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CONFIDENTIAL FILING

REVIEW OF SOCIAL SECURITY BENEFITS — MISC 111.

(Draft Green Paper on Social Security Review in folder @ back) & Report on Social Security Review)

SOCIAL SERVICES

PART ONE.

FEB 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.2.85~~							
~~8.2.85~~							
~~11.2.85~~							
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~~27.3.85~~							
29.3.85							
ENDS							

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PART 1 ends:-

DHSS to MEA 29.3.85.

PART 2 begins:-

MISC 111(85)7th 1.4.85.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 111(85)13	29/03/1985
MISC 111(85)12	29/03/1985
MISC 111(85) 6th Meeting minutes - Limited Circulation Annex	27/03/1985
MISC 111(85) 5th Meeting minutes - Limited Circulation Annex	25/03/1985
MISC 111(85)10	22/03/1985
MISC 111(85)11	21/03/1985
MISC 111(85) 4th Meeting minutes - Limited Circulation Annex	20/03/1985
MISC 111(85) 9	18/03/1985
MISC 111(85) 8	13/03/1985
MISC 111(85) 7	03/03/1985
MISC 111(85) 3rd Meeting minutes - Limited Circulation Annex	25/02/1985
MISC 111(85) 6	20/02/1985
MISC 111(85) 3 (Revise)	19/02/1985
MISC 111(85) 2nd Meeting minutes	13/02/1985
MISC 111(85) 5	12/02/1985
MISC 111(85) 4	12/02/1985
MISC 111(85) 3	11/02/1985
MISC 111(85) 1st Meeting minutes - Limited Circulation Annex	06/02/1985
MISC 111(85) 2	04/02/1985
MISC 111(85) 1	01/02/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 12/5/2014

PREM Records Team

SECRET

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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

Mark Addison Esq
Private Secretary
10 Downing Street

29 March 1985

Dear Mark

MISC 111: PROVISION FOR RETIREMENT

I regret the attached was omitted from the minute from my Secretary of State to the Prime Minister sent round earlier today.

I am copying this letter to the Private Secretaries to members of MISC 111, Elizabeth Hodkinson (Department of Education and Science), John Ballard (Department of the Environment), Callum McCarthy (Department of Trade and Industry) and to Richard Hatfield (Cabinet Office).

Yours

Steve

S A Godber
Private Secretary

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CC: HO

SECRETARY OF STATE FOR SCOTLAND

NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

CONFIDENTIAL

NBPM

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

29 March 1985

Dear Norman,

STUDENTS' ENTITLEMENTS TO SUPPLEMENTARY BENEFIT AND HOUSING BENEFIT

I understand that you will be considering with colleagues on MISC III on 1 April the report from the interdepartmental working party which has been considering the scope for ending or reducing the level of support for students through the supplementary benefit and housing benefit schemes.

I appreciate that the present arrangements - involving as they do a division of responsibility for students between DHSS and Education Departments - are not entirely satisfactory. I have no doubt that the whole question of where responsibility for student support lies deserves the most careful attention. However, while I do not object in principle to the kind of rationalisation that the working party has in mind, it could I feel reasonably be argued by those who were critical of the 1985/86 student awards proposals last December that this is a matter which should be considered in a wider context. I should be most concerned therefore if any changes to entitlement which disadvantaged students were implemented in advance of the review of student support on which Keith Joseph and I are now engaged.

I should in particular be concerned about any proposal which was likely to increase my own Department's manpower requirements, and I hope that I will be consulted before any final decisions are taken.

I am copying this letter to Keith Joseph and to members of MISC III.

Yours ever,

George.

OD

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

Prime Minister

Agree the formula attached?

29/3

Tim Flesher Esq
Private Secretary
10 Downing Street

29 March 1985

Dear Tim,

BENEFITS FOR 16 and 17 YEAR OLDS

You may have seen that Mr Campbell-Savours MP has tabled a Question about the future benefit entitlement of 16 and 17 year olds. As similar queries may be put to a number of Ministers, I am enclosing the draft of the reply which, subject to any comments, my Minister proposes to give early next week.

I am copying this to Margaret O'Mara (HM Treasury), Judith Rutherford (Department of Employment), Leigh Lewis (Office of the Minister without Portfolio) and to Richard Hatfield (Cabinet Office).

Yours sincerely

Stephen

S H F Hickey
Private Secretary

Mr D N Campbell-Savours (La Workington): To ask the Secretary of State for Social Services, whether he proposes any changes affecting the benefit entitlements of 16 and 17 year olds.

DRAFT REPLY

We have no present proposals at present for changes in benefit entitlement as part of the current plans for expanding the Youth Training Scheme. It is, however, the aim of this expansion to provide a guaranteed opportunity of appropriate training for young people of this age who are not in work or in full-time education so that unemployment is not an option for them. The benefit position will be given further consideration in the light of progress towards this objective, taking into account also any wider changes in the benefit system which may follow from the present social security review.

no present proposals

[illegible]

29 MAR 1985

PRIME MINISTER 29 March 1985

MISC 111

Three notes are attached covering:

- The miscellaneous outstanding issues.

- What have we achieved?

- The option of missing an uprating which the Chancellor is likely to raise orally.

David Willetts

DAVID WILLETTS

E.R.

MISCELLANEOUS OUTSTANDING ISSUES

Family Credit and Child Benefit

We favour holding Child Benefit at £6.85 rather than uprating it to £7 as proposed by Norman Fowler. This gives an extra £80 million of savings - more than enough to absorb the costs of any higher take-up of Family Credit. We should have only one Child Benefit uprating between now and the next Election. And it should be nearer the Election.

Maximum Rents

Centralised rent-capping could be an administrative nightmare. And as local authorities will be paying 20% of the Housing Benefit bill, they will at last have an incentive not to pay high rents. But to make sure that we get savings, the DHSS should issue guidelines on calculating maximum rents which hold them down very close to average rents in an area. If local authorities fail to keep within these guidelines, then we impose the rent cap.

Students

We recommend that you pocket the savings of £20 million for the coming academic year. We should get bigger savings in later years as students come fully out of benefits. Keith

Joseph will want to use some of the £100 milliuon savings, but we should aim for net savings of at least £50 million.

Pensions

These tricky questions are best remitted to Treasury and DHSS to resolve bilaterally.

E.R.

WHAT HAVE WE ACHIEVED FROM THE SOCIAL SECURITY REVIEWS?

Gainers and losers

We have helped poor working families, with the Family Credit. The new HB regime helps people with low wages close to SB rates.

Old people lose from the HB reforms because a lot of them are owner-occupiers getting rate rebates. They also lose from the abolition of heating additions. But we don't break any pledges to old people. As pensioners receive half the total benefits budget, savings are bound to affect them.

Unemployed young single people are hit. They have a much tougher SB regime (a maximum rate of £22.45 for people under 25). Unemployed couples with families gain from the new Family Premium under SB, though - like all other SB recipients - they lose from the HB changes.

Positive Themes

Getting people back to work by helping the family man with a low wage and by reducing the benefit floor, especially for the unemployed single person.

Strengthening local democracy by exposing everybody to some of the cost of rates.

Making the scrounger's life more difficult by getting rid of some of the most easily exploited loopholes, such as SB special payments and benefits for students. Making local authorities challenge high rent costs for HB recipients.

In simplifying the system, we save between 3,000 and 4,000 DHSS staff. One entire means test - the separate HB assessment of need - disappears. Several benefits go - SERPS, death grant, maternity grant, and FIS. One new benefit has been introduced (the Family Credit) but that is not part of Girocheque culture.

<u>The Unemployment Trap</u>

Norman Fowler's evidence shows that unemployed families have the toughest Supplementary Benefit regime at the moment. So his changes in Supplementary Benefit aim to help these people. But if we want to get them back into jobs, the benefit regime should be tougher for unemployed people than for other categories. Should his Family Premium for people on Supplementary Benefit be cut back? He could put the savings into helping other groups such as the sick and the disabled.

E.R.

SOCIAL SECURITY UPRATINGS

There are obvious political difficulties in messing around with social security upratings. So far, we have saved about £900 million for 1987-88 (excluding Child Benefit savings). That is not a bad score. We want to save more or, at the very least, get the savings sooner. Why give people money now, and then take it back from them shortly before the Election?

The Chancellor may therefore raise the option of not uprating the unpledged benefits this year. Total savings are £200 million in 1985-85, and £580 million in 1986-87. (Details in the attached table.)

He will argue that once you have decided not to uprate Child Benefit this year, then you need to hold SB for the unemployed as well - otherwise you have exacerbated the Why Work problem. And if you're going to cut HB, what's the point in raising it this year?

But a partial uprating will to some extent take you in the wrong direction. Pensioners will get full protection; but they will then subsequently lose under the reforms of SB and HB. The Green Paper will eloquently argue that we need to shift support from pensioners to poor working families. At the same time, we will be helping pensioners whilst depriving working families of their Child Benefit increase.

There is also an important practical point. Norman Fowler doesn't believe it would be feasible to implement his reforms in November 1986 without risking a fiasco like the unification of Housing Benefit. November 1987 would be too late for comfort. One way out would be to shift to an uprating of unpledged benefits in April 1987 (having missed November 1986) and implement all the changes then. An alternative would be to implement some of the changes in Housing Benefit and Supplementary Benefit in April 1986, and miss this year's uprating. The remainder of the reforms could be implemented in April 1987.

There are tricky political and practical issues here. You will not wish to take a final decision on Monday. But missing or delaying this year's uprating of the unpledged benefits seems the least objectionable way forward.

E.R.

Not uprate unpledged benefits this year:

		Savings (£m)	
		1985/86	1986/87
Child Benefit		70	210
One-Parent Benefit		5	10
FIS		10	30
Supplementary Benefit (except pensioners)		90	260
Mobility Allowance		5	20
Housing Benefit (pe)		20	50
(rate rebates non-pe)		20	55
TOTAL (rounded)	**pe**	**200**	**580**
	non-pe	**20**	**55**

Note: these figures assume a one-off step change in the level of benefits by musing a 5% uprating. Subsequent upratings do not restore the cut.

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P.01524

SECRET

PRIME MINISTER

Provision for Retirement

(Secretary of State for Social Services minute of 29 March) - att.

BACKGROUND

1. At MISC 111(85)2nd Meeting the Group agreed that SERPS should be abolished, that there should instead be a compulsory minimum requirement on employers to provide a second pension, and that the transitional period leading to the introduction of the compulsory requirement should be as short as possible. In his minute, Mr Fowler

- favours a nil transitional period (ie. compulsion from 1987 when SERPS is abolished) with a 3 year period as a fallback

- sets out the main features of the compulsory requirement (on page 2)

- annexes tables illustrating the effect of a compulsory scheme on employers' and employees' wage costs and the pensions people can expect to receive compared with what SERPS would have given them.

MAIN ISSUES

2. The main issues are

(a) whether the main features of the compulsory requirement are acceptable

(b) what transitional period would be appropriate before the requirement is introduced.

Main Features

3. Mr Fowler's proposals look sensible but do not go into much

detail. It will be important that there is close consultation between Mr Fowler, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry in working up proposals and in drafting the Green Paper.

Transitional period

4. There is no need to settle finally the length of the transitional period now. This can be done after the Green Paper consultations and in the light of them. The Green Paper probably ought to go for as short a period as possible, as it is almost certain to get extended in the consultations. But no transitional period at all (as proposed by Mr Fowler) will be hard to sustain unless the Green Paper can be fairly detailed on what the compulsory requirement is going to be.

HANDLING

5. Secretary of State for Social Services to introduce. The Chancellor of the Exchequerand the Secretary of State for Trade and Industry will wish to contribute.

CONCLUSIONS

6. You will wish the Group to reach conclusions on

i. the broad outline of the compulsory requirement and the need for close consultation between the Ministers concerned in its further development

ii. the length of the transitional period

PLG

P L GREGSON

29 March 1985

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P.01523

PRIME MINISTER

Social Security Reviews - Outstanding Issues
(MISC 111(85)12) - att

In its earlier discussions MISC 111 asked for a number of issues to be considered further. The Secretary of State for Social Services deals with them in MISC 111(85)12 and also makes a further proposal on maternity allowances. The issues are:

(i) Family credit and child benefit
(ii) Maximum rents
(iii) Students
(iv) Widows' benefits
(v) Maternity allowance

A series of briefs on each of these issues is attached. The Secretary of State for Social Services has minuted you separately on, and there is a separate brief on provision for retirement.

PLG

P L GREGSON

29 March 1985

SECRET

i. Family Credit and Child Benefit

(MISC 111(85)12, paragraphs 2 to 4 and Annex A) - ctt

Previous reference MISC 111(85)5th Meeting Minute 1

At the 5th meeting the Group saw a number of attractions in replacing Family Income Supplement (FIS) with a family credit scheme, running alongside universal child benefit, paid through the wage packet, with eligibility assessed on the same lines as supplementary benefit (SB), and comprising a flat amount plus additions per child. Assuming a 60% take-up this would have a net cost of £67 million. In the light of concern about likely rates of take-up and therefore costs, the Secretary of State for Social Services was asked to illustrate family credit costs over 5 years assuming take-up was higher and benefit was uprated in line with SB; together with the savings achievable by uprating child benefit/CB at a slower rate.

