PREM 19/1320

SECRET

PART 1

CONFIDENTIAL FILING

SEMINAR ON HEALTH AND SOCIAL SECURITY EXPENDITURE; 16 SEPTEMBER 1983 and subsequent action.

NATIONAL HEALTH

AUGUST 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~3.8.83~~.		~~2.4.84~~					
~~14.9.83~~		~~4.4.84~~					
~~16/9/83~~.		~~30.4.84~~.					
~~4.10.83~~		~~May 1984~~					
~~23.12.83~~							
~~13.1.84~~		~~14.5.84~~					
~~2.2.84~~		~~13/6/84~~.					
~~8/2/84~~.		~~22/6/84~~					
~~20.2.84~~		~~5/7/84~~					
~~24/2/84~~							
~~29.2.84~~		ENDS					
~~20.3.84~~.							
~~12.3.84~~							
~~20.3.84~~							

Papers removed from file

Date 23/7

S/S DHSS to CST 5/7/84

NAT. HEALTH: Seminar on NHS expenditure: Aug 83

PART 1 ends:-

SC/AHSS to CST 5/7/84.

PART 2 begins:-

AT to PM 6/7/84.

File (A)

PRIME MINISTER

BENEFIT REVIEWS : BRIEF FOR MEETING WITH NORMAN FOWLER

At your meeting with Norman Fowler, you could discuss with him some of the important general themes to be incorporated in the benefit reviews, and some of the detailed options.

General principles

1. **The contributory principle:** People should feel the cost of providing benefits directly in their pay-packets. Where possible, when benefits are paid by the State, they should be related to contributions. People should be encouraged to insure themselves for income above the basic State provision.

2. **Targeting benefits:** Basic benefits should provide a safety-net for those in need. Non-contributory benefits should be means-tested and tapered so that those who do not need them do not get them. Child benefit now goes even to millionaires, and the average householder in the top one-fifth of income-earners gets £540 a year in cash benefits.

3. **The unemployment and poverty traps:** People should always be better off in work than out of work, and should be at least 30p better off for each extra pound they earn.

4. **Savings:** Any reform should yield public expenditure savings so that people can be taken out of tax.

5. **Losers:** There will be some losers in any major reform of taxes and benefits, but the poorest should not be made poorer by that reform; nor should any group of losers find themselves dramatically worse off.

6. **Simplicity:** The tax-benefit system should be as simple as possible and should be easy for administrators and beneficiaries to understand. There are 77,000 DHSS social security administrators, and another 58,000 handling personal tax in the Inland Revenue.

Options

We have set out some options for each of the four reviews, though it is early to become involved in too much detail:

Pensions

The basic State retirement pension is a popular pledged benefit and will remain a central part of the National Insurance system. It should continue to be contributory, although the review could ask the question whether it should continue to be compulsory. People might be allowed to opt out if they were on an approved private pension plan.

The State Earnings-Related Pension Scheme (SERPS), introduced by Barbara Castle in 1975, should go. There are now about 9.3m pensioners. Their numbers stay below 10m until 2005 and then rise steeply to more than 11m by 2015 and more than 12m by 2025. This increase coincides with the maturity of SERPS as the "20 best years" rule begins to bite. Options for abolition:

1. Calculate the SERPS entitlement not on the basis of the best 20 years' earnings but on the average real lifetime earnings multiplied by 20. This would make the scheme cheaper.

2. Discontinue SERPS for everybody from an appointed date. The arrangements would be similar to the winding-up of the graduated pension: everyone would receive a written record of his entitlement, which would be uprated annually in line with prices.

3. Discontinue SERPS from an appointed date and give everyone his entitlement as a capital receipt to be paid into his own personal pension fund once the portable pension scheme is running. This would extend personal wealth ownership but would cost the public sector a great deal on the appointed day, though it would buy out the expensive entitlements which would otherwise continue to accrue.

We recommend the second option.

Supplementary Benefit

Supplementary benefit costs well over £2 per benefit payment to administer. About 15% of all benefit payments are supplementary benefit, but almost 40% of staff work on it, because it is means-tested and because the 15,000 paragraphs of regulations are complex.

1. Have simpler and fewer categories of need and fewer special payments. Savings will be in administration rather than in benefit cuts.

2. At present, anyone with savings of more than £3,000 is not eligible for supplementary benefit. Therefore those who are now in work but who fear they may one day find themselves on social security have a disincentive to save. The reviews should look at the scope for raising the savings disregards to solve this problem.

Housing

Housing benefit extends too far up the income-scale and helps to force up house prices and rents. It makes people less worried about the level of council rents and rates and encourages private landlords to overcharge in the knowledge

that the State will pick up the bill. And, as central Government squeezes the spending of councils, they put up their rents and the DHSS automatically has to shell out extra housing benefit.

Housing benefit is complex and is a major contributor to the poverty trap. It is paid to more than one-third of all households and therefore goes to many whose need is questionable. Of the £4bn total annual cost of housing benefit, £2.5bn goes to people on basic supplementary benefit, and they will need to go on having their full rent and rates paid. But savings could be made on the £1.5bn paid to families not on supplementary benefit:

> Simplify housing benefit by meeting the full housing costs of those without any non-State income, as now, and by tapering those full costs at a single, uniform rate so that the benefit received is, say, 25p less for each extra pound earned. This single taper would replace the four existing tapers and the other needlessly complicated features of the system. And, if the taper were steep enough, public expenditure would be reduced.

Benefits for children and young people

A: Young people. Supplementary benefit to young people living away from home can be so generous as to deter them from finding work. At its extremes it can allow young people to live together in seaside hotels at the public expense or allow families to swap their teenagers so that they can claim full supplementary and housing benefit.

At present, a 16-17 year-old on supplementary benefit of £16.45 a week is better off than a young person who stays at school (because the parents get only £6.50 a week in child benefit). He is also better off than many young people on Government training schemes. This is one of the areas where basic supplementary benefit may be too generous. And it contributes to youth unemployment by holding up the wage-levels which employers offer, so that they are higher than the value of the labour of large numbers of young people.

> 1. Pay young people only the level of supplementary benefit which would apply if they were living at home, unless they have a good reason to be living elsewhere (eg parents dead or divorced).
>
> 2. Extend the age-band for young people's reduced rate of supplementary benefit to 19 years and cutting the rate by £2 a week.

B: Child-related benefits. Child benefit is £6.50 per week per child; FIS starts at £22 per week for the first child with an addition of £2 per week per subsequent child and is then tapered at a steep 50p per pound of earnings. The

disadvantages are a) that many get it who do not need it; b) that the FIS taper is the largest single cause of the family poverty trap; c) that the combination of FIS, child benefit and the child elements in supplementary benefit, is complex.

> Replace child benefit, FIS and the child element in supplementary benefit with a consolidated, means-tested child benefit which preserves the financial position of the poorest and is tapered at, say, 20-25p for each pound earned. This would reduce the effects of the poverty trap and would yield significant savings by no longer paying child benefit to richer families. The savings could be passed on in higher tax thresholds.

Options for the co-ordinating unit & DHSS

The central co-ordinating unit must also look at wider options for radical reform. We suggest that the following be considered:

Private provision: Private savings or insurance would be well-suited for topping up a basic State provision (that is why SERPS is unnecessary) or for covering specific and foreseeable costs (such as funeral or maternity expenses). For the poorest, supplementary benefit would meet these costs; for earners, private insurance would be best.

Other candidates for privatisation are sickness benefit and the contributory Industrial Injuries Scheme.

Raising income-tax thresholds: The other side of the benefits coin is taxation. The administrative and benefit savings outlined above could help to finance a further increase in tax thresholds, which would take more people out of tax and further weaken the poverty trap.

Simpler admin: It is possible to simplify the tax-benefit system without destroying its sensitivity to individual needs. The options above allow the number and complexity of benefits to be reduced. At this stage we should encourage fundamental thinking about ways of making a major reduction in the complexity and costs of administration.

> Existing benefits should be handled not by a multiplicity of offices but by a single office. You may like to press Norman Fowler further to handle unemployment benefit in his offices rather than separately. In due course, housing benefit should also come back to benefit offices; and personal taxation could eventually be handled in the same offices as personal benefits.

The wider option: There are more fundamental ways of simplifying the system and reducing its costs while focusing on poor people in particular. Our consolidation of child support could be extended to cover all basic benefits, includ-

ing supplementary benefit, unmployment benefit, housing benefit and fringe benefits such as free school meals and welfare milk. It would be a fully means-tested supplementary benefit covering people in and out of work, tapering off at, say, 35-50p for each pound earned. The advantages of the single computation would be in saving administration costs, in making sure that people get their due without difficulty and in giving people greater incentive to earn.

Conclusions

At this preliminary meeting, it may be best to concentrate on the general principles set out at the beginning of this paper (which reflect our understanding of your thinking) and to concentrate on one or two of the options we have suggested in the light of those principles. We suggest concentrating on:

* ending SERPS;
* ending abuses in young people's benefit;
* making Housing Benefit much simpler and cheaper.

You may also want to urge the case for a fundamental rethink, aiming at a more uniform means-tested benefit focusing on the poor.

David Willetts

JOHN REDWOOD
CHRISTOPHER MONCKTON
DAVID WILLETTS

22 June 1984

SECRET

B/F full paper to ~~cc~~ NO.
No further meeting, a Thursday
AT 25/6 29

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Andrew Turnbull Esq
Private Secretary
10 Downing Street

22 June 1984

Dear Andrew

POVERTY AND UNEMPLOYMENT TRAPS

Thank you for your letter of 18 June.

The problem of the unemployment and poverty traps will indeed arise at a number of points on the social security reviews. It was partly because there are wider issues which cross the boundaries of the reviews that my Secretary of State established a central review unit to coordinate the work on the different reviews. This particular issue will be among the first that they will be considering. Considerable work has already been done on it of course, and the central unit will be drawing on this in considering what options are available for tackling the problem. We shall gladly put this together in a comprehensive paper by early September for discussion, as you suggest.

We will, of course, be consulting with colleagues in the Treasury, Inland Revenue and Department of Employment in preparing the paper. Copies of this letter go to David Peretz (HM Treasury) and David Normington (Department of Employment).

NO PAPER WILL NOW BE PRODUCED.

Yours

Shane

S A Godber
Private Secretary

SECRET

Nat Health: Seminar Aug 83.

bc. Mr. Redwood

SECRET

file to 28.

10 DOWNING STREET

From the Private Secretary

18 June, 1984.

Poverty and Unemployment Traps

The Prime Minister has noted that the problem of the Poverty and Unemployment Traps will arise at a number of points during the course of the social security reviews. She thinks it would be helpful to have these issues brought together in one paper to provide a comprehensive analysis of the problem. She would be grateful if work could be set in hand to have a paper ready for discussion in early September.

BF

I am sending copies of this letter to David Peretz (HM Treasury) and David Normington (Department of Employment).

Andrew Turnbull

S.A. Godber, Esq.,
Department of Health and Social Security.

SECRET

NR

Ack

PRIME MINISTER

Mr. Fowler would like to come and see you to report on his four social security reviews which are all now launched and operating. The pensions review, which was started first, is well advanced.

In addition to hearing his reports, you could urge him to draw together in one exercise the poverty and unemployment traps which will arise in each of the separate benefit reviews (housing benefit, supplementary benefit, provision for young people and children.)

A half-an-hour slot is available before Cabinet on 28 June.

Agree?

AT

13 June 1984

cc D. Willetts

NBPM

JP 16/5

Treasury Chambers, Parliament Street, SW1P 3AG

PS/Secretary of State for
Social Services
Department of Health & Social
Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

15 May 1984

Dear Steve,

SOCIAL SECURITY REVIEWS: MEMBERSHIP

We spoke about your letter to Andrew Turnbull of 10 May. The Chief Secretary has no objections to the two new names on the list of members of the review teams: Mrs Rhea Martin for housing benefit and Mr Basil Collins for supplementary benefit. He is also content that your Secretary of State should announce the full details of the membership on Wednesday 16 May.

I am copying this letter to Andrew Turnbull.

Yours sincerely,

Paul Pedler

JOHN GIEVE
Private Secretary

Nat Health: Seminar Aug 83.

File

bcc: Mr Willetts

10 DOWNING STREET

From the Private Secretary

14 May, 1984

Dear Steve

Social Security Reviews: Membership

The Prime Minister has seen your letter to me of 10 May. She is content with the membership proposed for the Social Security Reviews. She has noted the capacity in which your Secretary of State is considering using Lord Vaizey.

I am copying this letter to David Peretz (H.M. Treasury), John Gieve (Chief Secretary's Office), John Ballard (Department of the Environment), David Normington (Department of Employment), Elizabeth Hodkinson (Department of Education and Science), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Janet Lewis-Jones (Lord President's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

S. A. Godber, Esq.,
Department of Health and Social Security

54

cc D. Wolfe

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Prime Minister (1)
To note that Mr Fowler is no longer proposing Lord Vaizey for the HB.
Agree these appointments subject to colleagues?
AT 11/5

Andrew Turnbull Esq
Private Secretary
10 Downing Street

10 May 1984

I see that Lord Vaizey's abilities will be used in the wider co-ordination that will have to be done later

Agreed

Dear Andrew

SOCIAL SECURITY REVIEWS: MEMBERSHIP

My Secretary of State is now ready to announce the membership of the three new social security policy review teams and to launch the consultation exercise on two of them.

In the light of the views you conveyed to me and further discussions Ministers here have had with a number of potential outside members, my Secretary of State has settled the composition of each team as follows:

Housing Benefit (Chairman, Mr Jeremy Rowe)

Mr Alan Blakemore (formerly Chief Executive of Croydon London Borough)

Mrs Rhea Martin, Lecturer in Law, Hatfield Polytechnic and Chairman of the Lord Chancellor's Standing Conference on Legal Services

Children and Young Persons (Chairman, Dr Rhodes Boyson)

Mrs Barbara Shenfield, Chairman of WRVS

Mr Tom Rogers, Director (Personnel and Europe) of Plesseys

Supplementary Benefit (Chairman, Mr Tony Newton)

Mr Robin Wendt, Chief Executive of Cheshire County Council and Member of the Social Security Advisory Committee

Mr Basil Collins of NABISCO.

Of the other names previously considered, Professor Ball withdrew as he did not feel it would be possible to give enough time to this

E.R.

exercise. My Secretary of State also felt, on reflection, that, in view of Lord Vaizey's earlier ideas for work in this area, it would not be appropriate to use him just as a member of one of the reviews. He feels it might be better to make use of Lord Vaizey in the context of the central coordinating activity which will need to go on across the whole field being covered by the reviews.

We intend to announce details of membership in the course of next week, probably on Wednesday 16 May, by means of a written Parliamentary Answer. At the same time, we will be launching the public consultation exercise for the Children and Young Persons Review and the Supplementary Benefit Review. My Secretary of State will hold a press conference for this purpose on the afternoon of 16 May.

I am copying this letter to David Peretz (Chancellor's Office), John Gieve (Chief Secretary's Office), John Ballard (Department of Environment), David Normington (Department of Employment), Elizabeth Hodkinson (Department of Education and Science), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Janet Lewis-Jones (Lord President's Office), Murdo MacLean (Chief Whip's Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours

Steve

S A Godber
Private Secretary

National Health August 83

Seminar on Health & Social Security Expenditure

NBPM AT 8/5 cc D. Willetts

APPOINTMENTS-IN-CONFIDENCE

Treasury Chambers, Parliament Street, SW1P 3AG

May 1984

Steve G. Sher
PS/Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

Dear Steve

SOCIAL SECURITY REVIEWS: MEMBERSHIP

Thank you for your letter of 25 April, which the Chief Secretary has seen. He has no objection to the proposal to invite Lord Vaizey to join the housing benefit team, if he is prepared to devote his time to this rather than the work which we understand he was proposing to do for publication. He is content also with the other names proposed. He has commented that it is important that Professor Ball should be prepared to commit sufficient time to the supplementary benefit reviews.

I am copying this to Andrew Turnbull

Yours sincerely

John Gieve

JOHN GIEVE

APPOINTMENTS-IN-CONFIDENCE

National Health: Seminar Aug 1983.

Appointments
In Confidence

file

10 DOWNING STREET

From the Private Secretary

30 April 1984

not sent.

Social Security Reviews: Membership

The Prime Minister has seen your letter to John Gieve of 25 April. She wonders whether it would be right to appoint Lord Vaizey to the Committee reviewing the housing benefit as this might compromise the independence of the work he is himself undertaking into the social security system.

I am copying this letter to John Gieve (Chief Secretary to the Treasury's Office).

Andrew Turnbull

Steve Godber Esq
Department of Health and Social Security

APPOINTMENTS IN CONFIDENCE

cc D Wilcutts
APPTS

Prime Minister ②
To note. Is it better to keep Lord Vaizey free to do his own work?

AT 27/4

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Yes - I think so. He could not produce his own report while being part of another review.

John Gieve Esq
Private Secretary to
The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

25 April 1984

Dear John

SOCIAL SECURITY REVIEWS: MEMBERSHIP

Following my Secretary of State's statement on 2 April about the leadership of the three new social security policy reviews, Ministers here have interviewed a number of potential outside members to join the reviews.

On returning from America, my Secretary of State has therefore been able to firm up his views about the composition of each team as follows:

Housing Benefit (Chairman, Mr Jeremy Rowe)

Mr Alan Blakemore: formerly Chief Executive of Croydon LB. Preferred to Harry Simpson who was mentioned earlier but is felt to be too closely identified with the SSAC's criticisms of this year's housing benefit changes.

Lord Vaizey: not yet approached by Ministers here, but I understand from John Redwood that he would be willing to take part.

Children and Young Persons (Chairman, Dr Rhodes Boyson)

Mrs Barbara Shenfield, Chairman of the WRVS.

Mr T P Rodgers, Director (Personnel and Europe) of Plesseys. A highly experienced businessman with previous Government committee experience. He has obtained the agreement of his Chairman to his appointment.

E.R.

Supplementary Benefit (Chairman, Mr Tony Newton)

Mr Robin Wendt, Chief Executive of Cheshire County Council, Member of SSAC and former DHSS civil servant with supplementary benefit experience. He has made it clear that he would serve as an independent voice, not a SSAC representative.

Professor Jim Ball, Chairman of Legal and General; he is due to finish as Principal of the London Business School in June. Having said he was willing to serve, he has now expressed doubts about whether he can find the time. My Secretary of State hopes to persuade him that he can.

Subject to resolving the positions of Lord Vaizey and Professor Ball, and to any comments the Chief Secretary might have, my Secretary of State hopes to be able to announce the composition of the review teams during next week. It would be useful, therefore, to have any reactions as soon as possible.

I am copying this letter to Andrew Turnbull.

Yours

Steve

S A Godber
Private Secretary

CONFIDENTIAL

FILE B/c: Mr Redwood

10 DOWNING STREET

From the Private Secretary

4 April, 1984

SOCIAL SECURITY POLICY REVIEWS

The Prime Minister has seen the Chief Secretary's letter to your Secretary of State of 2 April. She recognises the far reaching nature of the reviews which your Secretary of State has just announced, but she agrees with the Chief Secretary that the fact that they will not be completed until later in the year should not preclude the identification of worthwhile options for savings during the course of the PES round.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office), John Ballard (Department of the Environment), David Normington (Department of Employment), Elizabeth Hodkinson (Department of Education and Science), David Heyhoe (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

S. Godber, Esq.,
Department of Health and Social Security

CONFIDENTIAL

ECL

Prime Minister ① cc DTO

Treasury are anxious that you should endorse X. Agree?

AT 2/4

Treasury Chambers, Parliament Street, SW1P 3AG

Steve Godber
Private Secretary to
the Secretary of State
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

2 April 1984

Yes MT

Dear Steve

SOCIAL SECURITY POLICY REVIEWS

We spoke this morning about the draft you circulated on Friday for your Secretary of State's announcement this afternoon. The Chief Secretary had one drafting amendment and one other comment of substance.

The drafting amendment was to the penultimate paragraph. He felt that the last sentence did not give quite the right impression on resource constraints and would prefer the following:

> "Each of the reviews has as its objective to identify the needs which should be met and to consider how they can most sensibly be provided for against the background of the Government's economic strategy and the resource constraints we face."

The Chief Secretary's second a more important concern is over timing. As he has made plain in previous correspondence, he does think it important that some results from these reviews should be available in time for the autumn public expenditure discussions since they cover substantially the whole of social security expenditure, nearly 30% of the public expenditure in total. It now appears impractical to look for final results in time for the bilaterals. However, the Chief Secretary wishes it to be clearly understood that the existence of the reviews cannot exclude the search for savings within these areas of social security expenditure during the Survey. When we spoke earlier, you said that your Secretary of State accepted that the

areas under review could not be put in baulk for the purposes of the public expenditure Survey.

Copies of this go to Andrew Turnbull, John Ballard, David Normington, Elizabeth Hodkinson, David Hayhoe, Merlin MacLean and Richard Hatfield.

Yours sincerely

John Gieve

JOHN GIEVE
Private Secretary

NAT HEALTH: Exp.
Pt 3

Mr. Skinner: On a point of order, Mr. Speaker. In view of the comments of my hon. Friend the Member for Midlothian (Mr. Eadie), may I ask you to give an assurance that now that the matter has been widened by the Secretary of State, by bringing in other matters, Back Benchers will be able to come into the discussion on the same lines on to which the right hon. Gentleman ventured? Will you also take into account the fact that we expect the Secretary of State to move in such diverse ways? The right hon. Gentleman must think that he is operating another Slater Walker trust that travels all over the world.

Mr. Speaker: I shall not allow the question to go wider, whatever the Secretary of State said — *[Interruption.]*—which he should not have said—[HON. MEMBERS: "Oh!"] — and the House will know that I asked him twice not to do so. I shall allow questions strictly in relation to the matter on which I granted the private notice question.

Several hon. Members *rose*——

Mr. Speaker: Order. If any right hon. or hon. Member wishes to proceed on that basis I shall be willing to call him, within the parameters of the time available. I must warn the House that we have two statements to follow and an important Bill to debate.

Mr. Walker: Further to those points of order, Mr. Speaker. I must point out to the House that I was asked a question about the decision of certain trade unions. There has been no decision of certain trade unions; there has been a pronouncement of certain trade union leaders. I submit, therefore, with respect, Mr. Speaker, that it is perfectly in order in reply to this question—*[Interruption.]*—for me to suggest what those trade unions might take into consideration in coming to their conclusions.

Mr. Speaker: Order. I ask the House to calm down about this. I hope very much that the Secretary of State's office received a copy of the private notice question. If it had, he would then have seen that it concerned the decision by the transport unions and not a wide range of other unions. I shall now take questions, for not more than five minutes, specifically on the question that was asked. I repeat it for the benefit of the House. The Secretary of State was asked

"whether, in the light of the decision of the transport unions to support the National Union of Mineworkers, he will make a statement on energy supplies."

Mr. Benn: Everyone understands the Secretary of State's difficulty. He ran the three-day week 10 years ago as Secretary of State for Industry——

Mr. Speaker: Order. The same rules apply.

Mr. Benn: —and was rejected after a ballot of the nation.

Mr. Speaker: Order. I cannot allow the right hon. Gentleman to persist in that line.

Mr. Benn: I was drawing attention to the reason why the Secretary of State would not answer the question.

What I want to know is what the Secretary of State is obliged by the Act to tell the House — how long the present stocks of coal and coke will last at current rates of production, distribution and consumption. Has the Ministry of Defence been consulted, and is the right hon. Gentleman aware that the escalation of the dispute which gave rise to my question is due to the policy of the National Coal Board in setting aside all consultation procedures and the action of the police in making peaceful picketing impossible?

Will the Secretary of State now please answer the question?

Mr. Walker: If we are commenting on histories at the Department of Energy, I must tell the House that few people have a worse record than the right hon. Gentleman for lower investment, worse pay and much less generous redundancy payments in the coal industry.

I am pleased to say that the power stations have very considerable coal stocks.

Mr. Benn: How much?

Mr. Walker: They are certainly likely to last about six months. In other industries stocks vary according to the industry concerned. In the interests of the coal industry, however, I hope that supplies of coal will not stop, thus preventing firms from converting to coal.

Mr. Peter Bottomley (Eltham): Will my right hon. Friend accept that members of the Transport and General Workers Union such as I have no more been consulted on our leaders' decision in relation to the coal dispute than have members of the National Union of Mineworkers nationally? Will he encourage Opposition Front Bench spokesmen to state their view on a national ballot of those directly involved?

Mr. Walker: I agree with my hon. Friend that at a time when the coal industry is enjoying such high investment and such good prospects for the future it is a great pity that, seemingly against the wishes of the majority of the national executive and the majority of those who voted, no ballot has been allowed.

Mr. Eadie: The right hon. Gentleman must be aware that the Transport and General Workers Union is part of the triple alliance. What was the advice given to him as Secretary of State for Energy as to the part that would be played by the triple alliance in the event of an industrial dispute in the mining industry?

Mr. Walker: That is an interesting point, especially in relation to what the triple alliance should do in Nottinghamshire, for example, where the majority of the miners' part of the triple alliance are at work and want to work. Is the hon. Gentleman suggesting that the other parts of the triple alliance should take industrial action against them?

Mr. Kenneth Carlisle (Lincoln): Will my hon. Friend advise those enterprises whose business and job prospects are being damaged by lack of fuel that they have legal rights against secondary picketing?

Mr. Walker: I think that people are aware of their rights. In the interests of the coal industry, however, I should point out that the prospects for increased coal consumption in the future — in December, 78 firms applied for grants for conversion to coal, but in March the figure was down to two — are being considerably damaged by the present action.

Mr. James Wallace (Orkney and Shetland): Does the right hon. Gentleman recognise that there is considerable concern in Scotland today over newspaper reports on the effect that any threat to supplies might have on the future

[Mr. James Wallace]

viability of the Ravescraig steel plant? What steps will the Government take to ensure the continued viability of that plant in any crisis?

Mr. Walker: I hope that coal and coke supplies will continue flowing into our major steel plants. I know of the considerable disquiet expressed about any danger to jobs, including the disquiet of a leading trade unionist whose union is part of the triple alliance.

Mr. Tony Marlow (Northampton, North): Will my right hon. Friend suggest that while the transport workers are making their decisions they should take into account that Arthur Scargill, the Galtieri of the coalfields, has no interest whatever in the future of the coal mining industry but is using the NUM — or abusing it — for purely political purposes to confront the Government?

Mr. Walker: I can only express the hope that all of the important questions at stake on pay, the likelihood of closures, the massive investment in the coal industry, and the generosity of redundancy payments for those who wish to volunteer for redundancy will be carefully considered by the miners and that they will be allowed to express their views.

Mr. Orme: In view of the serious effect of this escalating dispute upon employment and industry, which makes it a national issue, what action will the Secretary of State and the Government take to bring both sides together? The right hon. Gentleman cannot stand idly by any longer. He has a responsibility to intervene to bring both sides together.

Mr. Walker: I find it astounding that if the right hon. Gentleman is deeply concerned about the nature of this industrial dispute—I am sure he is—he does not urge that the members of the NUM should be given an early opportunity to say how they wish the matter to be handled.

Social Security System (Reviews)

3.46 pm

The Secretary of State for Social Services (Mr. Norman Fowler): With permission, Mr. Speaker, I shall make a statement on my plans for taking forward a series of reviews on the social security system.

As the House will know, I have already set in hand a thorough review of the largest single element of social security provision through the inquiry which I am chairing into provision for retirement. We have made good progress on that inquiry. I have now received no fewer than 1,700 submissions from interested organisations and members of the public on the subject of portable pensions alone. We have now completed our public sessions on that subject, but I intend to hold further public sessions on the wider issues of pensions policy in the coming months.

I also announced in February that I intended to establish a review of the housing benefit scheme. That scheme, which now accounts for some £4 billion of expenditure a year and is paid to one household in three throughout the country, has increased rapidly in scale. The announcement of a review was widely welcomed and I am glad to be able to report that the review will be chaired by Mr. Jeremy Rowe, chairman of the Peterborough Development Corporation, deputy chairman of Abbey National Building Society and chairman of London Brick Company. His experience makes him well suited to this important task and I am grateful to him for agreeing to take it on. He will be commencing the review when his involvement with London Brick Company ends later this month and I expect then to announce the two other independent members of his review team.

Although these reviews represent a substantial undertaking, I believe that the time is right to look at the other major parts of the social security system as well. Spending on the social security budget now totals more than £35 billion and accounts for almost 30 per cent. of all public expenditure. Payments — including national insurance pensions — go to well over 20 million beneficiaries; and the whole system requires the employment of almost 80,000 staff in my Department to administer the various schemes. Given the importance of social security, no responsible Government can avoid the duty to look carefully at the way the system works. I am therefore establishing two further reviews. The first will be concerned with the supplementary benefit scheme. The scheme now deals with well over 4 million claimants, of whom 1½ million are pensioners. Over 7 million people live in households in receipt of supplementary benefit and total expenditure on the benefits is more than £5½ billion. Following the review undertaken by the last Government, a number of major changes in the scheme were introduced in 1980 to make the scheme subject to a much greater extent to specific parliamentary regulations. The aim was to consolidate legal entitlement to benefit and to reduce the dependence of the system on the discretion of staff.

The changes, however, have not resolved some central problems. In particular, the system is complex to administer and difficult to understand. The result is that it is still necessary for some 35,000 staff in my Department to be employed wholly on the administration of supplementary benefit; and the procedures and rules under which the scheme is administered remain extremely complicated both for staff and for claimants. I believe it

is essential that we should look again at supplementary benefit, and I have asked my hon. Friend the Under-Secretary of State for Social Security to lead a small team which will review the structure of the scheme and consider the scope for easing its administration.

The second major area in which we have decided that a review is required is that of benefits for children and young people. At present, we pay out very large sums of money through a particularly complex pattern of social security benefits. For instance, a working family may get help for children through child benefit alone, or with housing benefit, family income supplement, or one-parent benefit, or a combination of them. As for young people generally, the amount of social security support depends not just on personal or family circumstances, but on whether they are in employment, education or training. All these benefits have a sensible purpose, but we need to be sure that this is the best way of providing support. I have therefore asked my hon. Friend the Minister for Social Security to lead a team in reviewing the present social security arrangements for giving financial help to families with children and to young people above school leaving age.

The largest remaining area within the social security programme is that of providing disablement benefits. Here I propose a somewhat different approach. With the ending of the invalidity trap, the introduction of war pensioners' mobility supplement and our proposals for a severe disablement allowance, we are making useful progress towards our declared objective of a more coherent system. We shall continue to look for further practical steps in this direction.

But it is clear that in the longer term the development of our policy would be helped by more reliable information about the numbers of disabled people, their circumstances and their needs. There has been no comprehensive study of the extent of disablement in the population for 15 years, and even that excluded some important groups. I therefore intend to take steps to fill this gap in our knowledge by undertaking a full-scale survey. A feasibility study on this is already under way.

As to the arrangements for each review, they will all involve independent figures from outside the Government. The reviews will also follow the lead of the inquiry into provision for retirement by seeking public evidence. Each of the reviews will aim to identify the needs which should be provided for and consider how, within the resource constraints we face, those needs can most sensibly be met. I have asked the leaders of each of the reviews to report their conclusions to me later this year.

Taken together, the various reviews and studies I have set in hand constitute the most substantial examination of the social security system since the Beveridge report 40 years ago.

Mr. Michael Meacher (Oldham, West): Is the Secretary of State aware that we suspect that his statement has a good deal less to do with the welfare of pensioners, tenants and all the poor than with the planning of yet further public expenditure cuts, and this proposal of his has the fingerprints of the Treasury all over it? Does it not expose the nature of the Government's reviews when the Treasury's own budget reports now show the cumulative value of tax cuts to the rich since 1979 at £13,000 million, while the cumulative value of cutbacks in benefit to the poor since 1979, by lowering the pension uprating criterion, by abolishing the earnings-related supplement and by other means, now exceeds £5,000 million?

Will the right hon. Gentleman now give an assurance, which he has refused to do before, that, whatever else the pensions inquiry does, it will not erode the state earnings-related pension scheme, which the Labour Government introduced in 1975, and which offers pensioners the best deal that they have ever had?

Will the terms of reference of the review team on housing benefit include a no extra cost constraint? If so, how does the right hon. Gentleman justify forcing through a £190 million cut in benefit for the poor, when only three weeks ago the Chancellor gave a £520 million tax handout to the rich by abolishing the unearned income surcharge, and halving stamp duty on share transactions?

On supplementary benefit, while we recognise that legalisation of the system has not generally operated in favour of claimants and has led to a proliferation of secret documents, will the Secretary of State give a categorical assurance that reviewing the structure of the scheme will not involve any cut in the level or the coverage of the supplementary benefit in what is, even under this Government, the safety net for the poorest claimants?

On benefits for children and young people, while we believe that child benefit needs to be enhanced, is the Secretary of State aware that his previous reviews on this issue have always involved cuts in benefit such as scrapping the short-term child dependency additions and reducing the non-dependent allowance in housing? Therefore, will he give us an unequivocal pledge that this time it will not be the same again?

On disablement benefits, is the right hon. Gentleman aware while we support the principle of a comprehensive and coherent scheme, what is missing is not further information about the disabled, but a readiness to give financial priority to them? Is he prepared to do that?

Will all these reviews be published in full when completed? Is the Secretary of State aware that we would have a great deal more confidence in these reviews if he had not in the past so often proved to be acting as an agent for the Treasury?

Mr. Fowler: That is a typically foolish response from the hon. Gentleman.

The last time the hon. Gentleman spoke from the Dispatch Box he complained about the piecemeal way in which social security provision was approached. We have now announced a series of reviews that adds up to the most comprehensive review of the social security system for 40 years. It is in everyone's interest to see whether the schemes about which we are talking are working as effectively as possible. An open review must mean open discussion, and the hon. Gentleman is foolish to fear that open discussion.

On finances, the aim is to make the best use of the available resources and to channel them to where they are most needed. The premise of working within overall budgets remains, and we must recognise that there are resource restraints.

As the hon. Gentleman will perhaps acknowledge, supplementary benefit is complex. The two manuals of guidance contain 16,000 paragraphs of instructions for the DHSS staff who administer the scheme. It is administered by 35,000 staff, and I should have thought that it was in

[Mr. Fowler]

the interests of everyone, including claimants, to ensure that the schemes and the system were as simple as possible.

We are already making progress towards a more coherent system for the disabled, but the development of that policy requires reliable information about the numbers of the disabled and their needs. The hon. Gentleman appears to be disagreeing, but that is the case.

Mr. Meacher: There has been a comprehensive review.

Mr. Fowler: The hon. Gentleman is wrong. There has been no comprehensive survey for 15 years, since the Amelia Harris report. If the hon. Gentleman wishes to make an issue of that, he will not take many people with him.

The Government will announce their proposals for support, and it will be at that stage that we shall publish the separate results of the inquiries. Clearly, the need is to bring together the separate work of the reviews. This is the most comprehensive inquiry for 40 years.

Mr. Robert McCrindle (Brentwood and Ongar): I warmly welcome what is clearly a most radical review of the social security system and one that arguably should have been undertaken by Governments of both political complexions in the past. Will my right hon. Friend take on board the fact that the system has become so difficult to operate and so complex to understand that if there were widespread recognition of the need for changes across the board we should be looking almost to starting from scratch, with a clean sheet? Will he take into account that that might be the best way, rather than to go on doing a little here and a little there, and thereby building up to the manuals of instruction which few people, including his civil servants, understand?

Mr. Fowler: My hon. Friend has made a fair point. One of the fundamental aims of these reviews is to ascertain whether we can simplify the system. I believe that the system's complexity is recognised by the public. That aspect affects staff in offices and, above all, the public. I believe that the public wish the Government to make some attempt to reduce that complexity and simplify the system.

Mr. Robert N. Wareing (Liverpool, West Derby): I point out to the right hon. Gentleman, who now seems to be worried about how to work out the number of disabled people, that I am in a position to help him. Tomorrow afternoon the other place will debate the Third reading of a Bill which bears a great similarity to the Bill that I introduced on 18 November 1983. Part II will allow the Secretary of State to conduct a thorough survey of the number of disabled people in the United Kingdom.

What are the right hon. Gentleman's intentions about that Bill now that he admits that legislation is needed? In view of the tremendous reform which the right hon. Gentleman tells us he has introduced, how much better off will the young man or young woman who wishes to take a course in a college of further education and to do home work at the same time? Can such people now receive supplementary benefit, which was denied them in the past?

Mr. Fowler: The hon. Gentleman is wrong if he thinks that legislation is required to conduct a survey of disabled people. I welcome the fact that, unlike the hon. Member for Oldham, West (Mr. Meacher) the hon. Gentleman believes that such a survey is necessary. We agree on the necessity of the survey. The last survey was conducted 15 years ago. We intend the Office of Populatin Censuses and Surveys to carry out a survey, because we have been getting our forecasts wrong. Attendance allowance is one aspect for consideration. I hope that, whatever other differences we may have, the hon. Gentleman will support the idea of this survey going forward.

Mr. Ralph Howell (Norfolk, North): I welcome my right hon. Friend's intention to conduct these reviews into social security. Bearing in my the interaction of taxation and welfare benefits, I urge my right hon. Friend to refrain from conducting those reviews in isolation. He should conduct a comprehensive review into the whole area of taxation and welfare.

Mr. Fowler: I have heard what my hon. Friend says about that matter. He has made substantial points. Clearly, my right hon. Friends in the Government will want to take them into account.

Mr. Archie Kirkwood (Roxburgh and Berwickshire): The alliance gives these proposals a guarded welcome and looks forward to playing a positive and constructive role during the inquiries. I have three short questions. First — this point has just been made to the right hon. Gentleman — is it possible to extend the terms of reference of the supplementary benefit inquiry to consider the interface between taxation and the social security system with a tax credit scheme? Secondly, will he extend the terms of reference of the children's inquiry to consider parental careers in the first years after childbirth and schemes prevalent in other European countries? Thirdly, in the survey of the disabled, will the right hon. Gentleman take account of the needs of those who look after the elderly and disabled people?

We note that the reports are due this year, and we hope that the right hon. Gentleman will not hide behind them. We hope that he will say what will happen in the next 10 years rather than hide in the same way as he has been doing about a decision on the death grant. Can we expect firm proposals after those inquiries have been carried out, and for leadership to be shown?

