| £ million | | |
|-----------|---------|---------|
| 1988-89 | 1989-90 | 1990-91 |
| 15.4 | 18.6 | 22.0 |

2 The balance of the bid, for consideration here, includes two large elements:

| | £ million | | |
|---|-----------|---------|---------|
| (gross bids) | 1988-89 | 1989-90 | 1990-91 |
| (i) Computers (Operational Strategy) | 13.6 | 48.3 | 45.7 |
| (ii) Works services (much of it related to the Operational Strategy)) | 44.3 | 74.5 | 47.5 |

Full details of bids and reductions are given in the table attached.

Points to Raise

3 Express concern at the level of the bids. Cannot afford as much as this.

4 Recognise the importance of the Operational Strategy, particularly the Local Office Project (LOP) and the associated accommodation works programme. We share DHSS concern that this

should be implemented on time. But since the bids were prepared, decisions have been taken on the timing of the implementation of the Local Office Project (fast "Roll out") which must affect both the computer and works services bids, and changes to other projects are being considered. That being so **no decisions can be taken yet on these bids.**

5 Whether it proves possible to afford re-furbishment on scale proposed is doubtful. Silly to embark on significant expenditure until a more fundamental look at locating work in most cost-effective way is complete.

OTHER ADMINISTRATION

CAPITAL

£ million

| | 1988-89 | | 1989-90 | | 1990-91 | |
|----------------------|-------------|---------------|--------------|--------------|--------------|--------------|
| | Bid | Reduction | Bid | Reduction | Bid | Reduction |
| Computers | 13.6 | - | 48.3 | - | 45.7 | - |
| Telecoms | - | (16.6) | 10.7 | - | 4.6 | - |
| Office Machines | 2.1 | - | - | (0.9) | - | (0.8) |
| Furniture & Fittings | 0.5 | - | 1.1 | - | 0.1 | - |
| Pt I Works | 23.1 | - | 40.1 | - | 16.9 | - |
| Pt II Works | 17.1 | - | 26.5 | - | 23.8 | - |
| Pt III Works | 4.1 | - | 7.9 | - | 6.8 | - |
| Agency (DE)* | 15.4 | - | 18.6 | - | 22.0 | - |
| Total | 75.9 | (16.6) | 153.2 | (0.9) | 119.9 | (0.8) |
| Net bid | 59.3 | | 152.3 | | 119.1 | |

* To be dealt with at the DE bilateral.

BID B12 - ADMINISTRATION

ANNEX C

OTHER (16/18/20)

| £ million | | | | | | |
|------------------|-------|-------|----------|-------|-------|--|
| Opening position | | | Fallback | | | |
| 88-89 | 89-90 | 90-91 | 88-89 | 89-90 | 90-91 | |
| 0 | 0 | 0 | 0 | 0 | 0 | |

TREASURY OBJECTIVE/NEGOTIATING POSITION

Reject all bids.

Total bid (gross) -

| £ million | | |
|-----------|---------|---------|
| 1988-89 | 1989-90 | 1990-91 |
| 16.9 | 18.1 | 20.2 |

The greater part of this:

| | | |
|------|------|------|
| 15.7 | 16.1 | 16.8 |
|------|------|------|

relates to the Agency payment to the Department of Employment to meet the cost of the service they provide paying beneficiaries through the unemployment benefit office network. **This part of the bid will be dealt with at the Department of Employment bilateral leaving for consideration here, bids (net of reductions) of:**

| £ million | | |
|-----------|---------|---------|
| 1988-89 | 1989-90 | 1990-91 |
| 0.7 | 1.1 | 3.3 |

DHSS should be asked to absorb these minor bids.

A table is attached which details bids and reductions.