2. MISC 111(85)12 Annex A shows that family credit would cost £100 million at 70% take-up and £130 million at 80%. Mr Fowler argues however that 60% continues to be the most realistic assumption and that 80% is quite unrealistic. Furthermore even if take-up were, say, 70% Mr Fowler believes it would be worthwhile and could easily be funded by restraint on child benefit uprating (restricting the next up-rating to £7 would produce £100 million in savings).

3. On free milk and school meals, Mr Fowler remains of the view that free school meals should be abolished for working families but still needs to discuss financial issues with the Education Secretary. For clarification, he says that his proposal regarding milk for under 2s was to maintain benefits in kind only for those on formula milk.

MAIN ISSUES

4(a) Whether Family Credit should be introduced even if take-up is higher than 60%. The principle and approach were generally welcomed when last discussed. The only issue is that of cost.

Tables 1 and 2 of Annex A indicate that there would be negligible savings with Family Credit expenditure at 70% take-up and increasing CB to £7 in November and uprating for prices thereafter. The Chief Secretary, Treasury, is likely to press for more either by less generous Family Credit or more radical CB options. He may press for very large savings (up to £1 billion) but I suggest that, if he does, he should be asked to raise this under the separate item on the agenda (Outcome of the Review) so that discussion can concentrate simply on Family Credit at this stage.

(b) Whether free school meals should be abolished for working families, subject to the agreement of the Education Secretary. There would be losers, because not all those eligible take up the benefit at present; but abolition would be in line with the philosophy of giving those who need it both money and the choice how to use it.

HANDLING

5. The Secretary of State for Social Services to introduce. The Chief Secretary will have views, and the Education Secretary should be invited to comment on free school meals.

CONCLUSIONS

6. You will wish the Group to reach conclusions on

i. whether to introduce family credit

ii. whether to seek compensating savings on child benefit and to what extent

iii. whether to withdraw free school meals for families in work subject to consultation between the Ministers concerned.

ii. Maximum rents

(MISC 111(85)12, paragraphs 5 and 6 and Annex B) - att

(Previous reference MISC 111(85)4th Meeting, Minute 1)

BACKGROUND

1. At the 4th Meeting of the Group it was agreed that housing benefit (HB) should provide assistance to individuals of only 80% on rates but of 100% on rents. There would be an indirect discipline on rents in that local authorities would only be refunded for 80% of their HB expenditure but in addition the Secretary of State for Social Services was asked to explore the possibility of setting maximum rent levels allowable for HB as a more direct discipline.

2. MISC 111(85)12 argues that variations in rent levels between regions and between housing sectors are too great to permit national limits to be set. Only local authorities could select limits sensitive to local conditions; any governing formulae would either err towards generosity or require many exceptions to avoid unacceptable hardships; private landlords might be tempted to increase rents to the local limit; and the scheme would be difficult to police. Mr Fowler concludes that such a system would be either very cumbersome or very unfair and proposes an alternative - to put pressure on local authorities as administrators of HB to control unreasonable rents, through:

(i) reimbursement of only 80% of HB expenditure (already agreed)

Strengthening powers

(ii) streamlining and strengthening authorities' present powers to act on unreasonable rents or rent increases

(iii) closer scrutiny of subsidy claims

(iv) a reserve power to 'rent cap' any authority behaving unreasonably

MAIN ISSUES

3(a) Whether national or local limits are impracticable. A national limit does not seem to make sense and to deal with local variations would inevitably be cumbersome.

(b) Whether the alternative scheme proposed is acceptable. Success would appear to rest heavily on local authority initiative. Selective "Rent capping" would be controversial and cumbersome.

(c) Whether to reopen the possibility of less than 100% assistance to individuals on rents (eg. 95%). It was accepted in the earlier discussion that this approach would bear hard on individuals, especially in high rent areas. It was also thought that 100% assistance with rents would make it easier to secure agreement to the important 80% assistance with rates.

HANDLING

4. The Secretary of State for Social Services to introduce. The Secretary of State for the Environment and the Chief Secretary will wish to comment.

CONCLUSIONS

5. You will wish the Group to reach conclusions on

(i) whether to limit the rents eligible for HB, whether nationally or locally

(ii) whether to adopt the alternative proposals to exert pressure on rents, or some other proposal.

iii. Students

(MISC 111(85)12, paragraph 7) – att

(Previous reference: MISC 111(85) 6th Meeting Minute 1)

1. At the 6th Meeting of the Group it was agreed in principle that students should lose their entitlement to supplementary benefit (SB) and housing benefit (HB). The Secretary of State for Social Services was invited, in consultation with the Secretary of State for Education and Science, to report back with firm proposals both for interim action on benefits and for coordinated presentation of the Government's options for student support in the future.

2. In MISC 111(85)12 Mr Fowler says that for the next academic year, it would be possible to implement an interim solution saving £20 million and simplifying administration. He suggests that he should settle the details with the Secretary of State for Education and Science and the Chief Secretary with a view to announcing them soon after the Social Security Green Paper is published. As regards presentation for the longer term, Mr Fowler suggests that the Social Security Green Paper should simply make the case for the principle of withdrawing SB and HB from students; and that any further detailed argument would be for Sir Keith Joseph's Green Paper on student support.

MAIN ISSUES

3. The issues are

(a) whether to implement an interim solution for the next academic year. (Mr Fowler should be asked to expand on what it is.)

(b) Presentation of interim solution and of main proposals in the two Green Papers. What is important is that Mr Fowler and Sir Keith Joseph should work closely together and that what they say should be entirely consistent.

HANDLING

4. The Secretary of State for Social Services to introduce The Secretary of State for Education and Science and the Chief Secretary will wish to comment.

CONCLUSIONS

5. You will wish the Group to reach conclusions on

(i) whether to implement an interim solution for the next academic year and when to announce this

(ii) The presentation of the case for longer-term change.

SECRET

iv. Widows' benefits

(MISC 111(85)12, paragraph 8 and Annex C) – att

(Previous reference MISC 111(85) 6th Meeting, Minute 7)

At the 6th meeting of the Group it was agreed that in addition to changes in widows' pensions, the present widows' allowance payable on bereavement should be replaced by a lump sum payment of £1000. The Group asked that the possibility should also be investigated of offering widows a choice between the lump sum or an enhanced rate of weekly benefit for the first 26 weeks of widowhood.

2. MISC 111(85)12 says that it would be quite feasible to offer the option of spreading the lump sum over, say, 26 weeks. Mr Fowler argues however that it is an unnecessary complication as widows can always bank the lump sum and draw on it as they wish. (The Annex also points out that those on SB would lose by taking weekly payments.)

3. As to the size of the lump sum (with which the Group was originally content) Mr Fowler points out that if it is set at £1,000 there will be net additional expenditure of £15 million in year 1 and savings from year 3. The £15 million could be saved by further raising the age thresholds for childless widows to receive pensions; or by paying £750 lump sum in year 1 and raising them to £1,000 from year 2.

MAIN ISSUES

4. (a) Whether to offer a choice between single lump sum or say, spreading the same payment over 26 weeks. It is perfectly practicable to do and there are no strong arguments either way.

(b) Whether the lump sum should be reduced to £750 either permanently or for year 1 alone. Since £1,000 will produce savings from year 3, and £750 will be barely more than half the present widows' allowance, there seems a good case for holding to the attractive round figure of £1,000 and accepting the £15 million net cost.

HANDLING

5. The Secretary of State for Social Services will wish to introduce, and the Chief Secretary to comment.

CONCLUSIONS

6. It will be necessary to decide -

i. Whether to offer a weekly-paid alternative to the lump sum

ii. Whether to set the lump sum at £750, £1,000 or £750 in year 1 and £1,000 thereafter.

SECRET

v. Maternity Allowance

(MISC 111(85)12 paragraph 9) - att.

(Previous reference MISC 111(85)6th Meeting Minute 5)

1. The Group rejected a proposal to replace the existing maternity pay and maternity allowance schemes by a new scheme of "statutory maternity pay". Mr Fowler is not seeking to change this decision but does propose some modest changes to the maternity allowance scheme as it is to be retained:

(i) To change the contributions test to having worked for 6 months during the past 12 and having paid contributions on earnings above the lower earnings limit. This should reduce the 25% of the awards going to women who have worked at no time during their pregnancy.

(ii) In line with medical advice, allow the 13 weeks' benefit to be drawn any time from 6 weeks before to 6 weeks after the date of confinement.

Small overall savings are expected.

MAIN ISSUE

2. Are these small changes acceptable?

HANDLING

4. The Secretary of State for Social Services to introduce. The Chief Secretary and possibly the Secretary of State for Employment may wish to comment.

CONCLUSIONS

5. You will wish the Group to reach conclusions on:
(i) the changes proposed in the eligibility test for maternity allowance.

SECRET

ii. flexible payment of the allowance in the period between 6 weeks before and 6 weeks after confinement.

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P.01522

PRIME MINISTER

Outcome of the Review
(MISC 111(85)13) — ott

Following the consideration of the components of the review, item by item, the Group need to look at the outcome as a whole and to consider how to take matters forward.

MAIN ISSUES

2. The main issues are:

a. whether the package of structural reforms and expenditure savings is acceptable;

b. the timing of Cabinet discussion, public announcement, consultation, legislation and implementation.

The Package

3. The proposals approved by the Group are summarised, together with costs/savings and an estimation of gainers/losers in Annex 1 of MISC 111(85)13. The Group also wanted to see some illustrations of how typical households might be affected by the changes. Mr Fowler hopes to bring some information on this to the meeting.

4. There is an element of multiple-counting in the gainers/losers; overall it looks as though there may be between 2 and 3 million gainers and perhaps between 7 and 8 million losers. (7.2 million will lose from the housing benefit changes alone; some of these will lose from other changes also; perhaps about half a million unaffected by housing benefit - for example the better-off recipients of death grant and maternity grant - will also lose.)

5. Mr Fowler estimates that the reforms will save over £900 million in 1987/88 and well over £1 billion in 1988/89. These figures include hardly anything for the abolition of SERPS which will be producing further savings of £550 million a year by 1993/94 and over £20 billion a year eventually. At the first meeting of the Group the Chancellor of the Exchequer indicated that he was seeking savings of £750 million by 1988/89. This figure is reached comfortably. Subsequently he and the Chief Secretary, Treasury, have argued for £2 billion by 1987/88. The shortfall on this target is about £1 billion.

6. The Group has been anxious throughout to secure sufficient savings to make the controversy and turbulence created by the structual changes worthwhile. Against this a too ambitious target for savings may arouse so much controversy and difficulty that the reforms will not carry through and the Government will lose both the savings and the other benefits of reform.

7. Since the Group has ruled out action on child benefit other than perhaps freezing it at or somewhat above its present level, the only remaining area for savings is in the benefit rates, in particular the uprating of unpledged benefits. Mr Fowler will argue that savings from this source are not relevant to the review and should be discussed in the public expenditure round in the normal way. As against this, there is the danger that the upset created by the review will in practice severely restrict the scope for obtaining further savings in social security in the lifetime of this Parliament. There is therefore a case for reaching a clear understanding now on all the savings that are considered necessary for some years, taking account of overall public acceptability.

<u>Next Steps</u>

8. Mr Fowler proposes:

Cabinet	- immediately after Easter
a Green Paper	- on about 7 May
Legislation	- next Session
Implementation	- from April 1987.

9. Unless there are significant issues still not agreed it would seem sensible to put proposals before Cabinet as soon as possible. 18 April is the next opportunity. (The Chancellor of the Exchequer will be in New York at that time for the IMF meeting but this should not be crucial, provided that he is broadly content with the proposals.)

10. Mr Fowler proposes a Green Paper in early May. It would, however, make clear that some of the proposals - notably pensions, supplementary benefit, housing benefit and family support - are firm. It would be followed by a White Paper in the autumn at the same time as the Bill is presented. You may wish to suggest that the Green Paper should be circulated to the Group in draft.

11. Mr Fowler says that legislation can be ready for the start of the Session (ie early November). Given the scale of change there must be some doubts about just how practical this would prove to be. Nonetheless Cabinet has agreed a place for a Bill in next Session's programme and it is clearly important that what will be a large and contentious Bill should be ready very early in the Session.

12. April 1987 is suggested as the earliest practicable date for general implementation. It is also the latest if fully adequate savings are to be secured in 1987/88. Mr Fowler argues against advancing the timetable (eg to the previous November) on grounds of the need for effective instructions, staff training etc. Given the scale of the changes it does seem important that staff and public should be adequately prepared. The danger otherwise is initial confusion on a potentially large scale as happened with housing benefit.

HANDLING

13. You will want the Secretary of State for Social Services to introduce his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury will in particular have views on the acceptability of the package, as will most other members of the Group. On presentation and legislation, the Lord President may wish to comment.

CONCLUSIONS

14. You will wish the Group to reach conclusions on:

i. the overall acceptability of the package;

ii. the next steps, in particular, reference to Cabinet, publication of Green Paper, legislation and target date for implementation.

PLG

P L GREGSON

29 March 1985

CCDW

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PRIME MINISTER

MISC 111: PROVISION FOR RETIREMENT

We agreed at the second meeting of MISC 111 on 13 February that a compulsory occupational pension scheme should be introduced after the State earnings-related pension scheme (SERPS) is abolished in 1987. My paper discussed at that meeting (MISC 111(85)5) set out the framework of such a scheme. Colleagues may now like to know more about how I see it operating.