Mr. Fowler: I assure the hon. Gentleman that we shall go as far as he wishes with the children's inquiry. Clearly, we wish to conduct the inquiries as speedily as possible. I hope that they will all be completed this year. I believe that, if the hon. Gentleman reflect, he will realise that that means imposing a very short time table. Some people will argue that simplification can be secured only by tax credit, and Ministers will consider that argument. We shall consider also the unresolved problems of tax credit, for example, for married women.

Mr. Peter Hordern (Horsham): My right hon. Friend mentioned the Beveridge report. Will he include in his review the payments and benefits paid by Departments other than the Department of Health and Social Security, as was suggested by Beveridge? Beveridge suggested that unemployment benefit should be paid by the same Department that paid supplementary benefit.

Mr. Fowler: We shall look at the interface between the different Departments. My colleagues and officials in other Departments will be kept closely informed about the progress of the inquiries.

Mr. Brynmor John (Pontypridd): Does the Secretary of State recognise that there will be a weakness in having four inquiries simultaneously into a matter that deserves a comprehensive remedy? Will he ensure that before the proposals are brought before the House there is a public debate, as occurred on the Beveridge report? Will the right hon. Gentleman confirm that one of the shortcomings of his proposals is that he has concentrated on the inequities of the scheme, as he sees them, and has made no proposal to inquire into the weaknesses of the scheme? Is the right hon. Gentleman aware that, for example, the criteria on attendance and mobility allowances are becoming more complicated in view of recent legal decisions? It is high time that further definitions were made of what entitles people to those benefits, so that they can secure justice.

Mr. Fowler: The fact that we have set up the inquiries does not mean that we do not intend to make progress in areas such as those the hon. Gentleman has mentioned. That would be absurd. The hon. Gentleman, on reflection, might feel that the only way that we shall speedily complete the work schedule that I have set out is by organising it in the way that we have done. The holding of a debate is not a decision for me, but clearly the House will wish to debate these matters at some stage.

Mr. Roy Galley (Halifax): I welcome this important statement, but I should like to press my right hon. Friend on some aspects of the terms of reference. Will they include an examination of the fact that some benefits appear to go to those who are not in most need. For example, an increasing number of single payments are being made under supplementary benefit rules. Other people in specific groups appear to need those benefits more than some people who are presently receiving them. Is my right hon. Friend prepared to take tough decisions which mean that some may lose and some may gain? I press my right hon. Friend further about negative income tax or tax credit. I believe that all Conservative Members accept that such a scheme would not be cost-effective for some time.

Mr. Speaker: Order. Another statement and more business are to follow this debate. Hon. Members should ask only one question at a time. I am sure that the House will return to this subject on another occasion.

Mr. Fowler: The aim of the inquiry is to make the best use of the available resources and to channel them to those most in need. I believe that that is the point made by my hon. Friend. We want to examine especially single payments to claimants, because almost 2 million single payments are made a year by local offices, totalling £140 million. That is a vast administrative effort, involving a comparatively small part of the total social security budget.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Is the Secretary of State aware that the House, in testing his sincerity on these five reviews, will bear in mind that it is now the second anniversary of the completion of the review on the death grant? Will the right hon. Gentleman show his sincerity by saying when he intends to make an announcement about an increase in the death grant, for which the vast majority of the people who contributed to his review asked?

Mr. Fowler: As the hon. Gentleman is aware, we have published proposals on the death grant. We issued a consultation paper. The only sensible thing that I can say is that we shall want to consider the death grant together with the whole of social security over the coming years.

Mr. Andrew Rowe (Mid-Kent): Will my right hon. Friend assure us that, while constructing the terms of reference of these inquiries, he will pay particular attention to the difficult subject of people's savings? It always seems to me to be entirely opposed to the Conservative philosophy that those people who manage to save a little day by day are worse off when it comes to claiming a whole range of benefits than those who have been unable to do so or have not cared to do so.

Mr. Fowler: That was one of the original points that was put in the Beveridge report. Many of the principles remain applicable today—the co-operation between the state and the individual, and the encouragement of voluntary action. These are principles which have lasted and which we shall want to strengthen.

Mr. Kevin Barron (Rother Valley): Why does the Secretary of State believe that one in three households receives housing benefit and that the figure is rapidly rising?

Mr. Fowler: The reason for that is that we have extended housing benefit. At the moment about one in three households — over 6 million households — are taking housing benefit. Most people would favour and support the idea that there should be an inquiry into the structure and administration of housing benefit. That is what we propose this afternoon. We have had many debates on housing benefit but I would ask the hon. Gentleman to look forward rather than forever backwards.

Several Hon. Members *rose*——

Mr. Speaker: Order. I have to protect the subsequent business of the House. I shall allow questions on this matter to continue for a further five minutes, and then I shall call the Front Bench speakers.

Mr. Timothy Yeo (Suffolk, South): Is my right hon. Friend aware that his statement will be welcomed by everyone who is interested in simplifying the social security system and particularly those interested in disability? Is he further aware that there can be no progress towards a comprehensive disability income scheme without the type of information that will be gathered under this survey? I ask for an assurance that the voluntary organisations will be fully consulted in the framing of the survey. Will he also consider seeking information about the causes of disability, which can be so valuable and lead to long-term preventive measures?

Mr. Fowler: Yes, Sir. I shall immediately consider the point that my hon. Friend makes about voluntary organisations and the input that they can make into the survey. Clearly, we want to take voluntary organisations with us on this survey, and I shall give urgent consideration to the point.

Mr. Max Madden (Bradford, West): Will the Secretary of State acknowledge that the record number of

[Mr. Max Madden]

people living in poverty will not be helped by official reviews, but that they need more money now? Does he accept that the only way to tackle poverty in old age is by way of a big increase in pensions now; that the only way to tackle family poverty is by way of a big increase in child benefit now, and that the only way to help the unemployed is to provide more jobs now?

Mr. Fowler: If the hon. Gentleman studies the Government's record, he will find that we are not only spending £35 billion a year on social security, which by any standards is a formidable amount of public spending, but that there have also been real increases in the value of pensions, supplementary benefit, mobility allowances and other benefits. I ask the hon. Gentleman to consider whether he believes it sensible that we should also examine the structure and administration of social security, because that is also in claimants' interests.

Mrs. Edwina Currie (Derbyshire, South): If I am only allowed one question, Mr. Speaker, may I ask it about the housing benefit review? While welcoming the appointment of Mr. Jeremy Rowe as chairman, because he knows a great deal about housing, could we also have on the review someone who knows a great deal about the administration of housing benefit, particularly from the local authorities?

Mr. Fowler: I hope that within the next few days I will be able to announce someone who comes up to my hon. Friend's specifications.

Mr. Gavin Strang (Edinburgh, East): Instead of tinkering with the social security system, when will the Government address themselves to the policies that have forced so many people to claim social security? Surely the best way to reduce the number of pensioners claiming social security is to increase the pension, and, for non-pensioners, to reverse the policy of destroying millions of jobs, including those in productive industries such as mining.

Mr. Fowler: I have just answered that question. If the hon. Gentleman looks back he will see that in 1978—in the period of the previous Labour Government—there were 3 million claimants on supplementary benefit, affecting 5 million people. It is foolish of him to look back and believe that there was some golden age when supplementary benefit was not given. It would seem sensible to study supplementary benefit to see whether it is being given in the right way and whether it is comprehensible to the people receiving it.

Mr. James Couchman (Gillingham): I welcome this report. Will my right hon. Friend undertake to ensure that any decisions that follow the surveys will be coherent and cohesive so that we do not get a number of conflicting decisions afterwards?

Mr. Fowler: The whole purpose of what we are doing is to bring the subjects together and not to deal with them piecemeal. As my hon. Friend says, we want to deal with them much more comprehensively than they have been dealt with hitherto.

Mr. Charles Kennedy (Ross, Cromarty and Skye): While I welcome any review that could lead to a reduction in complexity in the present system, particularly if it leads to more take-up by claimants, does the Secretary of State agree that the die has already been cast on this review by the Treasury Green Paper published at the time of the Budget? Is it not clear that public expenditure will not rise in real terms between now and 1986-87 and, therefore, the greater demand that is being placed on the social security network will create greater tensions, which no review will meet under present Treasury guidelines?

Mr. Fowler: We must clearly recognise the financial constraints that there are and always will be on any social security system. That does not invalidate the case for studying the structure and administration of the social security system.

Mr. Meacher: Will the Secretary of State confirm that in his answer to me he said that these reviews would be working within their existing budgets? Does that mean that they will all be at no extra cost? The Secretary of State seems to be nodding. If that is so, is it not clear—judging by his record—that this will not be the most radical examination of social security since Beveridge, but the most radical dismantling of the welfare state since the war?

Mr. Fowler: The hon. Gentleman must have had that point left over from the last election campaign. It has about as much impact as it did during the last election campaign. We are working on the premise of operating within the existing overall budget. We must recognise that there are resource constraints, but if there are any savings in a particular area, the Government clearly have the choice of seeing whether there are other areas within social security to which that money should be diverted.

PRIME MINISTER

MS

Mr. Fowler's Statement on Social Security Reviews

The Secretary of State for Social Services made a statement this afternoon about ~~about~~ Social Security reviews. In particular, he announced that in addition to the reviews and the provision for retirement under his chairmanship and that of housing benefit (under the chairmanship of Mr. Jeremy Rowe, Chairman of the London Brick Company) which have already been announced, his Department will be undertaking reviews of supplementary benefit under the chairmanship of Tony Newton, and provision for children under the chairmanship of Rhodes Boyson. In addition, the Department of Health and Social Security will be undertaking a survey of the extent of disablement in order to test the adequacies of disablement provision. Opinion in the House on the statement divided on predictable grounds. The Opposition saw the reviews as being dictated by the Treasury, and paving the way for reductions in social security. The Government side welcomed the reviews as contributing to the concentration of benefit on those most in need. There was much discussion on whether the recommendations of the review would be made on a no extra cost basis. Mr. Fowler said that they would.

In this context, the Treasury have responded to Mr. Fowler's proposals by stressing that the existence of the reviews cannot exclude the search for savings on social security expenditure during the PES round. They would like your endorsement on this review. The Treasury are setting this out as attached. Agree with the Chief Secretary's proposal?

TL

2 April, 1984.

cc TF
Press

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Andrew Turnbull Esq
Private Secretary
10 Downing Street

30 March 1984

Dear Andrew

I enclose a draft of the statement my Secretary of State intends to make on Monday.

I am copying this to John Gieve (Chief Secretary's office), John Ballard (Department of Environment), Barnaby Shaw (Department of Employment), Elizabeth Hodkinson (Department of Education and Science), David Heyhoe (Lord Privy Seal's office), Murdo MacLean (Chief Whip's office) and to Richard Hatfield (Sir Robert Armstrong's office).

Yours

Steve

S A Godber
Private Secretary

DRAFT STATEMENT ON SOCIAL SECURITY POLICY REVIEWS

With permission, Mr Speaker, I will make a statement on my plans for a series of fundamental reviews of our social security system.

Expenditure on social security now accounts for some [30 per cent] of all public expenditure; it involves payments to well over 20 million beneficiaries; and it requires the employment of almost 80,000 people in my Department to administer the various schemes. Few members of the population are unaffected by some aspect of our social security system and no responsible Government can avoid the duty to look carefully at the way the system works.

I have already set in hand a thorough review of the largest single element of social security provision through my Inquiry into Provision for Retirement. We have made good progress on the Inquiry. I have received no less than 1,700 submissions from interested organisations and members of the public on the subject of portable pensions alone. We have now completed our public evidence-gathering sessions on that subject but I expect to hold further public sessions on other issues later in the year. As I said when the Inquiry was established in November, I intend to reach conclusions on portable pensions in the Spring, in advance of the main report from the Inquiry later this year.

I also announced in February that I intended to establish a review of the housing benefit scheme. That scheme, which now accounts for some £4 billion of expenditure a year and is paid to one household in three throughout the country, has increased rapidly in scale and has

proved difficult for some local authorities to control. The review is, therefore, timely, but it will be a complex and difficult exercise. I am glad, therefore, to be able to announce that the review will be chaired by Mr Jeremy Rowe, Chairman of the London Brick Company. His experience as Chairman of the Peterborough Development Corporation and a Director of Abbey National Building Society make him well suited to this important task and I am grateful to him for agreeing to take it on. He will be commencing the review when his involvement with the London Brick Company ends later this month and I expect then to announce the two other independent members of his review team. I regard it as important that this review should be completed as soon as is practicable and I am hopeful that I will receive Mr Rowe's report at the end of this year.

Honourable Members will also remember that my honourable Friend, the Parliamentary Secretary for Social Security, announced last year that we would be undertaking a review of financial provison for maternity in the current year. Although this is only a small part of social security provision, it is one in which many honourable Members are interested and I am glad to say that we are now in a position to proceed, as my honourable Friend has announced today.

Mr Speaker, although these reviews represent a substantial undertaking, I believe the time is right to look at the other major parts of the social security system as well. I am therefore establishing two further reviews. The first will be concerned with the supplementary benefit scheme. The scheme now deals with well over 4 million claimants of whom over 1½ million are pensioners. Over 7 million people live in households in receipt of supplementary benefit and

Total expenditure on the benefits is close to £7 billion. Following the review undertaken by the last Government, a number of major changes in the scheme were introduced in 1980 to make the scheme subject to a much greater extent to specific Parliamentary Regulations. The aim was to consolidate legal entitlement to benefit and to reduce the dependence of the system on the discretion operated by the staff of the former Supplementary Benefit Commission.

Although the objectives of those changes may have been laudible, and I doubt if anyone would now seriously dispute the need for the key rules and conditions of benefit to be soundly based in law, the changes have not resolved some central problems. Despite the greater degree of regulation within the scheme, there was only a very temporary reduction in the number of single payments made to supplementary benefit claimants which has doubled since 1981. As the House will be only too well aware, it has proved necessary to revise, clarify and extend the regulations governing the scheme at regular intervals - indeed I am announcing some further regulations today. The result is that it is still necessary for some 40,000 staff in DHSS to be employed wholly on the administration of supplementary benefit; and the procedures and rules under which the scheme is administered - although they are now wholly public - remain extremely complicated both for staff and for claimants to understand.

I believe it is essential that we should look again at the supplementary benefit scheme and I have asked my honourable Friend, the Parliamentary Under Secretary of State for Social Security, to lead a team which will review the structure of the scheme and consider the scope for easing its administration.

The second major area in which we have decided that a fundamental review is required is in relation to benefits for children and young people. At present we pay out very large sums of money through a particularly complex pattern of social security benefits. For instance, a working family may get help for children through child benefit alone, or with housing benefit, family income supplement, or one-parent benefit or a combination of them. All these benefits have a sensible purpose but it is far from clear that they are, together, getting most help to those who most need it.

The position for families who are not in work is no less complicated and benefits for young people themselves may be even more complex. For them, the amount of social security support depends not just on personal or family circumstances, but on their involvement in education or training. The present pattern of income support can distort work, training and education incentives not only for those young people but also for their parents.

I do not suggest that there are any easy solutions to be found for these problems but I believe it is time that they were considered rationally. I have therefore asked my honourable Friend, the Minister for Social Security, to lead a team in reviewing the present social security arrangements for giving financial help to families with children, and to young people above school leaving age.

The largest remaining area within the social security programme is that of providing disablement benefit. Here I propose a somewhat different approach. With the ending of the invalidity trap, the introduction of war pensioners' mobility supplement and our proposals for a severe disablement allowance - which the Social Security

Advisory Committee has described as a potentially important building block in this field - we are making useful progress towards our declared objective of a more coherent system. We shall continue to look for further practical steps in this direction.

But it is clear that in the longer term the development of our policy would be helped by more reliable information about the numbers of disabled people, their circumstances and their needs. There has been no comprehensive study of the extent of disablement in the population for fifteen years, and even that excluded some important groups. I therefore intend to take steps to fill this gap in our knowledge. I intend that we should undertake a full-scale survey beginning next year. A feasibility study on this is already under way.

Taken together, the various reviews and studies I have set in hand constitute the most substantial reappraisal of the general feel for social security there has been for forty years - in fact since the Beveridge report. Each of the reviews has as its objective to identify the needs which should be met and to consider how, within the resources which can be made available, those needs can most sensibly be provided for.

That is a central theme, but the arrangements for each review will be for its leader to determine. They will, however, all involve people from outside Government to help bring fresh insights to bear. And I expect them to follow the lead of the Inquiry into Provision for Retirement by seeking a public input. I have asked the leaders of each of the reviews to aim to report their conclusions to me on the way forward by the end of this year.

CC NO
26

FROM: CHIEF SECRETARY
23 March 1984

NBPM
AT 26/3

PRIME MINISTER

SOCIAL SECURITY POLICY REVIEWS

I have seen Norman Fowler's minute to you of 20 March. I don't know Mr Rowe or Mr Simpson personally but I was concerned to see that the latter was a member of the SSAC which produced such a critical report on the Housing Benefit changes. I do not object to their appointment to the Housing Benefit review but clearly the third appointment will be most important. No doubt Norman will clear the name with us in the same way.

2. While I am pleased that he will be in a position to announce all three reviews soon, I am concerned at the length of time it has taken to set them up. It is important that we have some results from these in the summer so that they can be taken into account in our public expenditure discussions in the autumn so that any necessary legislation can be introduced in 1985.

3. I am sending copies of this to the Lord President, the Secretaries of State for Social Services, the Environment, Education and Employment, the Lord Privy Seal and Sir Robert Armstrong.

PR

PETER REES

NATIONAL Health
Aug. 83 Seminar

1984

CNO

SECRET

Prime Minister (2)

25

To note and endorse?

AT 21/3

Yes MT

PRIME MINISTER

SOCIAL SECURITY POLICY REVIEWS

Work on the three reviews of social security policies, about which I sent you a minute on 16 February, has now been carried forward to the point where I expect to be able to make an announcement soon. I intend to present them, in conjunction with my inquiry into pensions, as amounting to the largest comprehensive review of social security programmes since Beveridge. The four reviews together will be a major undertaking and it will be very important to make sure that they are properly coordinated. I am therefore establishing a central unit in my Department to service the reviews and my Second Permanent Secretary will convene a coordinating committee covering all the departments concerned, including a representative of your Policy Unit.

One outstanding point is the chairmanship of the Housing Benefit Review. Your agreement was conveyed, through Sir Robert Armstrong's office, to our approaching Mr Jeremy Rowe, Deputy Chairman of Abbey National and Chairman of Peterborough Development Corporation. He has thought it over very carefully and, I am glad to say, agreed to take the job on. He strikes us as having the right personal qualities and a helpful background of experience in both business and the public sector. I also intend, on Patrick Jenkin's advice, to ask Mr Harry Simpson, an ex-local authority housing director, and a member of the Social Security Advisory Committee to be one of the other two members of the Review team.

I would propose to announce the appointments as part of my general announcement of three reviews in the week of 2 April. Mr Rowe has asked that the matter should remain confidential until then.

I am copying this to the Lord President, the Secretaries of State for the Environment, Education and Employment, the Lord Privy Seal, the Chief Secretary and Sir Robert Armstrong.

NT

20 March 1984

SECRET

Nat Health: Seminar Aug 83.

— copied to Housing:

Return of Housing Benefit

6/80

cc NO

24

NBPM

AT 29/2

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Norman Fowler MP
Secretary of State
Department of Health
and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1

Dear Norman,

SOCIAL SECURITY POLICY REVIEWS

Thank you for sending me a copy of your minute of 16 February to the Prime Minister about the Social Security Policy Reviews.

I too welcome these and the proposal that there should be a co-ordinating committee, and would wish my Department to be associated with the work, in view of its interest in the payment of supplementary benefits to the unemployed and in benefit for the young. Indeed, I wrote to you about some important aspects of young people's benefit on 23 November and officials have since followed this up. Since then we have reaffirmed in the white paper "Training for Jobs" that there will be a further review this year of the individual entitlement of young people to supplementary benefit. From the point of view of the relationship of benefit to YTS it is important that the review reaches conclusions by the early summer.

I am copying this to the Prime Minister, Patrick Jenkin, Peter Rees and Sir Robert Armstrong.

Yours

29.2.84 (?)

Nat Health 8/83
Stunner

SECRET

23 cc NO

NAPM
27/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

24 February 1984

Dear Norman

SOCIAL SECURITY POLICY REVIEWS

I have seen your minute to the Prime Minister of 16 February. I am content with what you propose. I take it that your review of benefits for children and young people will, as with the other reviews, identify options for savings in expenditure.

I am copying this letter to the Prime Minister and to Patrick Jenkin, Tom King and Sir Robert Armstrong.

Yours ever Peter

PETER REES

SECRET

Nat Health - Seminar 8/83

bc Mr Owen FILE
da
22

SECRET

10 DOWNING STREET

From the Private Secretary

20 February 1984

Social Security Policy Reviews

The Prime Minister has seen your Secretary of State's minute of 16 February. She has noted his intention to establish a further review into benefits for children and young people. She welcomes the establishment of a group to co-ordinate the results of the three reviews which have now been established. She has asked that the No.10 Policy Unit should be represented on it.

I am copying this letter to John Ballard (Department of the Environment), John Gieve (Chief Secretary's Office), David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Steve Godber, Esq.,
Department of Health and Social Security.

SECRET

MR TURNBULL AT 17/2 File

SOCIAL SECURITY POLICY REVIEWS

The Policy Unit is quite happy about the proposed outline for the three separate reviews.

If it was thought appropriate the Policy Unit would like to have a place on the coordinating committee of officials. If we do have a place I would like to attend myself.

JOHN REDWOOD
17 February 1984

TH

21

Prime Minister CC NO.

To note, particularly creation of a third review on benefits and young people. Policy Unit will want to be on the coordinating group.

AT 17/2

SECRET

PRIME MINISTER

SOCIAL SECURITY POLICY REVIEWS

This minute follows up the response from yourself and colleagues to my minute of 1 February about the housing benefit and supplementary benefit reviews and deals with the third proposed review we have discussed that of benefits for young people.

Housing benefits review

I accept that it is important to get the right person to chair the housing benefit review. I shall be writing about possible names very shortly. I shall make it clear to whoever is appointed that there is no question of remedying the defects of the housing benefit scheme through additional expenditure. I also agree about the need to ensure that the housing benefit review takes full account of the implications for public sector rents and housing subsidies.

Supplementary benefits review

It is my intention that as part of the review options for savings should be identified.

Benefits for children and young people

Having thought further about the scope of this review, I have concluded that it should not focus narrowly on benefits for those aged between 16-20. Instead, it should cover the whole field of provision for children and young people before they become fully independent.

The benefits that are provided for younger children have a natural link to those provided for young people above school leaving age - for example the amounts payable and eligibility for benefit. Moreover, some of the other issues involved are common to younger and older children. In particular, there is the importance

of striking the right balance between help for working and for non working families, and the question of how far the state should help families who are not poor.

So I propose that the third review should have a wider perspective with the following terms of reference:

> "To review the present scope of financial assistance for families with children and for young people above school leaving age".

A review on this basis would be more in keeping with our general aim of a series of studies which subjects the social security side of the welfare state to the most thorough reappraisal it has had since Beveridge. We should make use in this review of the outcome of the review by officials of the family income supplement scheme.

I propose to ask Rhodes Boyson to take charge of this review, in the same way as Tony Newton is taking the lead on the supplementary benefits review. The aim would be for him to report to me later in the year, after which I would reach conclusions and discuss them with colleagues.

As you know, I have already announced the housing benefits review and will look for a suitable opportunity to announce the ministerial reviews.

I shall want to make sure that the reviews reflect the points that colleagues have made. For this reason, and so as to ensure that the reviews complement each other and do not follow divergent tracks, I propose to have a coordinating committee of officials chaired by my Second Permanent Secretary. It would include representatives of the Treasury, the Department of Environment and other Department's concerned.

I am copying this to Patrick Jenkin, Peter Rees, Tom King, and Sir Robert Armstrong.

16 February 1984

— NF

10 DOWNING STREET

From the Private Secretary

Prime Minister (1)

You agreed with Mr Fowler that existence of these studies should be made public. He has also agreed to clear leaded HB studies with you. Nevertheless I wrote endorsing X and Y.?

AT
7/2

Yes. MT

CONFIDENTIAL

cc MASTER

FILE

HC

bcc: Mr. Redwood

10 DOWNING STREET

From the Private Secretary

7 February 1984

Dear Steve

Your Secretary of State came to see the Prime Minister today to discuss developments and problems in the field of social security. He referred to his announcement in the House the previous day, amending some features of the housing benefit proposals. The Orders implementing these changes were to be laid next week and he was hopeful that a major revolt by Government backbenchers had been averted. He warned the Prime Minister about the selective hard cases produced by SHAC. Frequently these cases incorporated the loss of the non-dependant deduction. Almost invariably the income of the non-dependant was ignored. If this were included it would take the total family income well up the earnings scale. What was at stake was not so much a cut in housing benefit but a requirement that non-dependants should contribute more to family housing costs. He also pointed out that he would be consulting local authorities on the feasibility of putting a limit on the individual losses.

Your Secretary of State warned that it was unavoidable that the process of cutting back the growth of social security expenditure would involve a series of rows in Parliament and outside. The next such case was probably the withdrawal of the addition for central heating. This was no longer justified as it had been introduced on the premise that central heating was more expensive to run. There was some £54 million at stake. The Prime Minister expressed concern that this should be properly handled. Your Secretary of State said that the change was not due to be announced until June or July. Meanwhile Mr. Newton would be looking into it further as part of his review of supplementary benefit.

It was agreed that it was better to make public the existence of this review as it was quite likely to leak and announcement would avoid all the overtones of a secret report. Your Secretary of State agreed to clear the terms of reference of this review with the Prime Minister.

The discussion then turned to the problem of the 53 week uprating. This was a problem which had to be faced sometime if the date of upratings was not to creep forward but whenever it was introduced it was bound to be controversial and the Government would be accused of meanness. It was agreed that the Government's position was defensible though the Prime Minister

CONFIDENTIAL

/ thought

SH

thought that this might need to be looked at again if it appeared that the 12 month rate of inflation in November would be significantly higher than the 12 month rate in May used to determine the size of the uprating.

Your Secretary of State said he would be discussing with the Chancellor the announcement of the rise in child benefit. It was thought unlikely that this would be done in the Budget. The Prime Minister reiterated her view that child benefit should be made contributory.

Your Secretary of State raised two further changes; stopping the payment of child benefit after 8 weeks absence abroad rather than 26 weeks; payment of unemployment benefit a fortnight in arrears rather than one week in advance and one week in arrears. The Prime Minister was content with both proposals.

The discussion then turned to the need to improve efficiency in the health service in order to provide resources to bring down waiting lists. Your Secretary of State reported that there were four Rayner scrutinies about which he would be informing colleagues in a week's time. The Prime Minister asked about progress on recruitment of the NHS Chief Executive. Your Secretary of State replied that the process of selection would be starting soon.

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Steve Godber, Esq.,
Department of Health and Social Security.

CY NO. 20

c c Miss O'Mara
Mr Bailey
Mr Anson
Mr Scholar
Mr Watson
Ms Seammen
Mr Lord

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

6 February 1984

Dear Norman

SOCIAL SECURITY POLICY REVIEWS

I have seen your minute of 1 February to the Prime Minister.

Housing Benefit

I am of course fully in favour of a wide ranging review of this scheme. I appreciate that in order to carry credibility the review needs to be led by an independent chairman. But I agree with the Lord President that it is essential that the right man be found. It is also essential that he is given clear terms of reference. In particular, it will be necessary to make clear to him, and if necessary to acknowledge openly, that it is not within his remit to recommend additional expenditure on the scheme. It would be all too easy for the review team to conclude that the deficiencies of the housing benefit scheme could be remedied by throwing money at it. We need someone who is not inclined to take this easy way out. On the contrary, we shall want him to produce options for a substantial reduction in expenditure on the scheme.

So I would be grateful if you would discuss with me possible candidates before any approach is made to them.

I would also be grateful if your officials could discuss further with mine the means by which your department and the Treasury will be kept in touch with the review team. You may be thinking in terms of some kind of official steering group; in that case we would be grateful for Treasury respresentation.

Lastly on this, I understand that Patrick Jenkin has expressed an interest in the review. It will clearly be important to ensure consistency between his own review of public sector rents and yours of housing benefit. Housing benefit has economic effects beyond the purely benefit area and these must be kept well in mind.

Supplementary benefit

I am sure you are right not to involve outsiders here. And I am generally content with the arrangements you propose, although our officials will need to discuss further the mechanics of the review and how to ensure close Treasury involvement.

Clearly it is time to review supplementary benefit in order to contain its recent rapid growth. I would hope that the review will identify options for substantial reductions in expenditure, either through the simplified scheme which you propose to explore or through other methods involving better targeting on those most in need.

I am copying this letter to Willie Whitelaw, Patrick Jenkin, John Biffen, John Wakeham and Sir Robert Armstrong.

Yours ever Peter

PETER REES

NAT. HEALTH : Seminar on health and social security expenditure: Aug 1983.

CCNO

SECRET

19

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

3 February 1984

Dear Steve,

Social Security Policy Reviews

With AT.?

The Lord President has seen your Secretary of State's minute of 1 February proposing social security policy reviews. He is strongly in favour of such reviews being made public, but hopes that the choice of anyone outside the Government will be most carefully considered, because a review which reaches potentially damaging conclusions could cause a lot of trouble.

I am sending copies of this letter to Andrew Turnbull (10 Downing Street), John Kerr (HM Treasury), John Ballard (DOE), David Heyhoe (Lord Privy Seal's Office), John Gieve (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Janet

JANET A LEWIS-JONES
Private Secretary

Steve Godber Esq
Department of Health and Social Security

SECRET

CONFIDENTIAL

2 February 1984
Policy Unit

PRIME MINISTER

Norman Fowler has suggested that Tony Newton be given the task of reviewing supplementary benefit, and this should be made public; and that an outsider should be appointed to review housing benefit. It is important that this work should proceed swiftly, be seen as part of the Government's work on review of benefits, and should be brought out into the open to avoid more damaging leaks and suspicions. (There was another one in the press and on the radio today concerning supplementary benefit for young people.)

This work does not conflict in any way with Lord Vaizey's proposals. It is still important that someone completely unconnected with Government should take a rational long-term look at the welfare benefits tangle, and produce a lucid, independent report, preferably within the next 2 years. This report can help fashion the public debate that ought to take place about the kind of welfare system we want in the 1990s and after, concentrating on issues like the definition and treatment of poverty.

JOHN REDWOOD

cc Mr Redwood
Mr Turnbull (o/r)
Mr Sherbourne

Prime Minister (1)

You wondered whether it might be better to postpone the Vaizey review. John Redwood thinks not.

Norman Fowler has asked for a meeting with you soon on various benefits policy issues. Agree to consider the relationship with Vaizey then?

Yes mt

CONFIDENTIAL

DMB
3/2

SECRET

18

File HL

bc Mr. Redwood
Mr. Sherbourne

10 DOWNING STREET

From the Private Secretary

2 February 1984

Social Security Policy Reviews

The Prime Minister has seen your Secretary of State's minute of 1 February proposing that he should make public the existence of the two reviews being conducted into housing benefit and supplementary benefit. She is content for this to be done, subject to the views of colleagues. She is also content that the housing benefit study should be led by someone outside the Department though she notes that your Secretary of State will discuss the choice with her at a later stage. She is content for Tony Newton to take the lead in the study of supplementary benefit.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), John Kerr (H.M. Treasury), John Ballard (Department of the Environment), David Heyhoe (Lord Privy Seal's Office), John Gieve (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Steve Godber, Esq.,
Department of Health and Social Security.

SECRET

CC NO
B1

10 DOWNING STREET

Prime Minister (1)

Mr Fowler wants to go public on two of the reviews agreed at the seminar in January

(i) Housing benefit

(ii) Supplementary benefit

For (i) he proposes bringing in an outsider to lead the review; for (ii), Tony Newton would be in the lead.

There could be conflicts with the Vaizey work but I don't think we can delay Government work to wait for a private study.

Agree subject to colleagues and on condition there is further consultation on the leader of the Housing Benefit study?

Yes P.T.O. AT 1/2

Could Stephen do this month? It would seem that so much work is now under way that I wonder if it would be better to postpone the question of the Variety Show.

MB

Prime Minister

NO B1

17

PRIME MINISTER

SOCIAL SECURITY POLICY REVIEWS

I have been considering how best to take forward the two major reviews - of housing benefit and supplementary benefit - which we discussed recently. I think it is becoming increasingly important to make quick progress with these both in relation to our immediate problems on housing benefit and changes we shall want to make later on supplementary benefit.

Housing benefit

It seems to me that a substantial part of the criticism we are now facing on housing benefit is concerned with the system itself and the failings of local authority administration of it. Housing benefit is extremely complicated and involves many anomalies inherited from the previous local authority system. It extends further up the income scale than any other benefit. And, although it is administered by local authorities largely outside our control, we are getting much of the blame for their failure to deal effectively with the introduction of the new arrangements.

I think, therefore, that we should make public our intention to review the scheme urgently as part of our response to the criticism by the Social Security Advisory Committee and some of our colleagues of the changes we are now carrying through. For the review to have the necessary credibility, I think it is important that it should be led from outside Government. I envisage a small, high-powered team which should have support not only from my Department, but also from consultants. Its terms of reference would be:

> "To review the housing benefit scheme in order to simplify it, concentrate help on those most in need and improve its administration by local authorities."

I have in mind a team of two or three led by someone familiar with the housing or local authority scene. The choice is really between someone independent of both central and local government - perhaps from the building society world - and someone with local authority credentials. If you are content with the general proposal, I will think further about who might be involved.

The team would report their conclusions to me so that I could decide, with colleagues, what action to take. No doubt some form of public report or proposals would be needed at that stage but I should not want to be committed in advance to either the content or form of publication. I should, however, want the team to work as quickly as possible and to report at least their preliminary conclusions to me by the summer.

I would propose to announce the review when we debate the housing benefit regulations. It should help to convince our critics that we have made a constructive response to the SSAC report; it should show that we are determined to improve the operation of the scheme; and it should give weight to the case for the further changes in the scheme which I believe to be necessary.

Supplementary Benefit

We are all agreed on the need to have a fundamental look at the supplementary benefit scheme both in the light of its complexity and the continuing increase in its cost. With expenditure running at well over £5 billion and with four million families in receipt of supplementary benefit, we need to restructure the scheme so that it can be administered less staff intensively: be less vulnerable to pressure to meet more kinds of need; and provide a more accurate and acceptable service to claimants. It will require careful handling and presentation to make sure that a review of the scheme is not misrepresented as an attack on the basic safety net which we are committed to maintain. The nature of the problem is such that we must keep this review under our own hands: unlike housing benefit, there is no local authority element to be catered for.

E.R.

I propose to ask Tony Newton to take the lead on this task. The main support would come from my Department and involve the Treasury as well. There may also be advantage in involving some outside consultants, particularly on the administration of the scheme.

The terms of reference of the review would be:

"To review the structure of the supplementary benefits scheme and examine possibilities for simplifying its administration."

Again, the results of the review would be in our own hands: a report by Tony to me for consideration of the action which should flow from it and discussion with colleagues. It will be a major task but I would hope that we would be able to see some of the results from it before the autumn.

I think we should declare openly that this review is being undertaken, in order to keep the initiative. It can be seen as the third in a series of studies (housing benefits, pensions, supplementary benefits) through which we are effectively subjecting the social security side of the welfare state to the most thorough reappraisal it has had since Beveridge. The timing of an announcement can be settled later.

I have discussed with Peter Rees the lines on which I am thinking in relation to housing benefit and he is generally content. Subject to your views, I shall proceed to identify and approach possible outside members as quickly as possible.

I am copying this minute to Willie Whitelaw, Nigel Lawson, Patrick Jenkin, John Biffen, Peter Rees and John Wakeham, and to Sir Robert Armstrong.

1 February 1984

NF

10 DOWNING STREET

Andrew -

I have been in touch with Sir Kenneth Stowe's office about FHS Charges - page 3 of your letter of 13/1/84 refers.

DHSS say that they see the review of FHS Charges a policy as a very long term undertaking - certainly not this year.

Content for us not to continue to pursue them for a reply?

Cameron

31/1/84.

I agree this is a long term exercise

AT 31/1

SUBJECT cc MCSW File CCJR BTC. 16

10 DOWNING STREET

From the Private Secretary

13 January 1984

Dear Kem,

HEALTH AND SOCIAL SECURITY POLICY

This letter records the discussion of policies for health and social security programmes which the Prime Minister held yesterday with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary to the Treasury, Mr. Kenneth Clarke and Dr. Rhodes Boyson. Also present were Sir Geoffrey Otton, yourself, Sir Peter Middleton, Mr. Bailey, Mr. Gregson and Mr. Redwood.

Introducing the discussion, the Prime Minister said that Ministers should make a special effort to put the debate on public expenditure in a more positive light, emphasising that the Government was not seeking to cut public expenditure for its own sake but was seeking to leave more of what they earned in the hands of wage earners so that they would be better able to make provision for themselves. To an excessive extent, the system of social expenditure was mere "churning", distributing money or benefits in kind back to the groups who were financing them. The Government should aim to concentrate social expenditure more closely on those who needed it. She commended the papers to be taken at the OECD Conference in February, which showed a welcome change in attitude towards social expenditure in many industrial countries.

The Secretary of State for Social Services reported on progress made since the meeting held in September. The Griffiths Report had been published and the process of implementing it was now under way; proposals to end the monopoly of opticians on the supply of spectacles had been announced and had been well received; a new deal with the drug industry which would produce significant savings for the NHS had been announced; the inquiry into pensions had been launched and discussions on the portable pensions proposal were about to take place. He said that across the whole range of the NHS, Government would soon find itself taking on powerful vested interests - unions, hospital doctors, GPs, pharmacists, the drug industry. He wished colleagues to be aware of the extent of this.