Table

OTHER ADMINISTRATION

CURRENT

£ million

| | 1988-89 | | 1989-90 | | 1990-91 | |
|---------------------|-------------|---------------|-------------|---------------|-------------|---------------|
| | Bid | Reduction | Bid | Reduction | Bid | Reduction |
| Agency (DE)* | 15.7 | - | 16.1 | - | 16.8 | - |
| DHSS NI | 0.01 | - | - | (0.03) | - | (0.03) |
| ISSA | 0.03 | - | 0.03 | - | 0.04 | - |
| Claimants Expenses | - | (0.10) | - | (0.06) | - | (0.06) |
| Grants to Vol Orgs | - | (0.40) | 0.3 | - | 1.2 | - |
| Grants to LAs | 1.2 | - | 1.7 | - | 2.2 | - |
| Vaccine Damage | - | (0.05) | - | (0.02) | - | (0.03) |
| Total | 16.9 | (0.55) | 18.1 | (0.11) | 20.2 | (0.12) |
| Net bid | 16.4 | | 18.0 | | 20.1 | |

* To be covered in Department of Employment bilateral.

no

FROM: J P MCINTYRE
DATE: 15 September 1987

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Scholar
Mr Turnbull
Mr Gieve
Mr Gibson
Mr Watts
Mr Tyrie

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SURVEY: SOCIAL SECURITY: TIMETABLE

We have heard from DHSS that Mr Moore is very unlikely to write to you about the timing of the announcement on the new benefits until Friday of this week. But we understand that he has accepted his officials' advice that the announcement cannot wait until Parliament returns on 21 October but that he wants to wait at least until after the Party Conference. This points to an announcement in the week beginning 12 October, two weeks or so later than Mr Moore said he wanted at the bilateral.

2. Welcome though this additional leeway is, it leaves us with a difficult timetable, given the Party Conference and the absence of the Prime Minister in the week after the Conference.

3. Mr Moore's letter will, his officials tell us, make you an offer on the new benefit rates. A number of options are being put to Mr Moore today, though we do not know the size of the savings they would produce. He will hope that you will accept his offer, or something close to it, at next week's bilateral (planned for Wednesday, 23 September). The decision and timing of the announcement would then be cleared with colleagues before the Party Conference.

X | 4. However, we have to plan on the basis that agreement may not be reached next week and that the issue will have to go to colleagues to be resolved in the week beginning 28 September. We are in touch with the Cabinet Office about arrangements for a possible meeting of an ad hoc group of Ministers during that week, ideally after the briefing meeting for the Prime Minister and Lord Whitelaw on the Star Chamber prospects generally and before Cabinet on 1 October. The alternative, as the Chancellor has suggested (Mrs Ryding's minute of today), is a meeting in the margins of the Party Conference.

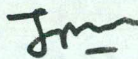
5. This would leave other Survey issues to be taken to Star Chamber in the usual way, in the week beginning 12 October. We understand that Mr Moore has not indicated any firm preference on the announcement date for other benefits but Thursday 22 October, the day after Parliament returns, remains the most likely date.

6. This part of the timetable is also not without difficulties. The PM's absence abroad until 17 October would leave little time for disputes on other questions to be resolved before the 22nd. However, if we were successful in trimming the new benefit rates, their announcement might well result in pressure for an early Parliamentary statement on other benefits.

7. Mr Moore's need to make two separate statements raises another problem. If we achieve any savings on the new benefit rates, he may well argue in Star Chamber that he cannot be expected to announce any more bad news when Parliament returns - he is already going to announce the child benefit decision for next year. Thus, the argument will run, other savings options affecting 1988-89 must be dropped. If that argument were accepted, we would have to have secured all our "forecast outcome" savings for next year (£150 million) from trimming the benefit rates. As you know, that is a tall order. It would, for example, require a 50p across the board cut in rates, and Mr Moore's offer seems likely to fall well short of that.

8. This raises the question of whether we might not do best to have the whole Social Security programme considered at the end of this month, not merely the new benefit rates. This would be justified by the need to look at the programme as a whole in making decisions on the new rates and by the time pressures between the end of the Party Conference and the return of Parliament.