MISC 111 favoured early introduction of the compulsory scheme - if possible in 1987. I am convinced that we should aim for this. It will mean that there is no gap between SERPS and its successor and that the new scheme will be fully operational before an election. Pension rights will start building up for everyone. By contrast, a transitional period would mean a gap between SERPS and the new scheme for those most likely to need additional pensions (and who would otherwise need means-tested help. Even with inducements, employers who have hitherto resisted setting up a pension scheme are likely to leave it until the last minute.

If the response to the Green Paper suggests that a full start in 1987 is unrealistic, we might go for a short phasing in period of no more than three years. I would then regard it as essential to give employers some form of national insurance contribution concession during that period. That would give them more time to get their schemes set up and encourage them to do so as soon as possible.We agreed that the form of the scheme should be a "money purchase" one with a minimum percentage of an employee's earnings required as a pension contribution and the employer meeting at least half of this. I envisage that minimum as being around 5%

or 4% of earnings, to keep down burdens on employers. Schemes would have to provide as a minimum a pension (indexed after award by the lesser of 5% and the RPI) and survivors' benefits.

The other major features of the occupational scheme are

- coverage should be as complete as possible. I propose to exclude only new employees (say for the first 6 months) and those on very low earnings, perhaps below the lower earnings limit for national insurance contributions, to avoid the danger of supplementary benefit dependence.

- everyone would be able to choose a personal pension instead of joining an employer's scheme. In that case, the same minimum contributions would be required as for the compulsory occupational scheme, at least half being met by the employer.

- self-employed people will be included in the compulsory scheme. Again, we shall need some exemption for those with very low profits, perhaps tied to the small earnings exception for Class 2 national insurance contributions.

- schemes basing pensions on a promised level of benefit (e.g. related to final salary) would be able to meet the compulsory requirements on the basis of a contribution test. Schemes at present contracted-out would qualify automatically.

- protection of pension investments is also a subject on which I shall invite views in the Green Paper. Norman Tebbit's proposed framework for investor protection is a very substantial step forward. But we shall need additional controls and safeguards, particularly to cover self-administered pension schemes and to limit administrative charges. This is a matter which I shall discuss further with Norman Tebbit. The annexes to this minute show the effect of a compulsory scheme on employers' and employees' wage costs and the pensions which people can expect under the scheme, compared with what they would have got from SERPS.

I shall be discussing separately with Treasury Ministers the implications of the compulsory scheme for the indexation of public sector pensions. I am also giving further thought, as the Group wanted, about the penalties for non-compliance and I shall consult Leon Brittan about these.

The result of these proposals will be that almost everyone who has been in work will have an occupational pension; and at any one time over 80% of the workforce will be in schemes, compared with only 50% now.

I am copying this minute to the members of MISC 111, Keith Joseph, Patrick Jenkin and Norman Tebbit, and to Sir Robert Armstrong.

29 March 1985

for NF

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

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ANNEX 1

THE EFFECT OF A COMPULSORY OCCUPATIONAL SCHEME ON EMPLOYERS' AND EMPLOYEES' COSTS

A. WITH A MINIMUM CONTRIBUTION OF 4% OF EARNINGS (2% A SIDE)

1. EMPLOYERS

Weekly earnings £	Contracted-in 1985/86 (NIC)	Contracted-in After change (NIC + pension cont)	Contracted-out (NIC only) 1985/86	Contracted-out (NIC only) After change
50	2.50	2.50	1.91	1.50
70	4.90	4.90	3.49	3.50
100	9.00	9.00	6.36	7.00
120	10.80	10.80	7.34	8.40
150	15.68	15.75	10.98	12.75
180	18.81	18.90	12.89	15.30
200	20.90	21.00	14.16	17.00
265	27.69	27.83	18.28	22.53
500	52.25	52.50	42.84	42.50

2. EMPLOYEES

50	2.50	2.50	2.19	1.50
70	4.90	4.90	4.16	3.50
100	9.00	9.00	7.62	7.00
120	10.80	10.80	8.99	8.40
150	13.50	15.00	11.04	12.00
180	16.20	18.00	13.10	14.40
200	18.00	20.00	14.47	16.00
265 (UEL)	23.85	26.50	18.92	21.20

B. WITH A MINIMUM CONTRIBUTION OF 5% OF EARNINGS (2½% A SIDE)

3. EMPLOYERS

Weekly earnings	Contracted-in		Contracted-out (NIC only)	
	1985/86 (NIC)	After change (NIC + pension cont)	1985/86	After change
£				
50	2.50	2.75	1.91	1.50
70	4.90	5.25	3.49	3.50
100	9.00	9.50	6.36	7.00
120	10.80	11.40	7.34	8.40
150	15.68	17.25	10.98	12.75
180	18.81	19.80	12.89	15.30
200	20.90	22.00	14.16	17.00
265	27.69	29.16	18.28	22.53
500	52.25	55.00	42.84	42.50

4. EMPLOYEES

50	2.50	2.68	2.19	1.50
70	4.90	5.15	4.16	3.50
100	9.00	9.35	7.62	7.00
120	10.80	11.22	8.99	8.40
150	13.50	15.53	11.04	12.00
180	16.20	18.63	13.10	14.40
200	18.00	20.70	14.47	16.00
265 (UEL)	23.85	27.43	18.92	21.20

Notes

1. For contracted-in employees the effects of change are shown net of 30% tax relief on their pension contributions. This means an actual contribution of 0.7% of earnings for each 1% stipulated as a minimum.

2. 1985/86 figures embody the changes announced in the Budget and due to come in in October.

3. It is assumed that the NI contribution reliefs for low paid employees on the lines announced in the Budget continue after the change. The combined NIC rate is assumed to be 16.5% (the latest GAD estimate), split 8.5% - 8% between employer and employee. Special rates for the low paid are assumed to be successively 3%, 5% and 7% a side.

4. 1985/86 figures are for NIC only. "After change" onces are NIC only for the contracted-out and NIC + 2% pension contribution for others. This is because the only extra burdens on contracted-out people will be from higher NIC rates: they will already be in occupational schemes that will qualify under the new arrangements.

5. NIC rates for people now contracted-out will rise because of the abolition of SERPS (it is from the earnings-related part of the State scheme that they can now contract-out): and the end of lower contracting-out rates will bring full rates down. For contracted-out employers with employees on high earnings, this will mitigate the effect of abolishing the UEL for employers. From October they will pay full-rate contributions on earnings up to the LEL and above the UEL; the tables show that for earnings of about £500 upwards, the savings from the full rate going down will be greater than the costs of the lower contracted-out rate ceasing to exist.

ANNEX 2

SERPS AND COMPULSORY OCCUPATIONAL SCHEME: COMPARATIVE BENEFITS FOR A MAN ON £100 PW EARNINGS AT 1984/85 LEVELS FROM 4% CONTRIBUTION

1 Age in 1987/88	2 Final earnings	3 Full SERPS	4 SERPS pension	5 Compulsory pension with rate of return over prices of 3½%	6 Total	7 2½%	8 Total
			£ per week at 1984/85 prices				
25	177.40	29.30	3.60	29.10	32.70	23.40	27.10
35	154.30	25.50	6.00	17.30	23.30	14.80	20.80
45	134.10	22.10	7.10	8.60	15.70	8.10	15.20
55	116.60	17.30	8.70	3.30	11.90	3.30	11.90
			As % of final earnings				
25		16.5	2.0	16.4	18.4	13.2	15.3
35		16.5	3.9	11.2	15.1	9.6	13.5
45		16.5	5.3	6.4	11.7	6.0	11.3
55		14.8	7.5	2.8	10.2	2.8	10.2

Notes

Column 3 shows the full earnings-related pension had SERPS continued;

Column 4 shows the actual (residual) pension from SERPS after its abolition;

Columns 5 and 7 show the private pension from contributions of 4%, and Columns 6 and 8 the total pension, by adding these to Column 4. Basic pension is excluded.

SERPS rights are assumed to be preserved on the same basis as GMPs (a separate submission is being prepared on this).

Final earnings are shown as higher than £100 because earnings grow faster than prices by 1½% per annum.

Private pension contributions earn a rate of return in excess of price inflation of 3½% in Column 5 and 2½% in Column 7. Men are assumed to contribute continuously to private pensions from 1987 onwards.

Private pensions are increased in line with prices once in payment up to 5% a year. A widow's pension equal to half the man's pension rights is also provided.

SERPS AND COMPULSORY OCCUPATIONAL SCHEME: COMPARATIVE BENEFITS FOR A MAN ON £100 PW EARNINGS AT 1984/85 LEVELS FROM 5% CONTRIBUTION

1 Age in 1987/88	2 Final earnings	3 Full SERPS	4 SERPS pension	5 Compulsory pension with rate of return over prices of 3½%	6 Total	7 2½%	8 Total
			£ per week at 1984/85 prices				
25	177.40	29.30	3.60	36.40	40.00	29.30	32.90
35	154.30	25.50	6.00	21.60	27.60	18.50	24.50
45	134.10	22.10	7.10	10.80	17.90	10.10	17.20
55	116.60	17.30	8.70	4.10	12.80	4.10	12.80
			As % of final earnings				
25		16.5	2.0	20.5	22.5	16.5	18.5
35		16.5	3.9	14.0	17.9	12.0	15.9
45		16.5	5.3	8.0	13.3	7.5	12.8
55		14.8	7.5	3.5	11.0	3.5	11.0

Notes

Column 3 shows the full earnings-related pension had SERPS continued;

Column 4 shows the actual (residual) pension from SERPS after its abolition;

Columns 5 and 7 show the private pension from contributions of 5%, and Columns 6 and 8 the total pension, by adding these to Column 4. Basic pension is excluded.

SERPS rights are assumed to be preserved on the same basis as GMPs (a separate submission is being prepared on this).

Final earnings are shown as higher than £100 because earnings grow faster than prices by 1½% per annum.

Private pension contributions earn a rate of return in excess of price inflation of 3½% in Column 5 and 2½% in Column 7. Men are assumed to contribute continuously to private pension from 1987 onwards.

Private pensions are increased in line with prices once in payment up to 5% a year. A widow's pension equal to half the man's pension rights is also provided.

COVERING SECRET

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27 March 1985

MR BUTLER

SOCIAL SECURITY EXPENDITURE

I attach two tables as background for this afternoon's meeting with the Chancellor.

The first table shows Social Security expenditure broken down in two ways: pledged/unpledged; and statutory/non-statutory indexation.

The second table gives rough figures for savings from not uprating the main unpledged, non-statutory benefits.

David Willetts

DAVID WILLETTS

LBMAAO

SOCIAL SECURITY EXPENDITURE 1984-85 (£M)

PLEDGED

Statutory Price Indexation

Attendance Allowance	568
Industrial Disablement Benefit	382
Industrial Death Benefit	56
Invalid Care Allowance	11
Invalidity Benefit	2,074
NCIP/SDA	232
Retirement Pension	15,397
Widows' Pensions	794
Total	19,514

No Statutory Price Indexation

Supplementary Pension	871
War Pensions	544
Non-contributory Retirement Pensions	46
Total	1,461

Total Pledged Benefits **20,975**

UNPLEDGED

Statutory Price Indexation

Maternity Allowance	157
Sickness Benefit	268
Unemployment Benefit	1,597
Total	2,022

No Statutory Price Indexation

Child Benefit	4,272
One-parent Benefit	122
Family Income Supplement	131
Supplementary Allowance	5,496
Mobility Allowance	361
Housing Benefit	2,778
Total	13,160

Total Unpledged Benefits **15,182**

LBMAAN

E.R.

SECRET

NO UPRATING OF UNPLEDGED, NON-STATUTORY BENEFITS

		Savings (£m)		
		1985/86	1986/87	1987/88
Child Benefit		70	210	220
One-Parent Benefit		5	10	10
FIS		10	30	30
Supplementary Benefit (except pensioners)		90	260	270
Mobility Allowance		5	20	20
Housing Benefit (pe)		20	50	50
(rate rebates non-pe)		20	55	55
TOTAL (rounded)	pe	200	580	600
	non-pe	20	55	55

Note: These figures assume an uprating of about 5%. The higher the rate of inflation, the bigger the savings.

LBMAAP

SECRET

E.R.

SECRET

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PRIME MINISTER

26 March 1985

BENEFITS

Three broader arguments are relevant to all the specific issues on tomorrow's agenda:

i. The savings from the individual changes together add up to quite a tidy sum - well over £100 million and possibly more.

ii. We want to simplify the system. This not only saves staff and administrative costs but will appeal to the many critics who do not like the current benefit maze. We really shouldn't have over 25 different benefits.

iii. You will not want big political rows for small savings and to satisfy bureaucratic tidy-mindedness.

A few specific points on the individual items.

Students should not be part of the benefits system. It starts them off wrong, just like SB for 16-18 year olds. Students should look to the existing grants, their parents, work through college, or take out loans.

The UB proposals are attractive in distinguishing contributory UB more clearly from SB for zero cost. After six months you move down from UB to SB. But why not achieve this gap by cutting SB rather than raising UB?

You will want to be wary of abolishing Death Grant and Maternity Grant. Savings of £25 million may not be worth the row.

SECRET

Norman Fowler is right to propose that Maternity Allowance and Maternity Pay should be rationalised. But couldn't we also get real savings, not just statistical fiddles? This could be done by uncoupling the new statutory maternity pay from previous earnings.