/ Hospital and Community Health Services

Hospital and Community Health Services

In the hospital service, the Government's priority was to increase accountability and to control costs and manpower through implementation of the Griffiths Report. Discussions were now in train and the Government would need to counter the argument that a more business-oriented style of management was inconsistent with the ethic of patient care. The key to success was not only the appointment of the General Manager/Chief Executive at the top of the system but also of the General Managers at regional, district and unit level. The quality of Managers at regional level had been significantly improved in recent years. It was important to prevent appointment at local level of poor quality candidates who happened to be in place at the time. To stop this a "call-up" system was being operated so that newly appointed Managers at the higher level would have a say in who was appointed at lower levels. It was agreed that in appointing the Chief Executive both head-hunters and advertisement would be used. A submission was being put to the Prime Minister on the way selection from the candidates should be made.

The Secretary of State for Social Services said that a Personnel Manager with experience in industrial relations was also necessary given the size and complexity of employment in the NHS.

Cost consciousness had been created by cash limits which automatically provided an incentive to greater efficiency. In addition the Secretary of State was now asking for health authorities to submit cost improvement programmes and if these were not satisfactory the health authorities' plans would not be approved. The practice of specifying an across-the-board saving of say half a percent was insufficiently ambitious as most authorities could do better if such an objective were built into the system of management. Finally, Rayner scrutinies would continue to be undertaken.

It was noted that the NHS spent approximately £1b on cleaning, catering and laundry so that even modest savings in these areas could produce significant improvements in patient care. Districts were putting forward proposals for more contracting out but progress was slow.

The Prime Minister suggested that specific targets could be set to clear the backlog of minor surgery cases. A move to more day hospitals would help in this respect.

Mr. Clarke raised the problem which new medical breakthroughs presented for the Government. Instead of receiving credit for a medical advance, the Government was criticised for failing to make available the new treatments sufficiently fast to the patients who could benefit. It was vital to generate resources from better management which would enable these new treatments to be more widely provided.

Family Practitioner Services

The Prime Minister said she was disappointed that the Binder Hamlyn Report had concluded that the FPS could not be subject to a cash limit. The Secretary of State for Social Services said that

/ he and the Chancellor

he and the Chancellor accepted the Binder Hamlyn arguments on this. Both agreed that it was wrong to see the FPS merely as demand led and that a lot could be done to control the basic factors leading to the growth of expenditure. These included control over the number of contractors, the retirement age, the number of overseas doctors and eventually the output of the medical schools. The Government would have to publish the report and in doing so indicate its attitude. This was to be discussed shortly in H Committee. There would be a fierce controversy and it would be important for the Government to mobilise sympathetic opinion among doctors.

The Chancellor said he agreed with the steps which were being proposed on the FPS but felt that a longer term review on the whole basis of remuneration for contractor professions was needed. It was agreed that this would be done jointly by officials of the two Departments. It was suggested that eventually a salaried service might be introduced though it was noted that this had not been successful with teachers.

The immediate difficulty with pharmacists was noted and it was agreed that legislation should be added to the Bill currently before Parliament.

Drugs

The Secretary of State for Social Services said that, following the recent negotiations, significant savings had been achieved, £60m rising to £100m. In addition, efforts were being made to change doctors' prescribing habits. The Chancellor acknowledged the improvements that had been made but felt that the PPRS needed to be fundamentally reviewed. A joint study by the two Departments was agreed. The importance of changing doctors' prescribing habits was noted as well as the fact that an excessive proportion of drugs prescribed were ultimately wasted. Cost related prescription charges, though more expensive to administer, could help in this respect. The question of parallel imports of drugs was being studied though it was noted that efforts to reduce payments to pharmacists to reflect the lower price of imported drugs might not succeed in saving public funds if pharmacists merely switched back to UK drugs. There were also important questions of quality control to be considered.

Charges

The Chancellor noted that charges now financed less than half the proportion of the FPS than was the case in the 1950's and '60's. Charges had an important role in controlling costs; at present the Government could only control supply which always put it in the position of appearing to deny resources to the Health Service. It was noted, however, that the Government was committed for this Parliament by a number of important pledges. The aim should be to enter the next Election with a much freer hand. It was agreed that the two Departments would look further at charging policy.

Role of the Private Sector

The Prime Minister was anxious to see a greater role for the private sector which was consistent with the philosophy of encouraging people to make greater provision for themselves. It was also noted

/ that the private sector

that the private sector was frequently a source of new ideas from which the NHS could benefit. The Secretary of State for Social Services said he was encouraging the private and public sectors to develop co-operation. There were a number of examples of this already but their scope was limited. On the question of tax relief for contributions to private insurance schemes, the Chancellor said he had to balance this against the need to cut taxes generally. He did not feel that there was a sufficient case for giving special relief to such contributions. There was no guarantee that the "tax expenditure" involved would be offset by savings in the NHS; some net cost to the Exchequer was therefore likely. The Secretary of State for Social Services agreed though he felt there was a stronger case for helping the elderly, eg to stay in their group schemes after retirement. It was agreed that the Chancellor would consider this idea further in the context of the Budget.

(2)

Social Security

The Secretary of State for Social Services said that in addition to the announcements already made he would be making further announcements on changes to the heating addition (to remove the extra payment automatically made for central heating) and on FIS (to eliminate upratings due in the currency of an award). An inter-departmental review of FIS was in progress.

(3)

In addition, a series of reviews with the Treasury was being set in train. The scope for simplifying the supplementary benefits system including its application to the unemployed and for reducing its costs was to be examined. On housing benefit the review would examine the scope for simplification and for concentrating help on those most in need. Another review would consider whether young people should have an independent right to supplementary benefit.

The factors behind the rise in expenditure on housing benefit were discussed. It was noted that expenditure was rising even before the amalgamation of the earlier schemes (which had saved about 3,000 staff). The main factors were the rise in rent and rates and the increase in the numbers receiving unemployment or supplementary benefit. Dr. Boyson said that 2.2m people would be affected by the changes recently announced though about half of these would lose less than 50p per week. No-one on supplementary benefit would lose and no pensioner with an income less than £9.75 above the basic pension would lose. One politically sensitive group was those receiving small occupational pensions of say £15 per week.

The Chancellor recognised the difficulties of forecasting expenditure on social security but he was convinced it could be significantly improved. The size of the errors seen recently discredited public expenditure control. The Secretary of State for Social Services fully shared the need to improve forecasting but pointed out a number of difficulties. His Department was dependent upon the Treasury for economic assumptions and it was especially difficult to forecast the rate at which people would transfer from one benefit to another.

/ The Treasury argued

The Treasury argued that, at a time when there were large over-runs,DHSS should exert tighter control on discretionary payments and should put less effort into advertising social security benefits. The Secretary of State for Social Services argued that his Department would be strongly criticised if it appeared that it had not made a sufficient effort to make people aware of the benefits to which they were entitled.

It was suggested that there might be merit in financing a greater proportion of social expenditure from the national insurance fund. This might start with child benefit and be extended to the NHS. The limiting case was a social security tax of the kind seen in a number of continental countries. The case for such a change was that it would make more immediate the relationship between greater benefits and the need to raise greater revenue. There would be implications for the structure of national insurance contributions. One possibility would be to abolish the upper earnings limit and make corresponding adjustments in the higher rates of income tax. It was agreed that the two Departments would consider the case for extending the scope of the national insurance fund.

As with the record of the meeting in September, I am copying this letter only to Sir Robert Armstrong and Alan Bailey. I should be grateful if it is not copied and if follow-up action could be initiated by specific and separate instructions rather than by circulation of this letter. Such instructions should not refer to this meeting. I would also be grateful if arrangements could be made for this letter to be shown to your Ministers, their Principal Private Secretaries and those who attended the meeting, but no further.

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Sir Kenneth Stowe, K.C.B., C.V.O.

10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Fowler's reply to the Chief Secretary's letter of 22 December has now arrived, completing Flag G. You should also look at Sir Ken Stowe's notes at Flag F.

In addition, you might like to look at the paper on FPS to be taken at H next week. The main recommendation is for some control on the numbers of practitioners contracted to the NHS.

AT
11/1

15

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

January 11 1984.

Dear Peter

Thank you for your letter of 22 December about the forecasting of expenditure on social security and family practitioner services.

I am of course as concerned as you that these substantial changes in forecasts occur: but the experience of both our departments makes it clear how difficult it is to achieve any certainty in forecasting how demand-led expenditure will turn out. We shall be talking about this again with the Prime Minister on 12 January: and I enclose copies of notes explaining the background which have already been sent to No 10 by my Permanent Secretary, and have been copied to Sir Peter Middleton. But I can respond to your comments immediately by saying that we are indeed anxious to improve our arrangements; as you know our two Departments have been working jointly on this for some time, with the Government Actuary's Department, and I can certainly undertake to let you have a report by next May.

See Flag F

But it would be rash to anticipate the degree of certainty in forecasting that your letter seems to look for, or to suppose that we can reach a state where forecasting changes can always be offset by programme changes. I could not possibly promise that: nor could I have offered more in the way of savings last time if we had known of these revised forecasts earlier. The facts are that our forecasts are affected quite significantly by minor changes in economic assumptions (for which we rely on the Treasury) and by changes in the pattern of claimant behaviour which it is extremely difficult to anticipate - we have to rely on statistics of recent trends in benefit payments, which are not necessarily a reliable indicator of what is going to occur in the future. The main difficulty occurs over the unemployed, who account for a great part of the sums at issue. We are dealing with unprecedented levels of claims for benefit from the unemployed, and the outturn of expenditure depends not only on forecasts of numbers, but to a significant degree on the split between unemployment benefit and supplementary benefit. The table on page 29 of the "Green Book" for Thursday's meeting shows how the balance between the two benefits has changed over time: past experience is a poor guide to future expenditure on these very large programmes.

E.R.

Clearly we must aim for the best possible forecasts. But we shall never be able to achieve certainty. New benefits (like Housing Benefit this year) and major changes in schemes (like the change to self-certification for sickness benefit in 1982) have expenditure consequences we cannot exactly predict. A growth in take-up of disability benefits has occurred in the past two years for no apparent reason which we could have predicted. Such uncertainties are bound to occur, and we can only aim to minimise them.

I must say there are a number of points in your letter I take issue with. For instance you refer to Tony Newton's explanation of our approach to take-up of benefits on the "To-day" programme in a way that suggests you think we ought not to be concerned about take-up. We are under endless criticism over this, and could not possibly take any other public stance than the one he adopted (and I quote): "We have two aims in this field. One is to make sure that people who are not entitled to benefit do not get it - the scrounger problem you touched on at the beginning - and the other is to make sure that those who do need benefit, and should have it, do get it."

You claim that the increase in our programme before the Autumn Statement was only made because your officials insisted on it, in the interests of realism. In fact we were having to make adjustments on a rather arbitrary basis because revised Treasury economic assumptions had not been available early enough for us to do a full revision of forecasts in time for the Autumn Statement. We proposed an increase of £93 million which your officials thought was too low and raised to £223 million. We did not dissent.

The latest increase, taking that figure up to £580 million above the estimates available to us at the time of the bilaterals, was the outcome of reworking the May forecasts thoroughly in the light of the revised Treasury assumptions, which we had at the end of October, and of the latest DHSS statistics, particularly those for supplementary benefit claims which were available in mid-November. The results were notified to the Treasury in the first week of December.

As regards the family practitioner service problems which, as you say, have been less severe, we are well ahead with improvements in our forecasting methods on lines endorsed by independent accountants, Binder Hamlyn. But, as with social security, this does not eliminate the uncertainties which stem from the nature of the services and the extent to which they can be controlled. The Binder Hamlyn study examined very thoroughly what the possibilities were for additional short and long-term controls. They saw no scope for short-term controls of the kind that would make cash limits a practicable possibility, but suggested longer term measures for strengthening control. Some of these are controversial and, as you know, I shall shortly be putting proposals on them to 'H' Committee.

I have concentrated in this letter on the larger social security problem, and indicated our concern to secure real improvements from the study we are conducting with you. Since a large element in the problem is the difficulty of expenditure on the unemployed, I wonder whether you could consider a change on your side? As your officials will know, we feel disadvantage in having to work on Treasury assumptions which are not broken down into components relevant to our forecasts. For example they do not break down the figures according to duration of unemployment. It would obviously help to improve forecasts if the

Treasury assumptions could be improved in this way.

I am copying this to the Prime Minister, and the others who are attending tomorrow's meeting.

Yours ever

Norman

NORMAN FOWLER

PRIME MINISTER

Enclosed are the papers for the Social Security Seminar on Thursday.

Flag A	-	The record of the September meeting
Flag B	-	An agenda agreed between DHSS and Treasury
Flag C	-	The Policy Unit brief
Flag D	-	An updated Green Book
Flag E	-	Mr. Fowler's Progress Report of 23 December
Flag F	-	Notes by Sir Kenneth Stowe on FPS and Social Security expenditure
Flag G	-	Chief Secretary's letter to Mr. Fowler of 22 December (Mr. Fowler's reply to follow)
Flag H	-	Note on Housing Benefit

In addition, I have put in a separate folder some documents you have already seen

- The Binder Hamlyn Report on FPS
- The two OECD reports (I doubt if either the Chancellor or Mr. Fowler have studied these).

AT

10 January 1984

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SECRET AND PERSONAL

14

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Andrew Turnbull Esq
Private Secretary
10 Downing Street

10 January 1984

Dear Andrew

I attach a working agenda which my Secretary of State suggests might form the basis for discussion at the Prime Minister's meeting on Thursday. It has been agreed with the Treasury.

The agenda identifies the relevant background papers and I attach

- a copy of the revised 'Green Book'. This booklet provides data and background on the whole range of DHSS responsibilities. It has been updated to take account of policy decisions and more recent information since the September meeting.

- the Secretary of State's minute of 23 December to the Prime Minister, which recorded progress since the September meeting.

- a background note on Housing Benefit.

On forecasting, you have already had notes on both Family Practitioner Services and Social Security - under cover of Sir Kenneth Stowe's letter of 23 December to Robin Butler. But my Secretary of State will also be replying fully before the meeting to the Chief Secretary's letter of 22 December.

I am copying this letter and enclosures to the Private Secretaries of those who will be attending the meeting.

Yours

Steve

S A GODBER
Private Secretary

SECRET AND PERSONAL

WORKING AGENDA

1. Background papers are

- 'Green Book': DHSS paper on policies for Health, Social Services and Social Security, circulated for September meeting and updated.

- 'September record': Robin Butler's letter of 16 September to Sir Kenneth Stowe.

- 'Progress Report': Secretary of State's minute of 23 December to the Prime Minister

- Housing Benefit: background note

- Forecasting: letter of 22 December from Chief Secretary and Secretary of State's reply

to follow

2. Health Services

2.1 Hospital and Community Health Services

Objective: Main emphasis on increasing efficiency and improving management. Aim to develop services and provide for medical advance by cost improvement in existing services. Additional resources have been provided for demographic pressures.

Action: initiatives already taken to increase accountability and to control costs and manpower are reinforced by Griffiths report. Implementation of Griffiths now starting. New Management Board being set up to lead sustained programme of management action.

? chief executive ?

Question on Griffiths

265,800 480,800
Reds. 478,000 365,000.

Outstanding Issues:

a. Should the main priority for DHSS action remain the follow-up to Griffiths, including the pursuit of cost improvement and better use of staff.

b. NHS Supervisory Board has identified care of the very elderly, prevention, and bottlenecks in acute treatment (eg hip replacements and renal dialysis) as priorities for policy review and action.

2.2 Family Practitioner Services

Objective: to improve control of expenditure and management of services.

Action:

Costs

a. Steps taken, and continuing, to improve forecasting.

b. Tighter controls on drug prices already announced; and on number of contractors, following Binder Hamlyn report to be published soon.

c. Direct influence on FPS management through FPC independence provisions in Health and Social Security Bill. Arthur Andersen study looking at FPC administration and use of computers.

d. Reductions in subsidies to patients: end of NHS supply of glasses except to exempt groups already announced; proportionate dental charges agreed in PES but not yet announced.

Outstanding Issues:

a. Action already agreed will be unpopular and opposed by the professions. Important to develop a primary care strategy which shows resources being better directed not just controlled.

b. Charges. Increased charges reduce net cost of the NHS although focus should be on gross expenditure and services delivered. But scope for increasing income from charges is limited unless past public commitments (on hotel charges, GP visits and exemptions for the elderly or children) are overturned or new charges introduced (eg for dental check-ups or sight tests) where action to reduce subsidies is already underway. Should any of these options or others (eg cost-related prescription charges) be reconsidered? And what would be their impact on demand?

c. Remuneration system for contractor professions. The legal basis of the system for pharmacists has now been found to be invalid and legislation will be required to restore the present position. Consideration also needs to be given to new and more easily controllable systems taking account of Binder Hamlyn and of the nature and incentive effects of each system.

?

2.3 The Private Contribution

Objective: to enable the private sector to contribute more to health care and health services where it can do so effectively while retaining the basic commitment to a NHS financed mainly by taxation.

Action:

a. Health authorities now being required to bring in competitive tendering for support services.

b. Increased competition in provision of glasses and privatisation of dispensing for non-exempt groups being brought in under the Health and Social Security Bill.

Outstanding issue: September meeting proposed further encouragement of private health care by tax relief on insurance premiums. Should this be considered for Budget 1984? What implications for the NHS?

2m - half 1 losers under 50p. a week

Pensioner £4.50 £6.25

3. Social Security

Objective: to ensure that benefit levels are not excessive in the light of likely costs; and identify options to contain and, if possible, reduce expenditure.

Action:

a. DHSS is taking steps to introduce more sophisticated forecasting methods (background note) but they will not eliminate uncertainties nor affect the underlying causes of the rise in expenditure - notably the effect of the recession on supplementary benefit expenditure.

b. To restrain the rise in expenditure requires reductions in benefit levels. Action on housing benefit and benefits for young people have already been announced. Other measures - on heating additions and FIS - have still to be announced.

Central heating allowance

c. A major public Inquiry into Provision for Retirement is underway and will look at the cost of the state pension scheme as well as related issues such as personal portable pensions.

d. An Interdepartmental review of Family Income Supplement is in progress to ensure that the structure and administration of the scheme is operating in the most cost-effective and efficient way.

Outstanding Issues: The scope for increasing control and reducing the cost of other parts of the social security system needs to be examined. Reviews in consultation with the Treasury are now being set in train of

a. Supplementary Benefit: to examine the scope for simplifying the system including its application to the unemployed and for significantly reducing its costs;

b. Housing Benefits: to simplify and reduce the scope of the scheme so as to concentrate help on those most in need.

c. Benefits for young people: to consider whether young people should have an independent right to supplementary benefit.

MA

✓ TF H
JR

H

HOUSING BENEFIT

Key facts

From April 1984 will:

* help 6.3 million households on low incomes (including 3.3 million on supplementary benefit) with rent and/or rates.

* cost £3.75 billion

  - £2 billion on rent rebates (for LA tenants)

  - £0.4 billion on rent allowances (for private tenants)

  - £1.3 billion on rate rebates (for tenants and owner occupiers).

Origins

1. The housing benefits scheme was introduced in April 1983, replacing local authority rent and rate rebate and allowance schemes (on which it is modelled) and supplementary benefit provisions for rent and rates. The old local authority schemes, operated under the aegis of DOE, were introduced in 1972; the rate rebate scheme in 1974. They were not designed primarily as a form of income support for poor people but as an adjunct of rent and rating policies. The rent rebate scheme in particular allowed the then (Conservative) Government to achieve more realistic local authority rent levels, by cushioning increases for those on lower incomes. This policy which has continued, implied that help should be reasonably generous, stretching some way up the income scale; but not so high that large inroads were made into the extra rent (or rates) being raised.

Scale of assistance

2. The very rapid rise in local authority rent and rates in recent years has led to a very substantial expansion in both the expenditure and number of beneficiaries. For example:

* Expenditure on help to those not on supplementary benefit (now known as "standard cases") has more than doubled in real terms since 1972/73 - figure 1 in Annex B).

* Rapidly increasing numbers of local authority tenants got help under the old scheme between 1979 and 1983 (figure 2 in Annex B).

* Between 1979 and 1983, average rent rebates rose in real terms by 59 per cent from £5.20 a week to £8.25; but higher rents are the main reason for this. They rose in the same period by 56 per cent from £9 to £14.05 a week. (All amounts are expressed in 1983 constant prices.)

3. This increase in the scale of assistance was not seriously questioned when the scheme was being run by DOE. It was simply seen as the natural consequence, and the price that had to be paid, for the rise in local authority rents in line with Government policy.

£600m out

4. The current estimate of benefit expenditure for 1983/84 is £3837m against an initial estimate of £3285. The two main reasons for the difference are (i) increased supplementary benefit expenditure which had an inevitable effect on housing benefits payable to supplementary benefit claimants and (ii) increased take up of 'standard' benefits.

Changeover to Housing Benefit

5. Housing benefit was a structural reform designed to:

* Put all help with rent and rates under one roof - the local authority's

* Remove the administrative waste of one public authority (DHSS) paying over money to an individual only to have it paid to another public authority (the local authority) as rent or rates. It also prevented money being mis-spent and rent arrears consequently building up.

* To remove the need for pensioners in particular to choose between the rent and rates rebates scheme and supplementary; all now receive housing benefit.

6. Achievement of the reform required a shift in resources towards poor pensioners. Money was taken from the better off above the needs allowance to do this - but overall the scheme was nil cost. Even so, there was an outcry over the losers and the reductions in benefit had in fact to be staggered. Any attempt to have gone further and save money on the scheme would probably have made its introduction politically impossible.

Autumn Statements cuts

7. The social security cuts were centred on housing assistance because more of this tends to go to rather better off people than of most other social security benefits. The particular changes to take effect in April 1984, are set out in Annex C.

8. The changes were deliberately designed to focus on households in the scheme with higher incomes - those with income above the needs allowance and those with working non-dependants. Although over 2 million households are affected by the taper changes, the weekly loss is under £1 and nearly half the losses are less than 50p a week. 600,000 people cease to receive help altogether.

9. Nevertheless, the changes have aroused considerable opposition. The Social Security Advisory Committee, which has had to be consulted about the changes, has put in its most critical report. The local authority associations are also very critical and there is back-bench criticism of the effects particularly on pensioners. The main criticisms are:

* The changes hit some poorer families as well as the better off;

* The cumulative effects on those affected by a number of changes can be very large; critics call for some or all the cuts to be withdrawn or at least phased in.

* The increases for non-dependants, especially the young ones, are too harsh and where non-dependants will not pay the extra the householder will suffer.

10. It may be necessary to make minor concessions in the package to head off the weight of criticism.

Future

11. The housing benefit scheme will have experienced 2 rapid shifts in its detailed structure on its introduction and because of the autumn statement measures. The scale of the scheme will continue to grow despite the cuts, if rent and rates continue to rise in real terms. DHSS aim shortly to begin a thorough reappraisal of the scheme to see if it can be simplified and help concentrate more on those most in need.

ANNEX A

HOW THE SCHEME WORKS

1. All help with rent and rates now comes from local authorities in the form of rebates or, for private tenants, allowances.

2. Supplementary benefit claimants normally get 100 per cent help. A certificate of entitlement is sent by DHSS to the local authority to authorise this - so they are known as certificated cases. Deductions are made if there are non-dependants (eg a grown up son or daughter) in the household.

3. Other cases ("standard cases") normally get a partial rebate or allowance, worked out in 4 stages

i. start by taking 60 per cent of rent and/or rates.

ii. adjust the figure(s) downwards or upwards by a percentage ("taper") of the amount by which the claimants income exceeds or falls short of his "needs allowance".

(NB. the tapers are different for rent and rate assistance and for incomes above and below the "needs allowance". Needs allowances are statutory figures which vary with family circumstances).

iii. make deductions if there are any non-dependants in the household.

iv. if the final amount(s) are less than the "minima", no benefit is payable.

4. Certain LAs can operate a "high rent scheme" on more generous rules (for standard cases) if the public/private sector rents in their area exceed certain national "thresholds".

5. Standard cases who fall below supplementary benefit levels after paying their residual housing costs may be entitled to "housing benefit supplement" (HBS) to make up the difference. HBS is a supplementary benefit carrying entitlement to other benefits (eg single payments from DHSS).

ANNEX B

FIGURE 1 : EXPENDITURE ON STANDARD HOUSING BENEFITS
(Constant Prices : 1982/83)

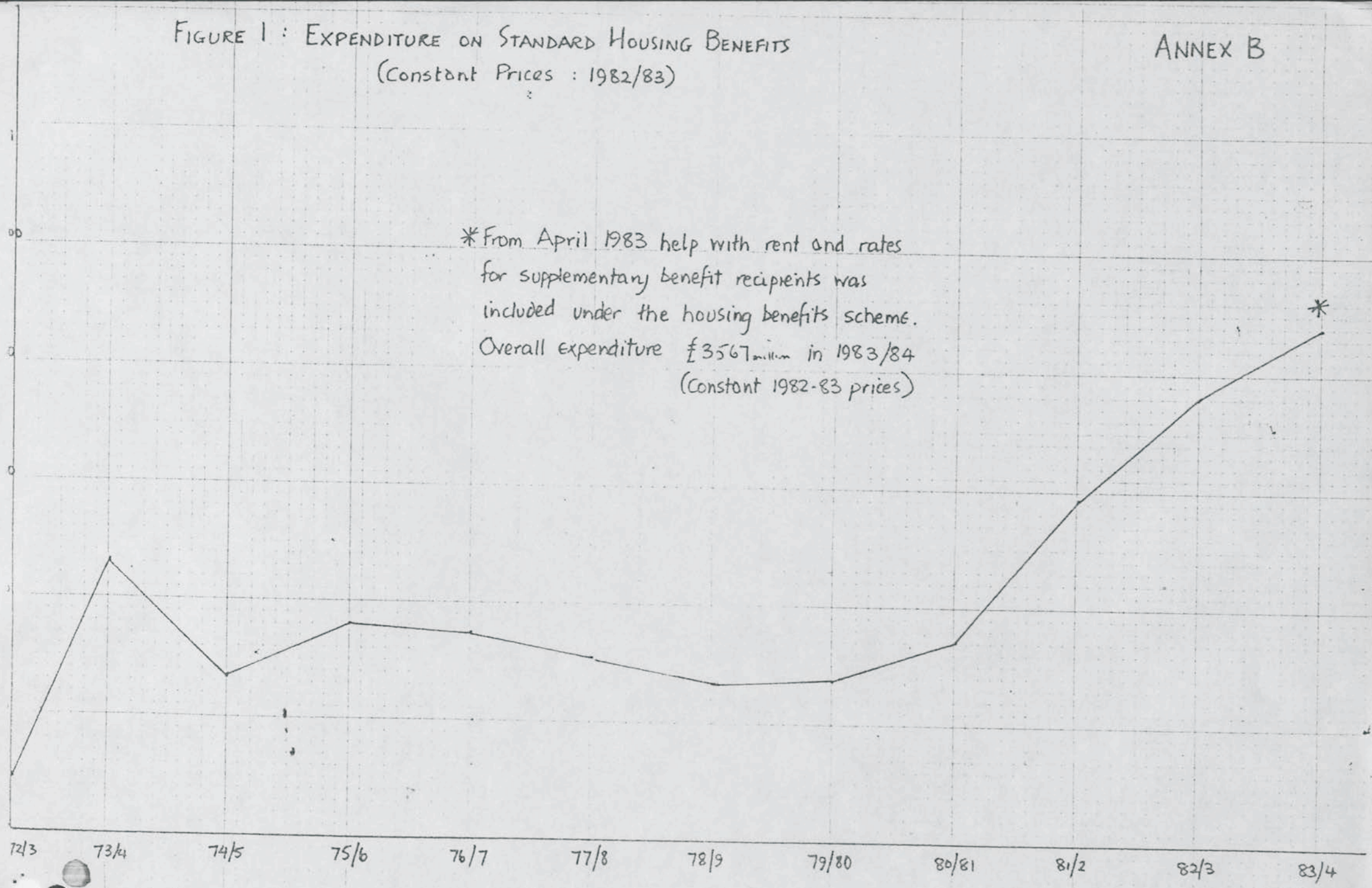
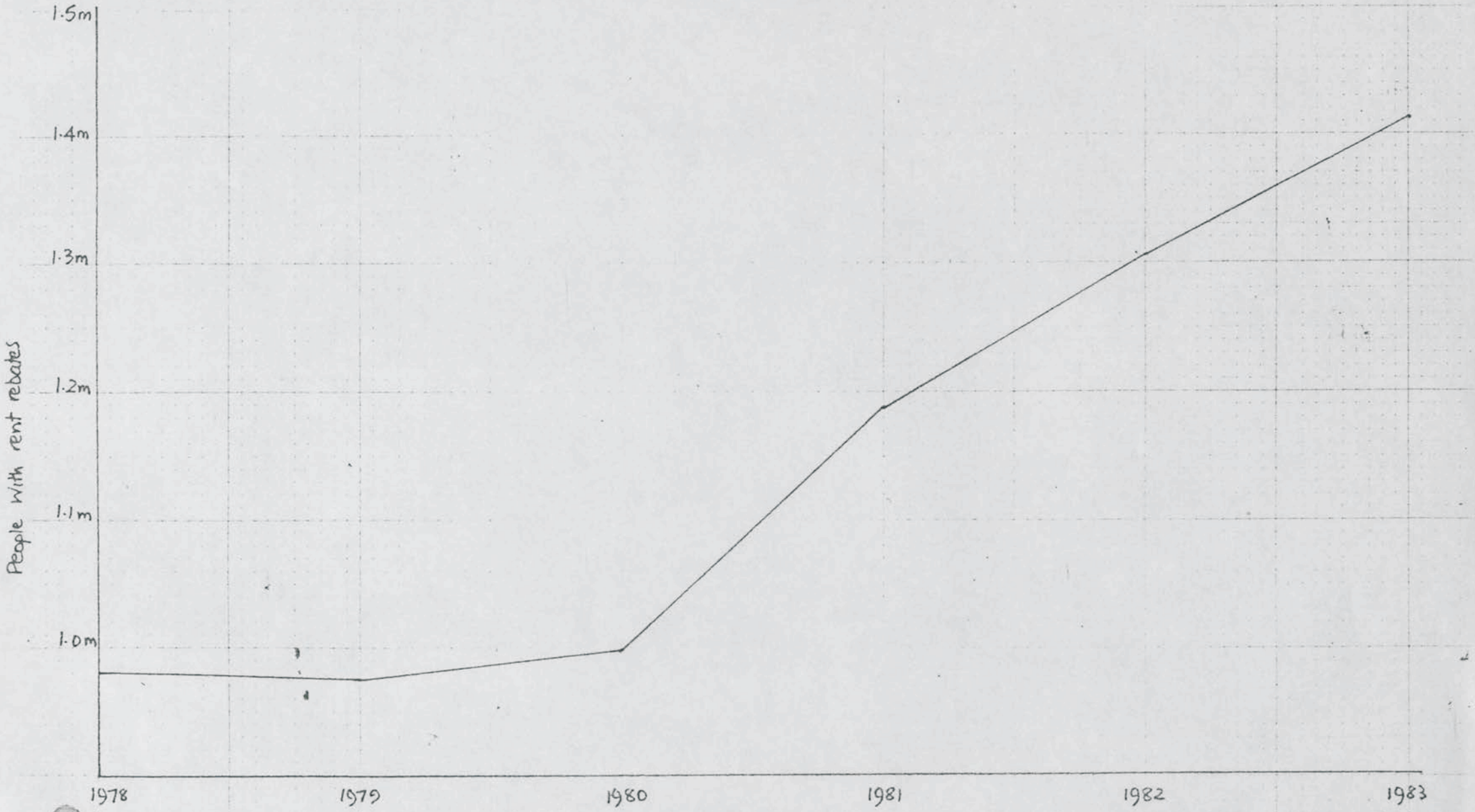


FIGURE 2: LOCAL AUTHORITY TENANTS WITH RENT REBATES
(ENGLAND & WALES)



ANNEX C

AUTUMN STATEMENT CUTS

1. The measures will reduce expenditure by £230m - £170m in housing benefit and £60m in supplementary benefit. Of this, only £180m counts for public expenditure purposes; the remaining £50m represents savings on rate rebates.

2. It is not possible to provide estimates for the cumulative effect on claimants of all the measures: the statistical model is not sensitive enough. The various changes are:

* An increase in the tapers above the needs allowance ie the amount by which help is reduced as income rises - Saves £115m; affects (with minima changes 2.2m households of which 0.6m taken off benefit).

* Increases in the minimum levels of entitlement before housing benefit can be paid. Saves £5m;

* Increases in the non-dependant deductions for those not on supplementary benefit, on youth training schemes or pensioners:

  - a new deduction for 16-17 year olds in work;

  - 18-20 year olds in work who currently have a modified deduction will be treated as adults and have the full deduction;

  - an increase in the adult deduction.

Saves £60m; affects 700,000

* Young people aged 18-20 on supplementary benefit will no longer get a housing addition where they are living in somebody else's household - the poorest households are protected, as no non-dependant deductions will be made for this group.

Saves £43m (net) affects 350,000

* An increase in the threshold at which special help could be given in high rent areas. Saves £6m: affects 90,000

In addition there will be some administrative savings from the reduction in local authorities caseload.

SECRET

10 January 1984
Policy Unit

12

PRIME MINISTER

I attach a brief for Thursday's DHSS meeting.

I have followed the numbering of the DHSS Green Book, as that is comprehensive. The Agenda paper leaves aside several important issues which may need review. I have also given you the Agenda references where the Agenda covers that topic.

Unfortunately the Agenda does not follow the same numbering system as the Green Book.

Would you rather our brief was recast according to the Agenda numbers?

No

JOHN REDWOOD

SECRET

10 January 1984
Policy Unit

PRIME MINISTER

HEALTH AND WELFARE

In 1983/4, we will be spending £36 billion on social security, and another £15 billion on health, a total of more than £50 billion - over 40 per cent of Public Expenditure. The Green Book suggests that the rapid growth rate of 5.1 per cent per annum over the last decade will reduce to 0.9 per cent this Parliament. This will require considerable effort and improvement in DHSS control over their expenditure. The aim of the system should be:

(a) to provide a basic state retirement pension;

(b) to provide a good quality health service with care on demand, free of charge to the user;

(c) to encourage private health and pension provision as incomes and expectations rise;

(d) to protect the disabled and those who have been driven into poverty by unavoidable circumstance;

(e) to avoid turning the social security system into a shirkers' charter by paying those who could or should fend for themselves.

A. THE HEALTH SERVICE

Agenda 2, 1a and 1b

1. In the hospital sector (2.3-2.7, Green Book), we should not go back on our pledge to maintain a free service. The Griffiths reorganisation presents an opportunity and the possibility of another disaster. We should expect to see:

(a) the rapid appointment of a Chief Executive for the NHS of a suitable calibre;

(b) we should not expect to see early appointments of managers in the Districts and hospital units until the Chief Executive has been appointed and can express his views on how these appointments are to be made. If too many appointments are made by jumping the gun, we are likely to end up with promotions for unsuitable people already in the system, which will mean salary rises without bringing any management benefits (remember the gravy train on reorganisation of local government in 1973-4);

(c) more rapid progress in contracting-out the basic support services (cleaning, laundry, catering);

(d) a vigorous attack upon the enormous drugs bill. Whenever I visit people in hospital, I am struck by the freedom and enthusiasm with which drugs are administered. It is difficult often for a patient even to resist a sleeping pill when they would never dream of using one at home;

(e) more use of spare hospital space to encourage private provision of extra facilities (additional refreshments, retailing of flowers and gifts etc) to generate income from rents for the hospitals;

(f) the £50 million required per annum to clear the waiting lists should be authorised out of these savings, publicised, and a drive launched to remove the backlogs: they might even be persuaded to do it for less, as there should not be such long waiting lists given the cost of the system.

2. Family Practitioner Services (2.8-2.12, Green Book; Agenda 2.2). The GP services are justified on the grounds that:

(a) the GP acts as a necessary postbox for people with more serious conditions;

(b) the GP can solve a number of medical and related problems;

(c) the GP is a trusted member of the community, and as such is politically popular.

The danger with the GP service is that there is little control over costs. The move towards group practice and community health centres has been used as a means of reducing doctors' working hours to a greater extent than as a means of improving efficiency and quality of service. We need to ensure that:

(a) there are tight controls over the number of GPs, as proposed by Binder Hamlyn;

(b) the medical schools do not produce more doctors and dentists than can be absorbed into the NHS system and the private sector on reasonable forecasts over the next 10 years;

(c) there is a renewed drive to deal with the twin problems of over-prescribing drugs by the GP and the choice of unreasonably expensive drugs when cheaper generic drugs would be as good;

(d) Community Health Centres aim to handle as many problems as possible that would otherwise be routed to a hospital, like the treatment of simple emergencies and the carrying out of basic health tests.

3. Parallel Imports. Around 10 per cent of the total ethical drug market in the UK is accounted for by so-called Parallel Imports. These are drugs imported from overseas and sold to the distributors and chemists at much cheaper prices than if they bought the same drugs direct from the UK manufacturer. The NHS still pays the full UK price, with the imported, distributor and chemist pocketing the difference as extra profit.

The differences can be large. The table below gives examples for leading UK and foreign drug company products.

Company	Product	Treatment	Size	UK Trade Price	UK Import Price	Discount
Glaxo	Ventolin	Anti-Asthmatic	One inhaler	£3.00	£2.06	32%
	Trandate	Anti-Hypertensive		£18.94	£15.16	20%
ICI	Inderal	Cardiovascular		£39.70	£31.36	21%
	Nolvadex	Anti-Cancer		£70.66	£56.53	20%
Beecham	Amoxil	Antibiotic	100x 250mg	£17.12	£13.70	20%
Boots	Froben	Anti-Inflammatory		£39.12	£31.30	20%
Fisons	Opticrom	Anti-Allergic	10ml	£4.50	£3.37	25%
Smith Kline	Tagamet	Anti-Ulcer	500x 200mg	£74.15	£65.25	12%
Merck, Sharp & Dohme	Aldomet	Anti-Hypertensive	500x 250mg	£27.23	£21.78	20%

The trade in parallel imports is likely to grow as the margins are so attractive to distributors. If this happens, the NHS should review its purchasing policy with a view to cutting its prices for the drugs to allow for cheaper import sources. The UK manufacturers are opposing the practice of parallel imports on the grounds that it will reduce their profits and endanger their R&D. However, it will become impossible for the NHS to go on paying high prices for drugs that are in practice sourced more cheaply (there could be a PAC enquiry which would cause discomfort). The savings could be well over the £65 million projected so far from the reduced rate of return formula announced recently.