9. You may wish to discuss.



J P MCINTYRE

FROM: J P MCINTYRE

DATE: 18 SEPTEMBER 1987

CHIEF SECRETARY

cc Chancellor ←
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Miss Peirson
 Mr Scholar
 Mr Turnbull
 Mr Gibson
 Mr Scotter
 Mr Tyrie

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1 knows of no business - that
the Commission is a quiet (you)
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SURVEY: SOCIAL SECURITY - CHILD BENEFIT

I attach a revised paper on Child Benefit options which has been agreed in substance with DHSS officials (some minor changes may yet be made). This is to form the basis for your discussion with Mr Moore at next Wednesday's bilateral.

2. The paper is longer than we would have liked, and you may find it helpful to look first at Annex C which lists the various options, both for means testing and cutting the rate, and gives a summary assessment.

3. We have reserved your position on one important point. At the suggestion of DHSS officials, the paper includes a new option for means testing: withdrawal from higher rate taxpayers. This does of course generate smaller savings than the options in our original draft, related to average earnings and 1½ times average earnings. They are estimated at roughly £½ billion, as against the £1 billion which you have told Mr Moore is a broad indication of the savings you want to make.

4. On balance, we would recommend that you allow this option onto the agenda. The fact that you are prepared to discuss it might be seen as something of a climb-down. But it may ultimately prove to be the only politically acceptable way of getting a means test introduced.

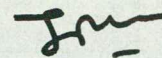
5. You will see that the paper is pessimistic on timing of implementation. DHSS officials say that means testing would not be feasible before 1990, because of the time needed to prepare for the handling of several million applications. We will need to go into this with them more thoroughly. But if they are right, savings from means testing are unlikely in 1989-90.

6. Reductions in the rate would, however, be feasible from April 1989, though this too would need primary legislation.

7. We will of course be providing briefing for the bilateral next week on this and the other savings measures.

Recommendation

8. I recommend that you agree to the paper by officials forming the basis for discussion at next week's bilateral, including the new option of withdrawal from higher rate taxpayers.



J P MCINTYRE

CHILD BENEFIT

The Chief Secretary has proposed in the 1987 Survey that substantial savings should be made in public expenditure on Child Benefit (ChB).

2. This paper examines options for achieving savings, by means testing or by adjustment of the rate of ChB.

BACKGROUND

3. The main arguments for ChB in its present form have been that it is right for society to contribute towards the cost of bringing up children; that those with children at all income levels are relatively worse off than those without; that the tax system no longer recognises the lower taxable capacity of those bringing up children; that mothers should have an independent source of income towards the cost of rearing children; and that a universal benefit is simple to administer and, compared with means testing, helps work incentives.

4. The arguments for a substantial reduction in expenditure on ChB are that it is not targeted on those who need it, contrary to one of the objectives of the social security programme; and that the resultant high cost cannot be afforded in view of the rapid growth of the programme as a whole.

5. The cost of ChB has risen from nearly £2.8 billion in 1979-80 to £4.6 billion this year, a rise of 65 per cent in cash terms and a fall of 5 per cent in real terms. It represents about 10 per cent of the social security budget. It is paid to 7 million families, in respect of 12 million children. The rate has gone up from £4 in 1979-80 to £7.25 now, a rise of 81 per cent in cash terms but a fall of 3 per cent in real terms. The current rate will continue in 1988-89.

6. The first chart at Annex A shows that families with children tend to have incomes rather lower than those of people without

children when adjustments are made for the numbers of people dependent on each income. The second chart at Annex A shows that child benefit is paid to many mothers in upper income families eg about £2 billion - or 40% of the total - goes to families whose incomes before tax exceed £13,000 a year (£250 a week).

7. A selection of recent government statements on ChB is at Annex B. Most of these statements pledge maintenance of ChB as a universal tax-free benefit, and a number of them say there will be no means test. The June 1987 Conservative manifesto was less specific:

"Child Benefit will continue to be paid as now, and direct to the mother."