Norman Fowler is not radical enough on the Industrial Injuries Scheme. There is no need for the State to run such a scheme. It should be privatised. Each firm should be legally obliged to insure to provide benefits for its own employees' industrial injuries. This would also get rid of the ludicrous effect whereby safe firms cross-subsidise dangerous ones. Norman Fowler should not just offer to study this, but float it as his proposal in the Green Paper. It could over time save the £400 million Industrial Injuries budget.

We spend almost £800 million on benefits for widows. But the politics of any change will be very unattractive.

David Willetts

DAVID WILLETTS

Government disagrees on social security review

BY ROBIN PAULEY

THE REVIEW of the social security system initiated by Mr Norman Fowler, the Social Services Secretary, last April, has become the subject of serious disagreements within the Government.

As a result, immediate changes to the present system may be very limited. The prospects for benefit cuts appear to be increasing as the likelihood of radical reform recedes.

Any formal announcements have been delayed until after Easter, and may not come till early May.

While major reforms, such as the integration of the tax and benefit system, may be mooted in the eventual report, they are likely to be said to be very long term because of the need for further computerisation. The delay could extend beyond the next general election.

The divisions within the Government are between the Department of Health and Social Security, the Treasury, the Prime Minister and the No 10 Policy Unit.

Mr Fowler wants to reorganise benefits, with the emphasis on simplification. He would like any money freed from the streamlining of the £40bn a year social security budget, which totals a third of all public spending, to be recycled into giving higher basic benefits to those needing them.

The Treasury is looking for a straightforward cut of between £2bn and £4bn from the budget to reduce the public spending totals and alleviate what will otherwise be an exceptionally difficult public spending round in the autumn. Treasury ministers have privately made little secret of the fact that they agreed to the social security reviews only because they were determined to obtain cuts.

The Prime Minister's policy unit, with views close to those of Mr Fowler, is arguing for genuinely radical reform in the structure of the benefits system to direct cash more accurately to where it is needed.

The Prime Minister, who is chairing the Cabinet Committee considering the changes, does not support any of those three options. She is convinced that a large amount of the social security budget is being paid to people who do not deserve the money.

The complexities of how to begin to identify who deserves, rather than needs, will probably halt this line of argument but it is holding up progress on the other possibilities.

Mrs Thatcher has a more conservative approach to the structure of the benefit system than her departmental ministers and is not enthusiastic about streamlining if it means the removal or integration of too many of the small benefits which have built up over the years.

Government plans private health boost, Page 8
The split examined, Page [illegible]

UK NEWS

Robin Pauley examines a top-level split over changing the welfare budget

Looking for ways to alter the social security net

A CABINET committee chaired by the Prime Minister is trying to find a way of changing the social security system on the basis of reviews in progress for the last year under the auspices of Mr Norman Fowler, Social Services Secretary.

The discussions have run into a sticky path between those who want to cut the social security budget, which will total £40bn in 1985-86, and those who want to reform the cradle-to-grave nature of the system and give benefits where they are most needed.

Slightly more than half the expenditure goes on contributory benefits — those paid for out of the National Insurance Fund. About 4 per cent goes on administration and the rest on non-contributory benefits, about two-thirds of which are means tested.

The social security budget is the largest public expenditure budget—more than double defence, the next largest at £18bn in 1985-86—and it accounts for about 30 per cent of public expenditure.

The contributory benefits are pensions, widows' benefits, "unemployment and incapacity benefits, industrial injuries benefits and some family benefits such as the £27.25 a week maternity allowance, which costs £174m a year.

Nearly all the numbers in social security are large. In the contributory section minor benefits such as the pensioners' £10 Christmas bonus cost £105m, the £30 death grant costs £17m, the £50 a week (reducing after six months) payable to 30,000 people as a result of industrial deaths costs £59m.

The non-contributory benefits are paid for with money voted by Parliament. The largest are the supplementary benefit, housing benefit and child benefit budgets. The 290,000 war pensions cost £564m, the attendance allowance for the disabled—payable to more than half a million people—costs £638m. The one-parent benefit payable to 590,000 lone parents costs £133m, only slightly less than the cost of Family Income Supplement.

These figures show the scale of the problem facing Mr Fowler and his Cabinet colleagues in searching for reform. Everything is expensive and all the benefits have powerful defenders in Parliament and in society. The interaction of the taxation and social security systems means thousands of benefit recipients lose the equivalent of their benefits in tax, but abolishing or simplifying any of the benefits will be a delicate political operation.

SOME IMPORTANT SOCIAL SECURITY PROGRAMMES 1985-86

Benefit	Cost £m	Recipients (000's)
Retirement pension	16,592	9,410
Unemployment benefit	1,611	980
Invalidity benefit	2,946	1,315
Supplementay benefit	6,807	4,645
Child benefit	4,272	12,210
Widows benefit	823	420
Housing benefit*	2,889	4,780
Family income supplement	140	220
Total contributory benefits	22,163	12,165
Total non-contributory benefits	16,208	23,995
Administration costs	1,735	—
Total benefit spending	40,106	36,160

* More than 7m people receive rate rebates which are not included here because they do not count as public expenditure.

Note: Beneficiaries may be receiving more than one benefit at any one time

Cutting the real value of any benefits risks parliamentary uproar and means testing or taxing universal benefits, such as child benefit, offends the electorate—the voting parents of 12m children in the case of child benefits.

The £1.7bn administration costs vary in the way they fall. It costs only about 1½p in administration for each £1 paid in retirement pensions, but this rises to 8p for maternity allowances, 9p for unemployment benefit and 10p in the pound for supplementary benefit.

Of the £40bn of spending on benefits this year about £22.6bn will go in various ways to the elderly; slightly more than £5bn will go to the disabled and long-term sick and a further £470m to the short-term sick; £11.3bn will go to unemployed people; £1.2bn to widows and orphans; and a little more than £8bn to families.

Between 1979-80 and 1984-85 the social security programme expanded by £28.5bn or 28 per cent in real terms. Only £2.5bn was caused by real increases in benefit rates. The other factors included £1bn more due to the increase in the number of retirement pensioners, £3¼bn because of the increase in the number of unemployed people, £1bn due to the increase in the number of people claiming for long-term sickness or disability, £500m due to the increasing number of single parents claiming benefit, and £250m extra administration costs.

There were some offsetting savings to the Budget over the same period—£500m from a change in sick pay arrangements and a fall in the incidence of short-term sickness and £500m from the declining number of widows and children.

Because much of the social security budget is demand-led there are no overall cash limits. In the last and current financial years estimated expenditure has been exceeded, largely because the Government has been too optimistic about the likely path of unemployment.

In 1985-86 a change in the unemployment totals of 100,000 up or down means an increase or reduction of £200m on the social security budget—£85m unemployment benefit an[d] £115m supplementary bene[fit] and housing benefit.

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~~CSTF~~

P.01518

PRIME MINISTER

Social Security Reviews - Remaining Issues
(MISC 111(85)1; Appendices 5 to 12)

Tomorrow's meeting ought to try to deal with all the specific issues which have not yet been considered, ie -

i. PROVISION FOR YOUNG PEOPLE AND STUDENTS
ii. UNEMPLOYMENT BENEFIT
iii. DEATH GRANT
iv. MATERNITY GRANT
v. MATERNITY ALLOWANCE AND MATERNITY PAY
vi. INDUSTRIAL INJURIES BENEFITS
vii. WIDOWS BENEFITS
viii. NATIONAL INSURANCE CONTRIBUTIONS

A series of briefs on each of these areas is attached. All of the proposals will probably be of interest to the public at large or important groups; but insofar as time is short you will probably wish to spend most time on those proposals which touch on the areas of highest public expenditure and seem likely to attract greatest interest -ie. unemployment benefit, industrial injuries benefits and widows' benefits.

PG

P L GREGSON

26 March 1985

(i) Provision for Young People and Students
(MISC 111(85)1; Appendix 5)

The proposals about entitlement to supplementary benefit (SB) for unemployed 16 and 17 year olds were discussed in the context of the proposals for expanding the Youth Training Scheme. As you know, it was concluded by the Ministerial Sub-Committee on Economic Affairs that decisions on the withdrawal of entitlement could only be taken once the new training scheme was fully in operation (E(A)(85)6th meeting).

2. There is however a separate proposal for withdrawing entitlement of students to SB and housing benefit (HB), making them the responsibility of their parents and whatever student support arrangements emerge from Sir Keith Joseph's review of student grants. Savings could be £100 million and 200 staff. There would be offsets in DES budgets.

HANDLING

3. The Secretary of State for Social Services should introduce. The Secretary of State for Education and Science and the Chief Secretary, Treasury will have views.

CONCLUSIONS

4. It would seem premature to reach decisions on the benefit entitlement of students until the review of student grants (and loans) has been completed, but views on the principle of withdrawing SB and HB might be recorded.

SECRET

ii. Unemployment Benefit
(MISC 111(85)1; Appendix 6)

BACKGROUND

1. The proposal is to replace the present 12 month unemployment benefit (UB) with a higher contributory 6-month benefit (slightly higher than the new SB rates to avoid overlap). Eligibility would be based as at present on a contributions test, an earnings test or period in work test. There would be a more generous limit on spouses' earnings. This scheme is intended to provide more adequate income for the short-term unemployed in order to avoid overlap between UB and SB and simplify administration; to help families with children more and single people less; and to assist job-searches and labour mobility more in the first (important) 6 months of unemployment. There is expected to be nil net effect on expenditure (which currently totals £6,400 million including related SB and HB) and DHSS staff savings of up to 500.

MAIN ISSUES

2. (a) The level and appropriateness of the differential between UB and SB

(b) Means testing. Some people will have substantial savings, but it can be argued that savings of all job-seekers should be protected for a period.

(c) Whether 6 months equates with 'short-term unemployment' About 17% of the registered unemployed are unemployed for between 6 and 12 months and will be forced on to SB. Presentation may be difficult.

HANDLING

3. The Secretary of State for Social Services to introduce.

The Secretary of State for Employment and the Chief Secretary will wish to comment.

CONCLUSIONS

4. You will wish the Group to reach conclusions on whether to replace the present contributory scheme with one

(i) giving benefit for 6 months

(ii) with slightly higher rates than SB to avoid overlap

(iii) and an increased earnings disregard for spouses

(iv) with no net change in expenditure.

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(iii) Death Grant
(MISC 111(85)1; Appendix 7)

BACKGROUND

1. At present a £30 death grant is paid in respect of people covered by the national insurance scheme. Even a simple funeral now costs about £350. £17 million is paid in benefit; administration costs £12 million and needs 690 staff. The proposal is to abolish the grant, leaving most people to provide entirely for themselves. Those relatives who could not afford a funeral would receive immediate help under the new (cash limited) social aid scheme which would then be recovered from the estate or any resources available to the claimant. Annual benefits would cost some £2 million, and £15 million and 500-600 staff would be saved.

MAIN ISSUES

2.(a) Whether to abolish the existing grant. Its current level is derisory and administration costs will soon overtake benefit spending. One principle of the Review is that people should make their own provision wherever possible.

(b) Whether to make fallback 'social aid' payments. This would be consistent with the twin pillar approach; but can expenditure be confined to £2 million and will recovery procedures complicate administration and lead to unfavourable publicity?

HANDLING

3. The Secretary of State for Social Services to introduce. The Chief Secretary may wish to comment on financial implications, and the Paymaster-General and Chief Whip on public and Parliamentary reaction.

CONCLUSIONS

4. You will wish the Group to reach conclusions on -

(i) whether the death grant should be abolished

(ii) whether there should be fallback payments from the social aid scheme and whether these should be recovered from the estate or other resources of the claimant.

iv. Maternity Grant
(MISC 111(85)1 Appendix 8)

BACKGROUND

1. At present there is a standard non-contributory (since 1982) maternity grant of £25. It meets only a very small part of the costs of having a baby. Mothers on SB receive additional help; those in low-income families do not.

The proposal is to abolish the general benefit, and introduce a £75 grant for mothers in receipt of SB or family credit. The aim is to concentrate help on poor families, whether in or not in work; remove a minor benefit from the majority who ought to make their own provision for parenthood; and achieve modest expenditure savings (about £10 million) and manpower savings (unspecified).

MAIN ISSUES

2(a) Abolition of the standard grant. This is already unrealistically low and the general principle is that people should make their own provision wherever possible.

(b) Help for the poor. This would be consistent with the twin pillar approach. Linking eligibility to receipt of SB or family credit, and maintenance of a standard level of payment, would appear logical and administatively straightforward.

HANDLING

3. The Secretary of State for Social Services should be invited to introduce his proposal briefly. The Chief Secretary may wish to comment on financial implications.

CONCLUSION

4. You will wish to reach conclusions on

(i) whether to abolish universal maternity grant

(ii) whether to replace it with a grant of £75 for those on SB or Family Credit.

v. Maternity Allowance and Maternity Pay
(MISC 111(85)1; Appendix 9)

BACKGROUND

1. At present expectant mothers who were recently regularly employed may receive maternity allowance (MA) of £27.25 a week for 18 weeks from DHSS (total cost £169 million a year). If employed full-time for 2 years or part-time for 5 years they may also receive maternity pay (MP) from employers for 6 weeks at a rate of 90% of pay less £27.25 (whether or not MA is also received). Employers contribute to and draw as necessary from the MP Fund; the total cost is £63 million a year. The proposal is to introduce a single system of statutory maternity pay (SMP) of similar level and with similar operating arrangements to statutory sick pay (£28.55 to £42.25 a week depending on earnings). The period of payment would be flexible. Employers' contributions would be reduced though their caseload would double. Benefits would be taxed.