The Binder Hamlyn Report noted the problem of the drugs bill, but did not investigate it thoroughly. It suggests that the Pharmaceutical Price Regulation Scheme should be adapted through the provision of more regular checks and information. The pressures on the pharmaceutical marketplace are likely to prove far better guardians of the public purse: a more open UK pharmaceutical market will cut costs for the NHS significantly.

Charges for NHS (Agenda 2.2b). The subject of charges has always been an explosive one. Any attempt to widen the range of charges would cause a major row and give the Kinnock campaign against Conservative welfare policy new momentum.

However, charges can be increased as under current policy. It is also possible to increase the numbers of people who voluntarily pay for a better standard of service, by offering them the choice. In the case of spectacles, most have chosen to pay more for a better product. In hospital, franchise catering outside the main meal service might attract considerable support, and could be privately run and financed.

Remuneration for Contractor Professions (Agenda, 2.2c). The row has blown up because some chemists have objected to the benefits to others of large discounts from pharmaceutical wholesalers. Pharmacies are remunerated on the basis of costs or expenses calculated as an average. This encourages the drive for efficiency and better purchasing, but can lead to allegations of overpayment for the larger or more astute.

A law suit on this subject is likely to go against the DHSS/NHS and the DHSS therefore wish to include clauses in their forthcoming legislation to legalise current practice.

They could also use the opportunity to review the basis of remuneration and clawback in the light of the large discounts and the parallel importing problem examined above.

The Private Contribution (Agenda 2.3). Provident insurance currently attracts Corporation Tax relief for company payments. Companies also benefit from block discounts and therefore growth has been most rapid for employer schemes.

Expansion of private insurance increases the flow of funds into the health sector, whilst leaving it to individual choice. Granting income tax relief would increase the rate of take-up, but would add another distortion to our grotesquely complex tax system. Private schemes are likely to grow quite rapidly anyway under the impetus of company relief. Shouldn't the public sector publicise its block scheme insurance to encourage a bigger take-up of those insured schemes in the public sector? There is a low level of awareness of these schemes in the Civil Service.

B. SOCIAL SECURITY (Agenda 3)

4. Child Benefit (2.13, Green Book). Child Benefit is costly - £4 billion this year. It goes to far too many people, and is the least popular benefit. It is non-contributory and unselective, a combination which people do not readily understand, and many disagree with. There are several ways of tackling this problem:

(a) The Benefit could be frozen in cash terms throughout the life of this Parliament. There would need to be compensating adjustments in some of the other benefits going to low-income families, but these could be targeted more accurately, and therefore cost less overall.

(b) The Benefit could be increased but brought into the tax net. This would have the advantage of perceived justice, and would mean that the mother would still receive the benefit, whilst the father would pay the tax in the normal household.

(c) We could go back on our commitment to make no change in structure, and abolish the Benefit, replacing it by a beefed-up benefit for poorer families through SB and FIS. This would represent the largest saving of all in cash terms, but care would be needed in presenting the case in view of the previous commitment; and in constructing the new benefit, as it could exacerbate the poverty trap problem. Tax relief of at least £2,000 million could be granted at the same time as the pay-off for change.

(d) The two-tier child support system. The universal basic tier would be frozen at present levels, and the second tier would be paid to all unemployed families and working families now on FIS.

The best change, if the priority is simplification and tax reduction, is abolition. To avoid the row this would entail, the best option is to freeze the benefit.

Agenda 3d (Action)

5. Family Income Supplement (2.15, Green Book). Not one of the most expensive benefits, it does go to poorer families. It should be reviewed as suggested by the DHSS to lower its unemployment trap effects.

Agenda 3b (Issues)

6. Housing Benefit (2.16, Green Book). The recent review has already aroused protest, but it is important to reduce the numbers receiving the benefit who are already in receipt of reasonable incomes. The DHSS should press on to ensure the payments are concentrated on the lowest income earners, and should reinforce the case in favour of the changes they are making by giving examples of those who are better off under the revised scheme. Care should be taken to avoid penalising the poor.

7. Maternity Benefits (2.17, Green Book). The objective of combining the allowance with the pay in a single benefit paid by employers is sensible. It will be opposed by the CBI and others as another increase in employer burdens, and by pressure groups who could see it as another disincentive to employers to take on women employees in their 20s and early 30s.

The earnings-related component of maternity pay is generous and could be eroded.

Agenda 3c (Action)

8. Pensions (3.1-3.4, Green Book). We should retain the basic state pension and upgrade it in line with prices as pledged in the Manifesto. In view of the sharp real increase in pensions in the 1979-83 period, and in view of the general public expenditure pressures, we should aim to hold the pension steady in real terms for the next 2 financial years, beginning in April 1984.

Private sector pension schemes can be encouraged in two major ways:

(a) Abolition of State Earnings-Related, forcing private provision.

(b) Giving the employee control over the unitised value of his pension assets.

The advent of portable pensions (3.4, Green Book; Agenda 3c) would encourage self-reliance and would give the average pension scheme member (there are 11 million) direct control over an average £11,000 of assets already saved on his behalf in occupational schemes. It would represent a great advance in wealth ownership, and expand personal freedom and responsibility. It would also encourage more people to save for their retirement if they can see the fruits of their labours in the rising value of their own savings.

The State Earnings-Related Pension Scheme (3.9,3.10 Green Bk; Agenda 3c). This Scheme will prove too expensive. It is the ideal target for encouraging private provision in preference to public, and should be abolished before too many vested interests are built up. This would force more employers and employees to set up private schemes.

The Scheme could be abolished without too much dissent, as the vested interests that have so far been built up are quite modest. The Opposition would naturally make capital out of the

cancellation of a scheme to which we are pledged, and the abandonment of the bipartisan policy of pensions geared to earnings. We could, however, counter with a vigorous presentation of the opportunities for occupational pension schemes and for portable pensions.

9. The Problem of Elderly People (3.6-3.8, Green Book). The correct answer for all but the very infirm should be care in the community, preferably in their own homes. This has been the trend of policy in recent years, but the trend needs to be strengthened. Far too many old people are provided with permanent places in hospitals when they would be better off at home with home support services and the community around them. It would also be cheaper.

10. Other Dependent Groups (Section 4, Green Book). The disabled deserve as much help as we can afford. The record of the 1979-83 period in increasing the real value of many of these benefits was good. We need to ensure that help does go to those in need in this category, and to show compassion to those whose lives have been ruined by accident or disease.

The case of the World War widows who feel they deserve as good a deal as the Falklands widows could also be re-examined when uprating is under discussion. Well-publicised help to such groups has obvious political attractions when cuts are being made elsewhere in bigger spending areas, in addition to the humane consideration.

11. Unemployed (Section 5, Green Book; Agenda 3a Outstanding Issues). The review of the relationship between Unemployment Benefit and Supplementary Benefit should be encouraged. Two sets of offices are involved, and some streamlining might be achieved. It is important that any solution should not lose sight of the need to reduce the unemployment trap and to preserve a link between benefit and the search for a job.

12. Tax Credits (Section 6.4,Green Book). Now is the time for the Government to decide whether it sees any merit in this approach or not. Discussions are under way to see if the DHSS and the new Inland Revenue computer systems are compatible.

The best answer to the unemployment and poverty traps is to raise the tax thresholds by succeeding in lowering public spending and cutting income tax.

As part of that drive, the reviews of social benefits should be designed to simplify the benefit payment and assessment system, and to concentrate on those in need. Means-testing is a necessary part of the system, but the number of separate means tests should be reduced as benefits are simplified.

Meanwhile, tax reduction and reform should press ahead separately. Any attempt to unite the two could result in a costly auction of promises as the Government came under fire for having a "secret Manifesto" after all.

13. The Contributory Principle (Section 6, Green Book)
The contributory principle which underlay the original 1945-50 welfare state is a sound one and is well understood by most of the electorate. In order to reaffirm the contributory principle, there would be great merit in renaming one half of the income tax as "contributions towards the National Insurance Fund". People would then see the true cost of insuring for the benefits they will be collecting. The contributory principle associates in people's minds the cost with the benefit, and the pooling of risk across the whole population is a sound and sensible mechanism.

Conclusion

If these measures were adopted, and tighter controls exerted over spending, we might be able to halt the spending juggernaut. It is horrifying to see that spending is already £500 million higher than the 18 October forecast for 1984/5 before that year has even begun. The Chief Secretary is right to ring the alarm bells.

However, it is also vital that in our management reorganisations we achieve better delivery of a better service, which can be done for the £50 billion which is available. There are also one or two pockets of genuine poverty which need greater relief than they are currently receiving. For example, war widows who lost their husbands in wars other than the Falklands get an extremely raw deal, and feel even more bitter now that the Falklands widows are being looked after relatively well. The Government can present itself as one which cares and is prepared to use public money for the relief of genuine

hardship. It should also reduce waiting lists at hospitals in a concerted drive. Some indiscriminate benefits currently paid on a non-contributory basis undermine the amount of resource available for those in need, and undermine Government credibility about its belief in self-help. Given the pledges on state pensions and other benefits, the Government has little option but to tackle the difficult problems of Child Benefit and Housing Benefit. This will cause a major row, and should only be undertaken to achieve major cash savings.

The greatest scope lies in pensions. Radical action in introducing portability and cancelling the State Earnings-Related Scheme before its costs and vested interests build up could be popular and economical. It would represent the greatest shift in state/individual provision, and in individual wealth ownership, at the expense of institutions and the state, that your Government has ever undertaken.

JOHN REDWOOD

Nat Health Seminar

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da

bc Mr. Redwood

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10 DOWNING STREET

From the Private Secretary

3 January 1984

Dear Ellen

I wrote to Ken Stowe on 23 December about the meeting on 12 January which will follow up the discussion held on 16 September. He has agreed to prepare, in conjunction with the Treasury, an annotated agenda, selecting the issues which it would be most productive to discuss.

Since then, the Prime Minister has seen the Chief Secretary's letter of 22 December to your Secretary of State. She has expressed concern at the recent growth of expenditure on the Family Practitioner Services; and at the growth of social security expenditure particularly on housing benefit. She would like the question of bringing these areas of expenditure under better control to be put on the agenda for the 12 January meeting. I would be grateful, therefore, if in addition to the long term issues on health and social security the briefing could discuss these current issues and make suggestions on how further work might be pursued.

In particular, the Prime Minister would like the briefing to cover ways in which FPS expenditure could be better forecast and brought under more effective control. In addition, she is interested to know how housing benefit has come to be so widespread, extending substantially up the income scale; what factors have caused such a rapid growth in expenditure on housing benefit; and how current expenditure compares with the forecasts made at the time the new benefit was established.

It would be helpful if briefing could reach this office by the close of play on Friday but if this cannot be done it should arrive no later than Tuesday afternoon.

I am copying this letter to John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and to Alan Bailey (HM Treasury).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Miss Ellen Roberts,
Department of Health and Social Security.

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary

Robin Butler Esq.,
No. 10 Downing Street,
London SW1

23 December, 1983

Dear Robin,

I promised to let you have a copy of the infamous article in "PULSE" (the magazine circulated free to General Practitioners, funded by its advertisements) about the way in which GPs can maximise their income from the NHS at the expense of the Exchequer. I attach a copy of the article together with a note explaining the background to it.

I also attach notes, which you might find helpful, about the problems of forecasting and controlling demand-led expenditure on our two big demand-led programmes-supplementary benefit and family practitioner services. I will not offer any further comment on them because these will, I guess, loom large in the renewed seminar discussion which the Prime Minister wishes to have on 12 January.

I am copying this letter to Robert Armstrong and Peter Middleton.

Yours ever,

Ken.

Pulse 17 Sept.

MONEY pulse

Edited by Sue Russell

Red book use can lead to steep rise in practice cash

Dr John Gray shows that by implementing the Red Book fully GPs can dramatically increase practice income without having to depend on Government largesse.

SEVERAL YEARS ago I was baffled by a GP doyen who at a trainers' workshop euphemistically attributed his seemingly huge income to 'a full implementation of the Red Book'.

I would suspect that to many principals and trainees his remark would still be relatively meaningless.

This was recently highlighted at a local workship meeting sponsored by a pharmaceutical company when the representative suggested that the bulk purchase of their depo-steroid preparation to be dispensed on an FP 10 under section 44.13 of the Red Book was both legitimate and profitable.

The suggestion clearly fell on stony ground.

Over the last 2½ years, our practice's attempts to implement the Red Book and become more efficient have led to a radical change in philosophy and organisation.

The use of recall systems allied to an age-sex register and the ensuing paperwork have grown to such proportions that we have been forced recently to allocate one whole room to our recall clerk.

The table shown here represents the returns from the FPC for our practice at the end of the March quarter for 1981 and 1983.

It does *not* purport to be a strict statistical analysis nor does it represent eventual practice profits.

Dr John Gray: practice returns rose by 40 per cent.

What it does show is that in the areas in which an increase in practice income can be made independent of governmental largesse, quite dramatic increases in percentage terms are possible.

From the table it is possible to note that:

1. Items of service rose by 5 per cent to 21 per cent of remuneration. The most noticeable increase was for 'special drugs' which consist of a combination of vaccines for influenza, vaccines used in routine immunisation, intra-uterine devices, emergency work drugs and depo-steriod preparations (Red Book 44.13).

2. Vaccinations and smears rose some 240 per cent despite a dramatic fall of 40 per cent in maternity fees reflecting a sharp drop in births locally.

Happily this trend is reversing and we should see over the next year an increase in both these elements.

This element varies seasonally (£1,700–£2,500).

3. Night visits rose by 105 per cent due to an increase in population, a disproportionate rise in the fee and a slight increase in actual work load.

4. Element for contraception rose by 61 per cent and this is the area in which I feel there is room for further improvement.

Part of the sum inevitably accrued secondarily to the cervical cytology recalls. However our surgery 'advertising' has played an important role in attracting women away from FP clinics.

	List size 10,800 March 81	30,800 March 83	Percentage ↑
1 Capitation (Number)			30.8%
2 65-74	10,920.73	14,284.83	26%
3 [illegible]	271.56	342.16	102%
4 Supplementary	240.62	340.99	32%
5 Voluntary capitation fee	1386.78	1830.87	22%
6 Basic practice allowance	930	1135	21.7%
7 Group practice allowance	4725	5755	21.8%
8 Maternity	825	1005	-40%
9 Emergency drugs	2126.25	3275.20	—
10 Contraceptive services	—	10.90	61.34%
11 Temporary residents	895.22	1444.28	-2.2%
12 Night visits	269.50	263.65	106%
13 Vaccinations and immunisations	241.50	497.25	340.76%
14 Seniority	579.10	1954.70	47%
15 Vocational training allowance	1335	1973.75	—
16 Special drugs	—	—	—
17 N.H.S. reports	—	1940.11	—
18 [illegible]	—	—	—
TOTAL	24 736	34 053	40%

Table shows that increased remuneration of four full-time GPs for the same quarter after a two-year interval can be quite dramatic in percentage terms.

5. Practice returns rose overall by some 40 per cent. By comparison the standard fees, namely supplementary practice allowance basic practice allowance and group practice allowance, all rose by approximately 22 per cent.

6. Investment: most small business cannot generate income without investment. GPs are fortunately in the happy position of receiving 70 per cent reimbursement for ancillary staff which offsets the cost for employing a specialised recall clerk.

In addition the costs for postage, printing and so on vary between £70 and £100 for each quarter. These costs (theoretically) should be reimbursed in the practice expenses element.

In my opinion the days of enormous leaps in Review Body awards – between 1975 and 1980 – are gone. This year's increases will not in financial terms reflect the apparent percentage rise of 6 per cent. It will in fact be nearer some 3 per cent.

Next year's award will I suspect be even lower. The pressure to reduce sizes is not acceptable unless income is maintained.

John Gray *is a GP in Chessington, Surrey.*

Ancillary staff and other fees go up

The allowance for related ancillary staff has been increased to £1,565 backdated to April 1. This level will apply until March 31, 1984, and represents an increase of 6.75 per cent on last year's allowance.

GPs who have been missing out on fees for life assurance reports because of the MIRAS scheme (Money Pulse, August 13) will be recompensed to some extent by the new increased fee when examinations are requested again.

For the ordinary form of life assurance report – where the proposed sum assured exceeds £2,500 – the fee goes up to £19. Personal medical attendant reports with niethal medical examination nor opinion go up to £9.50. Both fees are increased on October 1.

Fees for lectures and examinations at ambulance associations are also to go up, to £17.90

OCTOBER PRACTICE DIARY

October 1 FP1 registration
FP4 registration
FP58 registration of newborn
FP19 temporary resident
FP1001 contraception
FP1002 IUCD
FP1003 TR contraception
Prem 1 for practices due for rent review

All above forms to FPC

GPS' FEES AND ALLOWANCES 1981-1983

"PULSE" ARTICLE, 17 SEPTEMBER

1. This Note sets out some comments on, and the background to, the article in Pulse magazine of 17 September on how a GP practice increased its income by 40 per cent in cash terms over the 2 years 1981 to 1983.

2. The level of fees and allowances for GPs is set by the Review Body: the aim is to pay GPs on average the net remuneration the Government decides is due to them after consideration of the Review Body's report. The complex system of fees and allowances is set out in what is known as the "Red Book": what the article shows, in effect, is how one practice both changed its own behaviour and responded to changing demands by patients. In doing so, it increased its income by some 40 per cent - whilst the fees and allowances were set to produce an average increase of about 21 per cent: it did, of course also increase its workload.

3. The following paragraphs set out in greater detail the working of the system in general and the record of this individual practice in particular.

4. Over the two year period 1980/81 to 1982/83 GPs' fees and allowances generally were set to produce an increase of about 21 per cent. This was to cover

i. a 12 per cent increase in average net remuneration - 6 per cent in 1981/82 and 5.7 per cent in 1982/83

ii. a 20 per cent increase in average expenses estimated at about 11 per cent in 1981/82 and 9 per cent in 1982/83

iii. an increase of about 4 per cent to correct for past under-payments.

5. Broadly speaking all fees and allowances went up by 21 per cent except capitation fees which were increased by about 27 per cent to compensate for expected loss of income through falling average list size. (Adjustments to GPs earnings needed to take account of changes in workload are incorporated by the Review Body in the recommended average net remuneration. Fees and allowances simply aim to deliver the agreed average net remuneration. In fact the Review Body has assumed constant workload for a number of years, falling list size being deemed to be offset by increasing numbers of elderly patients, new treatments etc.)

6. The system aims to deliver the average net income to the average GP. It contains incentives in the form of item of service payments to encourage GPs to undertake particular types of treatment. It is open to any GP to try to increase his income (having regard to the needs of his patients) for example by taking on more patients (up to a maximum) or carrying out more treatments. If as a result the actual average net remuneration received by GPs as a whole exceeds the amount awarded, the Review Body will make a downward adjustment to fees and allowances in a later period and claw back the excess, making net remuneration correct in the longer term if there has been no overall increase in workload.

7. The analysis of gross payments in the last quarters of 1980/81 and 1982/83 provided by Dr Grey shows that income from

a. the basic practice allowance, the group practice allowance and the supplementary practice allowance which are fixed allowances per GP all increased by around 21 per cent;

b. the capitation fees increased by rather more than the 27 per cent fee increase because list size increased;

c. seniority payments increased by more than 21 per cent probably because one partner became eligible for a higher payment because of his length of service;

d. night visits seems to have increased by more than expected because more night visits were made in the later period (39 compared with 23 in the earlier period).

The remaining increases in income were from item of service payments; more contraceptive services were provided, more cervical smears were carried out, more vaccinations given and special drugs administered for patients requiring long term steroid treatment. The latter represents new work for the practice and accounts for 8 per cent of the 40 per cent increase.

8. When additional work is carried out by an individual or practice, as described above, the Department has no choice but to pay for it. And this of course is as it should be if the increase results in better care for the family, for example as a result of GPs responding to appeals to take part in vaccination programmes and setting up systems which ensure that women are recalled promptly when they

become due for cervical smears. The ability of individual GPs to increase their income by adjusting the pattern of work and increasing the services they offer, together with fluctuations in patient demand, makes forecasting and control of GMS expenditure extremely difficult in the short term. In the longer term as Binder Hamlyn recognise, GMS expenditure is more susceptible to control. In spite of these difficulties, control is tighter than in European insurance-based systems. Our payment to GPs are still based principally on the number of patients on the doctor's list rather than on items of service; the DDRB system gives good overall control of practitioners' earnings; and most practice expenses are reimbursed on an average basis which, as Binder Hamlyn points out, gives a powerful incentive to economy.

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FAMILY PRACTITIONER SERVICES

1. Existing constraint is dependent upon the contractual arrangements we negotiate with GPs, dentists, chemists and opticians, through negotiation of drug prices and through charges to patients. We cannot and, in Ministers' view, should not control what doctors prescribe for their patients. We have influence on the supply of doctors by tight controls on medical schools intakes, but cannot at present control the numbers of practitioners contracting for services.

Measures to Improve Control

2. Following an independent study by consultants Binder Hamlyn (which will be published in the New Year) Ministers will be putting proposals to H Committee after Christmas to introduce the controversial legislation necessary to strengthen existing controls, notably by taking power to control the numbers of contractors.

3. Other measures to contain expenditure over the next three years include:

(a) saving of over £100 million a year on the drugs bill to result from current negotiations on the Pharmaceutical Price Regulation Scheme, on which the Minister for Health made a recent statement to Parliament;

(b) savings of approximately £20 million from privatising the dispensing of glasses to adults;

(c) proposals to save approximately £60 million a year by moving to a system of cost-related charges for NHS dentistry; Ministers have not yet decided on the timing of this controversial measure.

The measures at (b) and (c) will be contentious, as would cost-related prescriptions, and/or exemption based only on ground of financial need - though the savings could be substantial.

4. In addition, we have commissioned the management consultants Arthur Andersen to advise on improving the efficiency of Family Practitioner Committees in their administration of the FPS and on streamlining their work through computerisation. The Government has just reintroduced the legislation to make these committees independent of DHAs, and to clarify accountability between them and the Secretary of State.

Forecasting

5. Forecasting this expenditure is notoriously difficult because the initiative for changes in costs and the pressure for change, lies in the hands of, mainly, prescribing doctors and in the scientific development of the pharmaceutical industry world-wide.

6. Within the Department, substantial steps have already been taken to improve the statistical and financial basis for forecasting expenditure on the FPS; we are already getting some of the benefit of this and further improvements are expected next year.

7. Most recently we have, at the invitation of the Treasury, provided up-to-date estimates of likely additional requirements for expenditure on the FPS up to 1986-87, in advance of the publication of the Estimates White Paper. The additional sums which we have sought include sums for (a) additional take-up of welfare foods (outside the FPS but demand-led and directly governed by increases in social security entitlement), (b) some upward revision in the number of doctors and dentists and (c) (the largest amount) a further increase (£26 million, £73 million and £106 million) in the estimated expenditure on drugs in the FPS. This requirement is on top of figures which took account of the substantial savings on the drug bill recently announced.

8. The reasons for (c) are revealing. It reflects the latest estimates of trends in numbers of elderly and unemployed people whose prescriptions are dispensed without charge, and in the net ingredient cost of individual prescriptions (which are the clinical responsibility of the doctor). The cost is also influenced by the fact that prescriptions (exempt of charge) for the elderly are also the most expensive per item.

JP

SOCIAL SECURITY

Controls

1. Social security expenditure is primarily controlled through decisions on benefit levels at the annual uprating, through the legislation which determines entitlement and through the delivery system, which pays the benefits so determined. We cannot control the number of beneficiaries and forecasts of their numbers are subject to substantial uncertainties.

Measures to Contain Expenditure

2. Measures to contain expenditure taken under this Government have produced savings of over £2 billion. Those decided in the last PES round will account for £250 million. The Secretary of State is now conducting several in-depth reviews of those parts of the system which are most likely to repay such reviews.

Forecasting

3. Most of the uncertainties revolve around forecasts of supplementary benefit expenditure. These are based on economic assumptions provided by the Treasury, on statistical data about past expenditure and on assumptions about people's behaviour - who will lose or gain jobs and for how long and what benefit entitlements they will take up. All three are subject to doubt. The economic assumptions are not the Treasury's most detailed forecasts of unemployment (which Treasury Ministers have been unwilling to disclose) and they tend to be fairly inaccurate. Our statistical data, particularly data about current expenditure, are available fairly late and involve estimation. The reason for this is the scale of the system we operate and its complexity: obtaining more up-to-date or more detailed data would be very expensive. This is a situation which we expect to improve substantially as our operations become more computerised under our operational strategy, and it would improve even more if Post Office counter services were mechanised, but both of these are developments for the longer term.

4. Estimating what benefit entitlement will be claimed by a

given number of unemployed people has proved difficult because experience in earlier years proved a poor guide to what would happen in the current recession.

5 This difficulty has been compounded by two others. The more important was the Civil Service dispute of 1981: as one side effect of this we lost a very substantial proportion of the basic statistical information for that year. For several months now we have been building on sand as a result of this and it is only within the last few months that reliable and up-to-date statistics have been available to provide a firmer foundation.

6 The other major source of uncertainty was the major change to the system brought about by the introduction of Housing Benefit in April. Now that figures on the new benefit system are becoming available for the first time, various of our assumptions have had to be revised.

7 These last two problems were once for all effects, and we can look for improvements in our forecasting simply because they are now behind us. We are not resting on that alone, however: our Chief Economic Adviser is chairing a joint group with Treasury and GAD to consider what all three Departments can do to improve forecasting and monitoring of social security expenditure. They have set up an expert working party to make recommendations on where improvements will be most cost effective, and to report early in the New Year. We shall be ready to take urgent action to implement recommendations of the Group as they effect DHSS; in the interim, we have already set in hand a number of small improvements in our arrangements.

Prime Minister ②

cc NO

To note. I have arranged a follow-up meeting for 12 January with the same cast as before. Sir K. Stowe is preparing an annotated agenda which will concentrate on those areas where progress has still to be made, eg control of FPS rather than those where initiatives have been launched eg pensions review.

AT 23/12

PRIME MINISTER

I had put a note on the Policy Unit paper in the Nelson folder about this – and the letter from the Treasury. Perhaps we can discuss ~~this separately~~ the wider issues at that meeting.

DEVELOPMENT OF DHSS POLICIES

You might find it helpful to have a note of the progress we have made so far on the long-term issues we discussed with you on 16 September.

As far as the health service is concerned, the most important development has been the publication of the Griffiths Report. This has confirmed our thesis that much can be done to improve the management of the health service and that we can expect significant cost improvements to follow. We are pressing ahead with the implementation of the report's main conclusions. Changes are already under way in the Department - I have chaired the first meeting of the Health Services Supervisory Board this week - and, following the completion of consultation at the beginning of January, I will be issuing instructions to health authorities about the steps they should take.

I will be looking to health authorities to achieve sufficient cost improvement to deal with backlogs in treatment and the additional costs of advances in medical technology where these occur. But we have accepted, in the decisions we reached during the last public expenditure round, that additional resources should be provided to meet the demographic pressures which are at their peak over the next few years. The next public expenditure White Paper will demonstrate this and show that we are living up to our commitment to the NHS.

May I have a copy, soon.

In the Family Practitioner Services, we will be publishing the Binder Hamlyn report shortly after the Christmas Recess. This will provide the basis of legislation which I wish to introduce in the 1984/85 session to give us better control over the costs of these services. Those changes will not begin to bite for some time but we have already concluded negotiations with the pharmaceutical industry which will produce savings of £65 million next year rising

E.R.

to £100 million by 1985/86.

We have also moved to end the opticians' monopoly on the supply of glasses. The Health and Social Security Bill will not only improve competition in this field but will also pave the way for the NHS involvement in the direct supply of glasses to be ended.

In social security, I have launched my Inquiry into Provision for Retirement which held its first meeting last week. The Inquiry has many important issues to look at but we are going to give particular priority to the question of portable pensions. I will be chairing a sub-group which will prepare the ground for a separate report on portable pensions well in advance of the main report of the Inquiry.

Your meeting identified the question of benefit levels for teenagers as a key issue in the field of supplementary benefit and unemployment benefit. We are pursuing this issue in several ways.

- In the context of discussions about the YTS currently underway in E(A) Committee.

- Through a separate review of the entitlement of sixteen year olds to supplementary benefit which is scheduled for next summer in the light of the first year's experience of YTS.

- Through savings agreed during the last public expenditure round which were directed specifically toward the 16 - 20 age group - particularly the withdrawal of the non-householder housing addition and changes in non-dependent deductions from housing benefit.

Housing benefit needs further & deeper consideration. We shall need the forecasts from the time of introduction and the record of what has happened now and

23 December 1983

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POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

DISCUSSION PAPER FOR PRIME MINISTER'S SEMINAR ON 16 SEPTEMBER 1983.

KEY DATA REVISED JANUARY 1984

CONTENTS

SECTION I: INTRODUCTION

POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

1.1 This paper provides an annotated agenda for reviewing medium and longer term policy issues in DHSS programmes at the outset of this Parliament. The time horizon is, in general, ten years: but for the retirement pension the discussion looks ahead into the next century. The aim is to settle a framework of policy objectives for DHSS for the longer term, and to set guidelines for the impending discussions on shorter-term public expenditure issues.

1.2 On many of the points discussed Ministers have made public commitments for this Parliament. These are referred to as necessary and set out in Annex A. But the timescale of the paper goes beyond this Parliament.

Demographic change and social need

1.3 The key data sheet opposite sets out the main demographic changes over the last ten years and those expected over the next ten years. A brief analysis of changes in the pattern of need is included in Annex B.

1.4 The main demographic change has been in the growth in the number of retired people in proportion to the working population. The next ten years will see some further growth - but at a progressively slower rate - together with a sharp increase in people aged over 85*. (The projected increase in the birth rate is important but uncertain). A further important change has been in the increase in the numbers of children in one parent families.

1.5 The analysis in Annex B shows that, looking back to surveys which influenced the Beveridge report, there have been significant changes in absolute standards of living but broadly the same groups are most likely to be poor - old people dependent on flat-rate retirement pensions, and families with young children, particularly one parent families.

1.6 While absolute standards of health and social services care have also been raised progressively, the demand if not the need appears to be virtually unlimited in all groups of the population. The fastest growth is for services for the elderly and very elderly. Other pressures arise from the continuing need to raise standards of care for neglected groups such as those suffering from mental and physical handicap and mental illness, and the demand for equal access to medical advances and new technology. In all parts of the health service there are striking examples of antiquated, shabby and inefficient buildings.

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*Based on OPCS latest projections which are under discussion as they assume more elderly people than hitherto.

POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

KEY DATA

OPCS Population figures

SOCIAL SECURITY (Great Britain)*

		1973 m	1978 m	1983 m	1988 m	1993 m	Average annual percentage growth 1973-83	1983-93
	0 - 15	13.7	12.8	11.6	11.1	11.8	- 1.7	+ 0.2
Men	16 - 64	16.5	16.8	17.4	17.6	17.5	+ 0.5	+ 0.1
Women	16 - 59	15.1	15.3	15.8	16.1	16.1	+ 0.5	+ 0.2
Men	65+	2.9	3.1	3.2	3.4	3.5	+ 1.0	+ 0.9
Women	60+	6.2	6.3	6.7	6.8	6.7	+ 0.8	0

HEALTH AND PERSONAL SOCIAL SERVICES (England)*

	1973 m	1978 m	1983 m	1988 m	1993 m	Average annual percentage growth 1973-83	1983-93
0 - 4	3.5	2.8	2.9	3.2	3.5	- 1.9	+ 1.9
5 - 15	8.1	8.0	6.9	6.3	6.6	- 1.6	- 0.4
16 - 64	28.4	28.7	29.8	30.2	30.1	+ 0.5	+ 0.1
65 - 74	4.1	4.3	4.2	4.3	4.3	+ 0.2	+ 0.2
75 - 84	1.8	2.1	2.4	2.6	2.5	+ 2.9	+ 0.4
85 +	0.4	0.5	0.5	0.7	0.8	+ 2.3	+ 4.8

Costs

1.7 Expenditure on these programmes is at present 41.8% of total public expenditure (health 10.5% personal social services 1.9% social security 29.5%. Total UK health spending (ie including Scotland, Wales, Northern Ireland and the private sector) is about 6% of GDP, and social security 11.8%. These percentages of GDP are in each case about two thirds of what are thought to be the comparable figures in France and Germany.

1.8 The economic cost of the services run by DHSS might be expected (on current policies and allowing for demographic trends) to increase by 0.9% a year over this Parliament and by 0.8% a year over the next decade. This follows an increase of 5.1% a year over the last decade. The table opposite shows that if GDP grows at 2½% a year, expenditure on DHSS programmes as a proportion of GDP will diminish over the next decade from 16.7% to 14.3% If GDP grows at 0.8% the share will be constant.

1.9 The chief imponderable in projecting social security costs is the future level of unemployment. Purely for illustrative purposes, the figures in this paper assume that the number of unemployed will remain constant for the next 10 years. A reduction to 6% unemployment would reduce social security costs by £2 to £3 billion a year. For health costs the chief uncertainties are the prospects for public service pay, and the financing of service increases apart from demography. These are discussed in Section 6.

Strategy

1.10 The theme for new strategies will be:

- to identify the priority needs of the next 10-20 years and adapt policies to meet them efficiently either by private or public provision
- to ensure that these needs are weighed against the need to contain and if possible reduce public expenditure and the tax burden, and encourage private provision
- to continue downward pressure on public sector manpower
- to simplify benefit systems where possible
- to direct expenditure where it is most cost-effective
- to increase personal rights and choice and encourage self-help.

1.11 These themes underly the discussion in the following sections, which approach the issues by looking at each of the main customer groups in turn:

- the working population and their families
- the elderly
- other dependent groups (the sick, handicapped)
- the unemployed.

A final section deals with some more general issues.

1.12 Key data are shown separately for each group. There is more information in the supporting documents:-

'Health Care and Its Costs'

Handbook of Key Facts on Social Security.

Cost of the programmes

£m. 1983/84 prices

	1973/4	1978/9	1983/4	1988/9	1993/4	Average annual percentage growth 1973-83	1983-93
Health (England)	9,250	10,860	12,540	13,220	13, 780	3.1	0.9
Social Services (England)	1,570	1,940	2,250	2,370	2, 500	3.7	1.0
Social Security Ø (Gt Britain)	19,600	27,300	35,300	36,800	37,800	6.1	0.7
Total	30,420	40,100	50,090	52,390	54,080	5.1	0.8
As a percentage of GDP (assuming 2½% future growth)	11.2	13.7	16.7	15.6	14.3		

* Throughout this document, social security data are for Gt Britain, whereas health and personal social services data are for England only (Scotland and Wales have separate programmes).

Ø The Social Security programme does not include rate rebates, which are classified as revenue forgone, not public expenditure. (Their value in 1983/4 is estimated at £1.23 bn).

SECTION II

WORKING PEOPLE AND THEIR FAMILIES

2.1 This group uses the family practitioner services, acute hospital services, some community health services, maternity services, and local authority child care services. It is not increasing in size, but expenditure rises because medical advance increases the range and costs of effective treatments (including drugs), and because births are forecast to rise.

2.2 Social security expenditure for this group is directed at help with the cost of children (child benefit, one-parent benefit and maternity benefits); and at means-tested help to low-income families (FIS and housing benefits).

2.3 Under this heading there are a number of separate problems.

Acute hospital services. How is the mounting cost of modern treatments to be tackled?

2.4 The estimated cost of keeping up with new treatment arising from medical advances will, on the present assumption of ½% growth per annum, require extra expenditure amounting to £90 m in 1988-89 and £170 m in 1993-94. Moreover there are still backlogs in major treatments and long waiting lists - eg for hip replacements, dialysis, by-pass grafts. It is estimated that it would cost about £50m a year to overcome these backlogs. How is this extra cost to be met?

2.5 Over the past five years, despite more complex treatments, costs per case have fallen - largely through reducing length of stay in hospital - so that resources have been released by greater efficiency to help meet mounting costs on new treatments. But to cover the full cost of medical advance larger and more sustained efficiency savings will be needed in future.

2.6 The drive towards greater efficiency has gone a long way since 1979, through such measures as:

- NHS reorganisation
- improved accountability and performance reviews
- manpower controls
- competitive tendering for support services
- Rayner scrutinies.

This drive will continue and the current Management Inquiry should give a renewed impetus. Provided efficiency savings can be kept to improve services, there is a fair chance of overhauling backlogs in major treatments, catching up on waiting lists, and keeping pace with future developments.

2.7 This must be the major strategy for advance on this front. Ministers have publicly rejected hospital charges for this Parliament. Expension of private health insurance mainly helps with non-urgent surgery - it has not so far had any measurable impact on waiting times for major NHS treatment. The role of private health insurance is discussed in Section 6.

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

Numbers in this Group (GB)

'000

	1973-74	1978-79	1983-84	1988-89	1993-94
People in the Workforce	24,500	24,700	23,000	23,400	23,400
Children of Working Families	11,050	12,890	11,500	10,920	11,680

Expenditure Trends

£m 1983-84 prices (gross for HPSS)

	1973-74	1978-79	1983-84	1988-89	1993-94
Health	5,920	6,420	6,710	7,060	7,520
Social Services	680	940	1,090	1,090	1,140
Social Security	1,410	3,260	4,590	4,530	4,780

Average Case Costs in Acute Hospitals (at 1983-84 prices)

1973-74	1978-79	1981-82 (latest available year)
£718	£776	£727

NHS In-Patient Waiting Lists (England)

1973	1978	1983 (March)
409,000	682,000	726,000

(Note: the March 1979 figure was 752,000, reflecting the 1978-79 strike. The March 1982 figure was 622,000 showing a declining trend. The higher 1983 figure is still affected by the 1982 strike.)

Numbers Privately Insured through Provident Associations

1978	1982 (latest available year)
2.4m	4.2m

Family practitioner services. How can cost control be improved?

2.8 Expenditure on these services has depended on treatment costs; it has been demand-led and not cash limited.

2.9 Family doctors are most important - the point of entry to health service treatment, they deal with most problems without recourse to expensive hospital services and are an essential fall-back when those services cannot cope. Ministers are pledged for this Parliament against charges for GP visits. Management consultants have recently concluded that the cost of this part of the service could best be controlled by controlling the number of GPs. Some increase must be allowed to cope with growing numbers of elderly - and perhaps for some improvement in service to reduce pressure on hospitals. But subject to this the Government might aim to control tightly the growth in number of GPs.