But other statements made at election time repeated the earlier, more detailed commitment.

ChB in Other Countries

8. In the European Community, ChB is paid on a universal basis for all children in six of the eleven Member States, namely Spain, Eire, Belgium, Holland, Denmark and Luxembourg, though in Holland the rate varies according to family size. In Germany, it is universal for the first child and means-tested for subsequent children; the rate also varies depending on family size. The French pay nothing for the first child, but there is no means test. In Italy, payment for the first child is means tested. In Greece, there is means testing for all children. There are child tax allowances in all EC countries, except the UK and Holland, and ChB is not taxable in any of the Member States.

9. In the United States, there is no general child support payment but rather a means tested income support for children whose fathers are unable to support them. In Canada, there is a universal flat rate (and taxed) ChB paid by the Federal

Government, though the provinces may add to this according to family size and age. The rate of ChB in Sweden and Australia varies depending on family size; in neither country is it means tested.

MEANS TESTING: OPTIONS

10. There are two broad options:

- (a) Benefit cut-off ie complete withdrawal of benefit if income exceeds a certain amount.
- (b) Benefit taper ie reduction in benefit by a percentage of the amount by which income exceeds a given threshold.

A variation of either option would be to adjust the starting - point for withdrawal according to the number of children in the family (referred to as "stepped withdrawal" in this paper).

11. There are of course many possible starting points for withdrawal under either option. To illustrate the effects we have assessed three starting-points:

- a. Average earnings;
- b. $1\frac{1}{2}$ times average earnings;
- c. Higher rate tax point.

12. We have defined average earnings as £235 per week gross (estimated average male earnings in 1988-89). $1\frac{1}{2}$ times average earnings is therefore £353 a week. The third option is intended to show the broad effect of means testing higher rate taxpayers. However, the higher rate tax point for a single earner couple (£430 a week) is not the point at which many people start paying higher rate tax, because of mortgage interest relief and other factors. Therefore, the savings from this option and the number of families affected may be different (possibly lower) from those

shown in this paper. Stepped withdrawal has been done on the basis of raising the threshold for withdrawal of benefit by £30 (gross) per week for each child.

13. In assessing these options, there are a number of criteria:

- (a) Public expenditure savings
- (b) Number of families affected
- (c) Targeting of benefit on those most in need
- (d) Cash losses for affected people at point of change
- (e) Effect on work incentives
- (f) Administrative cost

14. A summary showing the public expenditure savings and the number of families affected by each option is in the table at Annex C. The table also gives an indication of how each option measures up to the other criteria.

Public Expenditure Savings

15. The estimated savings range from £½ billion, if benefit were withdrawn only from those on higher tax rates, to over £2¼ billion if benefit were withdrawn completely from those on above average earnings.

Number of families affected

16. As a proportion of ChB recipients, about half would be affected if average earnings were the starting point for withdrawal. A little over 10 per cent of families would be affected by the higher tax rate options.

Targeting

17. All of the means testing options are of course better from this point of view than the options for cutting the rate (on which more below) which would affect families irrespective of income.

Among the means testing options, those which start at average earnings are arguably the best targeted, if the aim is to concentrate expenditure on those in need. Indeed, this aim might justify a lower threshold than average earnings. If, on the other hand, the aim is to take benefit away from the well-off, withdrawal from higher rate taxpayers would be more appropriate.

Losses

18. Annex D (to follow) shows the size of the losses implied by each of the options considered.

19. Under all of the options, the great majority of those affected would lose £7.25 - £14.50 a week, because over 80 per cent of families affected have one or two dependent children.

20. Withdrawal above average earnings would affect 510,000 families with 3 children or more, who would lose £21.75 and upwards. Withdrawal above $1\frac{1}{2}$ times average earnings would reduce the number in this category to 180,000, and the higher rate tax option would reduce it to 130,000.