2. The aim would be to reduce wasteful overlap between MA and MP; and gear support more towards the needs of expectant mothers who give up work in good time; over 500 staff would be saved. There would be quite large public expenditure savings (£220 million pa) but this is because the funding arrangements are different - there would be no change in the PSBR.

MAIN ISSUES

3. (a) The proposal is a substantial rationalisation but would it be possible to be less generous and make some real savings?

(b) Employers will have to deal with double the present number of cases. Is this a reasonable burden, and will they accept it?

HANDLING

4. The Secretary of State for Social Services to introduce. The Secretaries of State for Employment and Trade and Industry and the Minister without Portfolio may wish to comment, especially on employers' attitudes. The Chief Secretary will wish to speak on the public expenditure aspect.

CONCLUSION

5. You will wish the Group to reach a conclusion on

whether to replace the present arrangements for maternity allowance and maternity pay with a single statutory maternity pay scheme adminstered by employers.

vi. Industrial Injuries Benefits

(MISC 111(85)1; Appendix 10)

BACKGROUND

1. Under the scheme established in 1948, there are 3 broad groups of benefit:

(i) Industrial disablement benefit, of £58.40 a week for 100% disablement, down to £11.68 a week for 20% disablement. Below that lump sum gratuities are paid: £3880 for 19%, £388 for 1% and smaller amounts for temporary disablement. Total recipients 185,000; total cost £377 million.

(ii) Industrial death benefit for widows of £50.10 for 26 weeks, then £36.35 or £10.74 depending on age and children. Total recipients 30,000, total cost £56 million.

(iii) Other benefits. 5,000 recipients; cost £5 million.

2. The proposal is now to implement - at nil net cost - most of a 1981 White Paper scheme, involving:

(i) Streamlining, through abolition of industrial death benefit (leaving widows to rely on national insurance widows' benefits) and of hospital treatment and constant attendance allowances (the latter being covered by the attendance allowance available to those in need of care and attention).

(ii) Concentrating help on those in greatest need, by removing disablement benefit for minor, temporary disabilities but extending the special hardships allowance (compensation for loss of earnings) to more severely disabled.

(iii) removing minor anomalies eg by covering accidents abroad.

Additionally (iv) a further study is proposed of the need for the remaining provisions of the scheme including the special needs of the occupationally disabled and the scope for transferring more responsibility to employers.

MAIN ISSUES

3. The main issue is the acceptability of the proposals. There will be up to 100,000 losers of relatively small amounts. They will be the less disabled but they are likely to evoke a good deal of sympathy. Is it worth making the changes for broadly no savings? It might be better to defer conclusions in this area until the further study is complete.

HANDLING

4. Secretary of State for Social Services to introduce. The Chief Secretary and the Secretary of State for Employment may wish to comment.

CONCLUSION

5. You will wish the Group to reach conclusions on

(i) the abolition of industrial death benefit and the special allowances for hospital treatment and constant attendance.

(ii) concentrating help on those in greatest need

(iii) whether a further study of the remainder of the industrial injuries scheme should be undertaken.

SECRET

vii. Widows Benefits

(MISC 111(85)1; Appendix 11)

BACKGROUND

1. At present there is a widows' allowance of £50.10 for 26 weeks (total cost £89 million). For those with children there is then a widowed mother's allowance of £35.80 (cost £228 million.) Childless widows aged 50 or more receive a £35.80 widows pension and those aged 40 to 50 receive reduced rates. (Cost £477 million). Benefits are taxable but not subject to an earnings rule.

2. The proposals concern only widows under 60. They are to:

(i) replace the widows' allowance worth about £1300 with a lump sum of up to £1,000. (possibly payable also to widowers with children).

(ii) raise the qualifying age for widows' pensions (ie. for those without children) from 40 to 45.

(iii) pay reduced-rate widows pensions from 45 to 55 instead of 40 to 50.

They take account of the facts that nowadays more married women and widows work; that more lone parents are now divorced or separated people; and that over 90% of occupational pension schemes now provide widows' pensions and about half provide them for widowers. The aim would be to reduce the state's role and increase that of the private sector; concentrate help on widows over 45 and those with children; provide more immediate help through the lump sum; and minimise difficulties and costs if the EC Equal Treatment Directive is extended to cover male and female survivors. Public expenditure growth should be halted and possibly reversed in the future; and DHSS manpower should be saved.

MAIN ISSUES

3.(i) Should the widows' allowance be turned into a lump sum and at what level? A lump sum to deal with immediate problems seems a welcome innovation, and might make the other changes more acceptable.

(ii) Higher age thresholds for (childless) widows' pensions. How much will these save and do they fairly reflect present employment prospects? Would higher benefits and an earnings rule be more appropriate?

(iii) To what extent should widowers receive benefits? The suggestion is that they might qualify for the lump sum - no doubt because they too face immediate costs which the new death grant will not generally cover - whilst more general comparability would be too expensive.

HANDLING

4. The Secretary of State for Social Services to introduce. The Chief Secretary and the Secretary of State for Employment may wish to comment. The Lord President, the Paymaster-General and the Chief Whip will have views on how the changes would be received publicly and in Parliament.

CONCLUSIONS

5. You will wish the Group to reach conclusions on:

i. whether the widows allowance should be replaced by a lump sum;

ii. whether the age thresholds for childless widow's pensions should be raised;

iii. whether any of the benefits should be extended to widowers.

viii. National Insurance Contributions
(MISC 111(85)1; Appendix 12)

BACKGROUND

1. The review concluded that the contributory principle is widely accepted and should continue (notwithstanding that future benefits are not funded) but that the structure could be improved. The main proposals in Appendix 12 are:

(i) to separate employers' and employees' contributions entirely

(ii) to levy employees' contributions on earnings above a threshold (say £20 a week)

(iii) greater alignment between assessment for NI contributions and PAYE

(iv) phasing out of the upper earnings limit (UEL) for employees

2. In his budget speech last week, the Chancellor of the Exchequer announced significant changes in this area affecting the self-employed, employers contributions, and contributions paid by employees at the lower earnings levels. These proposals effectively overtake those in the Appendix. Two important principles have been established - that all contributors do not need to be treated equally, and that employees and employers do not have to be treated alike.

MAIN ISSUE

3. It should be sufficient to note the developments in the Budget.

HANDLING

4. Secretary of State for Social Services and Chancellor of the

Exchequer to introduce. Other Ministers may have views.

CONCLUSION

5. You will wish the Group to note the present position.

SECRET

Rf for Monday mtng. 34.
CC D60.

FROM:CHIEF SECRETARY
DATE: 26 March 1985

PRIME MINISTER

MISC 111: SOCIAL SECURITY EXPENDITURE

So far in MISC 111 we have agreed savings of about £¾ billion(£560 million on housing benefits and £160 million on supplementary benefits). It was clear from our discussion yesterday that the Group has reservations about making substantial further savings by restructuring child benefit.

2 As you know, to ensure a successful outcome to the next Survey we need considerably more than £¾ billion. Past experience suggests that we could need savings of this order just to keep the social security programme at its existing baseline in the face of estimating changes including increased take-up. As you said in the Budget Cabinet, it is essential in the light of the increases we have announced to the Reserve that we do meet the new expenditure totals. Given the pressures we know exist elsewhere we will need a much bigger contribution from social security (30 per cent of public expenditure) to be confident of achieving our target.

3 Although I know Norman Fowler regards his policy reviews as having a separate purpose, they cannot be divorced from these expenditure issues. We set up the reviews in part to tackle the previously intractable expenditure problems posed by social security expenditure. There are bound to be winners and losers whatever we decide. With political controversy inevitable, I believe we should aim for more radical change. We will not find it easy in the future to re-open the decisions we take now.

4 Despite the difficulties, therefore, I think next Monday we should not regard the possibility of structural changes to child benefit as closed. Failing that, as I suggested on Monday we must look seriously at non-uprating of unpledged benefits. If we finally conclude that none of these measures can be implemented, I believe we must reconsider further savings from housing benefits if we are to bring the total savings from this exercise well above £¾ billion.

5 I am copying this minute to Norman Fowler.

PR.

PETER REES

3 CDW.

SECRET

K.01107

PRIME MINISTER

cc Sir Robert Armstrong

Family Support

Flag A Flag B Flag C

(MISC 111(85)6 and 11; the minute of 21 March from the Secretary of State for Social Services and MISC 111(85)1 Appendix 4)

Flag D.

BACKGROUND

At present a flat rate child benefit of £6.85 a week is paid in cash to all parents in respect of each child ~~over~~ under 16, at a cost of £3950 million a year. Certain groups receive additional benefits costing £570 million a year. These are:

One Parent Benefit - £4.25 a week, £100 million a year;

Child Dependency Additions - £7.65 a week, £160 million a year;

Child Special Allowance - £7.65 a week, £2 million a year;

Family Income Supplement (FIS) - variable, £120 million a year; and,

for those on supplementary benefit (SB) or FIS, free welfare milk and school meals - equal to £3.60 a week, £190 million a year.

2. All Governments since the war have accepted the principle of giving financial support to those who bear the extra responsibility of bringing up children. But so far the right balance has not been struck between families in and out of work; and between help through the tax or the social security system. There are too many different types of benefit, operating on dissimilar principles. Furthermore the real disposable income of families in the bottom income decile has fallen since 1979. Families with children on SB find it harder to manage than other recipients. For those in work, FIS does not adequately help larger families. Families in work can find themselves no better off, and even worse

off, than those on SB and can pay marginal tax rates above 100 per cent. Benefits in kind are regarded as anomalous, contrary to freedom of choice and complicated to administer.

PROPOSALS

3. Against this background the Secretary of State for Social Services proposes:

i. To retain universal flat-rate child benefit (at the present level, though the possiblity would be kept open of restricting future upratings).

ii. For unemployed families, to include a family premium element in SB (agreed at the last meeting).

iii. For employed families on low incomes, to replace the child's special allowance and FIS with a system of family credits. Assessment would be as for SB, and payments made up of a flat amount plus additions per child. An illustrative scheme is at Annex 3 of MISC 111(85)6. The full benefit would go to those on net earnings of £36.10 a week, with a 50 per cent taper above that. Benefit would come through the pay packet, offset against tax and national insurance liability or, where necessary, taking the form of net additions to wages.

iv. To replace benefits in kind (free milk and school meals) with cash additions of about £2 a week to family credit recipients and possibly to SB recipients at no net cost.

The net additional cost of the proposals is £67 million per annum. 500 staff would be needed. Probably 200,000 of the 350,000 eligible would take up family credits (FIS figures are 100,000 and 200,000 respectively). These families would gain on average £5 a week; larger families with older children would gain £10 a week or more. A few smaller families would lose and require transitional protection.

4. In his memorandum MISC 111(85)11) the Chief Secretary does not comment on the Family Credit proposals but argues the case for finding savings of £1-1½ billion per annum from expenditure on child support. This is against the background of his wish to secure savings of about £2billion per annum in total from social security, and the decisions at MISC 111's last meeting on housing benefit and supplementary benefit which will produce savings of about £3/4 billion per annum. He suggests that the options are:

- means-testing child benefit: a scheme limiting entitlement to incomes below £190 per week could produce net savings of £1½ billion. 3 million families would gain an average of £6.50 per week and 3½ million lose an average of £10.50 per week.

- cutting the level of benefit: eg. reducing the rate to £5.15 per week per child (from £6.85) would save £1 billion.

- restricting eligibility: eg to exclude the first child, or to include only the first and second child. Savings £1-1 1/4 billion.

The Secretary of State for Social Services argues (his minute of 21 March to you) against either means-testing or cutting the level of benefit substantially. Briefly he thinks the political cost too high. He does not comment on restricting eligibility. He suggests that some other options viz the introduction of a standard family tax allowance, offering the option of child benefit or a child tax allowance, and a modification of the independent taxation approach, might be explored and taken forward in the context of the Chancellor's proposed Green Paper on the reform of personal income tax.

MAIN ISSUES

5. The main issues are:-

(a) what quantum of savings should be sought from this area;

(b) how they might be found. Only significant changes to child benefit will produce substantial changes;

(c) whether FIS should be replaced by Family Credit as the way of supporting low income families;

(c) whether benefit in kind (milk and school meals) should be replaced by cash payments.

Savings

6. The arithmetic of the discussions so far suggests that savings of £1 billion or more per annum need to be secured from the child benefit/family support area if the Group are to get anywhere near the social security savings of towards £2 billion a year that the Chancellor and Chief Secretary are seeking. Present expenditure in this area is just over £4 billion which means savings of 25-30%. Clearly these can only be achieved by major changes of the kind proposed by the Chief Secretary, entailing substantial numbers of losers. If the Group shy away from such large savings in this area, but continue to have them as an objective for the review as a whole, they will almost inevitably have to look again at securing greater savings from housing benefit/supplementary benefit or at not uprating the unpledged benefits.

Changes to Child Benefit

7. Means-Testing The Children and Young Persons Review outlined a scheme (MISC 111(85)11 paragraph 5) which would remove child benefit from all families earning more than £190 per week (ie above average earnings). Savings could be up to £1½ billion, but the political and other costs might be very high. While 3 million families would gain an average of £6.50 per week, 3½ million would lose an

average of £10.50, an extra 2½ million families would be brought into means-testing, and the number of people facing marginal tax rates of over 75 per cent would be trebled.

8. Reduction in Value. To save £1 billion would require rates to be reduced to £5.15 per week (ie the 1981 level in cash terms). All receipients would lose.