2.10 Dentistry, glasses and drugs. There is scope for savings here without damaging crucial health care (but with considerable controversy) by:

- control on numbers of dentists
- reduction in drug industry profits
- privatisation of supply of glasses
- increasing charges

2.11 Decisions were taken during the 1983 public expenditure survey to achieve savings by:

- **better controls on lines recommended by Binder Hamlyn.**
- **reduced drug company profits and promotional expenditure.**
- **ending of opticians monopoly and withdrawal of supply of NHS glasses to all but children and the poor.**
- **increase in prescription charges in 1984-85.**
- **introduction of cost-related dental charges in 1985-86.**

In announcing the withdrawal of NHS glasses, Ministers made it clear that sight tests would remain free

2.12 Other possible savings rejected during the 1983 survey are cost-related prescription charges (£40m) and removing present exemptions from elderly and children (about £150m). But removing exemptions would be highly controversial both on health grounds (charging for treating children) and on social and administrative grounds (increased means-testing of the elderly). Ministers have previously stressed the importance of exemptions when defending increases in charges. Cost-related prescription charges would also be complex to administer, and pharmacists would have to be paid more.

2.13 The table opposite shows the latest forecasts for the family practitioner services, and past expenditure, in cost terms throughout. The forecasts take account of the savings agreed in the 1983 survey, and the higher estimates of future expenditure made since (there is a separate note on this). The forecasts, especially in the later years, are subject to a major review which is now in hand in DHSS, with Treasury participation.

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

FAMILY PRACTITIONER SERVICES' EXPENDITURE (PROJECTED ON PRESENT POLICIES)

£m, 1983-84 cost-terms

	1973-74*[1]	1978-79	1983-84	1988-89	1993-94
Pharmaceutical		1210	1430	1630	1800
Optical		130	160	120	140
Dental		480	590	650	720
Medical		650	870	930	1020
Total FPS Gross	2150	2470	3060	3330	3670
Charges	230	180	310	370	410
Total FPS Net	1920	2290 (3.6%)[2]	2740 (3.7%)	2960 (1.5%)	3270 (2.0%)

* 1. Split between services not available

2. Figures in brackets represent the annual average growth in preceding 5 years.

Social security. Can work incentives be improved?

2.12 There are two separate - and often conflicting - issues here:

the unemployment trap concerns the gap between income in and out of work, and the need to maintain an incentive to get off benefit and back into work. This can be tackled either by reducing out-of-work benefit levels, or by increasing the incomes of those in work through benefits or raising tax thresholds. Where the benefit approach is followed, the help given has to be withdrawn as income increases, and this gives rise to -

the "poverty" trap, where the value of earnings is eroded by withdrawal of benefit. This is a problem of incentives rather than of poverty per se: the more rapid the withdrawal of benefit, the starker the disincentive to earn more. But slower erosion means allowing the help to spread further up the income scale, with more benefit expenditure going to relatively better-off families.

2.13 Support for children of working families. Help can be given through the tax or benefit systems. With the replacement of child tax allowances and family allowances, child benefit has become the means of helping families, both in and out of work, with the extra cost of children. But working families are of course still helped by tax changes, particularly raising tax thresholds. The comparative costs are:

Raising tax threshold	- Each weekly £1 increase per family costs £575m
Child benefit	- Each weekly £1 increase per child costs £500m (This would give each family on average an extra £1.80 a week).

2.14 Child benefit eases the unemployment trap, and on that ground there is a case for increasing it. But this is entirely at Government discretion. There is no significant demographic effect over the next ten years, and there is no statutory uprating requirement. The Government are committed to not changing the basis of the benefit.

2.15 Support for working parents. FIS increases income in work and so improves the incentive to resume work. Its 50% withdrawal rate is a major cause of the poverty trap, however. Originally introduced as a stop-gap measure, it has become a permanent benefit of some importance, and its operation is being reviewed. Its withdrawal would seriously worsen the unemployment trap: but it may be possible to restructure it to increase its cost-effectiveness and reduce its poverty trap effects.

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

Expenditure: Social Security

£m 1983-84 prices

1973-74	1978-79	1983-84	1988-89	1993-94
1,410	3,260	4,590	4,530	4,780

Numbers on Social Security Benefit

'000

	1973-74	1978-79	1983-84	1988-89	1993-94*
Child benefit+	7,060	13,480	12,660	12,070	12,830
One-parent benefit	-	290	540	630	630
Maternity benefits	70	100	130	155	155
Family income supplement	95	85	205	210	210
Standard housing benefit	-	-	400	300	300

+ Includes children in families where the head of the household is unemployed

* For illustrative purposes, it has been assumed that the numbers receiving benefit (other than child benefit) remain at the level assumed for 1985-86 until 1993-94.

2.16 Housing benefits. These have the same effect as FIS - they ease the unemployment trap by adding to income of those in work as well as out of it. But they are withdrawn more slowly as income increases and extend the poverty trap a long way up the income scale, by comparison with other benefits: about one-third of all households are getting some help - mainly pensioners but including about 850,000 households where the head is in work, some with incomes above average earnings. **Some reductions have been made as part of the Autumn Statement changes and a review of the system is being put in hand.**

Should maternity benefits be rationalised?

2.17 This is a possible area for review. There are three separate benefits:

- a flat-rate non-contributory grant of £25 for all women
- a contributions related allowance for women who have been in work, worth £25.95 for 18 weeks
- maternity pay, under DE legislation, paid by employers as a proportion of previous pay, and reclaimed in part from NI contributions.

Previous attempts to find a consensus on rationalising this area have failed: but there is a commitment to review it again, and this could start with the objective of combining at least the allowance with maternity pay in a single benefit paid by employers. This could reduce public expenditure by up to £175m.

SECTION III

THE ELDERLY

3.1 Numbers over pension age will be stable, as a proportion of the working population, until 2010, but will increase thereafter as the post-war 'baby bulge' reaches retirement age. But within the total, the over 75s and over 85s will increase sharply in the 1980s (this increase tails off in the 1990s).

3.2 In health and social services the growing number of the very old present the biggest single challenge. Their demands increase sharply with age. They require geriatric hospital services, they are major users of acute hospitals, they take up most of the District Nursing Service, and they use local authority residential accommodation, day care, home helps and meals on wheels. They can benefit from more medical advance, provided it can be afforded through greater efficiency - for example, more joint replacements as surgical techniques develop (estimated cost: £110m in 1988/89, £200m in 1993/94)

3.3 Pensioners account for half of the social security budget through retirement pensions and supplementary pensions: benefit levels do not increase significantly after retirement age. Pensioners also account for two-thirds of expenditure on housing benefit. The Government is pledged to continue to price protect pensions and other linked long-term benefits.

3.4 About half of all workers are in occupational pensions schemes and contracted out of the State pensions scheme. The big issue here at present is that of early leavers **and the possibility of introducing portable pensions. The Secretary of State has established a Pensions Inquiry which will consider these and other issues and which he is himself chairing. Significant legislation on private pension schemes is a possibility for this Parliament. A wider issue is what can be done to increase membership of occupational schemes.**

THE ELDERLY

KEY DATA

Numbers in this group

	1973/74	1978/79	1983/84	1988/89	1993/94
ENGLAND	6.3m	6.9m	7.1m	7.6m	7.6m
GB	9.1m	9.4m	9.9m	10.2m	10.2m

Expenditure trends

£m. 1983/84 prices (gross for HPSS)

	1973/74	1978/79	1983/84	1988/89	1993/94
Hospital and Community Health Services	2,580	3,230	3,520	3,810	3,920
Social Services	810	1,040	1,160	1,310	1,400
Social Security	11,070	14,360	16,750	17,750	18,500

Numbers on Social Security benefits

'000

	1973/74	1978/79	1983/84	1988/89	1993/94
Retirement pension	7,750	8,530	9,180	9,670	9,790
Supp. pension	1,845	1,745	1,525	1,520	1,520
Non-contrib.RP	110	65	40	20	10
Christmas bonus	7,000	9,100	9,100	9,300	9,300
Standard housing benefit	-	-	1,300	1,000	1,000

Numbers in occupational pension schemes

Pension scheme membership has been at about the same level of about 11 millions since the early 1960's. The latest Government Actuary's survey in 1979 showed:

	Total	Public sector	Private sector
Employees in pension schemes	11.8m	6.2m	5.6m
Numbers contracted out	10.3m	4.8m	5.5m
Employees not in schemes	11.6m		

The Government Actuary thinks that the current position is not significantly different.

How can health and social services be provided for the growing number of very old people?

3.5 Ministers are pledged for this Parliament against hospital charges. Private health insurance does not contribute much to costs for the old:

- very few old people are covered by private insurance
- premiums for acute treatment rise sharply after 65
- long-term private care is uninsurable

New tax concessions to encourage insurance by old people could lead to extra private acute treatment. But this will not significantly reduce the burden on the NHS. Increased NHS expenditure on this age group, financed from taxation, is unavoidable, unless standards of care are to be reduced.

3.6 Much long-term care is at present unsuitable. Lack of community services leads to pressure on hospitals, which are inefficiently used and often give a poor standard of care. Longevity increases pressure on services for the elderly, and there is need for help to people looking after elderly relatives - who may often be elderly themselves - as well as for elderly people living on their own. Much of the necessary provision comes from local authority services, and pressure on their expenditure makes the prospect uncertain.

3.7 The present broad strategy is to improve services through:

- reduction in long-term care and shift of NHS resources into community health services (especially District Nursing) to support people at home
- development of role of family, neighbourhood resources and voluntary care
- continuing encouragement to local authorities to give priority to services for the elderly. 'Joint finance', provided for the NHS to share the cost of developing local authority provision, can help here (at present running at £ 96 m)
- some centrally-funded demonstration projects to encourage a better balance of services and more use of neighbourhood resources
- work through DOE and the private sector to encourage more provision of suitable housing to enable old people to live at home.

The aim will be to carry through this strategy without further resources - other than those required by demographic increase (£290m in 1988/9 and £400m in 1993/5 in health services alone).

3.8 Much voluntary and private provision is paid for through social security benefits (e.g attendance allowance and invalid care allowance). Is there a case for increasing this support?

THE ELDERLY

KEY DATA

HPSS expenditure per head varies with age as follows

	Birth	0-4	5-15	16-21	65-74	75-84	85+
HCHS	£950	£175	£70	£100	£345	£755	£1,290
FPS	£ 65	£ 50	£40	£ 50	£ 70	£130	
PSS	£ 20	£ 70	£ 70	£15	£ 60	£250	

Numbers Living at Home

35 per cent of old people live on their own, and 45 per cent with their spouses. The remaining 20 per cent live with relatives or others.

Paying for pensions

3.9 The assumptions on which the earnings-related scheme was based were that it was desirable:

- to improve pension provision (still low by comparison with other western industrial countries) to about one half of average earnings
- to transfer resources from the working population to elderly
- to reduce dependence on means-tested help
- to establish a partnership with the private pensions sector

Are these still the assumptions on which the Government wishes to act? If not, reversion to a flat-rate scheme - presumably with flat-rate contributions - is a possibility for examination. It would mean an end of the bi-partisan policy evolved over the last two decades; and since it would point to lower incomes in retirement for the less well-off without occupational pensions, it would need to be justified by overriding concern about the finances of the present scheme. It was stated before the election that there were no plans to change the earnings related component.

3.10 The scheme started in 1978, matures in 1998, and the costs of the scheme will have a major impact after 2010. There is no large demographic factor to drive up expenditure for the next 25 years, and benefits need not increase in real terms, since last Session's Act ties them firmly to the past movement of prices (no more uncovenanted "overshoots"). So long as we stick to no more than price protection, the emerging costs of the scheme will be lower than those so far assumed - see figures opposite - though benefits will also be lower. The Government Actuary's most recent forecasts, which are based on earnings indexation, have confirmed the original presumption that contributions (employer and employee together) would grow by 5 percentage points by 2025.

Paying for pensions: projections into next century

The following tables are based on assumptions used by the Government Actuary for the Quinquennial Review. They assume an unemployment level of 6 per cent over the whole period and are based on population projections which do not take account of the 1981 census.

The present rate of NI contribution is 17.65 per cent, but would be 15.3 per cemt if unemployment were currently 6 per cent.

	Numbers		
	1985	2005	2025
Number over pension age (Millions)	10.0	10.1	12.3
Ratio of working age to pension age population	3.33	3.37	2.74

1. If real earnings increase by 2 per cent per year

	1985/86	1995/96	2005/6	2015/16	2025/26
NI contribution rate if basic pension linked to earnings	15.3	15.5	16.1	18.0	20.3
Cost of Pensions as proportion of GDP	5.6	N/K	6.2	N/K	8.7
Average pensioner income as proportion of non-pensioner income	68	72	75	76	80

2. If real earnings increase by ½ per cent per year

NI contribution rate if basic pension linked to earnings	15.4	15.7	16.6	18.9	21.5
Cost of pensions as proportion of GDP	5.6	N/K	6.6	N/K	9.6
Average pensioner income as proportion of non-pensioner income	69	72	76	79	85

3. If basic pension linked to prices not earnings

NI contribution rate	15.3	13.6	12/6	12.9	13.5

THE ELDERLY

3.11 The factors causing growth in expenditure will be:

- maturing of the earnings-related additional component ("second tier")

- increases in numbers of pensioners.

This growth is to be funded largely from contributions with the Exchequer contributing 13% diminishing to 11% from April 1984.

3.12 But there is much uncertainty:

- demographic factors may change

- a continuing high level of unemployment would alter the pensioner/worker ratio over a period and reduce contribution income

- different rates of economic growth will affect the rate of contribution needed; low growth requires higher contribution rates

- it will be argued that price protection of pensions may not be enough indefinitely. The original scheme was designed on the basis of earnings relation in both contributions and benefits

- pressure could mount to give something extra to pensioners who retired before 1978 and are not getting any second tier benefit.

3.13 Options to be explored for reducing the public expenditure costs of the present scheme are:

Extending the role of the private sector. At present private schemes can contract their members out of the State scheme second tier and pay lower contributions in return for guaranteeing an equivalent to the second tier on retirement. There could be scope for further contracting out of:

- part of the basic pension

- part of the responsibility for inflation proofing the second tier after retirement.

This would reduce public expenditure over a period - perhaps mounting at a compound rate from 1988 onwards to £500m next century. It would not reduce resources going to pensioners, but switch the balance from public to private provision. It would need careful exploration with employers and pensions interests, and would entail some increase in contributions needed within the State scheme.

Reducing some of the benefits. Options for this have been prepared in consultation with the Treasury, following the Government Actuary's review of the first five years. They would be controversial, but could reduce expenditure on the second tier by up to 30% in the long run, and hold back the contributions needed to finance it by up to 2.8%.

THE ELDERLY

3.14 There is a substantial range of issues here which could be publicly debated, with a view to changes later in the 80s to reduce the burden of expenditure arising from 1990 onwards.

What is to be done about pension age?

3.15 It has become conventional wisdom, endorsed in a report by the Select Committee on Social Services last Session that it is desirable that pension ages for men and women (now 65 and 60) should be equalised at a common age, and that some flexibility should be allowed for people to retire earlier or later in return for reduced or enhanced pensions. The Select Committee has recommended 63: this would cost £500m a year. Given the public expenditure setting, it looks increasingly unrealistic to consider changes in pension age which cost money.

3.16 Equalising pension age at nil cost could only be achieved by bringing women's pension age up above 64 - a common age of 64 would still cost £50m a year. If the idea of flexibility to retire early were dropped, there would be savings for each year women's pension age was increased, mounting to £400m at age 65.

3.17 The Government **has replied to the Select Committee drawing attention to the costs of a common pension age at 63, and referring the issue to the Pensions Inquiry which the Secretary of State is chairing.**

SECTION IV

OTHER DEPENDENT GROUPS

4.1 Under this heading come the mentally handicapped or ill, and the "younger disabled", who have special health needs; and the sick and disabled for whom there is a wide range of provision in the social security schemes.

How far can mental illness and handicap services be improved?

4.2 The pressures on these services come not from growth in the caseload (except for severe mental illness associated with old age), but from widely acknowledged need to improve standards and get a better balance between hospital and community provision.

4.3 The NHS inheritance of old, remote long-stay hospitals used in the past as dumping grounds with scandalously low standards of care is taking a long time to remedy. Much progress has been made, but there are still poor hospitals and the cost of improvement (and particularly of increasing the number of nurses) is high.

4.4 The established policy is to restructure the services on a local basis, with more community care and more hospital provision near the community, and gradually close the old hospitals. There is a case for more finance than has been assumed in the projections opposite to assist this transition through:

- replacement of buildings
- retraining of staff
- development of local authority and voluntary services, through joint finance, grants to voluntary bodies and demonstration projects

and to avoid scandals while old hospitals continue to serve large numbers of patients.

OTHER DEPENDENT GROUPS

KEY DATA

Expenditure Trends

£m 1983-84 prices (gross for HPSS)

	1973-74	1978-79	1983-84	1988-89	1993-94
Hospital and Community Health Services*	1,270	1,350	1,420	1,460	1,470
Social Services	180	280	340	340	340
Social Security	4,980	6,230	6,600	6,970	6,970

* Projections allow only for increasing numbers of old people at risk of severe mental infrimity

OTHER DEPENDENT GROUPS

Should there be changes in cash help for the disabled?

4.5 Expenditure on cash benefits for this group has nearly doubled in real terms in a decade, through the introduction of new benefits, improvement in benefit levels, and a large growth in claims. There is no commitment to further benefit improvements, but much pressure for an extension of benefits.

4.6 These benefits now cost £3.8 billion. Their aim is:

- to help with extra living costs of the disabled
- to replace lost earning capacity
- to help people to live in the community.

They have been aimed selectively at particular needs, regardless of the recipients' income: in some cases benefits are related to previous earnings (and are higher for those who had enjoyed better earning capacity); in others they are related to the degree of disability (and are higher for the more severely disabled). This is a very distinct basis of provision from that adopted for other groups, and it has never been thought right to contain the expenditure by means-testing.

4.7 The present much-criticised patchwork of benefits (invalidity pensions, contributory and non-contributory; war and industrial injury benefits; attendance allowance; mobility allowance; invalid care allowance) has the merit of concentrating help on target groups. Though it is administratively cumbersome, the cost of rationalisation (up to £2 billion) prohibits advance in the foreseeable future.

4.8 It may be possible to arrange more contracting out. Sickness benefit is now paid by employers for the first eight weeks, with a saving in public expenditure and administrative costs of about £385 million*. This process could be extended to longer periods of sickness - though with diminishing returns in terms of savings (going up to 28 weeks would only save another £30 million), and at the likely cost of much employer resistance to a mounting administrative burden. (Industrial injury is another area that might be looked at, though the obstacles here, and the likely employer resistance, are very great.)

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* Employers are reimbursed through deductions from National Insurance contributions, which reduce revenue. The net effect is a PSBR saving of £90 million.

OTHER DEPENDENT GROUPS

KEY DATA

Numbers on Social Security Benefits

'000

	1973-74	1978-79	1983-84	1988-89	1993-94
War Pensions	465	385	315	275	275
Industrial Disablement and Death Benefit	240	240	215	205	205
Attendance Allowance and Invalid Care Allowance	125	270	455	540	540
Mobility Allowance	-	95	315	390	390
Sickness Benefit	525	560	155	155	155
Invalidity Benefit	440	600	725	745	745
Widows Benefit	580	495	435	410	410
Supplementary Allowance (less unemployed)	585	670	-	-	-
Non-contributory invalidity pension	-	150	205	255	255
Christmas Bonus	1, 300	1,500	1,800	1,800	1,800

For illustrative purposes, it has been assumed that the numbers receiving benefit (other than child benefit) remain at the level assumed for 1985-86 until 1993-94.

SECTION V

THE UNEMPLOYED

5.1 The cost of benefits for the unemployed has been the main growth element in the social security budget over the past five years. As a result of the increase in numbers of unemployed, it has more than doubled in real terms from £2.25bn to £5.68bn, despite measures to reduce the value of benefit significantly; and it has shifted an increasing load on to supplementary benefit.

Is the benefit structure appropriate to present needs?

5.2 The benefit system is computerised, and has coped with threefold increase in caseload. But the benefit scheme is not well adapted to unemployment on its present scale:

- two Departments and two sets of offices are involved. (The DHSS Operational Strategy points a way towards integrating the offices later in this decade).
- 28,000 staff in DE offices deal with UB; about 16,000 in DHSS offices have to review many of the same cases to top them up with supplementary benefit
- unemployment benefit (UB) is available, regardless of other resources, as an insurance-based benefit, for up to 12 months. But only 40% of the unemployed qualify for it, and many of these have to have it topped up by supplementary benefit. 60% of the unemployed are entirely ineligible for UB and have to rely entirely on supplementary benefit. UB is no longer the main source of support for the unemployed.

5.3 **It is proposed to review the supplementary benefits scheme during 1984 to see whether greater simplicity and economy can be achieved.**

Should benefit expenditure be reduced?

5.4 In the last Parliament the value of unemployment benefit was reduced to its lowest level in relation to earnings for thirty years by:

- abolition of earnings related supplement
- 5% abatement of benefit in lieu of taxation (restored this November)
- introduction of taxation of income from benefit after return to work
- reduction of dependency additions for children.

These measures reduced expenditure on the unemployed by £800m: but this has been more than cancelled out by the rise in numbers on benefit.

5.5 A drop in the number of unemployed would reduce benefit expenditure

UNEMPLOYED

KEY DATA

Numbers in This Group

'000

1973-74	1978-79	1983-84	1988-89	1993-94
540	1,300	3,030	3,020	3,020

* for illustrative purposes the number unemployed is assumed to remain at the level assumed for PES 1983 until 1993-94.

Numbers on Social Security Benefits

'000

	1973-74	1978-79	1983-84	1988-89	1993-94
Unemployment Benefit only	155	402	790	)	
Supplementary Allowance and UB	43	90	240	) 2,660	2,660
Supplementary Allowance only	186	516	1,620	)	

Characteristics of Unemployed on Benefit

21% have children

70% are single without children

19% are under age 20

60% have been unemployed over 6 months: 35% over 1 year

Expenditure Trends

£m 1983-84 prices

1973-74	1978-79	1983-84	1988-89	1993-94
1,170	2,250	5,820	5,890	5,890

by £185m for each 100,000. Otherwise benefit expenditure can only be reduced by a direct cut in present levels; or by a new and simplified benefit system which is less generous.

5.6 Abatement of benefit for the unemployed during the last Parliament was confined to UB: the "safety net" level of supplementary benefit was not reduced. If abatement were to be pursued again, the saving at the November 1984 uprating for each 1% would be -

	1984/85	1985/86
on UB only	£ 4 m	£ 11 m
on UB <u>and</u> supplementary benefit	£ 15 m	£ 42 m

5.7 By confining cuts to the insurance benefits, and leaving supplementary benefit untouched, the Government has been able to assert that the poorest have been protected. One area where some reduction in supplementary benefit might nevertheless be considered is that of the teenage school leaver. Young people who do not find jobs on leaving school can receive benefit in their own right from 16, even if they are still living at home with comfortably-off parents. If parental resources were taken into account there would be overtones of the "family means-test" of the 1930s. But there is a case for reducing benefit levels at least for school leavers living at home. **Some reductions were made as part of the changes announced in the Autumn Statement and the benefits available to young people are being reviewed.**

<u>Should individual benefit payments be related to in work income?</u>

5.8 With the abolition of the "wage stop" provision in supplementary benefit in 1975 and the earnings related supplement to the unemployment benefit in 1982, benefits for unemployed people are no longer related in any way to their previous or future earning capacity. Is there a case for reintroducing a limit to benefit payments which would serve a similar purpose to the wage stop? The effect of the wage stop was to limit benefit so that the unemployed person was not better off than he would have been in his usual occupation. When it was abolished, it only applied to 4-5,000 cases (or 1.6%) out of 300,000 unemployed people on supplementary benefit. The logic of such a provision is clear. The practical difficulty, which was evident in the wage stop, is to administer it in a way which is accepted as fair but is not burdensome and administratively costly.

INCOME IN AND OUT OF WORK

The comparison below is between take home pay and supplementary benefit at November 1983.

	Take-home pay	Benefit
Single person:	£115.94	£26.80 + housing costs
Married couple + 2 children under 5	£134.76	£63.85 + housing costs

NOTE "Take home pay" is based on estimates of average weekly earnings of men aged over 21 and allows for the deduction of tax and NI contributions and the addition of child benefit. Housing costs would have to be met out of this figure.

"Benefit" is the supplementary benefit scale rates plus age related heating addition.

4% of men becoming unemployed receive higher income than when last in work.

25% of men becoming unemployed receive at least 80% of income when last in work (mainly family men and occupational pensioners - not young single men).

UNEMPLOYMENT BENEFIT AS % OF AVERAGE MALE MANUAL EARNINGS

	Single rate	Married rate
July 1945	19.1	30.9
August 1951 (lowest) point)	15.9	25.7
March 1963	20.9	33.8
October 1973	35.5	46.8
November 1978	31.6	42.8
November 1982 (provisional)	17.8	28.7
November 1983 (estimated)	18.1	29.2

SECTION VI

GENERAL FINANCIAL ISSUES

Financing Social Security through taxation or contributions?

6.1 About three-fifths of social security expenditure is on contributory benefits. But after allowing for the Treasury contribution to the NI Fund, and for administration costs, slightly over half of the total social security budget comes from general taxation. The tax share has risen substantially over the last 10 years, with the introduction of new non-contributory benefits (disablement benefits, child benefit) and sharply increased spending on supplementary benefits. Is it worth retaining the contributory structure, with its extra administrative cost?

6.2 So far, the answer of successive Governments has been 'yes', for three main reasons:

- people prefer to build up their own title to benefits through contributions and are readier to pay for them in this way than through general taxation

- the earnings-related pension scheme needs some system of recording earnings, even if contributions as such are abandoned; and the arrangements for contracting out hinge on a differential contribution structure

- the contributory principle provides a test of entitlement; it is thus a rationing device to constrain benefit expenditure. If it were abandoned, some other test of entitlement would need to be substituted to prevent a substantial increase in benefit costs, particularly in paying full benefits to married women who have not contributed.

6.3 One possibility for making more use of the contributory system to finance social security would be to increase the range of earnings over which contributions are paid. In effect this entails raising the Upper Earnings Limit (ie the ceiling below which contributions are paid). But this amounts to increasing taxation of higher earners.

The tax credits approach

6.4 It has long been a proposition that tax and social security might be combined into a single system. But tax credits schemes involve extra expense, if they give cash payments to people below the tax threshold who fail to qualify for tax allowances. The cost of the 1972 scheme was estimated at £1.3 billion. The present cost would be considerably greater. The 1979 Manifesto declared this to be a long-term aim - this has not been repeated in the 1983 Manifesto. The child benefit scheme has implemented one element in this approach. Operationally it is necessary to await the completion of the current computerisation projects in Inland Revenue and DHSS, but there may be prospects for further progress towards tax credit objectives in the 1990s. If that were to be a Government objective, planning would need to be put in hand by the middle of this Parliament.

GENERAL FINANCIAL ISSUES

KEY DATA

Sources of finance for social security

£bn 1983-84 prices

	1973-74	1978-79	1983-84	
NI contributions	13.4	15.2	17.4	) Future trends) depend on the) development of) the earnings) related scheme
NI Fund investment income	0.2	0.8	0.4	
Taxation	6.0	11.3	17.0	

Treasury Supplement

	1973-74	1978-79	1983-84
(i) as % of contribution income	18	18	13
(ii) Amount at 1983-84 prices	£2.2bn	£3.3bn	£2.8bn

National insurance contribution rates

(excluding allocations to NHS, Maternity & Redundancy Fund and National Insurance Surcharge)

	1973-74	1978-79	1983-84	
Standard contracted in rate for employee	5.36	6.10	8.00	) Future trends) depend on the) development of) the earnings) related scheme
Standard contracted in rate for employer	5.99	9.15	9.65	
Total	11.35	15.25	17.65	

Health Expenditure - General Issues

6.5 The preceding sections show that there are pressures for increased provision of health care. Taking a ten-year view, the costs of the NHS on present policies would remain at roughly the same proportion of GDP provided that:

- all medical advance and improvement in hospital services, except for meeting demographic change, is paid for by savings from increased efficiency
- improvements in long-term care are achieved by more community care, including family, neighbours and voluntary care
- NHS costs do not rise faster than prices generally. (If NHS pay were to rise in line with the amount assumed in the 1982 public expenditure exercise, this would affect costs as shown in the table opposite.)
- GDP grows at about 1 per cent a year over the next decade.

6.6 This is an ambitious scenario. The strategic questions are:

(a) Will efficiency improve sufficiently to pay for the improvements which people demand?

Much of the increase in efficiency will come from reducing manning levels and increasing productivity in existing services, especially non-front-line staff. Public sector manpower and costs will also be reduced by increasing use of the private and voluntary sectors, including contracting out of support services. Some increase in manpower will, however, be unavoidable to cope with the growing number of very old and dependent people, who need above all nursing and other personal care, and to provide better services in the North and Midlands. The aim will be to keep manpower under strict control, and to ensure that existing services are made more efficient and any increases are justified in terms of the cost-effective provision of service to patients. Other measures to increase efficiency will also be pursued (see para 2.6).

(b) Can NHS costs, including pay, be held to the general level of inflation?

In the past two years and the present one services for more old people and medical advance have been financed without any cost to the taxpayer by a combination of increased efficiency and lower real incomes for health service staff. In the long term, however, if real incomes of the working population generally rise as GDP improves, there will be pressure to allow health service workers some rise as well, particularly if their productivity continues to increase. Health service pay will, of course, have to be considered in the context

GENERAL FINANCIAL ISSUES

KEY DATA

Future NHS expenditure (England) on alternative assumptions

	1983/4	1988/9	Annual average growth over 5 years	1993/4	Annual average growth over 10 years
If pay and prices rise with inflation after 1983/4:					
Economic cost (£'000)	12,540	13,220	1·1%	13,780	0·9%
GDP share*	4.2%	3.9%		3.6%	
If pay and prices rise faster than inflation:					
Economic cost (£'000)	12,540	13,860	2·0%	15,160	1·9%
GDP share	4.2%	4.1%		4.0%	

*Assuming GDP grows at 2½% a year.

of public service pay generally.

(c) <u>What scope is there for increasing income from charges to patients?</u>

Because of the pledge against hospital charges, the main possibilities in this Parliament are family practitioner service charges. Paragraph 2.11 and 2.12 set out which were accepted and rejected during the 1983 Survey.

(d) <u>Can the amount of care provided by the private sector be increased?</u>

There are two possibilities here. One is to drop functions now performed by the NHS (eg the supply and dispensing of glass already agreed - para 2.11). The other is to encourage greater growth in private health insurance. Ecnouragement through fiscal relief might be possible, but there is a large 'dead-weight' cost (£65 million a year) in giving tax relief to those already insured.

ANNEX A

GOVERNMENT STATEMENTS AND COMMITMENTS FOR THE PRESENT PARLIAMENT

1983 MANIFESTO

"We have a duty to protect the most vulnerable members of our society, many of whom contributed to the heritage we now enjoy. We are proud of the way we have shielded the pensioner and the National Health Service from the recession.

"Only if we create wealth can we continue to do justice to the old and the sick and the disabled. It is economic success which will provide the surest guarantee of help for those who need it most."

WORKING PEOPLE AND THEIR FAMILIES

Hospital Charges and Charges for GP Visits

"I gave two undertakings. One was that I would not put, or not institute charges for stays in hospital nor for going to the doctor. I repeat those pledges."

(Prime Minister on 'Panorama', 31 May 1983).

Exemptions from Prescription Charges

"No responsible Government could ever promise not to increase prescription charges. I repeat that now. The important thing is that the exemptions remain."

(Prime Minister, Hansard, 10 May 1983).

The Unemployment and Poverty Traps

"Further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps".

(1983 Manifesto).

Child Benefit

"The importance the Government attaches to child benefits was made clear by the Chancellor of the Exchequer ... in March this year when he said:

> 'It is important for families and in particular for the low paid. Indeed it is the benefit which provides the greatest help to many of the poorest families in the country.'

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

(Prime Minister's letter to Bynmor John, 20 May 1983).

"Nor is child benefit [a 'pledged benefit'] ... [but] we have managed to price protect ... and that would be our aim in the future."

(Mr Fowler, Press Conference, 7 June 1983).

THE ELDERLY

"In the next Parliament we shall continue to protect retirement

pensions and other linked long-term benefits against rising prices."

(1983 Manifesto).

"Nor are there any plans to change the earnings-related component of the state pension."

(Prime Minister's letter to Brynmor John, 20 May 1983).

"It remains our intention to continue raising the [earnings] limit and to abolish this earnings rule as soon as we can."

(1983 Manifesto).

"The Christmas Bonus ... will continue to be paid every year."

(1983 Manifesto).

"We will consider how the pension rights of 'early leavers' ... can be better protected."

(1983 Manifesto).

OTHER DEPENDENT GROUPS

"The benefits to which the pledge to compensate for price increases applies are:-

Widow's pension (including widowed mother's allowance and widow's allowance).

Industrial death benefit paid by way of a widow's or widower's pension.

War disablement pension and industrial injury disablement pension.

War widow's pension.

Attendance Allowance.

Non-contributory invalidity pension.

Invalidity benefit."

(Chancellor, Hansard, 11 July 1983. Other benefits not relevant omitted from list).

"We have given an unqualified commitment that the abatement of invalidity pension will be restored when the benefit comes into tax."

(Mr Newton, Hansard, 26 July 1983).

THE UNEMPLOYED

"We will maintain special help ... for the older unemployed through early retirement schemes."

(1983 Manifesto).

" ... the unemployment benefit from next November to the following November has already been announced. The question about the rate for the following November does not therefore arise until after the Budget next year, and probably until after the RPI figure is announced next June."

(Prime Minister, Hansard, 5 July 1983).

ANNEX B

THE PATTERN OF SOCIAL NEEDS

Levels of Poverty

1. Much of the survey material on needs in the Beveridge report was based on the work of Rowntree, in particular his study in York in 1936. The findings of his work and others were assessed in the SSRC report "Despite the Welfare State" (1982) which drew together the results of a programme of research studies undertaken over ten years. The authors of the 1982 report conclude that "there is ample evidence to assert that there have been marked improvements in living standards over recent generations for people on all rungs of the social ladder." Data from the New Earnings Survey show that by the middle 1970's the median earnings of a male manual worker were three times greater in purchasing power than that of his equivalent in 1914.

Groups most at Risk

2. Beveridge found that the old and children with young families were least well supported:

- in 1936 one third of the pensioners surveyed in York by Rowntree were living below his standard of human needs.
- in 1937 one family out of every nine in Bristol was in sheer physical want.

His recommendations were aimed at "better distribution of purchasing power ....., as between times of earning and not earning, and between times of heavy family responsibilities and of light or no family responsibilities."

3. The figures quoted in "Despite the Welfare State" suggest that much the same groups continue to have the lowest incomes. The 1975 General Household Survey showed that of those recorded as living on annual incomes at or below the level of supplementary benefit, 50 per cent were elderly and 25 per cent were children (nearly half of them in one parent families).

4. The Black Report on inequalities in health (1980) reinforces this view of the persistence of differences in the incidence of sickness, disability and death according to socio-economic class.

The form of social provision

5. Beveridge thought that the essential elements in a satisfactory system of social provision were -

- children's allowances
- the avoidance of mass unemployment
- a comprehensive health and rehabilitation service.

6. The policy recommendations in "Despite the Welfare State" focus on development of a more effective family income maintenance service. There is concern that the level of supplementary benefit is inadequate, particularly for long term recipients; but recognition that it cannot be raised within the existing structure without increasing undue reliance on means-tested benefits (with all its difficulties for incentives).

Growth in demand

7. Despite the real growth in health spending (34% over a decade) there is no diminution of demand. Activity and expenditure has grown much more quickly for some groups, as a result of policy priorities (eg for the mentally ill and mentally handicapped) and demographic pressures (eg the elderly). Examples:

- in-patient cases treated in hospitals increased by 25% between 1971 and 1981, and regular day attendances went up by over 90%.

- home nurse visits increased in the same period by nearly 90%.

- operations on people between 65 and 74 increased by about 30% over the decade, and on people aged 75 and over by about 50%.

FILE

10 DOWNING STREET

From the Private Secretary

23 December 1983

Dear Diary Secretary,

On Thursday 12 January there is to be a meeting to discuss health and social security. This is a follow-up meeting to the one held on 16 September.

The meeting will last for approximately two hours and the following have agreed to be present:

Secretary of State for Social Services
Mr. Clarke
Mr. Boyson
Chancellor
Sir Robert Armstrong
Mr. Middleton
Mr. Bailey
Sir Ken Stowe
Sir G. Ottens
Mr. Redwood

Can you please confirm with this office that the Chief Secretary can attend? – confirmed 29/12

Yours sincerely,

Caroline Ryder

The Diary Secretary,
Chief Secretary's Office,
H.M. Treasury.

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10 DOWNING STREET

From the Private Secretary

23 December 1983

As you know, the Prime Minister wishes to follow up the meeting on 16 September at which policies on health and social security were discussed. This is currently scheduled for the afternoon of 12 January for approximately two hours. The guest list will be the same as before.

We discussed the agenda for the meeting and the documents that would be needed. I confirm that the meeting will cover both health and social security. We agreed that in addition to the progress report contained in your Secretary of State's minute to the Prime Minister of 23 December, you would prepare, in conjunction with the Treasury, an annotated agenda. This would select those topics where discussion would be most productive, define the issues outstanding, and suggest ways forward. In those areas, such as pensions, where action is already in hand, the meeting would simply be invited to take note.

I am copying this letter to Alan Bailey in the Treasury, John Redwood in the Policy Unit, and Richard Hatfield in the Cabinet Office.

ANDREW TURNBULL

Sir Kenneth Stowe, KCB, CVO

G

GCN Prime Minister ② a NO

There are clearly problems of forecasting and control here. Social security and the FPS are on the Treasury's list of priority subjects, about which I have minuted separately.