21. The 50 per cent taper options moderate the larger losses, but most families who lose still lose all of their child benefit. The number losing £20 or more falls to 360,000 with withdrawal starting at average income and 150,000 with withdrawal starting at $1\frac{1}{2}$ times average earnings.

22. Stepped withdrawal would ease the effect of means testing by relating the starting point for withdrawal of benefit to the number of children in a family as well as income. Numbers losing more than £20 a week would be 290,000 if stepped withdrawal started at average earnings, 140,000 starting at $1\frac{1}{2}$ times average earnings and 80,000 if only applied to higher rate taxpayers.

Incentives

23. The total withdrawal and stepped withdrawal options would have a damaging effect on incentives. Earning an extra £1 a week could lead to the loss of £7.25 for each child. A two child

couple would have to earn an extra £22 a week even to bring their net income back up to its previous level if they went across the threshold. A family with five children would have to earn an extra £56 a week even to get back to the same level of net income. This would clearly be a disincentive to working extra hours, or taking a better job which took net income above the starting point for withdrawal.

24. The disincentive effect of a tapered withdrawal would be less but marginal rates could rise to over 80 per cent for $\frac{1}{2}$ million families. For them, there would be a disincentive to working extra hours or taking better paid jobs, as only part of the extra earnings would feed through to net pay. Married women working part-time below the LEL who are not currently subject to any tax would become subject to a 50 per cent effective tax rate.

Administration

25. The following is based on an initial assessment by DHSS officials.

26. To extend means testing on the scale envisaged under these options would have significant administrative implications. It would be essential to devise a simple means test given the number of people involved. However, the need for simplicity would have to be reconciled with the precision required for a statutory scheme subject to formal adjudication.

27. Further consideration would also have to be given to the problem of basing a mother's entitlement to benefit (assuming the mother continues to be entitled) on family income in some previous period.

28. The most cost-effective approach would be to rely on claimants' own declaration of income, backed up by a check in sample cases. Considerable further work would need to be done in DHSS on the mechanics of means testing, in particular whether the test should be for six months, as in family credit, or for longer periods. Two possible approaches are:

(i) require claimants to produce the P60s they receive from employers. Disadvantages are that this form does not show unearned income or the existence of capital and that by the time it reaches many employees it is long out of date as a reflection of current circumstances.

(ii) require claimants to declare income over a recent period on a yearly claim form - with suitable penalties in the background - and examine a sample of claims to curtail fraud and abuse. This policing could be on any scale thought to be necessary: with requests for P60s, checks with Inland Revenue, local interviews and, possibly, simple enquiry letters to employers.

29. DHSS' preliminary indication is that around 2,500 extra staff might be needed (costing £30 million a year), but until decisions are taken on the parameters of means testing, this figure must be regarded as a very broad brush estimate. ChB is at present a relatively cheap benefit to administer. Administration costs are equivalent to $2\frac{1}{2}$ per cent of expenditure. If it were means tested, this proportion would rise but would be significantly less than, for example, supplementary benefit ($11\frac{1}{2}$ per cent).

30. Setting up the new means tested system ("take on") would be especially heavy in terms of administrative costs. Phasing would help, but it would be difficult to justify applying a means test to some people or in certain parts of the country but not to others.

31. Primary legislation would be needed for means testing. In any case, DHSS officials believe that the changes required to the child benefit computer would take not less than 18 months to implement. For this reason, and because of the "take on" problem, they believe that implementation would be very unlikely before 1990.

32. The cut-off options in particular would substantially reduce the total number of weekly payments made through Post Office branches.