9. Restricting Eligibility. The Chief Secretary suggests three possibilities - limiting eligibility to families with children under 12, restricting benefit to the second and subsequent children only, or (the opposite approach) to the first two children only. Each would save £1 - 1 1/4 billion.

10. Taxation. Mr Fowler suggests some possible changes to the tax system as an alternative (para 8 of his minute) for possible development in the Green Paper on personal tax. He does not quantify the possible savings and some of them might be small. Necessarily they will not take effect quickly. It would also be possible to bring Child Benefit into taxation though at the expense of some absurdity in receiving benefit with one hand and paying tax on it with the other.

11. There is no need to opt simply for one alternative rather than another. Depending on the Group's reactions, they might wish to have a combination of options explored, eg retricting eligibility to the second and subsequent children, but with means-test access to benefit for the first child, and a small across-the-board real-terms reduction in the value of the benefit.

Family Credit

12. Mr Fowler's proposal (para ~~3~~ .3 above) is an attempt to direct help to poor working families more effectively than the present FIS. It is proposed to align the eligibility tests and the entitlement with those for supplementary benefit (the Group has agreed a comparable proposal for housing benefit) and it is hoped that making it a credit

(ie. paying it through the wage packet) will have an impact on wage flexibility and readiness to take jobs by improving incentives and reducing the effects of the unemployment and poverty traps. These objectives are laudable. There will however be a net cost (now estimated at £67 million per annum) compared with FIS. Whether this matters significantly will depend on the earlier discussion of savings on child benefit.

Benefits in Kind - Welfare Milk and School Meals

13. Mr Fowler proposes to withdraw these benefits but to give compensating cash help (at no net additional cost) to recipients of family credit. A similar change could be made for recipients of supplementary benefit though Mr Fowler does not firmly recommend either for or against this. The difficulty seems to be that there would be losers (because not all those eligible at present take up the benefit). Abolition would be in line with the philosophy of giving those who need it both money and the choice how to use it.

HANDLING

14. You may like to say at the outset that overall savings and child benefit might best be discussed first, followed by Family Credit. In that case you should invite the Chief Secretary, Treasury, to introduce his paper on Child Support and the Secretary of State for Social Services to speak to his minute. Most members of the Group will wish to contribute. On Family Support, you should invite the Secretary of State for Social Services to introduce his proposals and Treasury ministers to comment. The Secretary of State for Education and Science may have views, especially on benefits in kind.

CONCLUSIONS

You will wish the Group to reach conclusions on :-

(i) The quantum of savings to be secured in this area;

(ii) Whether further work should be done on

- means-testing child benefit
- a reduction in its real value
- restrictions on eligibility
- taxation of child benefit
- alternative tax proposals, eg for a family tax allowance

(iii) whether FIS should be abolished and replaced by Family Credit as proposed by the Secretary of State, in particular with

- eligibility and benefit aligned with supplementary benefit

- payment through the wage packet

and at a net cost of £50-75 million

(iv) whether the benefits in kind (welfare milk and school meals) should be abolished for families on Family Credit and/or on supplementary benefit.

C J S BREARLEY

Cabinet Office
22 March 1985

22 MAR 1985

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SECRET

PRIME MINISTER

Supplementary Benefit: Earnings Disregard
for the Long-Term Enemployed
(MISC 111(85)10)

Flag A

BACKGROUND

Flag B. 1. At MISC 111(85)4th Meeting, the Group completed its discussion of Mr Fowler's proposals on supplementary benefit)SB) with the exception of his proposal to increase the earnings disregard for married couples who have been on benefit for more than a year from £4 a week each to £15 for their combined earnings; and to increase similarly the disregard for the long-term sick and disabled and one-parent families.

MAIN ISSUE

2. The issue for discussion is whether the earnings disregard should be increased in this way.

3. The case for the increase is that the present rules positively discourage wives from working if the husband is on SB. As a consequence the family loses all contact with the world of work. Mr Fowler argues that if this contact can be re-established by increasing the disregard then the chances of one or both of the couple finding full-time jobs is much increased. This is because much recruitment and job searching takes place through informal channels in the labour market.

4. There must be a question-mark over whether the increase proposed will be sufficient incentive to achieve the objective. There is also the risk that the concession will be abused. Mr Fowler has sought to counter-abuse by confining the change to married couples and to those who have already been on SB (with the lower level of

disregard) for a year. He proposes also to monitor the effect of the change and to withdraw it if it is not effective. He expects the change to cost £30 million per annum; this is already taken into account in the £160-£170 million net savings from SB noted at the last meeting.

HANDLING

5. You will wish the Secretary of State for Social Services to introduce his memorandum. The Chief Secretary, the Secretary of State for Employment and the Minister without Portfolio may in particular wish to contribute.

CONCLUSION

6. You will wish the Group to decide -

(i) whether the earnings disregard should be increased for
- married couples on benefit for more than a year
- the long term sick and disabled
- one-parent families

whether the increase should be up to £15 a week.

C J S BREARLEY

22 March 1985
Cabinet Office

SECRET

30

PRIME MINISTER 22 March 1985

CHILD SUPPORT

We spend £4.3 billion on paying Child Benefit at £6.85 a week to 7 million families with 12 million children. Had we kept child tax allowances and uprated them in fixed proportion to the married man's allowance since 1976/7, they would now cost about £3½ billion. Family Allowances would cost about another £1 billion on top.

So historically, we have met the costs of children, either through tax or through benefits. Obviously, reducing a person's tax bill is better than handing out girocheques. But the fatal flaw in Peter Rees' ingenious schemes for saving money on Child Benefit is that he fails to offer tax gains for families with children to set against cuts in benefit. It was decided at your seminar last October that it was neither right nor politically sensible to shift resources heavily away from families with children. Yet that would be the effect of the Treasury's proposals.

But there are two things you can do.

Capping Child Benefit: the case for Family Credit

You can save money by holding Child Benefit at its current level. There is big money here. Every 10p of Child Benefit costs almost £60 million. Missing a 6% uprating would save £210 million in a full year.

The politics of this will not be easy if it just looks like a mean-minded cut. The critics would argue that those in work lose relative to those out of work, and so it undoes the Budget's help with the unemployment trap.

SECRET

This is where the Family Credit comes in. Take two-thirds of the savings from holding Child Benefit for the Treasury. But for the remaining £70 million you could introduce a new support (replacing FIS) for the deserving, working poor. And once that safety valve is in place, it will be much easier to hold Child Benefit in future: the Family Credit opens up the scope for bigger expenditure savings in future. After three years you could get cumulative savings of £600 million offset by say an extra £200 million of Family Credit.

It also fits in very well with the jobs/supply side theme of your Central Council Speech. It only goes to people in work. It is paid through the pay packet (very much like the Statutory Sick Pay Scheme) rather than by girocheque. It is not an expensive, universal, socialistic tax credit. Workers see it as in effect an increase in the tax allowances.

Restructuring the tax system

The second way forward is to launch a root and branch attack on Child Benefit but combine this with changes in the tax system so that it once again takes account of the cost of children. The computerisation of the tax and benefit systems opens up great possibilities. For example, instead of having to put a question into everyone's tax return asking how many children they have, the Revenue could simply use the existing Child Benefit computerised records. This would reduce the high administrative costs of bringing back Child tax allowances. A family tax allowance is another option. MISC 111 cannot decide on this now. But these options are worth ventilating in either Norman Fowler's or Nigel Lawson's Green Paper.

I recommend that you should:

- reject Peter Rees' schemes for cutting or means-testing Child Benefit;

- hold Child Benefit at £6.85, using some of the savings to finance a Family Credit;

- ask Nigel Lawson and Norman Fowler to look into options for recognising the costs of children in the tax system.

David Willetts

DAVID WILLETTS

28.

~~cc~~ DW
SHP

PRIME MINISTER

SOCIAL SECURITY REVIEW

We are to discuss family support at the next meeting of MISC 111 on Monday. My original proposals were concerned mainly with the need to improve the position of low income working families relative to those out of work. The mechanism for this is the family credit discussed in MISC 111(85)6. But you and the Chief Secretary have raised wider questions about child benefit itself. I thought it might be helpful if I set out some of the options here in case you wish to discuss them as a part of our consideration of family support in MISC 111.

Help for low income families

2. My paper (MISC 111(85)6) made out the case for replacing Family Income Supplement by a new family credit scheme which will provide an economical and effective means of directing help to poor working families. FIS suffers from a number of fundamental defects: it is not aligned with supplementary benefit; it gives disproportionate help to younger and smaller families; and it is awarded on insufficiently tight criteria. It was introduced as a temporary measure and is now largely discredited. Family credit will be better targeted; improve work incentives by evening up support for working and non-working families; be more tightly controlled and efficiently administered; and have much more impact on wage flexibility and readiness to take jobs because it will be paid through the wage packet. Although the tax and contribution changes in the Budget provided extra help to the low paid, most of that help went to single people not families. The family credit is, therefore, still needed in order to improve incentives for that group and to reduce the effects of the unemployment and poverty traps.

E.R.

3. A central part of the family credit proposal is that it will be paid by employers through the wage packet. In practice it will be offset against any deduction for tax and national insurance contributions or, where these deductions have been partly or fully cancelled out, paid in addition. Following the Budget, we could consider, as part of the study of integration between the tax and benefit delivery systems which will contribute to the Chancellor's Green Paper, how far the family credit could in the long term be integrated with the tax system. In the meantime, there would be presentational advantage in treating it as revenue foregone.

4. Financial effects. The impact of the Budget changes is to reduce the cost of the family credit scheme described in MISC 111(85)6 from £74 million to £67 million. That cost could be more than covered by abating a child benefit uprating. An abatement of 25p would, for instance, produce savings rising to £125 million in a full year, only half of which would be needed to meet the cost of family credit. The introduction of a family credit system which would protect the low paid would, I believe, make it possible to justify savings of this sort from child benefit.

Options for savings from child benefit

5. The Chief Secretary has suggested that we should seek further savings from child benefit. I do not agree with him that this should be done either by means-testing or by a cut in the value of the benefit.

6. Means-testing child benefit - or any other option which involved changing the basis of the benefit - would be inconsistent with our clear and recent public commitments. It would also go against the view we reached at your seminar last October. It would mean losses for 3½ million people averaging £10 a week; it would treble the number of people facing marginal tax benefit withdrawal rates of over 75 per cent; it would bring an extra 2½ million families within the scope of means-testing; and it would mean that we gave no recognition of family responsibilities through the tax or benefit systems to anyone with above average earnings.

E.R.

7. A substantial reduction in the value of child benefit would also be impossible to deliver purely as a savings measure. The benefit is popular, well understood and paid to the wives in 7 million families. We could justify some savings if they were being used, at least in part, to pay for an improved system to help low paid working families.

Families and tax

8. You raised with me the possibility of reflecting family responsibilities in the tax system. Apart from a general return to child tax allowances there are a number of options which could be considered:

(i) the introduction of a standard family tax allowance for all families irrespective of the number of children. This would be much simpler; it would allow us the flexibility to target increases in tax thresholds towards families if we wished; and it would be consistent with our family credit and income support plans;

(ii) offering the option of child benefit or child tax allowances. This would reduce public expenditure if people opted for the tax allowance; but would only be advantageous to higher rate taxpayers (if allowable against higher rates of tax); and it would be more complicated to administer;

(iii) a modification of the independent taxation approach. If independent taxation were only available for families with children, it would be a comparatively well targeted change. But such a restriction would seem unfair to older single-earner couples with no children or where one spouse is staying at home to look after a disabled relative.

E.R.

9. If colleagues feel that any of these suggestions are worth pursuing, they could presumably be taken forward in the context of the work for the Chancellor's Green Paper.

10. I am copying this minute to colleagues who will be attending MISC 111 and to Sir Robert Armstrong.

21 March 1985 N F

E. R.

PRIME MINISTER 19 March 1985

MISC 111

Norman Fowler's Benefit Review is limping behind the rest of this spring's policy announcements. To avoid further delay, tomorrow's meeting of MISC 111 must reach decisions on Housing Benefit and Supplementary Benefit.

Both the Policy Unit and the Treasury want to save about £800 million on HB. If we cannot cut this unpopular, unpledged benefit, what scope is there for significant reductions in the booming DHSS budget? The best tactic is to start by getting the big savings here, which will fall on people getting SB.

We can then decide on SB reforms that will save a further £200 million by sealing up specific leaks in the system.

Reductions of this order cannot be achieved by tinkering. If you merely refuse to uprate HB and SB, you will save only £350 million. Moreover, this sort of policy leads to continuous political rows and smaller and smaller expenditure savings. To achieve your spending targets, and to make headway against the disastrous social effects of the present system, you will have to adopt fundamental reforms.

David Willetts

DAVID WILLETTS

E. R.

HOUSING BENEFIT 19 March 1985

Norman Fowler's original proposals for using the SB means test with a simple 70% taper should be warmly endorsed: they save £260 million from HB. But they do not go far enough.

To achieve the target of £800 million savings and to increase accountability in local government, you need to eliminate the 100% subsidy of housing costs given through HB to SB claimants. There are different ways of achieving this:

			Savings £m	Numbers Losing £2+
-	Peter Rees	75% rates & 95% rents	810	3.0m
-		90% rates & 90% rents	780	2.9m
-	Policy Unit	65% rates & 100% rents	780	3.3m

And for the more cautious:

Patrick Jenkin & Norman Fowler	80% rates & 100% rents	560	1.5m

The balance between rates and rents

The arguments for cutting rate rebates in particular are:

- we need to get to the heart of the local authority problem: those who pay don't vote and those who vote don't pay. Since the average rate is just £6 per week, people have to make a contribution of at least 25% to notice the difference between extravagant and prudent councils.