AT 28/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State for Health
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

22 December 1983

Dear Secretary of State,

I have to say that I am extremely put out by the latest news from your officials that there is yet another increase in your forecast of expenditurefor social security. I gather that you now expect expenditure to be £580m higher in 1984-85 (with similar increases in later years) than the programme total following our bilateral agreement on 18 October.

You will recall that, in the course of our bilateral discussions, I put to you forecasts of increased expenditure of which I had just became aware and as a consequence my officials in the interests of realism persuaded yours, to increase the programme by a net £223m, which was reflected in the Cabinet decisions and the Autumn Statement. Now, only a month later, I am told that a further £357m will be needed, and must be reflected in the White Paper. This makes a nonsense of our bilateral discussions and our decision to hold to the planning totals. Had I known of this increase at an earlier stage, I would have been compelled to look for further savings from you (or other colleagues) to offset it. As it is I now have no choice in the time available but to reduce the contingency reserve before the year has even begun. You will therefore understand, I am sure, that I must ask you to look thoroughly for any ways in which this latest large increase can be offset by economies in your social security programme; I was for example surprised to hear that Tony Newton was speaking on the "Today" programme recently about the considerable effort you are making to encourage the maximum possible take-up of benefits.

These increases (apparently unforeseen by your officials until the last few days) suggest very strongly that your systems for forecasting and monitoring expenditure are inadequate. This is supported by a study (in which my officials have participated)

which has drawn attention to the absence in some areas of modern or consistent methods and a wide diffusion of responsibility for forecasts. I am sure that you will want to take a close personal interest in ensuring that these shortcomings are remedied urgently, so that we do not have a recurrence of this outcome next year. I am sure you will accept that at the time when the Cabinet takes its public expenditure decisions, we must have a forecast on which we can rely for the White Paper, Estimates and Budgetary purposes and a presumption that any increases of the kind we have been faced with this year will be offset so far as humanly possible by savings elsewhere in the social security programme. I would be grateful if you would let me know of the action taken and progress made by next May, as I hope that a new and more effective system will be in operation before the PES round next year.

There is a similar, but less severe, forecasting problem with the FPS Vote where your latest estimate shows an increase for £66m for 1984-85 over the figure in the Autumn Statement. I have agreed in this case that the White Paper should reflect the extra provision needed to honour our agreement during the bilaterals that the White Paper should show the same programme total, £13,130m for 1984-85, for the National Health Service in England as in last year's White Paper. Any expenditure beyond this would be a claim on the contingency reserve, but, as in the case of social security, I should then expect you to take every step to find offsetting savings. It must be common ground between us that we should avoid the forecasting problems on FPS which occurred this year and which accentuated an existing problem of underprovision.

I am copying this letter to the Prime Minister.

Yours sincerely

PETER REES

pp (approved by the CST & signed in his absence)

PERSONAL AND SECRET

Pass to Somerset

cc R. Armstrong
A. Bailey (HMT) 8

10 DOWNING STREET

From the Principal Private Secretary

4 October 1983

Thank you for your letter of 26 September. I did not hear the conversation at lunch which you describe, but I have had a word with the Prime Minister about it and she agrees that my letter about further work should be amplified on the lines that you suggest, i.e. that work should be done on the idea in your letter, on a very restricted basis, as a possibility for a development of policy in the next Parliament.

E.E.R. BUTLER

Sir Kenneth Stowe KCB, CVO.
Department of Health and Social Security,

PERSONAL AND SECRET

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SECRET

PERSONAL

Prime Minister
This refers to the DHSS seminar. I did not hear the conversation at lunch described by Sir K. Stowe, but are you content that work should be done on this idea, on a very restricted basis, as a possibility for a development of policy in the next Parliament?
FERB
3.10.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6981

From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

Yes

Robin Butler, Esq.,
No. 10 Downing Street,
London SW1

26 September, 1983

Dear Robin

Thank you for your your letter of 16 September. Ministers and the senior officials concerned have read your letter. No copies taken.

We are now preparing for my Secretary of State's consideration proposals for taking forward the work which the seminar identified as needing to be done: we will be writing to you, Treasury and Cabinet Office in due course.

There is one further task not identified in your letter which arises from further discussion over lunch with the Chancellor and the Prime Minister, relating to provision for the very elderly. The point was made that it would help to meet the need for long-stay caring homes (as distinct from hospital) for the growing number of the very elderly if:

a) there were a charge for such residential care provided by the NHS; and

b) it bore a reasonable relationship both to the charge likely to be made in the private sector and to what could be provided from social security benefits (which are already meeting such charges, taking account of the old persons other resources, in a growing number of cases'.) It was thought that this approach would not only raise revenue which could offset the growing costs of these long-stay patients but would help to establish a market for such care which the private sector could expand to meet - thus providing the old people and their relatives with

SECRET PERSONAL

Contd.....

E.R.

SECRET PERSONAL

something better than the present Hobson's choice of some of our long-stay dustbins. The Prime Minister was quite clear that the existing pledge against hotel charges was a decisive obstacle to early progress on this. She seemed, however, when I talked to her myself at lunch about this to see that it made sense in our study of the problem of the very elderly to look at options which might be the basis of policy in the next Parliament - here the problem will still be with us and getting worse. Obviously, this would need to be done sensitively.

I would not want to propose the inclusion of this option in our programme without a prior instruction from you by way of amplification of the relevant part of your letter. You may wish to consider this.

I am copying this to Alan Bailey and Robert Armstrong.

Yours ever,

Ken.

SECRET PERSONAL

cc MASTER A

National Health Seminar on Health & Social Security Expenditure Aug '83.

SECRET AND PERSONAL

File

cc FM 6 A

BrC

10 DOWNING STREET

From the Principal Private Secretary

16 September 1983

This letter records the conclusions of the discussion of longer-term policies for DHSS programmes which the Prime Minister held today with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary to the Treasury, Mr. Kenneth Clarke and Mr. Rhodes Boyson, Sir Robert Armstrong, Mr. Middleton, Sir Geoffrey Otten, Mr. Bailey, Mr. Mount and you were also present. The Prime Minister was extremely grateful to you, and those who helped you, for the annotated and working agendas which presented such a large and complex series of issues in a form which was both manageable and stimulating.

National Health Service

The meeting agreed that the scope for deriving additional funds for improved treatment through increased efficiency and reduced administration in the Health Service should be vigorously pursued. This was more likely to be achieved by improvements in management structure, and the energetic use of cash and manpower controls and performance indicators, than by wholesale changes in the structure of the Health Service, for example by converting it into an independent corporation. It should not be automatically assumed that advances in medical science led to more expensive treatment: maximum advantage should be taken of advances which offered the prospect of reducing costs, particularly in preventive medicine.

Public support for the drive for greater efficiency in the Health Service should be enlisted by making clear how much individual taxpayers contributed towards it: if people were asked whether more money should be spent on the Health Service their answer was invariably affirmative, but the question whether they were willing to pay more for the Service tended to evoke a different answer. Attention should be given to this aspect in publishing the Griffiths management review. The Prime Minister asked the Secretary of State to explore with the Chancellor of the Exchequer a scheme (a) identifying separately on pay slips individual contributions to the Health Service; and (b) giving tax relief to private health insurance premia on the same basis as for life insurance, coupled with a provision for giving partial relief from the Health Service contribution to those who

/ undertook

undertook to provide for their own health costs through private insurance for a number of years. The Prime Minister emphasised that she wanted only a high-level and carefully restricted examination of the pros and cons of such a scheme, without reference to experts for practical elaboration of the details at this stage. The Chancellor of the Exchequer pointed out that, as in the housing sector where discounts on the sales of council houses had been combined with increased rents, there was a strong case for increasing, as quickly as was consistent with the Government's pledges, the extent and scale of health service charges which had fallen substantially over the years in real terms.

In discussion of the family practitioner services, it was agreed that numbers of GPs should be tightly controlled: there was reason to believe that growth in numbers had led to lower productivity rather than better service. Action also needed to be taken to reduce the drugs bill by both pursuing the action being taken on profits and reducing incentives for doctors to over-prescribe. The Binder Hamlyn report would provide a basis for action in the general area of the family practitioner service; and the ground should be carefully prepared with public opinion. The Secretary of State said that he would also wish to act on the Office of Fair Trading's Report on optical services despite the opposition of Mrs. Jill Knight and the profession. The Prime Minister agreed that a Conservative Government should tackle vested interests and monopolies in this and other areas.

The meeting recognised that a particular problem was presented by the increasing proportion of the very old in the population. The aim should be to reduce the number of the elderly in long-stay hospitals and to build up community and family care. There was also scope for encouraging the provision of sheltered housing for private sale. The opportunities presented by preventive medicine for ensuring that elderly people remained independent for as long as possible should be pursued.

Social Security

(a) State pensions scheme

It was agreed that your Secretary of State's proposal to set up a study, led by himself and including experts drawn from the pensions industry as well as officials of the Departments concerned, should be pursued. One question would be the affordability of the earnings-related pension scheme. The link with prices rather than earnings reduced the prospective burden of the scheme but the calculation was sensitive to the economic assumptions incorporated in it and the possibility could not be ruled out that a future government would restore the link with earnings. While changes in provisions of the scheme, such as abandonment of the "best 20 years" rule, could have a dramatic effect on the cost of the scheme, it could reach the point at which it was no longer a good bargain. An aspect worth exploring would be the possibility of allowing part of the basic state pension to be contracted out. There was a link with pension portability, since these affected the attractiveness of alternatives to the State scheme, and other relevant factors were the effect of switching to private provision on how funds were invested, who invested in them and how much of the income of the working population was devoted to providing for old age. The Government should resist proposals to reduce the qualifying age for pensions, but would need to consider how this aspect fitted into its general consideration of policy.

/ (b)

(b) Supplementary benefit

The main concern was the level of supplementary benefit in relation to income in work. The most promising way of tackling this appeared to be by restricting the eligibility of particular groups, such as teenagers whose needs were sufficiently small that even modest amounts of benefit had a substantial effect on willingness to work, and by taking action on lax administration of additional elements like housing benefits and furniture allowances by local authorities. Schemes like limiting benefit to a proportion of previous income or work-tests were ruled out on grounds of the costs of administering them. There was however scope for reducing fraud by exchanges of information between social security offices and the Inland Revenue (subject to the obligation to protect the confidentiality of information about amounts of income provided by the taxpayers to the Inland Revenue) and these should be pursued.

(c) Unemployment benefit

Abatement of uprating in unemployment benefit was offset by increased entitlement to supplementary benefit and did not appear worthwhile. Also the "wage stop" scheme had been expensive to administer in relation to its public expenditure saving and its effect on incentives. The most promising approach appeared to be to limit eligibility of the young for benefit by making unemployment no longer an option up to age 18.

(d) Other benefits

There was scope for either abolishing or not uprating peripheral benefits, such as the death grant and the fuel allowances. This should be considered in the public expenditure review.

I am copying this letter only to Sir Robert Armstrong and Alan Bailey. I should be grateful if it is not copied and if follow-up action could be initiated by specific and separate instructions rather than by circulation of this letter. Such instructions should not refer to the meeting. This letter may, of course, be shown to your Ministers, their Principal Private Secretaries and those who attended the meeting.

E. E. R. BUTLER

Sir Kenneth Stowe, K.C.B., C.V.O.

B/Bailey

COVERING SECRET

FILE

da

Prat. Health: Seminar 8/83 B/VP

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

I attach a copy of the "Working Agenda" produced by the DHSS for the Prime Minister's Seminar this Friday highlighting the questions for Ministers to answer. The Treasury are content with it. In the interests of security Sir Kenneth Stowe and Mr. Bailey are distributing it to DHSS and Treasury participants respectively, and I am distributing it to you and to those involved in No.10.

E. E. R. BUTLER

14 September 1983

COVERING SECRET

 FILE

da

10 DOWNING STREET

From the Principal Private Secretary

14 September 1983

Many thanks for your letter of 13 September enclosing a "Working Agenda" for the Prime Minister's Seminar on Friday. This will be very helpful, and I gather that Alan Bailey is content with it as a basis for the discussion.

In the interests of security, could I ask you to issue it personally to the DHSS participants, and Alan Bailey to the Treasury participants. I will issue it to the Prime Minister, Sir Robert Armstrong and other members of No.10.

I am copying this letter to Alan Bailey.

E. E. R. BUTLER

Sir Kenneth Stowe, K.C.B., C.V.O.

cc. Mr. Butler.
Mr. Scholar
Mr. Mount

4

PRIME MINISTER

MT

SEMINAR ON GOVERNMENT POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

I welcome this opportunity to discuss the wide range of issues raised in the paper prepared by officials. Our main political objectives must set the context for the discussion. I thought it would be helpful if I summarised my own approach in a personal note to you and Nigel Lawson and Peter Rees.

Within the overall constraints of public expenditure we should judge our social services against four broad criteria:

- they should be directed towards the areas of greatest need;

- they should encourage individual and family responsibility and not penalise thrift;

- they should be simple to administer and efficiently managed;

- they should not duplicate or replace what can be better provided by the private sector.

Whilst these criteria appear quite straightforward the paper by officials demonstrates that they have proved very difficult to apply in practice. I hope that in the seminar we will find ways of tackling the more important deficiencies and achieving greater consistency of approach.

I have considered and rejected the option of a comprehensive review of the present structure of benefits and services of the kind undertaken by Beveridge. It would take too long, stifle much

E.R.

needed initiatives and would be difficult to mount in a way which kept a firm Ministerial grip on its work. Moreover, there is much in the existing structure which has stood the test of time and to which we remain committed. For example we remain committed to a National Health Service which will continue to be financed largely from taxation.

The right approach in my judgement is to define those specific areas where we can demonstrate that the existing benefits and services are not meeting our objectives. The main areas would be:

Provision for Old Age. The main questions here are the long term viability of an earnings related pensions scheme, the ratio of state and private sector pension provision and the way in which the needs of the frail elderly living in the community are met through a mixture of public, voluntary and private provision.

Supplementary Benefit. This has been the fastest growing benefit. It continues to be the most time consuming and complex area of social security provision despite the reforms carried through in 1980. Fundamental and radical change may be necessary particularly in relation to the unemployed. A review would need to tackle the question of incentives as well as the structure of the scheme and the needs of different groups.

Family Support. The problem on the social security side is meeting low income needs without destroying incentives. The existing instruments for this are child benefit which is very expensive and family income supplement which was never intended as a permanent measure and has the poverty trap as a consequence. The issues on the health side are first the continuing demand for more services for the whole family, from birth to very old age, accentuated by demographic change

E.R.

and also the open-ended costs of the family practitioner services.

A thorough study of each of these issues would be a formidable programme of work. I believe this would be worthwhile provided that each was precisely targetted, under Ministerial control and drawing on outside expertise. But this would require us to be open as far as possible about the area and content of our review. There are obvious risks in such a strategy but the risks of trying to conduct a review in secrecy and failing are much greater. The risks can be minimised by demonstrating that this is not just an exercise to reduce expenditure but a review to better the performance of the welfare state. Certainly excessive costs would be one of the reasons for review but equally so would be public dissatisfaction and concern about standards of care, inefficiency, consumer choice and over reliance on state provision. I feel that we should confront these important issues of social policy and public expenditure by taking and being seen to take such initiatives.

14 September 1983

N F

17.6.J.
0.7.1/2

SECRET

14 September 1983
Policy Unit

3

PRIME MINISTER

DHSS SEMINAR

The papers from the DHSS provide some useful information, but omit some equally useful information which would be more relevant to cost control. Options for controlling costs are not systematically presented. We suggest below only options which offer potentially large savings (£100 million or more).

2.4-2.6 Medical Advance. I am unsure about the assumption that medical advance should automatically entail extra expenditure. This is untrue in non-medical fields; computers save money; TV sets become less expensive. Medical advance ought to speed up diagnosis, improve accuracy of diagnosis and effectiveness of treatment, speed up recovery of patient - all money-savers - as well as require more expensive equipment and drugs. We should beware of accepting this assumption which often turns into an excuse for lack of proper cost control over drugs, research programmes, etc. After all, "over the past 5 years, despite more complex treatments, costs per case have fallen". Why should the process not continue?

2.7 "Private health insurance mainly helps with non-urgent surgery - it has not so far had any measurable impact on waiting lists for major NHS treatment." This is not really the point. Any reduction in pressure on the NHS must release resources for other patients. The rise in privately insured people from 2.4 million to 4.2 million in only 4 years must have helped to bring waiting lists down before the strike.

Outside the health service

2.8 Between 1971 and 1981, the number of GPs increased by 15 per cent. With a near-static population, this represents a fall of 10½ per cent in average list size (Health Care, 2.37) and "a potential improvement in GP care", according to the DHSS. I doubt it. The real point is that over the same period, the proportion of family doctors in group practice rose from 58 per cent to 75 per cent (Health Care, 2.39). Every patient knows what that means: your doctor takes an extra day off every week and answers house calls only in extremis. A perfect specimen of Hutber's Law: "Improvement means Deterioration".

SECRET

The DHSS rightly argues (2.9) for tight control of the growth in the number of GPs. Better still, no growth.

2.10 Dentistry, Glasses and Drugs. DHSS rightly sees scope for savings. I have never understood why diagnosis should be free and glasses not.

2.12-2.15 Social Security - Work Incentives. We have got ourselves into an impasse. Increasing Child Benefit is the only way in the existing system to iron out the unemployment trap. But because Child Benefit is universal, increasing it significantly would be far too expensive (£500 million per extra £1; £7,000 million to "buy out" all the benefits in kind).

The DHSS does not mention another well-known fact, attested by all opinion polls: Child Benefit is the least popular benefit precisely because it is unselective. It's the only state goodie of which you will hear people say: "I don't see why I should receive it".

The only solution, I repeat, is a two-tier child support system. The universal basic tier would be at present Child Benefit levels, would not be indexed, and could even be frozen. The second tier would be paid to all unemployed families and working families now on FIS, and would be tapered out via means test, preferably at a gentler slope than the present FIS to reduce the effect on the poverty trap.

This would be providing "the greatest help to many of the poorest families in the country" (your letter to Brynmor John in May). It would not disturb existing Child Benefit and would offer a very large potential Exchequer saving on indexing basic Child Benefit.

The Elderly

3. The real problem here for the rest of this century is not the total number of pensioners, which is stable as a proportion of the working population. The difficulty is:

(a) The growing number of the very old. This is a problem for the NHS and the social services, not the pensions system.

For the very old, we endorse the DHSS strategy in 3.7. We would add only the need to introduce some reliable system of inspection, if private-sector homes are to be encouraged as one answer for the small minority who cannot look after themselves.

(b) The earnings-related pension scheme. By the early 1990s, this will be already costing more than £1 billion a year. At maturity in the next century, it would be costing nearly £8 billion at present earnings levels; more than 20 per cent of the average man's income would be going on pension contributions.

We urge strongly that the earnings-related scheme be wound up as soon as possible. The DHSS suggests (3.12) two less radical alternatives:

Extending the role of the private sector by more contracting-out. This becomes fearsomely complicated, and even so, the DHSS admits that some NI contributions would have to go up.

Reducing some of the benefits. This would be just as controversial as abolishing the scheme - in some ways more so, since we could be depicted as betraying a promise. And it would save less than a third of the total public expenditure.

Total abolition would not be unprecedented. We did the same with the pre-1975 scheme. So long as the entitlements already earned are preserved, that would be no breach of faith. By abolishing it, we would be nipping the scheme in the bud before it had built up a constituency of beneficiaries.

There is also a strong philosophical argument against it. We accept it as the duty of the state to provide an adequate safety net, but it is not the state's task to rig up a network of hammocks strung at different heights. Building up a pension entitlement related to previous earnings is emphatically a job for the private sector.

And surely most people would relish the prospect of lower NI deductions. I wonder if DHSS is fully aware how fiercely these are already resented.

3.15 Pension Age. Why change the pension age? There is no popular pressure for it. And whichever way you move, it is likely to cost more, not less, and to arouse resentment.

I return to my palliative: now that Supplementary Benefit is drawn automatically by men over 60 who have been out of work for a year, why not dignify Supplementary Benefit with a new name - interim retirement benefit? These men are not really on the labour market and should not be counted among the unemployed, but we do not want to enlarge the population receiving pensions as of right (IRB would, of course, be withdrawn if the recipient finds a job).

Mental Illness and Handicap - the Disabled

4.1-4.8 There seems little scope for saving here. Indeed, every available extra penny should be spent in these fields. Even the possibility of more "contracting-out" of benefits looks more trouble than it is worth.

We should be reducing the rate of general hospital building in view of the huge programme undertaken since Enoch's days at Health. But these savings ought to be more than swallowed up by rebuilding our psychiatric hospitals, and by building smaller homes for the very old and frail.

The Unemployed

5.2-5.3 Benefit Structure. Unifying the administration of UB and SB would obviously save money. In the long run, this raises the question: do we really need a Department of Employment? But with 3 million unemployed, this is scarcely a topical question. Meanwhile, we clearly ought to computerise UB on the DHSS computers, despite opposition from DEm.

5.4-5.7 Benefit Expenditure. The gap between UB and earnings is now wider than it has been since the 1950s (Green Book, page 31). If UB continues to be strictly price-indexed, and earnings continue to rise faster than prices, that gap will slowly widen. There is therefore no reason to risk the political obloquy of deliberately failing to price-protect UB, particularly if SB continues to be indexed.

If SB is strictly price-indexed and real incomes continue to rise, then the gap between in-work and out-of-work income will rise there too, at least for single men and married couples without children. The incentive problem is the dependants' allowances. They can be dealt with only by paying a single rate to needy parents, regardless of whether they are in or out of work; ie: a two-tier child support system (see above, 2.12-2.15).

5.8 Capping/Wage Stop. We have already concluded that this would, on balance, be counter-productive since, for the most part, it would not affect the workshy who are more likely to be young and single.

The simple answer is to abolish UB for the under-18s (those not living at home would be entitled to SB). This would save about £100 million.

General Financial Issues

6.1-6.3 Taxation or Contributions? I am sure that the contributory principle, by providing some test of entitlement, does continue to provide some constraint on expenditure. It is not our aim to increase taxation.

6.4 Tax Credits. It might be possible to devise a tax credits system that was politically acceptable and did not involve extra expense. But nobody seriously suggests that tax credits would materially reduce expenditure. Tax credits are therefore not relevant to our present dilemma.

6.5-6.6 Health Expenditure. The DHSS is, I think, a little defeatist and defensive here.

(a) Manpower control can have dramatic effects. The only sector of the NHS which has hitherto attempted to impose any pressure on manpower has been Ancillary, where a bonus scheme has operated.

Look at the results. Ancillary Staff is the only category of NHS staff whose numbers have not increased by leaps and bounds over the past 10 years.

As with GPs, much of the increase in numbers of clinical staff has been absorbed by a shorter working week.

Administrative and clerical staff have merely increased in line with the growth of bureaucracy.

If there had been no increase in staff between 1971 and 1981, the saving would have been some £1,500 million.

(b) Pay. We are given no evidence that present pay levels in the NHS are insufficient to recruit and retain sufficient staff of the right quality. NHS pay levels have risen rather faster than other pay levels over the past decade.

(c) Income from Charges. See 2.10.

(d) Private Sector. The DHSS says that there would be £65 million deadweight if tax relief were extended to all health insurance. But if we merely extended to individual policies the present relief on corporate schemes for those earning below £8,500 p.a., the deadweight would be negligible. It is also time we raised the ceiling to £10,000 p.a. to include skilled manual workers. Over the next decade, with only modest fiscal encouragement, we might still expect to see a growing contribution from the private sector, up from its present £350 million a year (3 per cent of NHS spending) to perhaps £700 million (6 per cent of NHS spending).

Government Statements and Commitments

The DHSS rightly lists the most important statements by leading Government Ministers. But I think it is important to distinguish between hard commitments and what might best be called situation reports.

Commitments cannot honourably be fudged or dodged except on grounds of national emergency. Our commitments are: not to introduce charges for hospital stay, or visits to the doctor; to maintain exemptions from prescription charges; the price protection of pensions and linked long-term benefits; the annual payment of the Christmas bonus; and to restore the abatement of invalidity pension.

With Sit Reps, it is both possible and right to say: "When we were last asked the question, we truthfully replied that we had no plans for change, but we gave no pledge. We now believe that it is right to make a change". The principal examples here are Earnings-related Pensions and Child Benefit.

Savings. I therefore suggest that we can look for savings in an altogether more optimistic frame of mind, without injuring standards of care and without reducing - and probably by increasing - the total amount of money spent on health by the British people.

	£ million (1983 prices)
Possible savings by 1993 (approximate)	
HEALTH - Family Practitioner Services	
Pharmaceutical) cost-related	200
Optical) charges, but keep	100
Dental) exemptions	100
Medical (freeze number of GPs)	150
	£550
- Hospital Services	
Pay and Manpower control (1% saving on pay bill)	500
Supplies Purchasing - 20% savings	200
"Hotel" services - 20% savings on contracting-out or renegotiated in-house contracts	200
Administrative bureaucracy reductions	100
	£1,000

DHSS expects NHS expenditure to rise by £1,430 million between 1983 and 1993 (Green Book, page 3). The above savings would hold expenditure steady at present real levels.

SOCIAL SECURITY	
Abolition of earnings-related NI scheme	1,000
Abolition of unemployment benefit for under-18s	100
Unification of UB and SB administration	100
Freezing of Child Benefit for upper-income groups (assuming that only one half of all parents have Child Benefit indexed against 5% p.a. inflation)	2,500
	£3,700

DHSS expects Social Security expenditure to rise by £3,700 million between 1983 and 1993. Again, the above savings would hold expenditure steady at present real levels - without hurting the poor or breaching our commitments.

We must protect our flank against the Alliance. David Owen at Salford proclaims his intention to combine an energetic Thatcherite economic policy with a "tender-hearted" approach to the social services. We must therefore make it clear that our policies will:

1. Fully protect the sick, the elderly and the poor.

2. Maintain a high-quality hosptial and GP service free at the point of use.

3. Rebuild the "snake-pits" and workhouses, just as we have rebuilt the district general hospitals, so that, in 10 years' time, Britain's public health and social services will have been comprehensively modernised to the highest standards.

FERDINAND MOUNT fm

LK32

SECRET

2 pps. 2

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 .....

The note by Mr. Mount below should go into the PM's folder for the seminar.

PERB
14.9.

A M Bailey CB
Second Permanent Secretary
Public Services

Robin Butler Esq
No 10 Downing Street
London SW1

14 September 1983

Dear Robin,

Ken Stowe's draft agenda for Friday's seminar is useful, and we will follow it in briefing Treasury Ministers. But there is one point I should register on it.

2. The split into "client groups" leaves NHS issues scattered through the agenda, and for that reason we included a final section on NHS financial issues generally. It is not easy to predict how much will be covered under the specific headings (questions B, C, E and K in the agenda), but Treasury Ministers may want to leave the main substantive discussion on NHS strategy to the end (question R).

3. I am sending a copy of this letter to Ken Stowe.

Yours,

Alan

A M BAILEY

Nat Health 8/83 DHSS Seminar

SECRET

1A

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6981

From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

Robin Butler, Esq.,
No. 10 Downing Street,
London SW1

13 September, 1983

Dear Robin,

I promised to let you have a draft for an agenda to which we might work at the Prime Minister's seminar on Friday. I attach a draft which follows the format of the paper already prepared and set out in the green book. It does not attempt to re-arrange the subjects so as to fit in with the allocation of time before, during and after lunch - depending upon what the Prime Minister wishes, some re-arrangement might be appropriate.

I am copying this letter and enclosure to Alan Bailey.

Yours ever,

Ken.

COPY No 1
COPY No 2 - Mr Bailey
COPY No 3 - KRS

SECRET

40%
£49 billion. →

Copy NO 1

SECRET

SEMINAR - 16 SEPTEMBER 1983

WORKING AGENDA

Questions to be addressed during the day are indicated by letters in the margin below:

Section I : Introduction

Sets the background to the discussion -

- almost limitless demand
- identifiable increased needs arising from demographic pressures on key health and personal social services groups (very young, very old);
- demographic pressures on social security tending to slow down
- public expenditure programmes continuing to increase, but at a much slower rate than last decade.

A → What general concerns should shape the day's discussion - are the 'themes' in 1.10 correct?

Section II : Working people and their families

Two of the main issues about the NHS arise here:

1. Acute hospital services - to maintain services have to meet mounting costs of treatment 2.4 - 2.7.

Proposed strategy is to meet rising costs by increased efficiency savings and better management. Is this
B → right?

2. Family practitioner services - how are the costs to be controlled? 2.8 - 2.11

There are possibilities of -

- controlling numbers of doctors and dentists
- reducing drug industry profits
- looking for privatisation
- increasing income from charges: in particular, by introducing new charges or reducing exemptions

SECRET

This is an area entailing much negotiation with "contractors" - doctors, dentists, pharmacists, opticians: therefore needs a firm public stance. Are the Government prepared to open up all these
C → issues to public discussion?

The issue of social security & incentives first arises here, and the section deals with three benefits whose importance is in part due to their effects on incentives:

Child Benefit - 2.13-2.14)
D → FIS - 2.15) Do any of these need review? If so, should this be a public commitment?
Housing Benefit - 2.16)

(Incentive issues for the unemployed are picked up in Section V - see question P below)

Section III : The Elderly

Paying for health and social services - 3.5-3.8

The strategy proposed in 3.7 envisages -

- extra resources to meet demographic growth
- otherwise relying on existing strategies to improve community support.

E → With B and C above this sets the main outline of NHS strategy. Is it endorsed?

Paying for pensions - 3.9-3.17

The paper suggests that the mounting costs are in line with the assumptions made when the scheme was introduced (see 3.9) and the switch to prices indexation will reduce them.

Key questions

F → 1. Is the cost sustainable; and can future strategy be based on price indexation?

G → 2. Should further contracting out be pursued?

H → 3. Is the long-term prospect one that calls for for re-examination now of the earnings-related second tier?

J → 4. How should the pension age issue be handled?

Section IV: Other dependent groups

Mental illness and handicap - 4.2-4.4

Continuation of existing policy for this "cinderella" area is suggested, with no injection of extra funds. Is this
K → endorsed?

Cash help for disabled - 4.5-4.8

No major change is proposed here, but some exploration of possibilities for more contracting out (which would entail
L → public consultation with employers). Is this agreed?

Section V: The unemployed

The dual-benefit structure needs review (5.2-5.3) -

M → unemployment benefit: should it be maintained, or should there be a shift to means-testing?

N → supplementary benefit: can it be made simpler and cheaper to administer?

Would this be too sensitive an area for a public commitment
O → to review?

Incentives

Two means of reducing the unemployment trap are discussed -

abatement of UB and Supplementary Benefit

"wage-stop" measures to put a ceiling on benefits.

P → Are these to be pursued?

Section VI: General financial issues

In social security (6.1-6.4): is there to be any move
Q → to reconsider the contributory basis, or the tax credits approach?

In health: questions B, C, E and K have established the main outlines. Additional elements in the financial strategy (6.6) are -

- NHS staffing costs: more contracting out of services to be pursued

  numbers to be controlled

- NHS pay: constraint to continue

- private sector: to be encouraged.

This postulates continuing tight control of all aspects of NHS development, with some continued financial growth
R → only to meet demographic pressure. Is this the right approach?

Mr Butler

LIST OF GUESTS ATTENDING THE MEETING AND BUFFET LUNCH ON FRIDAY, 16 SEPTEMBER 1983

The Prime Minister

Rt. Hon. Nigel Lawson, MP

Rt. Hon. Norman Fowler, MP

Rt. Hon. Peter Rees, MP

Mr. Kenneth Clarke, MP

Dr. Rhodes Boyson, MP

Sir Robert Armstrong

Sir Kenneth Stowe

Mr. Peter Middleton

Sir Geoffrey Otton

Mr. A.M. Bailey

Mr. Ferdinand Mount

Mr. Robin Butler

Mr. Michael Scholar

14

FCE 8H

MR. MOUNT cc: Mr. Scholar

I attach two copies of "annotated agenda" for the Seminar on Medium and Long Term Policy Issues in DHSS Programmes" which is to be held this Friday. The Policy Unit will want to provide a briefing note for the Prime Minister for this seminar, and I hope that you may be able to provide this by Wednesday evening in order to give the Prime Minister good time to study it.

BF

E.R. BUTLER

12 September, 1983

Emo

Prime Minister 4

You may like to read this "annotated agenda" over the weekend so that you can see the ground which the DHSS and Treasury suggest that you should cover at Friday's seminar.

I will be asking the Policy Unit to prepare a briefing note.

FERB 9.9.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6618

From the Second Permanent Secretary

SIR GEOFFREY OTTON

F E R Butler Esq
10 Downing Street
London
SW1

9 September 1983

Dear Robin,

I enclose, as promised, five copies of the paper we have prepared, with the Treasury, as a basis for discussion at the Prime Minister's seminar on 16 September. We very much hope that she will find this helpful as a starting point: it has been quite a task to boil down this Department's enormous concerns in this way!

The document has been classified secret throughout its preparation, and these copies are so marked. We are proceeding on the understanding that this degree of security should apply both to the document and to the fact that this discussion is to be held.

I am also enclosing a set of the two supporting documents.

No doubt you will let Ken Stowe or me know next week if you require anything else. We look forward to the discussion.

I am copying this to Alan Bailey at the Treasury, with a set of the documents for them.

Yours ever,

Geoffrey Otton

B/F for seminar

MPE/ Told Sir G Otton's office that the format seems fine.

MCS 9/9

PA.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6618

From the Second Permanent Secretary

SIR GEOFFREY OTTON

T J Flesher Esq
No 10 Downing Street
LONDON SW1

8 September 1983

Dear Tim,

This is the text of the paper which we and the Treasury have prepared for next Friday's seminar with the Prime Minister. It is being shown to my Secretary of State and, I believe, Treasury Ministers this evening. Tomorrow we have to produce the final smart copies for you, properly laid out. As I explained by telephone, I should be glad to know whether you think this is in a form that will be helpful to the Prime Minister; and whether you have any (I hope minor!) comments before we go to print.

I am sorry this is at the last minute.

Yours ever,

Geoffrey

Note

The "key data" sheets which are interleaved with the text in this copy will in the final version be printed (in book form) opposite the page to which they relate - text on the left-hand page, data on the right.

POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

1.1 This paper provides an annotated agenda for reviewing medium and longer term policy issues in DHSS programmes at the outset of this Parliament. The time horizon is, in general, ten years: but for the retirement pension the discussion looks ahead into the next century. The aim is to settle a framework of policy objectives for DHSS, and to set guidelines for the impending discussions on shorter-term public expenditure issues.

1.2 On many of the points discussed Ministers have made public commitments for this Parliament. These are referred to as necessary and set out in Annex A. But the timescale of the paper goes beyond this Parliament.

Demographic change and social need

1.3 The key data sheet opposite sets out the main demographic changes over the last ten years and those expected over the next ten years. A brief analysis of changes in the pattern of need is included in Annex B.

1.4 The main change has been in the growth in the number of retired people in proportion to the working population. The next ten years will see some further growth - but at a progressively slower rate - together with a sharp increase in people aged over 85*. (The projected increase in the birth rate is important but uncertain.) A further important change has been in the increase in the numbers of children in one parent families; [ ] over the last ten years.

1.5 The analysis in Annex B shows that looking back to surveys which influenced the Beveridge report there have been significant changes in absolute standards but broadly the same groups are most likely to be poor - old people dependent on flat-rate retirement pensions, and families with young children, particularly one parent families.

1.6 While absolute standards of health and social services care have also been raised progressively, the demand if not the need appears to be virtually unlimited in all groups of the population. The fastest growth is for services for the elderly and very elderly. Other pressures arise from the continuing need to raise standards of care for neglected groups such as those suffering from mental and physical handicap and mental illness, and the demand for access to medical advances and new technology. In all parts of the health service there are striking examples of antiquated, shabby and inefficient buildings.

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*Based on OPCS latest projections which are under discussion as they assume more elderly people than hitherto.

Costs

1.7 Total UK health care spending is at present about 6% of GDP, and social security about 11½%. In each case this is about two-thirds of what is thought to be the comparable expenditure in France and Germany.

1.8 The chief imponderable in projecting social security costs is the future level of unemployment. Purely for illustrative purposes, the figures in this paper assume that the number of unemployed will remain constant for the next 10 years. A reduction to 6% unemployment would reduce social security costs by £2 to £3 billion a year. For health costs the chief uncertainties are the prospects for public service pay, and the financing of service increases apart from demography. These are discussed in Section 6.

1.9 Subject to these uncertainties, the tables opposite show that the economic cost of the services run by DHSS might be expected (on current policies and allowing for demographic trends) to increase by 0.9% a year over this Parliament and by a total of 1% a year over the next decade. This is a slowing down by contrast with the increase over the last decade of 5%. Expenditure in the future would not increase as a proportion of GDP if GDP rose by about 1% a year.

Strategy

1.10 The theme for new strategies will be:

- to identify the priority needs of the next 10-20 years and adapt policies to meet them efficiently either by private or public provision
- to ensure that these needs are weighed against the need to contain and if possible reduce public expenditure and the tax burden, and encourage provision
- to continue downward pressure on public sector manpower
- to simplify benefit systems where possible
- to direct expenditure where it is most cost-effective
- to increase personal rights and choice and encourage self-help.

1.11 These themes underly the discussion in the following sections, which approach the issues by looking at each of the main customer groups in turn:

- the working population and their families
- the elderly
- other dependent groups (the sick, handicapped)
- the unemployed.

A final section deals with some more general issues.

1.12 Key data are shown separately for each group. There is more information in the supporting documents:-

'Health Care and Its Costs'

Handbook of Key Facts on Social Security.