REDUCTION IN CB RATE

33. This would enable all families to continue to receive ChB. But a sharp reduction in the rate would be needed to achieve major public expenditure savings. An alternative would be to continue the full rate for the first child and to cut the rate for subsequent children. The four options below illustrate what might be done:

| | <u>savings (£bn)</u> |
|--|----------------------|
| Option A: halve rate for first child | 1.0 |
| Option B: halve rate for second and subsequent children | 0.7 |
| Option C: reduce rate for all children by 25% | 0.8 |
| Option D: reduce rate for first child by 40 per cent, reduce rate for second child by 20 per cent, full rate for third and subsequent children | 1.0 |

34. The attraction of these options is that they would not be inconsistent with previous pledges and that administration would be comparatively simple. Their chief disadvantage is that they do nothing to target help where it is needed. DHSS officials are also concerned that cutting the rate could produce unwanted incentives for families to split up or combine in an artificial way.

35. Primary legislation would be required in order to cut the rate. Subject to that, cuts could be implemented with effect from April 1989.

36. An alternative method would be to adjust the rate according to the age of the children. But appropriate rates for different ages might be hard to agree. Families often lose, in terms of income foregone, when their children are young and mothers stay at home. On the other hand, older children are more expensive to run. No age-related options have been costed.

DISTRIBUTION OF FAMILIES BY NET INCOME

INCOME ADJUSTED FOR FAMILY SIZE

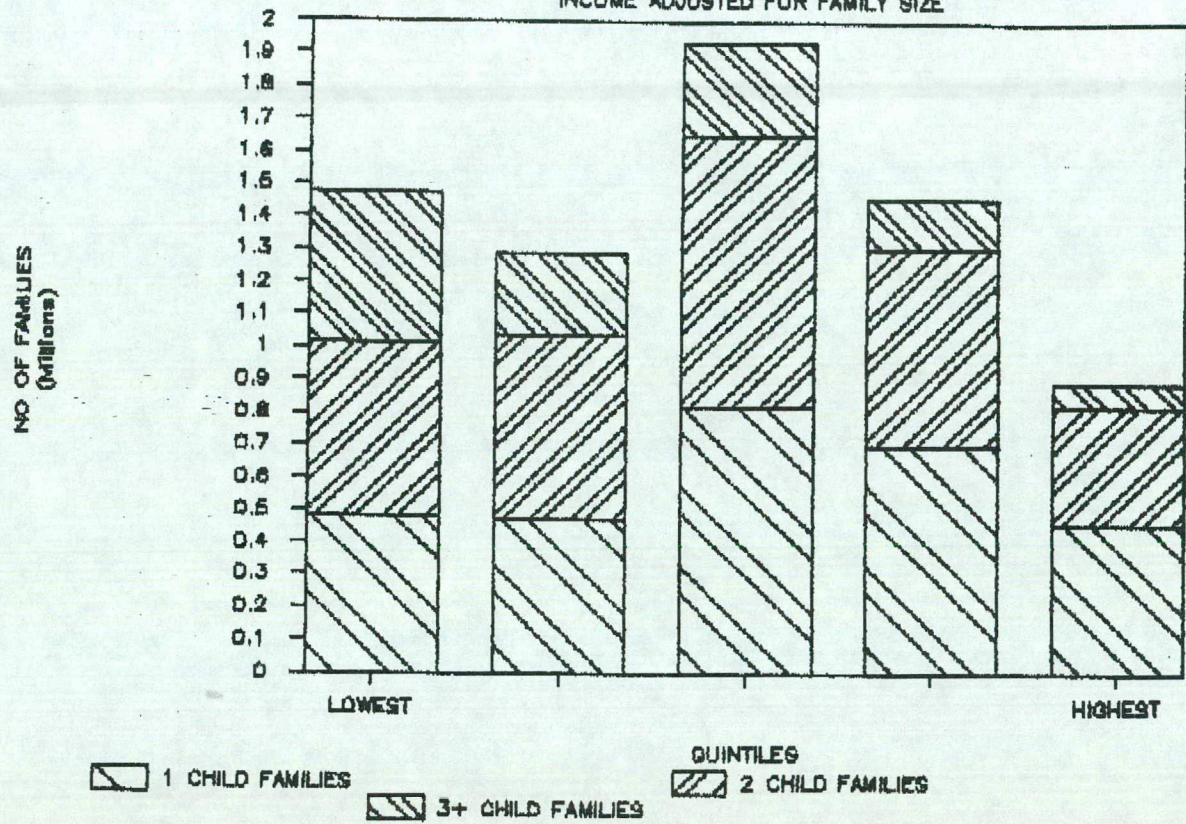
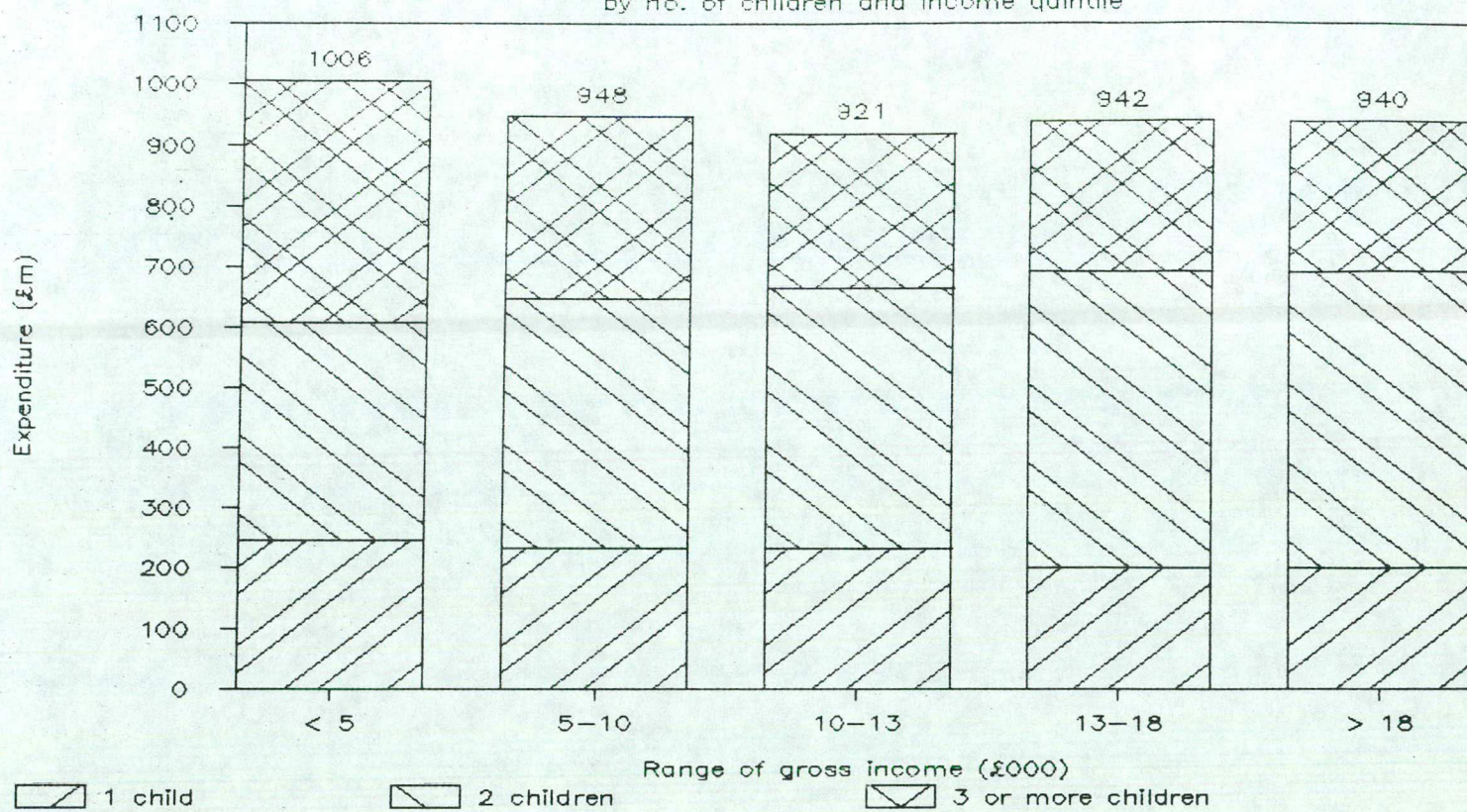