E.R.

- Reductions in rate rebates have more effect than reductions in rent rebates because it is easier to change one's voting behaviour than to move house.

- We have never wanted rates to rise. But we have over the past few years tried to push up rents to 'economic' levels. So it is better to encourage resistance to high rates than to encourage resistance to high rents.

The arguments for a more balanced (rates and rents) approach are:

- Acting just on rates hits owner-occupiers particularly hard. Tenants must bear a higher proportion of the savings.

- We do not want extravagant Labour Councillors pushing up rents to compensate for the loss of income from rates.

- Deregulating the private rented sector costs more if there are 100% rent rebates.

I recommend going for rates much more heavily than for rents. My preferred option would be 65% relief for rates and 100% for rents. Paying one third of their rate bill should concentrate voters' minds. But if you want to move some way on rents we would back the Treasury's 75/95 formula.

Losers: the Politics

The politics of all this will not be easy. As soon as you abandon 100% support, every one of the 7 million households getting HB loses. And over one and a half million people - the little old ladies getting small rate rebates - will be taken out of housing benefit altogether. That, of course, is evidence of how malign HB has become.

Average losses to SB claimants under the various options would be as follows:

100% rents	80% rates	85p
90% rents	90% rates	£1.50
100% rents	65% rates	£1.56

But weaning people off a rich diet of public subsidies is never an easy process. And we will have two great advantages compared with past rows on HB cuts:

- there will be a good, clear argument about local authority accountability which our supporters will be able to understand and use;

- the new structure of HB will be a clear improvement on the old nightmarish arrangements.

Supplementary Benefit

There may be pressure to increase the basic rate of SB to compensate for the HB losers. But that would be mad. We don't want to bring more people into SB. And it would increase the benefit for being out of work. The important thing is not to be so greedy that such pressures become irresistible. That is why total savings from HB of around £800 million seem to us to be the most we can achieve. But once we have achieved this we can take further bites of the cherry in future.

E.R.

SUPPLEMENTARY BENEFIT 19 March 1985

The £6 billion of Supplementary Benefit is about one sixth of the total benefit budget of £37 billion. But it represents almost one half of the administrative costs of the system, and employs 39,000 staff out of a total of around 80,000. So if we want to cut manpower and administrative costs, we need to simplify Supplementary Benefit.

Simplification will also bring savings in the budget and get people back to work.

Savings

The HB changes get big savings out of SB claimants. The SB restructuring needs to plug the specific leaks which have appeared in the past few years, and save about £150 million.

There are three areas for savings:

i. Replace one-off special payments by discretionary cash-limited budget of £100 million, largely using loans instead of grants. This would save £100 million from a budget that has risen from £50 million in 1980 to £200 million now. It would also cut away most of the 3,000 staff who now administer the complicated rules. There is a risk that this scheme will slowly expand until it reaches the sorry state we are in at the moment. But pruning back now is better than doing nothing.

ii. Refuse to meet the first 6 months of mortgage payments. They totalled £70 million in 1980, and had risen to £175 million in 1984, despite a fall in interest rates over the same period. The miners' strike showed that building societies will defer payments - so there is no need for the state to step in at once. The change will save about £60 million.

iii. Stop foreigners claiming benefits in the UK. This is not costing us much at the moment, but it is a blatant abuse and is increasing rapidly. The DHSS and the Home Office have failed to come up with an effective way of dealing with the problem within the current SB scheme. But we could now set a residence test for eligibility to the new SB scheme, restrict foreigners to the discretionary Social Aid Scheme, and run it very tightly. This is close to the local discretionary schemes on the continent, and should keep the EEC happy.

E.R.

Getting people back to work

There are two ways of changing SB to get people out of the unemployment trap:

i. Bring all benefit rates for the under 25s to £22 per week. This is the harsh side of the policy: a 25 year old householder will lose £6 per week. But the change will save money and push large numbers of able-bodied young people into work.

ii. Increase the "earnings disregard" from £4 per week to £15 per week for people who are unemployed for over a year. This is the soft side of the policy: it costs £20 million, buty it helps the long-term unemployed to stay in contact with the labour market.

£ million

	1979/80	1980/81	1981/82	1982/83	1983/84
Assistance to supplementary benefit recipients: (1)					
Rents	500	700	1,000	1,100	1,700
Rates	250	300	400	500	700
Mortgage interest	50	50	100	150	150
Rent rebates and allowances (2)	300	350	550	700	900
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Central government subsidies to LA & new town housing (5)	1,828	2,029	1,437	940	656
Rate fund contributions to LA housing	404	523	539	569	636

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P.01515

PRIME MINISTER

HOUSING BENEFIT AND SUPPLEMENTARY BENEFIT
(MISC 111(85)7, 8 and 9; and MISC 111(85)1 Appendices 2 and 3) SEE YELLOW FLAGS

BACKGROUND

FLAG A

1. At its last meeting on 25 February (MISC 111(85) 3rd Meeting) the Group asked the Secretary of State for Social Services to consider his proposals further in the light of the Group's wish (i) to obtain greater savings from change than were then proposed and (ii) that housing benefit should no longer be based on the principle of 100% reimbursement for rent and rates. The Secretary of State subsequently had a discussion with you about how best to carry matters forward. You asked him to offer the greatest savings he could and to develop further proposals on child support. On the latter, I understand the Secretary of State for Social Services intends to write to you in the next day or so as a basis for discussion at the MISC 111 meeting on 25 March. He has, however, circulated modified proposals on housing benefit and supplementary benefit in MISC 111(85)7 and the Chief Secretary and the Secretary of State for the Environment have commented in MISC 111(85)8 and 9 respectively.

FLAG B

FLAG C

FLAG D

Housing Benefit

2. The essentials of the housing benefit (HB) system now proposed are -

- the same income and capital tests as for the reformed supplementary benefit (SB) scheme;
- equal assistance to those on SB levels of income whether in or out of work (at present those in work receive only 60% assistance, those out of work 100%);

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- for those above the SB income level, benefit will be withdrawn on a combined (rent and rates) taper of 70%.

Mr Fowler illustrates (in MISC 111(85)7, Annex A) the effect on expenditure, caseload, gainers and losers, of various combinations of percentage support for rent and rates. Thus, compared with expenditure under the present scheme -

	Maximum support (%) rent	rates	
(a)	100	90	will save £410m and produce 7 million losers
(b)	100	80	will save £560m and produce 7.2 million losers
(c)	90	90	will save £780m and produce 7.5 million losers

The Chief Secretary (MISC 111(85)8) points out that:

(d)	95	75	also produces savings of the order of £780 million.

The Secretary of State for the Environment argues for retaining 100% assistance with rents at the SB level (with the Exchequer bearing 80% of the cost, and local authorities the other 20%), but favours a maximum 80% support with rates. This is (b) and would save £560 million. If rent support is held at 100%, rate support needs to be reduced to 65% to make the same savings as in (c) or (d). Throughout the savings assume that there is no reimbursement to households on SB of their contributions to housing costs, ie they have to find the money themselves.

Supplementary Benefit

3. Mr Fowler argues that the likely changes in HB will have a significant effect on SB recipients. Furthermore there will in any case be about 2 million losers from his proposals for simplifying SB without seeking any savings over and above those he already foresees (something over £150 million per annum from 1988/89). In effect he is proposing that any further savings required in the HB/SB area should be found from HB (where the better case for them can be made) leaving the

SB simplification, a prize he is very keen to achieve, relatively untainted by any controversy over cuts.

4. There was very little discussion of the substance of the SB proposals at the last meeting. The main elements are -

i. Replacing supplementary benefit by an '<u>income support scheme</u>' on a simpler basis without entitlement to any extra payments related to detailed assessment of individual circumstances.

ii. Mortgage interest to be payable for those on supplementary benefit - but only after the first 6 months on benefit.

iii. Better income and capital disregard rules to increase incentives to save and, for long-term unemployed couples, to help resume contact with the labour market.

iv. A discretionary fall-back ('<u>social aid</u>') scheme for real emergencies and special needs. Operated by DHSS local offices against cash limits, with no legal entitlements or detailed rules.

MAIN ISSUES

5. The main issues are:

a. the quantum of savings to be secured from housing benefit and supplementary benefit;

b. what level of assistance should be given with (i) rates and (ii) rent;

c. whether the structural proposals for housing benefit and supplementary benefit are acceptable.

<u>The quantum of savings</u>

6. Leaving aside retirement pensions, expenditure on social security

in 1984/85 was about £22 billion. Supplementary benefit (£6.3 billion) and housing benefit (£4.2 billion) accounted for nearly half of this. If substantial savings are to be secured from the social security reviews, a major contribution - say about £1 billion - must come from this area. If the savings from supplementary benefit are to be no greater than those proposed by Mr Fowler (£160-170 million after 1987-88), then savings of around £800 million must come from housing benefit. This appears to be the Chief Secretary's objective.

Rent and rates percentage support

7. If a target saving of around £800 million is accepted it is then a question of settling the appropriate percentages for rent and rates which would deliver that saving. Three options would each deliver around £780 million:

rent	rates
100	65
95	75
90	90
80	20

8. In choosing among the options the considerations are:

i. the need for a rates percentage no greater than 80 per cent to foster local authority accountability;

ii. the high level of rents in some areas (particularly London) leading to hardship if re-imbursement is less than 100 per cent;

iii. the administrative problem for local authorities in collecting small percentages of rent, aggravating the existing problem of rent arrears;

iv. the argument of principle that tenants should not be totally insulated from rent levels, and the danger of abuse by landlords if they are.

9. When these percentages have been settled, the Group will need to address two consequential points:

i. whether there should be any offsetting compensation for SB recipients (Mr Jenkin favours this but it would work against accountability and reduce the public expenditure savings;

ii. whether, as the Rowe Committee recommended, the Exchequer contribution to housing benefit should be limited to 80 per cent (Mr Jenkin and Mr Fowler both favour this; it would not reduce public expenditure and would mean that part of the cost of housing benefit would have to be met from the rates; it might however help to limit abuse).

Structural Proposals - Housing Benefit

10. The proposals to align the SB and HB income tests, to have a simplified rate of taper and to align assistance with rate and rents are likely to prove generally acceptable. Earlier Mr Fowler suggested two possiblities for the taper; separate assessment (taper of 50 per cent on rents, 21 per cent on rates) or combined asessment (at 70 per cent). He now advocates combined assessment. This provides the greater savings and should be acceptable.

Structural Proposals - Supplementary Benefit

11. The new Income Support scheme will aim to give people a reasonable level of help for them to manage as they wish. It will not seek to provide in detail for every variation in individual circumstances. Help will be set by three elements:

- a personal allowance based on age and marital status.

(There will be a lower rate for people under 25)

- Those with children will get extra help, through a flat-rate addition for all those with family responsibilities and, as now, amounts for each child depending on age.

- there will be extra allowances for special groups (ie. pensioners, the long-term sick and disabled, and lone parents) to reflect their higher needs.

The supplementary system of Social Aid will provide for exceptional circumstances and emergencies. It will be operated on a discretionary basis rather than be set by complex regulations and instructions. It will be controlled by a cash limit.

12. On the face of it these proposals will effect a considerable simplification in the arrangements in this area. The danger must be that as consultation and further work goes forward, complexity will be reintroduced to deal with this or that special case. Furthermore, the approach to social aid will be affected by the level of income support. If the latter is set too low, the burden on social aid will be increased.

13. Mr Fowler also proposes to change the "capital rule" so that instead of a cut-off at £3,000 there will be a taper between £3,000 and £6,000. The intention is to reduce the incentive for claimants to spend their capital. Because the new rule would apply to HB as well as SB it would produce savings as compared with present arrangements (but there would be greater savings if the existing rule were extended to HB recipients).

HANDLING

14. You will wish to invite the Secretary of State for Social Services to introduce his memorandum. I suggest that the discussion might then fall into two parts: the quantum of savings and percentage of assistance with rates and rent; and the other

proposed structural changes in the two schemes. On the quantum and levels of assistance the Chief Secretary, Treasury and the Secretary of State for the Environment will wish to introduce their memoranda. The Chancellor of the Exchequer may also wish to comment.

CONCLUSIONS

15. You will wish to reach conclusions on:

i. the quantum of savings to be secured from housing benefit and supplementary benefit;

ii. the percentage of assistance to be provided with rates and with rent through housing benefit;

iii. whether reduction in housing benefit should be compensated by any increase in supplementary benefit;

iv. whether local authorities should be reimbursed for only a proportion (80 per cent) of their costs of housing benefit;

v. whether the Group endorse Mr Fowler's structural proposals in the HB and SB area, and in particular:

a. for housing benefit an income taper of 70 per cent for rates and rents combined;

b. for supplementary benefit a general income support scheme with benefit related to age, marital status, family size, disablement etc plus a discretionary cash limited Social Aid Scheme;

c. an easing of the earnings rule for the long-term unemployed;

d. new capital disregard rules involving extra cost in supplementary benefit but more than offsetting savings in housing benefit.