POLICIES FOR HEALTH, SOCIAL SERVICES AND SOCIAL SECURITY

KEY DATA

OPCS Population figures

SOCIAL SECURITY (Great Britain)*

		1973 m	1978 m	1983 m	1988 m	1993 m	% growth 1973-83	% growth 1983-93
	0 - 15	13·7	12·8	11·6	11·1	11·8	+15·3%	+1·7%
Men	16 - 64	16·3	16·8	17·4	17·6	17·5	+5·5%	+0·6%
Women	16 - 59	15·1	15·3	15·8	16·1	16·1	+4·6%	+1·9%
Men	65 +	2·9	3·1	3·2	3·4	3·5	+10·3%	+9·4%
Women	60 +	6·2	6·3	6·7	6·8	6·7	+8·1%	—

HEALTH AND PERSONAL SOCIAL SERVICES (England)*

	1973 m	1978 m	1983 m	1988 m	1993 m	% growth 1973-83	% growth 1983-93
0 - 4	3·5	2·8	2·9	3·2	3·5	-17%	+20·7%
5 - 15	8·1	8·0	6·9	6·3	6·6	-14·6%	-4·3%
16 - 64	28·4	28·7	29·8	30·2	30·1	+4·9%	+1·0%
65 - 74	4·1	4·3	4·2	4·3	4·3	+2·4%	+2·4%
75 - 84	1·8	2·1	2·4	2·6	2·5	+33·3%	+4·2%
85 +	0·4	0·5	0·5	0·7	0·8	+25%	+60%

Cost of the programmes

£m. 1983/84 prices

	1973/4	1978/9	1983/4	1988/9	1993/4	% Growth 1973-83	% Growth 1983-93
Health(England)	9,250	10,860	12,440	13,310	13,870		
Social Services (England)	1,570	1,940	2,230	2,350	2,470		
Social Security (Gt. Britain)	19,600	27,300	34,800	36,100	38,500		
Total	30,420	40,100	49,470	51,760	54,840		
As a percentage of GDP	11·2	13·7	16·5	15·4	14·5		

*Throughout this document, social security data are for Gt Britain, whereas health and personal social services data are for England only (Scotland and Wales have separate programmes.

WORKING PEOPLE AND THEIR FAMILIES

2.1 This group uses the family practitioner services, acute hospital services, some community health services, maternity services, and local authority child care services. It is not increasing in size, but expenditure rises because medical advance increases the range and costs of effective treatments (including drugs), and because delinquency and other family problems increase.

2.2 Social security expenditure for this group is directed at help with the cost of children (child benefit, one parent benefit and maternity benefits); and at means-tested help to low-income families (FIS and housing benefits).

2.3 Under this heading there are a number of separate problems.

Acute hospital services. How is the mounting cost of modern treatments to be tackled?

2.4 The estimated cost of keeping up with new treatment arising from medical advances will on the present assumption of ½% growth per annum, require extra expenditure amounting to £78m in 1988/89 and £140m in 1993/94. Moreover there are still backlogs in major treatments and long waiting lists - eg for hip replacements, dialysis, by-pass grafts. It is estimated that it would cost about £40m in 1988/89 and £50m in 1993/94 to overcome these backlogs. How is this extra cost to be met?

2.5 Over the past five years, despite more complex treatments, costs per case have fallen by % - largely through reducing length of stay in hospital - so that resources have been released by greater efficiency to help meet mounting costs on new treatments. But to cover the full cost of medical advance larger and more sustained efficiency savings will be needed in future.

2.6 The drive towards greater efficiency has gone a long way since 1979, through such measures as:

- NHS reorganisation
- improved accountability and performance reviews
- manpower controls
- competitive tendering for support services
- Rayner scrutinies.

This drive will continue and the current Management Inquiry should give a renewed impetus. Provided efficiency savings can be kept to improve services, there is a fair chance of overhauling backlogs in major treatments, catching up on waiting lists, and keeping pace with future developments.

2.7 This must be the major strategy for advance on this front. Ministers have publicly rejected hospital charges for this Parliament. Expansion of private health insurance mainly helps with non-urgent surgery - it has not so far had any measurable impact on waiting times for major NHS treatment. This raises a general issue about the role of private health insurance which is discussed in Section 6.

WORKING PEOPLE AND THEIR FAMILIES

Family practitioner services. How can cost control be improved?

2.8 Expenditure on these services has depended on treatment costs; it has been demand-led and not cash limited.

2.9 Family doctors are most important - the point of entry to health service treatment, they deal with most problems without recourse to expensive hospital services and are an essential fall-back when those services cannot cope. Ministers are pledged for this Parliament against charges for GP visits. Management consultants have recently concluded that the cost of this part of the service could best be controlled by controlling the number of GPs. Some increase must be allowed to cope with growing numbers of elderly - and perhaps for some improvement in service to reduce pressure on hospitals. But subject to this the Government might aim to control tightly the growth in number of GPs.

2.10 Dentistry, glasses and drugs. There is scope for savings here without damaging crucial health care (but with considerable controversy) by:

- control on numbers of dentists
- reduction in drug industry profits
- privatisation of supply of glasses
- increasing charges

2.11 As regards charges, possible sources of savings include cost-related charges for dental treatment and prescriptions (about £100m); charging for dental check-up and sight tests (about £50m); and removing present exemptions from elderly and children (about £150m). But such charges would be highly controversial both on health grounds (charging for diagnosis and for treating children) and on social and administrative grounds (increased means-testing of the elderly). Ministers have previously stressed the importance of exemptions when defending increases in charges.

WORKING PEOPLE AND THEIR FAMILIES

Social security. Can work incentives be improved?

2.12 There are two separate - and often conflicting - issues here:

the unemployment trap concerns the gap between income in and out of work, and the need to maintain an incentive to get off benefit and back into work. This can be tackled either by reducing out-of-work benefit levels, or by increasing the incomes of those in work through benefits or raising tax thresholds. Where the benefit approach is followed the help given has to be withdrawn as income increases, and this gives rise to -

the "poverty" trap, where the value of earnings is eroded by withdrawal of benefit. This is a problem of incentives rather than of poverty per se: the more rapid the withdrawal of benefit, the starker the disincentive to earn more. But slower erosion means allowing the help to spread further up the income scale, with more benefit expenditure going to relatively better-off families.

2.13 Support for children of working families. Help can be given through the tax or benefit systems. With the replacement of child tax allowances and family allowances, child benefit has become the means of helping families, both in and out of work, with the extra cost of children. But working families are of course still helped by tax changes, particularly raising tax thresholds. The comparative costs are:

Raising tax threshold	- Each weekly £1 increase per family costs £ m
Child benefit	- Each weekly £1 increase per child costs £ m
	(Each 10p increase costs £50m).

2.14 Child benefit eases the unemployment trap, and on that ground there is a case for increasing it. But this is entirely at Government discretion. There is no significant demographic effect over the next ten years, and there is no statutory uprating requirement. The Government are committed to not changing the basis of the benefit.

2.15 Support for working parents. FIS increases income in work and so improves the incentive to resume work. Its 50% withdrawal rate is a major cause of the poverty trap, however. Originally introduced as a stop-gap measure, it has become a permanent benefit of some importance, and its operation is being reviewed. Its withdrawal would seriously worsen the unemployment trap: but it may be possible to restructure it to increase its cost-effectiveness and reduce its poverty trap effects.

2.16 Housing benefits. These have the same effect as FIS - they ease the unemployment trap by adding to income of those in work as well as out of it. But they are withdrawn more slowly as income increases and extend the poverty trap a long way up the income scale, by comparison with other benefits: about one-third of all households are getting some help - mainly pensioners but including about 850,000 in work, some with incomes above average earnings. A review of the system in this Parliament is desirable.

Should maternity benefits be rationalised?

2.17 This is a possible area for review. There are three separate benefits:

- a flat-rate non-contributory grant of £25 for all women
- a contributions related allowance for women who have been in work, worth up to over weeks
- maternity pay, under DE legislation, paid by employers as a proportion of previous pay, and reclaimed in part from NI contributions.

Previous attempts to find a consensus on rationalising this area have failed: but there is a commitment to review it again, and this could start with the objective of combining at least the allowance with maternity pay in a single benefit paid by employers. This could reduce public expenditure by up to (£ m).

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

Numbers in this Group

	1973-74	1978-79	1983-84	1988-89	thousands 1993-94
Population	40,000	39,500	39,600	39,600	40,000
People in the Workforce	24,500	24,700	23,000	23,400	23,400
Births	600	600	600	700	700
Children of Working Families	11,050	12,890	11,500	10,920	11,680

Expenditure: Health and Community Health Services

£m (Gross) 1983- 84 prices

	1973-74	1978-79	1983-84	1988-89	1993-94
Note: Assuming that only costs resulting from increased births are met by increased expenditure	3,490	3,620	3,650	3,730	3,850

Additional HCHS Costs from 1983-84, assumed to be met from further increases in efficiency:-

	1988-89	1993-94
(a) Costs of reducing existing shortages:-		
Hip replacements (to reduce waiting lists)	8	8
Dialysis (to meet shortfall)	30	40
Coronary surgery (increase provision to two-thirds of need)	12	12
	50	60
(b) Future Medical Advance Costs	90	170
Total of (a) and (b)	140	230

Average Case Costs in Acute Hospitals (at 1983-84 prices)

1974-74	1978-79	1981-82 (latest available year)
£718	£776	£727

NHS IN-PATIENT WAITING LISTS (ENGLAND

1973	1978	1983 (March)
409,000	682,000	726,000

(Note: the March 1979 figure was 752,000, relfecting the 1978-79 strike. The March 1982 figure was 622,000 showing a declining trend. The higher 1983 figure is still affected by the 1982 strike.)

Numbers Privately Insured through Provident Associations:

1978	1982 (lastest available year)
2.4m	4.2m

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

FAMILY PRACTITIONER SERVICES' EXPENDITURE, PROJECTED TO INCREASE WITHOUT NEW CONTROLS OR SOURCES OF SAVING

£m, 1983-84 prices

	1973-74*	1978-79	1983-84	1988-89	1993-94
Pharmaceutical		1360	1390	1740	1920
Optical		140	160	180	210
Dental		540	580	660	740
Medical		740	860	930	1010
Total FPS Gross	2430	2800	2990	3510	3880
Charges	260	200	310	420	470
Total FPS Net	2170	2590	2680	3090	3410

* Split between services not available

WORKING PEOPLE AND THEIR FAMILIES

KEY DATA

Expenditure: Social Security

£m 1983-84 prices

	1973/74	1978/79	1983/84	1988/89	1993/94
Social Security	1,410	3,260	4,650	4,660	4,910

Numbers on Social Security Benefit '000

	1973/74	1978/79	1983-84	1988/89	1993/94
Child benefit*	7,060	13,480	12,650	12,070	12,830
One parent benefit	-	290	540	600	600
Maternity benefits	70	100	135	150	150
Family income supp.	95	85	205	220	220
Standard housing ben.					

* Includes children in families where the Head of the Household is unemployed

For illustrative purposes, it has been assumed that the numbers receiving benefit (other than child benefit) remain at the level assumed for 1985-86 until 1993-94.

THE ELDERLY

3.1 Numbers over pension age will be stable, as a proportion of the working population, until 2010, but will increase thereafter as the post-war 'baby bulge' reaches retirement age. But within the total, the over 75s and over 85s will increase sharply in the 1980s (this increase tails off in the 1990s).

3.2 In health and social services the growing number of the very old present the biggest single challenge. Their demands increase sharply with age. They require geriatric hospital services, they are major users of acute hospitals, they take up most of the District Nursing Service, and they use local authority residential accommodation, day care, home helps and meals on wheels. They can benefit from more medical advance, provided it can be afforded through greater efficiency - for example, more joint replacements as surgical techniques develop (cost, assuming ½% a year increase £90m in 1988/89, £170m in 1993/94).

3.3 Pensioners account for half of the social security budget through retirement pensions and supplementary pensions: benefit levels do not increase significantly after retirement age. Pensioners also account for two-thirds of expenditure on housing benefit. The Government is pledged to continue to price protect pensions and other linked long-term benefits.

3.4 About half of all workers are in occupational pensions schemes and contracted out of the State pensions scheme. The big issue at present is that of early leavers. Initiatives to tackle this are well in hand, and significant legislation on private pensions schemes is a possibility for this Parliament. A wider issue is what can be done to increase membership of occupational scheme.

THE ELDERLY

How can health and social services be provided for the growing number of very old people?

3.5 Ministers are pledged for this Parliament against hospital charges. Private health insurance does not contribute much to costs for the old:

- very few old people are covered by private insurance
- premiums for acute treatment rise sharply after 65
- long-term private care is uninsurable

New tax concessions to encourage insurance by old people could lead to extra private acute treatment. But this will not significantly reduce the burden on the NHS. Increased NHS expenditure on this age group, financed from taxation, is unavoidable, unless standards of care are to be reduced.

3.6 Much long-term care is at present unsuitable. Lack of community services leads to pressure on hospitals, which are inefficiently used and often give a poor standard of care. Longevity increases pressure on services for the elderly, and there is need for help to people looking after elderly relatives - who may often be elderly themselves - as well as for elderly people living on their own. Much of the necessary provision comes from local authority services, and pressure on their expenditure makes the prospect uncertain.

3.7 The present broad strategy is to improve services through:

- reduction in long-term care and shift of NHS resources into community health services (especially District Nursing) to support people at home
- development of role of family, nighbourhood resources and voluntary care.
- continuing encouragement to local authorities to give priority to services for the elderly. 'Joint finance', provided for the NHS to share the cost of developing local authority provision, can help here (at present running at £ m)
- some centrally-funded demonstration projects to encourage a better balance of services and more use of neighbourhood resources
- work through DOE and the private sector to encourage more provision of suitable housing to enable old people to live at home.

The aim will be to carry through this strategy without further resources - other than those required by demographic increase (£290m in 1988/9 and £400m in 1993/4).

3.8 Much voluntary and private provision is paid for through social security benefits (e.g attendance allowance and invalid care allowance). Is there a case for increasing this support?

Paying for pensions

3.9 The assumptions on which the earnings-related scheme was based were that it was desirable:

- to improve pension provision (still low by comparison with other western industrial countries) to about one half of average earnings
- to transfer resources from the working population to elderly
- to reduce dependence on means-tested help
- to establish a partnership with the private pensions sector

Are these still the assumptions on which the Government wishes to act? If not, reversion to a flat-rate scheme - presumably with flat-rate contributions - is a possibility for examination. It would mean an end of the bi-partisan policy evolved over the last two decades; and since it would point to lower incomes in retirement for the less well-off without occupational pensions, it would need to be justified by overriding concern about the finances of the present scheme. It was stated before the election that there were no plans to change the earnings related component.

3.10 The scheme started in 1978, matures in 1998, and the costs of the scheme will have a major impact after 2010. There is no large demographic factor to drive up expenditure for the next 25 years, and benefits need not increase in real terms, since last Session's Act ties them firmly to the past movement of prices (no more uncovenanted "overshoots"). So long as we stick to no more than price protection, the emerging costs of the scheme will be lower than those so far assumed - see figures opposite - though benefits will also be lower. The Government Actuary's most recent forecasts, which are based on earnings indexation, have confirmed the original presumption that contributions (employer and employee together) would grow by 5 percentage points by 2025.

THE ELDERLY

3.11 The factors causing growth in expenditure will be:

- maturing of the earnings-related additional component ("second tier")

- increases in numbers of pensioners.

This growth is to be funded largely from contributions with the Exchequer contributing 13%.

3.12 But there is much uncertainty:

- demographic factors may change

- a continuing high level of unemployment would alter the pensioner/worker ratio over a period and reduce contribution income

- different rates of economic growth will affect the rate of contribution needed; low growth requires higher contribution rates

- it will be agreed that price protection of pensions may not be enough indefinitely. The original scheme was designed on the basis of earnings relation in both contributions and benefits

- pressure could mount to give something extra to pensioners who retired before 1978 and are not getting any second tier benefit.

3.13 Options to be explored for reducing the public expenditure costs of the present scheme are:

Extending the role ofthe private sector. At present private schemes can contract their members out of the State scheme "second tier" and pay lower contributions in return for guaranteeing an equivalent to the "second tier" on retirement. There could be scope for further contracting out of:

- part of the basic pension

- part of the responsibility for inflation proofing the second tier after retirement.

This would reduce public expenditure over a period - perhaps mounting at a compound rate from 1988 onwards to £500m next century. It would not reduce resources going to pensioners, but switch the balance from public to private provision. It would need careful exploration with employers and pensions interests and would entail some increase in contributions needed within the State scheme.

Reducing some of the benefits. Options for this have been prepared in consultation with the Treasury, following the Government Actuary's review of the first five years. They would be controversial, but could reduce expenditure on the second tier by up to 30% in the long run, and hold back the contributions needed to finance it by up to 2.8%.

THE ELDERLY

3.14 There is a substantial range of issues here which could be publicly debated, with a view to changes later in the 80s to reduce the burden of expenditure arising from 1990 onwards.

What is to be done about Pension Age?

3.15 It has become conventional wisdom, endorsed in a report by the Select Committee on Social Services last Session (to which the Government has still to reply) that it is desirable that pension ages for men and women (now 65 and 60) should be equalised at a common age, and that some flexibility should be allowed for people to retire earlier or later in return for reduced or enhanced pensions. The Select Committee has recommended 63: this would cost £500m a year. Given the public expenditure setting, it looks increasingly unrealistic to consider changes in pension age which cost money.

3.16 Equalising pension age at nil cost could only be achieved bringing women's pension age up above 64 - a common age of 64 would still cost £50m a year. If the idea of flexibility to retire early were dropped, there would be savings for each year women's pension age was increased, mounting to £400m at age 65.

3.17 The Government will be under pressure to state its position on this by November, when a bi-partisan Private Members' Bill to implement the Select Committee Report is to be moved by Sir David Price.

THE ELDERLY

KEY DATA

	Numbers in The Long Term		
	1985	2005	2025
Number over pension age (Millions)	10.0	10.1	12.3
Ratio of working age to pension age population	3.33	3.37	2.74

International Comparisons (1980)

	Pension as a proportion of average earnings		Spending on Pensions as proportion of GDP
	Single	Married	
Great Britain	31%	47%	5.5%
France	66%	75%	8.6%
Germany	49%	49%	7.3%

THE ELDERLY

KEY DATA

Numbers in this group

ENGLAND

	1973-74	1978-79	1983-84	1988-89	1993-94
ENGLAND	6.3 m	6.9 m	7.1 m	7.6 m	7.6 m
GB	9.1 m	9.4 m	9.9 m	10.2 m	10.2 m

Expenditure trends

£m. 1983/84 prices (gross for HPSS)

	1973-74	1978-79	1983-84	1988-89	1993-94
Hosp. & Community Health Services	2,580	3,230	3,520	3,810	3,920
Social Services	810	1,040	1,160	1,310	1,400
Social Security	11,070	14,360	16,660	17,700	19,800

Numbers on Social Security benefits

(' 000)

	1973-74	1978-79	1983-84	1988-89	1993-94
Retirement pension	7,750	8,530	9,160	9,500	9,400
Supplementary pension	1,845	1,745	1,510	1,460	1,460
Non-contrib.RP	110	65	40	-	-
Christmas bonus	7,000	9,100	9,700	9,800	9,900
Standard housing benefit	—	—	2,700	2,700	2,700

THE ELDERLY

KEY DATA

HPSS expenditure per head varies with age as follows

	Birth	0-4	5-15	16-21	65-74	75-84	85+
HCHS	£950	£175	£70	£100	£345	£755	£1,290
FPS	£ 65	£ 50	£40	£ 50	£ 70	£130	
PSS	£ 20	£ 70	£ 70	£15	£ 60	£250	

Numbers Living at Home

35 per cent of old people live on their own, and 45 per cent with their spouses. The remaining 20 per cent live with relatives or others.

Paying for pensions: projections into next century

The following tables are based on assumptions used by the Government Actuary for the Quinquennial Review. They assume an unemployment level of 6 per cent over the whole period and are based on population projections which do not take account of the 1981 census.

The present rate of NI contribution is 17.65 per cent, and would be 15.3 per cent if unemployment were currently 6 per cent.

1. If real earnings increase by 2 per cent per year

	1985/86	1995/96	2005/6	2015/16	2025/26
NI contribution rate if basic pension linked to earnings	15.3	15.5	16.1	18.0	20.3
Cost of Pensions as proportion of GDP	5.6	N/K	6.2	N/K	8.7
Average pensioner income as proportion of non-pensioner income	68	72	75	76	80

2. If real earnings increase by ½ per cent per year

NI contribution rate if basic pension linked to earnings	15.4	15.7	16.6	18.9	21.5
Cost of pensions as proportion of GDP	5.6	N/K	6.6	N/K	9.6
Average pensioner income as proportion of non-pensioner income	69	72	76	79	85

3. Whether real earnings increase by ½ per cent or 2 per cent per year

NI contribution rate if basic pension linked to prices (not earnings)	15.3	13.6	12.6	12.9	13.5

	Numbers		
	1985	2005	2025
Number over pension age (Millions)	10.0	10.1	12.3
Ratio of working age to pension age population	3.33	3.37	2.74

Numbers in occupational pension schemes

Pension scheme membership has been at about the same level of about 11 millions since the early 1960's. The latest Government Actuary's survey in 1979 showed:

	Total	Public sector	Private sector
Employees in pension schemes	11.8m	6.2m	5.6m
% contracted out	10.3m	4.8m	5.5m
Employees not in schemes	11.6m		

The Government Actuary considers that the current position is not significantly different.

OTHER DEPENDENT GROUPS

4.1 Under this heading come the mentally handicapped or ill, and the "younger disabled", who have special health needs; and the sick and disabled for whom there is a wide range of provision in the social security schemes.

How far can mental illness and handicap services be improved?

4.2 The pressures on these services come not from growth in the caseload (except for severe mental illness associated with old age), but from widely acknowledged need to improve standards and get a better balance between hospital and community provision.

4.3 The NHS inheritance of old, remote long-stay hospitals used in the past as dumping grounds with scandalously low standards of care is taking a long time to remedy. Much progress has been made, but there are still poor hospitals and the cost of improvement (and particularly of increasing the number of nurses) is high.

4.4 The established policy is to restructure the services on a local basis, with more community care and more hospital provision near the community, and gradually close the old hospitals. There is a case for more finance than has been assumed in the projections opposite to assist this transition through:

- replacement of buildings
- retraining of staff
- development of local authority and voluntary services, through joint finance, grants to voluntary bodies and demonstration projects

and to avoid scandals while old hospitals continue to serve large numbers of patients.

OTHER DEPENDENT GROUPS

Should there be changes in cash help for the disabled?

4.5 Expenditure on cash benefits for this group has nearly doubled in real terms in a decade, through the introduction of new benefits, improvement in benefit levels, and a large growth in claims. There is no commitment to further benefit improvements, but much pressure for an extension of benefits.

4.6 These benefits now cost £3.8 billion. Their aim is:

- to help with extra living costs of the disabled
- to replace lost earning capacity
- to help people to live in the community.

They have been aimed selectively at particular needs, regardless of the recipients' income: in some cases benefits are related to previous earnings (and are higher for those who had enjoyed better earning capacity); in others they are related to the degree of disability (and are higher for the more severely disabled). This is a very distinct basis of provision from that adopted for other groups, and it has never been thought right to contain the expenditure by means-testing.

4.7 The present much-criticised patchwork of benefits (invalidity pensions, contributory and non-contributory; war and industrial injury benefits; attendance allowance; mobility allowance; invalid care allowance) has the merit of concentrating help on target groups. Though it is administratively cumbersome, the cost of rationalisation (up to £2 billion) prohibits advance in the foreseeable future.

4.8 It may be possible to arrange more contracting out. Sickness benefit is now paid by employers for the first eight weeks, with a saving in public expenditure and administrative costs of £385 million*. This process could be extended to longer periods of sickness - though with diminishing returns in terms of savings (going up to 28 weeks would only save another £30 million), and at the likely cost of much employer resistance to a mounting administrative burden. (Industrial injury is another area that might be looked at, though the obstacles here, and the likely employer resistance, are very great.)

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* Employers are reimbursed through deductions from National Insurance contributions, which reduce revenue. The net effect is a PSBR saving of £90 million.

OTHER DEPENDENT GROUPS

KEY DATA

Expenditure trends

£m. 1983/84 prices (gross for HPSS)

	1973/74	1978/79	1983/84	1988/89	1993/94
Hospital and Community Health Services*	1,270	1,350	1,420	1,460	1,470
Social Services	180	280	340	340	340
Social Security	4,980	6,230	6,250	6,425	6,425

* Projections allow only for increasing numbers of old people at risk of severe mental infirmity.

Numbers on Social Security Benefits

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	1973/74	1978/79	1983/84	1988/89	1993/94
War Pensions	465	385	320	290	290
Industrial Disablement and Death Benefit	240	240	220	215	215
Attendance Allowance and Invalid Care Allowance	125	270	450	495	495
Mobility Allowance	-	95	295	330	330
Sickness Benefit	525	560	175	170	170
Invalidity Benefit	440	600	730	740	740
Widows Benefit	580	495	440	425	425
Supp. Allowance (less unemployed)	585	670	480	540	540
Non-contributory invalidity pension	-	150	190	195	195
Christmas Bonus	1,000	1,000	1,000	1,000	1,000

For illustrative purposes, it has been assumed that the numbers receiving benefit (other than child benefit) remain at the level assumed for 1985-86 until 1993-94.

THE UNEMPLOYED

5.1 The cost of benefits for the unemployed has been the main growth element in the social security budget over the past five years. As a result of the increase in numbers of unemployed, it has more than doubled in real terms from £2.25bn to £5.66bn, despite measures to reduce the value of benefit significantly; and it has shifted an increasing load on to supplementary benefit.

Is the benefit structure appropriate to present needs?

5.2 The benefit system is computerised, and has coped with threefold increase in caseload. But the benefit scheme is not well adapted to unemployment on its present scale:

- two Departments and two sets of offices are involved. (The DHSS Operational Strategy points a way towards integrating the offices later in this decale).

- 28,000 staff in DE offices deal with UB; about 16,000 in DHSS offices have to review many of the same cases to top them up with supplementary benefit

- unemployment benefit (UB) is available, regardless of other resources, as an insurance-based benefit, for up to 12 months. But only 40% of the unemployed qualify for it, and many of these have to have it topped up by supplementary benefit. 60% of the unemployed are entirely ineligible for UB and have to rely entirely on supplementary benefit. UB is no longer the main source of support for the unemployed.

5.3 It is desirable to review this dual-benefit structure to see whether something simpler and cheaper to administer can be devised.

Should benefit expenditure be reduced?

5.4 In the last Parliament the value of unemployment benefit was reduced to its lowest level in relation to earnings for [a decade] by:

- abolition of earnings related supplement (1982)

- 5% abatement of benefit in lieu of taxation from [1980] to 1983

- introduction of taxation of income from benefit (1882) after return to work

- reduction of dependency additions for children.

These measures reduced expenditure on the unemployed by £800m: but this has been more than cancelled out by the rise in numbers on benefit.

5.5 A drop in the number of unemployed would reduce expenditure

by £180m for each 100,000. Otherwise benefit expenditure can only be reduced by a direct cut in present levels; or by a new and simplified benefit system which is less generous.

5.6 Abatement of benefit for the unemployed during the last Parliament was confined to UB: the "safety net" level of supplementary benefit was not reduced. If abatement were to be pursued again, the saving at the November 1984 uprating for each 1% would be -

	1984/85		1985/86	
on UB only	£	m	£	m
on UB <u>and</u> supplementary benefit	£	m	£	m

5.7 By confining cuts to the insurance benefits, and leaving supplementary benefit untouched, the Government has been able to assert that the poorest have been protected. One area where some reduction in supplementary benefit might nevertheless be considered is that of the teenage school leaver. Young people who do not find jobs on leaving school can receive benefit in their own right from 16, even if they are still living at home with comfortably-off parents. If parental resources were taken into account there would be overtones of the "family means-test" of the 1930s. But there is a case for reducing benefit levels at least for school leavers living at home.

<u>Should individual benefit payments be related to in work income?</u>

5.8 With the abolition of the "wage stop" provision in supplementary benefit in 1975 and the earnings related supplement to the unemployment benefit in 1982, benefits for unemployed people are no longer related in any way to their previous or future earning capacity. Is there a case for reintroducing a limit to benefit payments which would serve a similar purpose to the wage stop? (The effect of the wage stop was to limit benefit so that the unemployed person was not better off than he would have been in his usual occupation. When it was abolished, it only applied to 4-5,000 cases (or 1.6%) out of 300,000 unemployed people on supplementary benefit). The logic of such a provision is clear. The practical difficulty, which was evident in the wage stop, is to administer it in a way which is accepted as fair but is not burdensome and administratively costly.

UNEMPLOYED

KEY DATA

Numbers in this group ('000)

1973/74	1978/79	1983/84	1988/89	1993/94
540	1,300	3,070	3,070	3,070

For illustrative purposes the number unemployed was assumed to remain at the level assumed for PES 1983 until 1993/94.

Numbers on Social Security Benefits

('000)

	1973/74	1978/79	1983/84	1988/89	1993/94
Unemployment benefit only	155	402	1,000	)	
Supplementary Allowance and UB	43	90	280	2,930	2,930
Supplementary Allowance only	186	516	1685	)	

Expenditure trends

£m 1983/84 prices

	1973/74	1978/79	1983/84	1988/89	1993/94
Social Security	1,170	2,250	5,680	5,810	5,810

INCOME IN AND OUT OF WORK

The comparison below is between average take home pay and supplementary benefit levels.

Single person: Average take home pay £115.94. Benefit £41.62

Married couple: Average take home pay £134.76. Benefit £83.96

NOTE "Take home pay" allows for tax, NI contributions and child benefit. Rent would have to be paid out of this figure.

"Benefit" represents supplementary benefit, including age-related heating addition and average rent rebate. No rent has to be paid out of this figure.

4% of men becoming unemployed receive higher income than when last in work.

25% of men becoming unemployed receive at least 80% of income when last in work.

Characteristics of unemployed on benefit

21% have children

70% are single without children

19% are under age 20

60% have been unemployed over 6 months: 35% over 1 year

STANDARD RATE OF UNEMPLOYMENT BENEFIT PLUS EARNINGS RELATED SUPPLEMENT AS % OF AVERAGE MALE MANUAL EARNINGS

	Single rate	Married rate
July 1945	19.1	30.9
August 1951 (lowest point)	15.9	25.7
March 1963	20.9	33.8
October 1973	35.5	46.8
November 1978	31.6	42.8
November 1982 (provisional)	17.8	28.7
November 1983 (estimated)	18.1	29.2

GENERAL ISSUES - FINANCING AND MANAGEMENT

Financing Social Security through taxation or contributions?

6.1 About three-fifths of social security expenditure is on contributory benefits. But after allowing for the Treasury contribution to the NI Fund, and for administration costs, slightly over half of the total social security budget comes from general taxation. The tax share has risen substantially over the last 10 years, with the introduction of new non-contributory benefits (disablement benefits, child benefit) and sharply increased spending on supplementary benefits. Is it worth retaining the contributory structure, with its extra administrative cost?

6.2 So far, the answer of successive Governments has been 'yes', for three main reasons:

- people prefer to build up their own title to benefits through contributions and are readier to pay for them in this way than through general taxation

- the earnings-related pension scheme needs some system of recording earnings, even if contributions as such are abandoned; and the arrangements for contracting out hinge on a differential contribution structure

- the contributory principle provides a test of entitlement; it is thus a rationing device to constrain benefit expenditure. If it were abandoned, some other test of entitlement would need to be substituted to prevent a substantial increase in benefit costs, particularly in paying full benefits to married women who have not contributed.

6.3 One possibility for making more use of the contributory system to finance social security would be to increase the range of earnings over which contributions are paid. In effect this entails raising the Upper Earnings Limit (ie the ceiling below which contributions are paid). But this amounts to increasing taxation of higher earners.

The tax credits approach

6.4 It has long been a proposition that tax and social security might be combined into a single system. But tax credits schemes involve extra expense, if they give cash payments to people below the tax threshold who fail to qualify for tax allowances. The cost of the 1972 scheme was estimated at £1.3 billion. The present cost would be considerably greater. The 1979 Manifesto declared this to be a long-term aim - this has not been repeated in the 1983 Manifesto. The child benefit scheme has implemented one element in this approach. Operationally it is necessary to await the completion of the current computerisation projects in Inland Revenue and DHSS, but there may be prospects for further progress towards tax credit objectives in the 1990s. If that were to be a Government objective, planning would need to be put in hand by the middle of this Parliament.

Health Expenditure - General Issues

6.5 The preceding sections show that there are pressures for increased provision of health care. Taking a ten-year view, the costs of the NHS on present policies would remain at roughly the same proportion of GDP provided that:

- all medical advance and improvement in hospital services, except for meeting demographic change, if offset by increased efficiency

- improvements in long-term care are achieved by more community care, including family, neighbours and voluntary care

- NHS costs do not rise faster than prices generally. (If NHS pay were to rise in line with the amount assumed in the 1982 public expenditure exercise, this would affect costs as shown in the table opposite.)

- GDP grows at 1.1 per cent a year over the next decade (1.4 per cent during this Parliament).

6.6 This is an ambitious scenario. The strategic questions are:

(a) Will efficiency improve sufficiently to pay for the improvements which people demand?

Much of the increase in efficiency will come from reducing manning levels and increasing productivity in existing services, especially non-front-line staff. Public sector manpower and costs will also be reduced by increasing use of the private and voluntary sectors, including contracting out of support services. Some increase in manpower will, however, be unavoidable to cope with the growing number of very old and dependent people, who need above all nursing and other personal care, and to provide better services in the North and Midlands. The aim will be to keep manpower under strict control and ensure that existing services are made more efficient and any increases are justified in terms of the cost-effective provision of service to patients. Other measures to increase efficiency will also be pursued (see para 2.6).

(b) Can NHS costs, including pay, be held to the general level of inflation?

In the past two years and the present one services for more old people and medical advance have been financed without any cost to the taxpayer by a combination of increased efficiency and lower real incomes for health service staff. In the long term, however, if real incomes of the working population generally rise as GDP improves, there will be pressure to allow health service workers some rise as well, particularly if their productivity continues to increase. Health service pay will, of course, have to be considered in the context

of public service pay generally.

(c) What scope is there for increasing income from charges to patients?

Because of the pledge against hospital charges, the main possibilities in this Parliament are the family practitioner service charges discussed in para 2.11.

(d) Can the amount of care provided by the private sector be increased?

There are two possibilities here. One is to drop functions now performed by the NHS (eg the supply and dispensing of glasses - para 2.10). The other is to encourage greater growth in private health insurance. This might be achieved by fiscal relief and/or the introduction of NHS hospital charges. There would, however, be a large 'dead-wight' cost - £65 million ayear - in giving tax relief on existing insurance policies; this could be avoided by confining relief to the elderly. To gain the full benefit, NHS development would have to be planned in such a way as not to overlap with any private sector expansion.

GENERAL ISSUES - FINANCE AND MANAGEMENT

KEY DATA

Social Security Finance

Sources of finance for social security
£bn 1983-84 prices

	1973-74	1978-79	1983-84	
NI contributions	13.4	15.2	17.4	) Future trends) depend on the
NI Fund investment income	0.2	0.8	0.4	) development of) the earnings
Taxation	6.0	11.3	17.0	) related scheme

National insurance contributions

(excluding allocations to NHS, Maternity & Redundancy Fund and National Insurance Surcharge)

	1973-74	1978-79	1983-84	
Standard contracted in rate for employee	5.36	6.10	8.00	) Future trends) depend on the
" " " employer	5.99	9.15	9.65	) development of) the earnings
Total	11.35	15.25	17.65	) related scheme

Treasury Supplement

	1973-74	1978-79	1983-84
(i) as % of contribution income	18	18	13
(ii) Amount at 1983-84 prices	£2.2bn	£3.3bn	£2.8bn

ANNEX A

GOVERNMENT STATEMENT AND COMMITMENTS FOR THE PRESENT PARLIAMENT

1983 Manifesto

"We have a duty to protect the most vulnerable members of our society, many of whom contributed to the heritage we now enjoy. We are proud of the way we have shielded the pensioner and the National Health Service from the recession.

Only if we create wealth can we continue to do justice to the old and the sick and the disabled. It is economic success which will provide the surest guarantee of help for those who need it most."

Working People and their Families

Hospital Charges and Charges for GP Visits

"I gave two undertakings. One was that I would not put, or not institute charges for stays in hospital nor for going to the doctor. I repeat those pledges."
(Prime Minister on Panorama 31 May 1983.)

Exemptions from Prescription Charges

"No responsible Government could ever promise not to increase prescription charges. I repeat that now. The important thing is that the exemptions remain."
(Prime Minister oral PQ reply 10 May 1983.)

The Unemployment and Poverty Traps

"Further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps". (1983 Manifesto).

Child Benefit

"The importance the Government attaches to child benefits was made clear by the Chancellor of the Exchequer..... in March this year when he said:

> "It is important for families and in particular for the low paid. Indeed it is the benefit which provides the greatest help to many of the poorest families in the country".

There are no plans to make any changes to the basis on which the benefit is paid or calculated." (Prime Ministers' letter to Brynmor John 20 May 1983).

"Nor is child benefit [a 'pledged benefit']..... [but] we have managed to price protect.....and that would be our aim in the future." (Mr Fower, Press Conference, 7 June 1983).

The Elderly

"In the next Parliament we shall continue to protect retirement pensions and other linked long-term benefits against rising prices" (1983 Manifesto).

"Nor are there any plans to change the earnings-related component of the state pension." (Prime Minister's letter to Brynmor John, 30 May 1983).

"It remains our intention to continue raising the [earnings] limit and to abolish this earnings rule as soon as we can." (1983 Manifesto)

"The Christmas Bonus.....will continue to be paid every year". (1983 Manifesto).

"We will consider how the pension rights of 'early leavers'..... can be better protected'. (1983 Manifesto).

Other Dependent Groups

"The benefits to which the pledge to compensate for price increases applies are:

Widows pension (including widowed mother's allowance and widow's allowance).

Industrial death benefit paid by way of a widow's or widower's pension.

War disablement pension and industrial injury disablement pension.

War widow's pension.

Attendance Allowance.

Non-contributory invalidity pension.

Invalidity benefit.

(Chancellor, Hansard, 11 July 1983 (other benefits not relevant omitted from list).

"We have given an unqualified commitment that the abatement of invalidity pension will be restored when the benefit comes into tax." (Mr Newton, Hansard, 26 July 1983).

The Unemployed

"We will maintain special help.....for the older unemployed through early retirement schemes." (1983 Manifesto).