Figure 1: Distribution of child benefit in 1987-88

by no. of children and income quintile



CHILD BENEFIT - PUBLIC COMMITMENTS

The following quotations are examples of recent public commitments on child benefit. They reflect the stance established in the Green and White Papers on the reform of social security:

"Everyone with a family will continue to receive child benefit. The standard rate is £7 per week per child. It partly compensates for the removal of the child allowance. The right hon Gentlemen is trying to give the impression that child benefit is not going to every family. He is wrong."

Source: Prime Minister's reply to a question from Dr Owen.
Official Record, 20 June 1985, Vol 81 Col 432-433.

"We'll review child benefit each year as we always have, but I can't tell you what the outcome of that will be. But I can tell you that child benefit will continue as a non-means-tested universal payment, paid to the mother and tax-free. There ought to be no question about that".

"What pressure for /child benefit/ to wither away?"

Source: Minister of State for Social security (Mr John Major) in a pre-election interview with Richard Berthoud. "Poverty", pp 8, Spring 1987, No 66.

"Child benefit will continue to be paid as now, and direct to the mother".

Source: "The Next Moves : The Conservative Party Manifesto 1987" pp 33.

"Child benefit will continue as a universal tax-free and non-means-tested benefit".

Source: General Election Briefing - Conservative Research Department, 22 May 1987.

"There are no plans to reduce the scope of child benefit. All families will continue to get child benefit and it will be paid to the mother....".

Source: Minister of State for Social Security (Mr Scott). Official Record, 14 July 1987, Vol 119, Col 464.

Hunter C

ASSESSMENT OF OPTIONS

| | Saving fm | Numbers of Families Affected m | Targeted on better off | Size of loss adjusted for size of family | Effect on work Incentives | Administration |
|---|--------------|--|------------------------------|--|--|--|
| <u>Benefit Cut Off</u> | | | | | | |
| i at average earnings | 2.3 | 3.3 | Yes | No | Absolute disincentive for those just below out-off points. | Complex Expensive to administer: cost reduces the increase further up the income scale cut-off point is pitched. |
| ii at 1/2 average earnings | 0.9 | 1.4 | Yes | No | | |
| iii at higher rate tax point | 0.5 | 0.8 | Yes | No | | |
| <u>50% taper</u> | | | | | | |
| iv at average earnings | 2.0 | 3.3 | Yes | No | Not so severe disincentive as for out-off option, but applies over wider income range. | The most complicated options administratively. |
| v at 1/2 times average earnings | 0.8 | 1.4 | Yes | No | | |
| <u>Stepped Withdrawal</u> | | | | | | |
| vi at average earnings | 2.0 | 3.3 | Yes | Yes | Succession of small cliff edges, depending on family size. | More complicated than straight out-off. |
| vii at 1/2 times average earnings | 0.8 | 1.4 | Yes | Yes | | |
| viii at higher rate tax point | 0.5 | 0.8 | Yes | Yes | | |
| <u>Reduction in ChB rate</u> | | | | | | |
| ix halve rate for first child | 1.0 | 5.1 | No | Yes | No poverty trap effects, but replacement ratios worsened. | Cheaper than means testing, but more expensive than present scheme (esp. option xi) |
| x halve rate for second and subsequent children | 0.7 | 4.0 | No | Will benefit smaller families | | |
| xi reduce rate for all children by 25% | 0.8 | 5.1 | No | No | | |
| xii reduce rate for first child by 40%; reduce rate for second child by 20%; full rate for third and subsequent children. | 1.0 | 5.1 | No | Yes | | |