".....the unemployment benefit from next November to the following November has already been announced. The question about the rate for the following November does not therefore arise until after the Budget next year, and probably until after the RPI figure is announced next June." (Prime Minister: Hansard 5 July 1983).

ANNEX B

Changing Patterns of Need: Social Security

Levels of Poverty

1. Much of the survey material on needs in the Beveridge report was based on the work of Rowntree in particular his study in York in 1936. The findings of his work and others are assessed in the 1982 report "Despite the Welfare State" which draws together the programme of research studies undertaken over ten years by the Social Service Research Council and sponsored by DHSS. The authors of the 1982 report conclude that "there is ample evidence to assert that there have been marked improvements in living standards over recent generations for people on all rungs of the social ladder." Eg data from the New Earnings Survey shows that by the middle 1970's the median earnings of a male manual worker were three times greater in purchasing power than that of his equivalent in 1914.

Groups most at Risk

2. Within the overall improvement Beveridge found that the old and children with young families were least well supported eg

> In 1936 one third of the pensioners surveyed in York by Rowntree were living below his standard of human needs.
>
> In 1937 one family out of every nine in Bristol was in sheer physical want.

The recommendations were aimed at "better distribution of purchasing power....., as between times of earning and not earning, and between times of heavy family responsibilities and of light or no family responsibilities."

3. The figures quoted in "Despite the Welfare State" suggest that much the same groups continue to have the lowest incomes eg the 1975 General Household Survey showed that of those recorded as living on annual incomes at or below the level of supplementary benefit, 50 per cent were elderly and 25 per cent were children (of which 40 per cent were in one parent families).

4. The policy recommendations in "Despite the Welfare State" focus on development of a more effective family income maintenance service. This stems from their concern that the level of supplementary benefit is inadequate particularly for long term recipients but to raise it within the existing structure will only increase undue reliance on means-tested benefits with all its difficulties including the poverty trap and disincentives.

SECRET

Changing Patterns of Need: Health and Social Services

The Level of Provision

5. Beveridge included the provision of comprehensive health and rehabilitation services as the second assumption on which a satisfactory system of social security depended (the other two were childrens' allowances and avoidance of mass unemployment).

6. Health spending in England now stands at £12.4 billion an increase of 34 per cent since 1973/4 after allowing for inflation. Service activity has increased enormously without apparent diminution of demand: eg

	1971	(millions)	1981	Increase %
Hospital Services				
In-patient and day cases	5.2		6.5	25%
Regular Day Attendances	2.8		5.4	92.9%
Community Health Services				
Home Nurse Visits	1.8		3.4	88.9%

Changes in Need/Demand

7. Activity and expenditure has grown much more quickly for some groups partly as a result of policy for example the wish to improve standards of care for those suffering from mental illness and handicap and partly through demography in particular the growing numbers of elderly. Thus expenditure on in-patient services for mental illness and mental handicap has risen despite a fall in the numbers of in-patients. Sources provided for the elderly have increased considerably faster than services overall eg

	1971	1979	Increase %
Operations on people aged 65-74	218,170	279,240	28
Operations on people aged 75 and over	124,860	186,650	48

As in services overall however there is still considerable pressure of demand for more services.

8. The overall theme which emerges in the 1982 SSRC report is the persistent differences in the incidence of sickness, disability and death according to socio economic class. As in the Black Report the suggestion is that this should be remedied both by more equal distribution of health resources and a wider programme of action on poverty and bad housing. The recent report on surplus land also highlighted the quality of old and inefficient buildings (give example).

CONFIDENTIAL

Mr BUTLER

SEMINAR ON SOCIAL SECURITY

As I think you know, Robin Ibbs only arrives back from the Far East on 16 September and will not, therefore, be able to attend the seminar. In view of the importance of the issues likely to be discussed, however, he wonders if it would be possible for me to attend on his behalf.

IAN B BEESLEY
8 September 1983

Michael Scholar
Tim Flesher

I don't know how it came about that Sir R. Ibbs was invited, though I think it a good idea. But if he can't come I am doubtful about Mr. Beesley's attendance. What do you think?

FERB 9.9.

I agree: Ian Beesley has no place at this seminar.

MCS 12/9

MCS
TF

I have told Mr. Beesley that I have had to refuse other Departments Permanent representation below Secretary level and that I would be in trouble if he were included. He accepted this.

FERB 13.9.

Robin

I didn't invite Robin Ibbs.

TF 13/9

10 DOWNING STREET

From the Private Secretary

31 August 1983

Thank you for your letter of 10 August and for the documents prepared for your presentation on social security.

The Prime Minister read these during her holiday. She found them very useful and has asked me to say how much she appreciated the contents and clarity of the handbook and Michael Partridge's notes.

She is much looking forward to reading the paper for the seminar on 16 September. She hopes it will set out the forward commitments faced by the Government in the field of social security over the next twenty years with as much clarity as the present paper describes the existing situation. The future cost of pensions, and an analysis of demographic prospects and their implications for social security expenditure, are examples of the statistical material she would like to see, and I am sure these will be covered in the paper you are preparing. If, however, the inclusion of this material would make the main paper for the meeting too bulky, perhaps it would be best to provide a separate fact sheet.

I am copying this to Alan Bailey (HM Treasury), Robert Armstrong and Robin Ibbs.

Sir Kenneth Stowe, KCB, CVO.

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary
Sir Kenneth Stowe KCB CVO

I am most appreciative of the Robert's clarity of the paper and booklet - but please could I have some more idea of the forward commitments - e.g. under the contributory in relation to these - & nos. of aged over the coming 20 years

Willie Ricketts Esq.,
No. 10 Downing Street,
London SW1

10 August, 1983

Dear Willie.

I promised Robin Butler that I would let him have some copies of the handbook which we had intended to put before the Prime Minister in our presentation on social security last week. I now enclose 3 copies for your use in No. 10. You might like to let the Prime Minister see one in due course.

We have made some small but important amendments to the text, hence the short delay. I think the handbook is largely self-explanatory. The central message, about the substantial growth of expenditure on social security in real terms over the last 10 years in relation to a GDP which has been nearly flat, comes out all too clearly.

I also enclose, as promised, some notes based on the oral presentation which Michael Partridge would have given, which can be read with the handbook.

We are, as arranged, working with the Treasury on the preparation of the base paper for the seminar in September.

I am sending a copy of this letter and enclosure* to Alan Bailey and Robert Armstrong. I am also sending a copy to Robin Ibbs because of the big efficiency dimension.

Yours ever.
Ken Stowe.

* but not Michael's notes.

PRIME MINISTER

Significant Changes and Key Facts about Social Security

These comments about social security were planned for the oral presentation which had to be cancelled last week. They are based on the accompanying slim Handbook of key facts about social security, and they are designed to bring out the salient points in that Handbook.

As background, a brief description of social security when you left us from the Ministry of Pensions and National Insurance in 1964. There was a simple structure then. Six main benefits (retirement pension, national assistance, sickness and unemployment benefits, war pensions and family allowances), with the political interest focussed on the first two. Contributions still collected mainly on stamped cards, with only a small, new graduated contribution. Total social security expenditure was £1.9 billion a year (6.2 per cent of GDP) of which the elderly accounted for nearly 60 per cent. Apart from the LEO pay computer and the EMIDEC computer at Newcastle Central Office to operate the new graduated scheme (a giant in its day, but a pygmy now), there were no computers in MPNI or the NAB. There were 53,000 staff in the two Departments, 39,500 in MPNI and 13,500 in the NAB.

The enormous increases in size and scope of social security today have come about because the programme has exploded in four dimensions:-

(a) higher levels of benefit in real terms;

(b) more claimants;

(c) many new benefits;

(d) new and higher levels of contributions.

The total effect is of a radical transformation. We are now running an incomparably larger and more complicated business. I want to explain how the various changes came about, and why. The analysis is different for the different client groups (the elderly, the sick, the unemployed and the family) and carries different messages for future trends and the planning of future policies. I also want to comment on the management and efficiency of social security programmes, which are as important as the policies themselves and have significant impacts on future policies.

Analysis of growth and change in different benefits

Social security benefit expenditure has grown substantially over the last twenty years, mostly over the last ten years, as Chart 7 on page 11 of the Handbook shows. Between 1963 and 1983 cash expenditure increased by 18 times. In real terms, the growth in the first decade was 64 per cent and in the second decade was 77 per cent. By contrast GDP grew by 38 per cent in real terms in the first decade, and by only 7 per cent in real terms in the second decade. Social security expenditure has grown as a proportion of GDP as a result from 6.2 per cent in 1963, to 7.2 per cent in 1973, to 11.4 per cent now.

Within these totals, moreover, there are significant differences between the different benefits and client groups. The great bulk of social security expenditure goes to the elderly, mainly through retirement pensions; about half of the total now (See Chart 10). That proportion has in fact shrunk over the years: ten years ago it was 60 per cent. Retirement pension as a proportion of GDP has grown from 3.7 per cent in 1973 to only 5 per cent now.

What has bulked larger in the total social security budget over the years has been expenditure on the unemployed (up from 6 to 17 per cent) and on the family (up

from 11 to 17 per cent), mainly because of the change to child benefit (see Chart 10). As a result, expenditure on the unemployed as a proportion of GDP has gone up more than four times in the last decade, that on the family has trebled and that on supplementary benefit has increased 2½ times.

By contrast, the proportion of total social security expenditure on the sick has fallen dramatically, from 7 to only 1 per cent.

This striking fall is a combination of three factors:

i) more people unemployed means fewer workers who can go sick, and there is evidence that among the increased number of unemployed are many who used to go sick more than the average, either because their health was poor or because they were not the best of workers, and employers seized the opportunity of tougher employment conditions to get rid of them;

ii) workers are now less inclined to go sick because they may lose their job. This is well attested by opinion among our local office staff who handle sickness benefit claims, who are in close touch with more people than almost any other organisation and whose evidence is often interesting and valuable;

iii) since April this year, the transfer of sick pay to employers has seen a massive decline in the number of claims to sickness benefit. This comes on top of the change last year to self-certification by claimants. With no protective signature from a doctor, some claimants seem less inclined to claim.

It is interesting to analyse the various factors at work within each client group which have caused increases or decreases in

expenditure (see Chart 10 and facing commentary). Thus:-

- of total growth in expenditure in real terms between 1973 and 1983, about half was due to policy decisions (such as new benefits, upratings etc.)and half to "outside factors" (such as demography, unemployment etc.).

- of the growth on pensions, which accounted for under 40 per cent of the total growth, about five-sixths was due to real improvements in the pension rate and only one-sixth to more pensioners.

- by contrast, of the growth on unemployment benefits, which accounted for about 30 per cent of the total growth, virtually the whole of it was due to more unemployed. Indeed, without that growth in numbers expenditure would have declined as a result of policy changes in the last Parliament (abolition of earnings-related supplement and reduction in dependency benefits).

- the growth of family benefits accounted for most of the remainder of total growth (nearly 20 per cent). The vast majority of this (16 per cent of the total) came from the change to child benefit rather than real improvement in family support, because child tax allowances had previously accounted for most of it, although not appearing as public expenditure but as tax forgone. The remaining 4 per cent improvement in family support came from new benefits for one-parent families - and increases in their numbers.

- the final 10 per cent of total growth came from disability benefits, of which most (4 per cent) was extra claimants for existing benefits (i.e more disabled being kept alive by medical advances); 3 per cent from improvements in benefit rates; and 3 per cent from new benefits for the disabled.

Significant changes since 1964

How did these substantial increases come about? the brief chronology on pages 2-4 of the Handbook picks out the main events. The period of the 1964-1970 Labour Government began with one of the most significant increases in the levels of social security benefits. Retirement pensions, for example, were put up by 18½ per cent, to £4 a week for a single person and £6.50 for a married couple. This increase was far larger than the increase in prices (5.7 per cent) or earnings (12 per cent). It was a big step up to a higher platform for all benefits. The means-tested support of national assistance went up by the same proportion, so this large increase in contributory benefits did not float people off means tests.

The earnings rule for widows' benefits was abolished at the same time in 1964. Retirement pension expenditure reached £1 billion in that year, and the NAB spent under £250 million, 60 per cent of it on supplementary pensioners.

That Labour Government did a lot of planning for large expansions of social security, especially on the Crossman pension plans. But they did not succeed in carrying this through into legislation, still less into operation, with a few exceptions, such as the introduction of earnings-related supplements to short-term national insurance benefits (sickness and unemployment benefit) introduced in 1966 (and abolished in 1980).

Some significant changes which that Labour Government did make were:-

> first, they added a long-term addition to the benefit of supplementary pensioners. and for those under pension age on supplementary allowance after they have been on the allowance for two years. This was in an attempt to "buy out" the discretionary extra grants and regular allowances which had grown up over the years since 1948 and which were going to most of those on supplementary

benefit, causing much extra work and complications and needing extra staff. For some years this move succeeded, and the discretionary extras went down dramatically until the 1970s, when they gradually crept back on top of the higher base rates. Its effect, however, was to give supplementary benefit a permanent "lead" over national insurance benefits, even apart from the additional payment of housing costs for those on supplementary benefit. This gave many pensioners entitlement to a small amount of supplementary benefit, and increased the staff requirements on that side substantially.

secondly, they began the process which has continued ever since, of freezing the value of some benefits: the death grant (last increased in 1967, to £30), maternity grant (last increased in 1969, to £25), and the preference for those on industrial injuries benefit.

thirdly, they amalgamated the MPNI and NAB into the Ministry of Social Security in 1966, and that Ministry with the Ministry of Health into DHSS in 1968.

All the Crossman plans were lost at the 1970 Election, by which time social security expenditure was £3.7 billion and there were 65,000 staff, the increase being mainly on supplementary benefit. The incoming Conservative Government prepared their own plans for a new earnings- related pension scheme and contributions, published in a White Paper "Strategy for Pensions" in 1971. But they also legislated for many of the Crossman proposals (e.g pensions for widows aged between 40 and 50, and attendance allowance). And they added many new benefits of their own (e.g invalidity pension, pensions for the over 80s, the Christmas Bonus, and FIS). They also started benefit upratings annually, from 1972 onwards.

This all added up to a substantial increase in the scope and

size of social security. By 1975, social security expenditure had risen to £9 billion, and the staff to 82,000, again mainly in supplementary benefit staff.

The Conservative pension plans in turn were lost at the 1974 Election, but the new Labour Government went ahead in 1975 with earnings-related contributions and the end of the 1959 graduated scheme, while they planned their own earnings-related pension scheme.

Meanwhile, as in 1964, an incoming Labour Government gave flat-rate benefits an enormous increase, this time in July 1974 by 29 per cent, to £10 a week for a single person and £16 a week for a married couple. Once again this was far in excess of the rise in prices (13.4 per cent) since the previous increase (in only October 1973) or in earnings (14.7 per cent). And again means-tested benefits went up equally, so nobody was floated off supplementary benefit. There was just a huge lift of the basic floor for all.

The 1974-1980 Labour Government saw a large increase in the cost and size of social security, for several reasons. They put annual upratings into legislation, with long-term benefits guaranteed to go up in line with the better of the earnings or price indices, and the short-term benefits in line with prices. The large increases in prices and earnings in the late 1970s were thus passed straight on into benefit upratings. That Government also introduced several new benefits, especially for the disabled, chiefly on a non-contributory basis (e.g non-contributory invalidity pension in 1975, mobility allowance in 1976, and invalidity care allowance and housewives' non-contributory invalidty pension in 1977). They also introduced child benefit in place of family allowances, which extended payment to include the first child in the family, thereby doubling the cost; and replacing child tax allowances, which transferred £3 billion of tax forgone into an increase in public expenditure.

The total effect was a very large increase in public expenditure. By 1980, social security expenditure had reached £18 billion and social security staff 89,000.

Since 1980 social security expenditure has continued to rise,but mainly because of increases in numbers of claimants, especially of the unemployed and hence those on supplementary benefit also, but also of pensioners. The scope of benefits has started to reduce, in contrast to the process of the previous twenty years, with the abolition of earnings-related supplements to short-term benefits, the transfer of much of sick pay to employers, and of the housing costs of those on supplementary benefit to local authorities under the housing benefit scheme. These reforms, and others such as the revised supplementary benefit scheme, have been carried out at nil cost, and with substantial staff savings, reversing the upward trend in staff numbers for the first time since the 1950s.

Total savings in social security expenditure since 1979 amount to over £1½ billion a year; and in staff to over 15,000, despite an increase in beneficiaries from 30m to 35m, and an even larger increase in the costly and staff-intensive supplementary benefit claims, from 3m to 4.5m, and in supplementary benefit claims from the unemployed, from 660,000 to 2m.

The present position

So where are we now? (See pages 5-8 of the Handbook).

Social security now collects over £17bn a year in contributions, whereas the Exchequer provides over £18bn a year; most of that is to pay for non-contributory benefits (£14.6bn) such as supplementary benefit (£5bn), the disability and housing benefits (£5bn) and the family benefits such as child benefit and FIS (£4bn); and it also pays nearly £3bn to supplement the National Insurance Fund, which goes to pay contributory benefits, and meets about £1 bn of the £1½ bn administration costs.

The total benefit payments amount to nearly £35 bn a year, of which £20 bn is in contributory benefits.

The scale of operations is vast. On contributions, the Newcastle Central Office maintains 53 million personal accounts. There are over 20m new claims to benefit a year, which occupy a substantial part of total staff time. Most are from the sick (7½m), for supplementary benefit (5½m) and the unemployed (5m). Relatively few are for child benefit (less than 1m) or retirement pension (3/4m).

Reviews of existing awards also run at over 20m a year, and are the second large chunk of staff work. The great majority (13m) are on supplementary benefit, and nearly all the remainder on child benefit (4m) and retirement pension (also 4m).

Over 1 bn payments are made every year, nearly all by order book. The great majority of these, on pensions and child benefit, come from Newcastle Central Office, from the massive computers there which, with the huge contribution record computer, make it the biggest computer centre in Europe. That Central Office employs 11,500 people. The great majority (nearly 80 per cent), however, of social security staff work in the 500 local offices, which deal with the short-term benefits and supplementary benefits and which as yet have very little computer help.

Turning briefly to the parallel increase which there has had to be in revenue, the significant changes are:-

- the shares paid by employers and employees have gone up. The employers' share went up by 10 per cent between 1963 and 1973, and has been held steady since then. The employees' share has gone up by nearly 7 per cent over the last twenty years.

- What has gone down is the Treasury supplement to the NI Fund, by 16 per cent, in recognition of the Exchequer's increased contribution overall to

non-contributory benefits.

- And the contributions from the self-employed, have gone down by 50 per cent, having been deliberately held down as a matter of policy, especially in the last ten years.

Employers and employees now have to pay substantially increased contributions as a percentage of earnings. In 1963 they paid some 10½ per cent of earnings between them, split roughly half and half, but with the employee paying rather more than half. By 1973 it was some 12½ per cent, but with the employer now paying rather more than half. But now it is some 19½ per cent, plus a 1½ per cent NI surcharge, with the employer paying more than half. On top of income tax, this is a substantial marginal tax rate on earnings. How much further could it go? On the other hand, in other countries (e.g West Germany, France and Sweden) contributions are much higher than in the UK.

Finally, management and administration costs; and the increases in efficiency and reductions in staff which have been made since 1979, which are significant.

- The broad picture is that fewer staff are now processing more claims for benefit than four years ago. Unit costs per case have been reduced significantly. In 1979 there was one staff member to every 298 beneficiaries; now it is one to 337.

- This improvement in efficiency has been achieved despite the great growth over these four years in the proportion of means-tested cases, which are several times more costly to administer.

- Non-means-tested benefits cost about 3 per cent to administer as a proportion of the benefit paid. Means-tested benefits cost over 10 per cent, and four years ago they cost over 12 per cent of the

benefit paid.

- Put another way, non-means-tested benefits cost about 65p for each payment made: but means-tested benefits about £2.55p, or four times as much.

- A graphic illustration is that more than half our local office staff (over 30,000 of the 60,000) are now needed to pay 15 per cent of total benefit expenditure, ie that on supplementary benefit.

- The average cost of each payment has not increased as fast as the Retail Price Index over the last four years, again demonstrating a productivity improvement, of about 2 per cent a year.

How have we achieved these productivity improvements and increased efficiency? By unremitting attention to efficiency and staff-saving measures. The total DHSS staff (i.e including those on the Health side) in April 1979 was over 98,000. If we had not pursued efficiency and cost-cutting measures, the increase in demand since then, in the form of extra claims for benefit etc., would have increased our staff numbers to nearly 106,000 by April 1984. As it is, our staff target for then, which we shall achieve, is only 90,700. So we shall have saved some 15,000 posts.

How? Changes in benefits, such as employers' sick pay and new housing benefit, will account for nearly 6,000 of that 15,000 saving. But most of the rest comes from a host of special efficiency studies, including Rayner studies, O & M studies, staff inspections and special exercises. Three examples:-

First, a special study that we made of our Regional and local offices. The aim was to devolve as much work and responsibility as possible to local offices from HQ and Regions. We have acted swiftly to conduct the study and bring in the results. We have reduced our Regional offices within two years from 12 to 7,

and cut out a lot of their work and staff. There have been battles with the Unions, but we have made local office managers much more responsible for their staff budgets, recruitment, personnel policy and now their financial budgets. Savings - over 3,000 staff. And local managers love it and are responding to the new challenges with enthusiasm.

We also seized the chance of these changes to replace older Controllers who were invariably retiring from their last job in the civil service with younger men (and women) in their forties who had a career at HQ behind them and also in front of them. They are revitalising the Regional and local offices. Signs of the change are that young Principals and Administration Trainees now want to have a spell in local offices and in social security management at HQ; and local office people want to come to HQ.

We are also now starting experiments in local offices to encourage staff to come forward with ideas for greater efficiency, by allowing the office to be rewarded with some of the proceeds. There have been battles with Unions, but the programme is now launched, and first impressions are encouraging, with a lot of ideas coming forward.

A second example of increased efficiency and staff savings is a new claim form for the unemployed to claim supplementary benefit. This gets the claimant to provide more information on the claim, and cuts out the need for many to be interviewed in the local office or be visited at home. There was opposition from many claimants' groups and our Unions, but we have pressed ahead. We have found that many unemployed prefer the new claim form, and we have saved 1,000 staff.

Thirdly, we have devised and introduced new and more effective measures to detect and stop fraud and abuse. This has enabled us to recover more money than before

with 900 fewer staff. That is, we have become more cost-effective.

LOOKING TO THE FUTURE

These notes, and the accompanying booklet, provide the factual background for considering future trends and policy options.

So far as administrative and operational issues are concerned, it is already clear that the Department must continue to develop its operational strategy to harness the benefits of new technology so as to provide a better, cheaper service to the public and to contain staff numbers still further. (The prospects are of investment in this decade leading to savings of 20,000 staff or more after 1990.) On the policy front, against the background of Government determination to reduce public expenditure, much will depend on economic and demographic trends, and on possibilities of significant recasting of the social security schemes. A separate paper on this will be provided as a basis for discussion at the seminar planned for September.

August, 1983 M.J.A. PARTRIDGE

PERSONAL AND CONFIDENTIAL

Mr Butler o/r

Now finally set for 16/9. 11.30 → MQ afternoon

PRIME MINISTER

SEMINAR ON HEALTH AND SOCIAL SECURITY EXPENDITURE

This minute is to clear with you the lines on which we are arranging the seminar on health and social security policy for this Parliament. These are set out in Sir Kenneth Stowe's letter (attached), with which the Treasury are broadly content.

Sir Kenneth Stowe is sending over the material which would have been presented to you orally about the structure of the social security system, so that you can read it on holiday.

I suggest that we have the seminar on Friday 16 September at 10 Downing Street, starting at, say, 1030 in the morning and continuing after lunch if necessary. If you agree, we will lay on a buffet lunch.

The purpose of the seminar would be to identify a framework of policy objectives for DHSS programmes during this Parliament, taking account of the Government's other objectives for the economy, public expenditure, and incentives; and to identify particular subjects on which we might encourage academics and experts in the field to stimulate public debate in support of the Government's policies.

The attendance should be as limited as possible. I suggest the Secretary of State for Social Services, and perhaps his two Ministers of State, Sir Kenneth Stowe and one other DHSS official; the Chancellor of the Exchequer and the Chief Secretary, accompanied by Mr. Middleton, Mr. Bailey and one other Treasury official; and Sir Robert Armstrong. From here, we would have Sir Alan Walters (if he is about), Mr. Mount, Mr. Scholar and myself.

We could add to this one or two very reliable academics, but we have not been able to think of anybody who is both expert and reliable over the whole field, and our feeling is that it might be better to bring in the academics at the stage when we have identified subjects on which to commission research. You asked me to remind you about inquiring the names of suitable academics from the Centre for Policy Studies: Mr. Fowler is consulting Sir Keith Joseph and Lord Harris.

/Sir Kenneth

Sir Kenneth Stowe and Mr. Bailey are arranging an annotated agenda (access to which will be confined to a couple of officials in the DHSS apart from Sir Kenneth Stowe himself). Sir Kenneth envisages that it might cover four broad categories which would provide the agenda for the meeting:-

1. The unemployed - what should the aims of social security be, at what cost and with what effects on incentives, poverty and administration?

2. The elderly - the demographic prospect, the present and future cost of pensions and of health and community care.

3. The sick, disabled and physically/mentally handicapped, current trends and costs covering both benefits and health and hospital community care.

4. The working population and their families - their contributions to benefits and services through National Insurance and taxation and their cash benefits and services.

Are you content that we should be setting up a seminar on Friday 16 September on these broad lines?

F.E.R.B.

3 August 1983

Tim/Willie

I dictated this minute after confirming with Mr Bailey that the Treasury were content with the proposals in Sir K. Stowe's letter of 24 August. Could you please carry forward the arrangements with DHSS and Treasury when we have the PM's reaction.

FCB 3.9.

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AEWS

3 August 1983

Your Ref

with compliments

A. M. BAILEY

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H M Treasury
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A M Bailey CB
Second Permanent Secretary
Public Services

SECRET AND PERSONAL

3rd August, 1983.

Sir Kenneth Stowe, KCB, CVO,
Department of Health & Social Security,
Alexander Fleming House,
Elephant & Castle,
London, SE1 6BY

Dear Ken,

PRIME MINISTER'S SEMINAR ON DHSS PROGRAMME

Many thanks for your letter of 2nd August.

2. In general I agree very much with your approach, and the following points are really only matters of emphasis:

(i) Clearly the discussion, and the paper for it, must range over some fairly radical options. I would have thought Ministers (and officials) would find it less easy to discuss these if academics are present, however well-informed and reliable. This is not to play down the importance of stimulating public debate (your objective (c)) - but the time-scales are rather different, and Ministers should be in a better position to decide how to go about it when they have had this first "framework" discussion.

(ii) I agree with the distinction you draw between major policy issues (for the seminar) and formulation of PES (for the subsequent bilateral). Because PES will look forward at least three years (to 1986/87), the bilateral will obviously be guided by the conclusions of the seminar (what you call "terms of reference"). But there is as you know a pressing problem for 1984/85, and we have to ensure that the shorter-term options are not thought to be ruled out by what is said in the seminar, before our Ministers have gone over the figures and options in detail in the bilateral.

(iii) I agree that the paper must aim at an overview, and the structure you suggest seems fine. But I suspect it will have to be a bit more than an "annotated agenda" if it is to sharpen up the options for decisions on the "framework of policy objectives" and "terms of reference" as you suggest. Indeed you imply this in your list of "expenditure" items to be covered (middle of p.2)

(iv) Finally, we shall have to look for some way of quantifying the constraints imposed by "the Government's objectives for public expenditure and taxation". This will be for the Treasury, but may not be easy before our Ministers have a better feel for the likely outcome of the bilaterals. In any case, for a strategic discussion covering at least the lifetime of this Parliament, it is more a question of objectives and trade-offs than of specific targets.

3. We will be ready to co-operate in producing a paper on the lines you suggest over the next few weeks.

4. I am sending copies of this to Robin Butler and Robert Armstrong.

Yours,
Alan

(A. M. BAILEY)

SECRET

PERSONAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary
Sir Kenneth Stowe KCB CVO

Alan Bailey, Esq.,
HM Treasury,
London SW1

2 August, 1983

Dear Alan.

PRIME MINISTER'S SEMINAR ON DHSS PROGRAMMES

I have given some further thought, following conversations with you and Robin Butler, about how best to serve the Prime Minister's purposes for the proposed seminar in September. I have now had the opportunity of discussing this again with my Secretary of State and what follows takes account of his views.

Our assumption is that the seminar would be for a small group of Ministers - the Chancellor of the Exchequer, the Chief Secretary, Secretary of State for Social Services - and senior officials. My Secretary of State would like to leave open for consideration whether he should be accompanied by either or both of his Ministers of State. As to officials he would want no more than two; I assume two from the Treasury; and Sir Robert Armstrong.

We had envisaged a seminar in which a few academics might be present. Further reflection suggests that it would be difficult to generate the purposeful and informed discussion that is desired without going into issues and aspects that might be better not deployed before academics at this stage. The idea of having the selected academics present for part of the meeting is clumsy. I suspect that it is all or nothing and the choice will turn on selection of one or two thoroughly well informed and very reliable academics.

The purpose of the seminar might be:

a) to identify a framework of policy objectives for DHSS programmes for achievement in this Parliament which takes account of the Government's objectives for the economy, public expenditure and taxation;

b) to establish thereby terms of reference for the public

SECRET PERSONAL

Contd....

expenditure bilateral between the Chief Secretary and the Secretary of State for Social Services and for Cabinet's resumed discussion in October; and

c) to establish a framework and guidelines for an academic/political debate on the issues and choices for the longer term which will illuminate and support Government policies in this Parliament.

It is implicit and I ought to make it explicit that the seminar conceived on these lines would be about major policy issues and not about the formulation of the PES itself; it should certainly not be a collective substitute for the bilateral about PES provision and adjustments to programmes for 1984/5 although - as stated above - it should plainly point up the policy objectives which should govern the PES outcome.

We envisaged that the seminar might best be served if there were to be a single paper prepared by officials (I think this means the bulk of the work would fall to DHSS but in collaboration with the Treasury to produce an agreed paper). The paper would identify the main areas of DHSS expenditure (with supporting factual detail in appended summaries) so as to bring out for discussion;

i) the aims and objectives of existing policy, the extent to which they are being achieved and their implications for future costs.

ii) possible modifications of policies and their implications for costs etc.;

iii) the existing and potential sources of finance including charges, and also potential and private voluntary sources.

An important element in each area would be the cost of administration and the effectiveness of management.

It would, of course, be possible, given the size of the DHSS programmes, to lose everybody in detailed consideration of a host of benefits and/or client groups. I suggest that the Prime Minister and her colleagues would be best served if we concentrated on perhaps four broad categories:

i) the unemployed - given the prospective levels of unemployment, what should social security be trying to do, at what cost, with what effect on incentives, poverty and bureaucracy;

ii) the elderly - the demographic prospect, the present and

future costs of pensions and of health and community care;

iii) the sick, disabled and physically/mentally handicapped - current trends and costs covering both cash and health and community care;

iv) the working population and their families - their contributions to benefits and services through national insurance and taxation and their cash benefits and services.

It will be a tall order to construct a digestable paper. My own view is that given as background the three papers already to hand (Health Care and Its Costs, the handbook of Key Facts on Social Security which we have prepared for the Prime Minister's use tomorrow and the DHSS Organisation Staffing brief for Incoming Ministers), we might do well to aim at not much more than an annotated agenda. The alternative could be very boring.

I am copying this letter to Robin Butler and Robert Armstrong.

Yours ever

Ken.

National Health

Original on:
ECON POL: Public Exp: Pt 23

10 DOWNING STREET

From the Principal Private Secretary

26 July 1983

cc NATIONAL HEALTH: Seminar on Health and Social Security expenditure; 16 Sept 83: August 83

Your Secretary of State came to see the Prime Minister yesterday evening about the Government's approach to the public expenditure programme of the DHSS.

Your Secretary of State suggested, and the Prime Minister welcomed the suggestion, that the Government should devise its approach to the short-term public expenditure problems on the basis of a carefully-considered medium term strategy. Through the firmness of its approach in the last Parliament, the Government had achieved valuable long-term reforms which, despite initial opposition, were now generally accepted as important improvements, for example on earnings-related unemployment benefit, sickness benefit and the historic method of uprating. The Government needed to identify the further reforms it intended to undertake during this Parliament, recognising that legislation would be required for some of them, and decide its short-term strategy in the light of its medium-term objectives.

The Prime Minister and the Secretary of State agreed on the importance of supporting further reforms by informed public discussion, which should not be dominated by the lobbyists in the social security field who simply argued for ever-expanding benefits. There was a need to identify, either through the Social Science Research Council or directly, policy study groups or individual academics who could contribute to such public discussion of specific parts of the field. The Prime Minister suggested that your Secretary of State should ask Sir Keith Joseph and Lord Harris of High Cross if they could suggest some names: she would also make enquiries.

A similar approach was needed in the National Health Service. The major thrust here was likely to come through cutting down the waste and inefficiency which resulted from excessive administration or restrictive practices, and thus using the extra resources, which the Government were already planning to allocate to the NHS, more effectively for patient care. In this respect, it would be helpful if Mr. Roy Griffiths were to write the report of his management inquiry in a form in which it could be published: your Secretary of State agreed to put this point to Mr. Griffiths.

Summing up the discussion, the Prime Minister suggested the following next steps. It would be helpful to her thinking about the social security system if she could be given an oral briefing,

/ before

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before she goes away on her holiday, on how the current structure of contributory and non-contributory benefits fits together. I am in touch with Sir Kenneth Stowe about the arrangements for this. Then the Prime Minister suggested that she should hold a small meeting in September, involving Ministers from your Department and from the Treasury, at which a strategy for social security benefits and expenditure on the health service could be discussed: some outside experts might be invited to some part of that meeting, both in order to contribute their ideas and to identify areas to which they should be encouraged to direct further studies.

If your Secretary of State agrees, perhaps Sir Kenneth Stowe would consult the Treasury about a possible format for the September meeting and about the papers which might be prepared. I hope that we could make suggestions to the Prime Minister in a week's time about how we might set up the September meeting.

I am copying this letter to John Kerr (Chancellor of the Exchequer's Office) and John Gieve (Chief Secretary's Office). I should be grateful if no copies could be made of this letter and if knowledge of the arrangements proposed in it could be confined to the minimum number of senior officials who need to be involved.

Steve Godber, Esq.,
Department of Health and Social Security.

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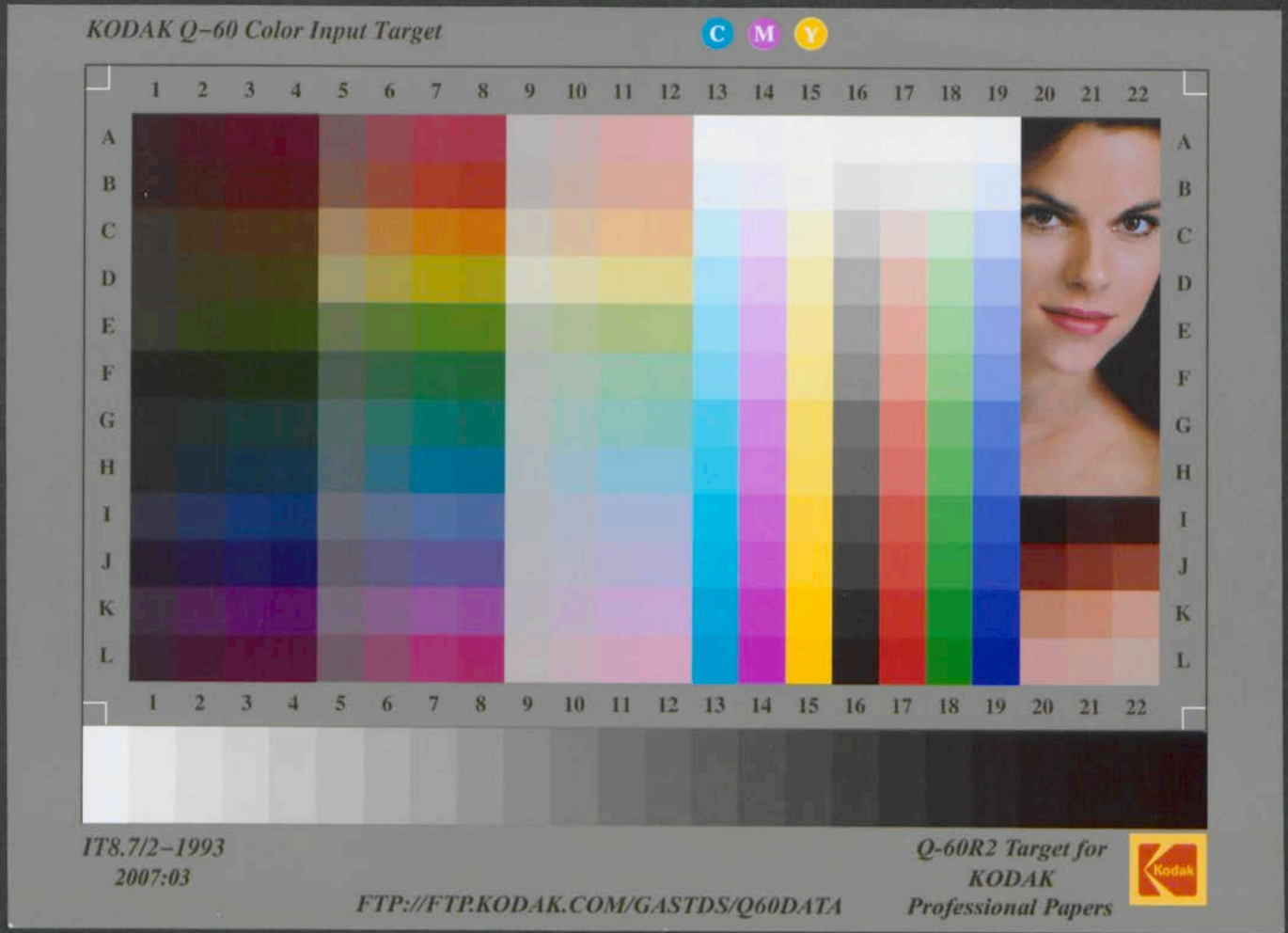
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