PLG

P L GREGSON

19 March 1985

File

OECD REPORT ON SOCIAL SECURITY

The OECD report reinforces the need for Governments to examine closely the scale and effectiveness of social welfare spending.

As the report says:

> "To endow the system with the necessary efficiency and flexibility, while maintaining effectiveness, requires a careful estimate of needs and costs which has so far been lacking, and some consideration of alternative forms of welfare delivery."

That is exactly what my RHF's review of social security is intended to do.

<u>Other Useful Quotations</u>

i) "Reform of existing programmes and their better management can provide room for financing new developments..... There may be scope for .... major social programmes [eg health, pensions] to offer considerably better value for money and to be more responsive to the needs of recipients. If reforms, however difficult politically, are not put in place during the 1990s, governments and their electorates risk finding that they do not have the capacity or the willingness to provide social programmes adequate to longer term demands."

ii) The OECD Press Release says that:

"The principal conclusion of the report is that through the end of the 1980s there will be little or no room for increasing the scope and coverage of the Welfare State. It says, though some improvements in benefits may be possible in some countries, an increase in the share of social spending in gross national product could conflict with the aim of sustained economic growth."

6 March 1985

SECRET File

BEMA J)

SUBJECT

c. Master Set

bc J. Redwood 21
P. Gregson,

10 DOWNING STREET

From the Private Secretary

6 March 1985

Dear Steve,

SOCIAL SECURITY REVIEWS

The Secretary of State for Social Services came to see the Prime Minister last night to discuss the way forward on the Social Security Reviews. He said he had approached the Reviews not simply as a cost-cutting exercise but if sensible economies were identified they would be made. The Treasury had originally proposed savings of £½ - 3/4b. The proposals he had made were not only capable of delivering such savings but would also achieve the Government's objectives - greater emphasis on private pension provision, simplification of supplementary benefit, a reduction in the cost of housing benefit, and, through the Family Credit, better provision for poor families.

Subsequently, the Treasury had raised its target for savings to £2b. The Secretary of State said that, in his political judgement, this could not be achieved at the same time as reform. It would provoke a strong reaction which would make it impossible to achieve the very worthwhile changes identified by the Reviews. The additional savings would have to come from the 40% of the social security budget which was not the subject of ~~changes~~ pledges. Even before the Reviews began, the Secretary of State was committed to finding savings of £3/4b from this area.

The Prime Minister said the Reviews had to be considered against the background of continuously rising social security expenditure. Major savings were necessary just to stand still and some reduction was necessary as the social security budget had become too large. Previous reforms such as the housing benefit scheme had led to increases in expenditure. Any reform would generate substantial numbers of gainers and losers with only the latter being voluble. Substantial savings were necessary to make it worthwhile for the Government to face out such protests. She had not identified a specific target for savings from the Review but was convinced that the Secretary of State could secure more than the £½ - 3/4b originally proposed.

Discussion then turned to the way in which extra savings could be achieved. It was agreed that biennial upratings were inconsistent with the pledges given on pensions. The move to

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the historic method had been a major advance and it was not possible to go further.

The Secretary of State said that if larger savings were to be found it would be necessary to look at the area of child support. The Prime Minister suggested the re-creation of child tax allowances which would open the way for a reduction in child benefit. One possibility was for there to be an option between CB and CTA's. The Secretary of State said that part of the savings on child benefit could provide the resources for the Family Credit which would contribute to alleviating the unemployment trap and to relieving the most acute area of poverty. He agreed that child tax allowances could be a promising way forward and offered to provide a paper on this issue.

Other points which emerged from the discussion were:

i) The Prime Minister supported the principle of transitional relief but was reluctant to see higher disregards for capital.

ii) Consideration should be given to denying entitlement to SB where a large capital sum received as redundancy compensation had been spent too quickly.

iii) The Prime Minister asked whether the heating allowance could be retained at a lower level. Your Secretary of State said this would negate the effort to simplify the system and would create a base from which this type of expenditure would inevitably grow.

iv) It was agreed that the new system of HB should provide less than 100% reimbursement of rent and rates.

Summing up the discussion, the Prime Minister asked the Secretary of State to offer the greatest savings he could. He should develop further the proposals for child support, including the possibility of reintroducing child tax allowances. He should report back to a meeting of MISC 111 the following week.

BF

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

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

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B/F with PM response
AT 5/3

cc ~~DW~~

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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 Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

4 March 1985

Dear Nigel

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

When we met on 5 February you said you were content with my suggestion that there should be a joint DHSS/Treasury study of the tax and social security systems following the conclusion of my review of social security. I am writing now to explain the background to this proposal and provide more detail about what I have in mind.

I believe it will be very important for both of us that, in presenting the Government's proposals for social security reform, we are able to make it plain that we have addressed directly the case that is frequently put for increasing cooperation between the tax and social security systems.

What I have in mind is that the study would examine the scope for improved cooperation between the tax and social security systems and identify those areas, especially in the development of computer systems, where we should take steps to prevent future options for cooperation from being blocked off. I was struck, when I was recently given a presentation on the two computerisation programmes (the computerisation of PAYE and the social security operational strategy), by the importance which the directors of each programme attached to identifying such areas as soon as possible for planning purposes.

There is clearly a strongly held and widely shared view that the solution to many of the current social security problems involving incentives, targeting of help, complexity and administration lies

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in integration, aided by the benefit of computerisation. This has been a strong theme of many leading articles and it is a view shared by many economic commentators, research bodies like the Institute for Fiscal Studies and indeed many of our colleagues in the House. This was emphasised in Friday's debate in the Commons on tax and social security.

The position is in many ways similar to that faced by the Canadian Government in the 1970s when there was considerable pressure over a period of years for the integration of various transfer programmes with the personal income tax system. They responded by setting up an interdepartmental "task force" involving revenue, Treasury and social security officials reporting to a Finance Minister. The outcome was a discussion document issued in 1978 setting out in some detail the practical, policy and other issues to be faced in considering the feasibility of integration.

The study I propose would have the same sort of value as the Canadian work in identifying the issues, questions, obstacles and opportunities. It would enable us to answer the proposition that integration is both easy and self-evidently right - a proposition too often made without any detailed supporting evidence.

I am sure we must satisfy ourselves about what advantages there might be in terms of greater efficiency, improved operations and better service to the public. But there are four areas where there is scope for closer links between the tax and social security systems.

First, there is the assessment of title where information available in one system could be used in the other. For example, information about income, earnings, dependants could affect entitlement to benefit or allowances and if collected by one system might inform the other system. This could improve efficiency, strengthen safeguards, save staff and save the public time and effort in dealing with both systems.

Second, there is the payment of benefit where this could be delivered through the tax system. Child support is one obvious example, as illustrated by my family credit proposal.

Third, there is the taxation of benefits where the two systems could be linked. For example, our Departments have previously looked at the possibility of DHSS deducting tax from retirement pension, though in that case it was decided the administrative cost was too high. The taxation of benefits makes an important contribution to revenue - £2.3 billion is the estimated yield for 1984/85. Pensions and benefits for unemployed people account for most of this and there may be scope to improve the efficiency of collection when both systems are computerised. The major untaxed benefit is invalidity benefit - now costing £2 billion a year - and we have yet to devise an administratively acceptable and efficient way of taxing it. Again computerisation and closer links should assist in finding a solution.

Fourth, there is the collection of revenue where it is accepted (in the context of the recent scrutiny of burdens on businesses) that there may be scope for greater alignment or integration and work is to be put in hand. This is an area where there is a good deal of overlap between Revenue and DHSS, in particular on policing operations, and where substantial staff saving might be gained.

In considering whether to look into these possibilities, we must take into account that greater coordination could help us considerably in reaching our staff savings targets. Between the two Departments, nearly 150,000 civil servants are employed on income tax and social security, about one-quarter of the Civil Service as a whole and this is without adding in the 25,000 staff in unemployment benefit offices.

I am clear that the criticism of the review that it is too narrowly focussed is misconceived and I will deal with it accordingly in the Green Paper. The review rightly began with the basic objectives and structure of social security. The assessment, payment and taxation of benefits and the collection of revenue must follow on those proposals. Nevertheless, cooperation between the systems is still an important and fundamental issue and is regarded as such outside the Government. We must be able to demonstrate that we have considered and responded to that public perception.

That is why I have proposed a study of the links between the tax and social security systems. I would refer to this study in the Green Paper to demonstrate that, as a Government, we take these ideas seriously and will, where this makes sense, reflect them in our forward planning. My intention would then be to include the conclusions of that study in the White Paper which I would propose to publish when the Bill is introduced in the Autumn.

I am copying this letter to the Prime Minister and to members of MISC 111.

Yours ever
Norman

NORMAN FOWLER

E.R.

SECRET

19A

1 March 1985

PRIME MINISTER

BENEFITS

We need to get MISC 111 back on the road because there are big prizes at stake.

- £2 billion of savings.

- Simplifying the benefit system to save staff and meet the widespread criticism that it is ramshackle, inefficient, and impossibly complicated.

- Reduce unemployment by increasing the gap between what you get in and out of work.

- Expose people to the costs of local government and improve the operation of the housing market by getting rid of 100% housing benefit - an idea originally launched by the Unit last year.

The political appeal of the reviews is that they enable us to harness support for the latter three objectives to achieve the overriding objective of saving money. We have, throughout, made it clear to Norman Fowler that he will only get agreement to his changes in the benefit system if they

E. R.

SECRET

show big savings. My note to you of 1 February (Annex A) set out the Policy Unit shopping list before the first meeting of MISC 111.

The first £1 billion

The first £1 billion of savings can come from supplementary benefit and housing benefit as the figures below show:

Housing Benefit	£m
70% rent and rate taper	260
90% maximum rate rebate	150
90% maximum rent rebate	400
Supplementary Benefit	
Cutting out special and additional payments	250

Not up-rating HB and SB this year could save us money as well. But it's an advance payment on the £1 billion shown above rather than a substitute as:

- A full year's saving from not uprating SB & HB is only around £400 million. In particular, not uprating the

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HB needs allowance saves you very little if there's still 100% support for people on SB.

- After you have cut a benefit all the political pressure is then to restore the abatement. If you have cut the rates first, following it up with a restructuring, makes it more difficult for the spenders to identify the benefit rates which need to be restored.

- You lose the wider prizes of, for example, exposing everyone to at least 10% of rent and rates, and cutting out SB special payments, which also save big money (about £500 million and £150 million respectively). And we want to cut SB rates for the young able-bodied in particular.

- If we are too greedy and try to get more than £1 billion out of HB and SB, the losers will be politically unsustainable.

The second £1 billion

The second £1 billion needs to come from Child Benefit. The options which we set out last Autumn are:

(a) Simply cut the basic rate of CB. Every 10p off the current rate of £6.85 saves almost £60 million. After allowing for offsets, a £5 CB saves about £1 billion.

(b) Means test child benefit. The Treasury proposal saves £1½ billion by a 50% taper for anyone above average earnings. But means testing is an administrative nightmare; there are lots of middle class losers (remember student grants); and the poverty trap is worsened.

(c) A combination of (a) and (b). Keep the current basic rate of child benefit for the first child and then provide a means tested support for subsequent children. Alternatively restrict Child Benefit to under 5s to save about £2½ billion. This would help middle class families who feel the expense when the wife has her first child and stops work.

I recommend (a) or (c). There is a big risk that means-testing on its own just won't be feasible.

It is important to go for a bold reform which provides such large savings that the benefit losers are also big tax gainers. In particular, the Chancellor must be prepared to contemplate some means whereby the tax system recognises the cost of children by, for example, a family tax allowance payable to any couple with children. His proposals for fully transferable allowances will help.

E.R.

SECRET

Improving the benefit system

You are worried that some of Norman Fowler's structural reforms are an excuse for shirking the tough decisions on benefit levels. Annex B shows the real merits of some of his proposals.

David Willetts

DAVID WILLETTS

Annex A

PRIME MINISTER 1 February 1985

SOCIAL SECURITY REVIEWS

We broadly support Norman Fowler's proposals. They have attractive political themes: rewarding individual thrift, cutting the number of benefits, simplifying and reducing means tests, encouraging people to get jobs. But you will want to press him on three key questions at MISC 111.

Will we save money?

There is no point in going through these major reforms - however sensible in their own right - unless we can cut spending. The whole appeal of these wide-ranging reviews is that they provide an opportunity to save money without just looking like a cuts exercise. A shopping list of savings is attached at Annex A. It omits two even bigger money-spinners:

- **Child Benefit.** This costs us over £4 billion. But unless the Chancellor can allow for the cost of children in the tax system (eg by a Family Tax Allowance) it is probably not politically feasible to save money here.

- Only meet 80% of the **housing costs** of people on Supplementary Benefit. This gets us large savings, and helps remind everyone of the costs of extravagant local authorities. But there will be more paperwork and some hard cases.

Benefit expenditure also tends to spring expensive and unpredictable leaks as claimants devise new ways of getting money, such as booming SB mortgage interest expenditure. Sweeping away Supplementary Benefit special payments, and restricting the scope of Housing Benefit, should help stop those leaks in future.

Will we save staff?

I also attach a shopping list, at Annex B, showing how we could save several thousand civil servants. The administrative costs of minor benefits, death grant and maternity grant, are now approaching the cost of the actual benefits. There are very useful staff savings here.

Are the reforms practical?

Norman Fowler is aware of the need to implement these changes carefully and efficiently. That is unfortunately why we won't get savings until 1987. You could press him for a timetable for implementation. This will ensure there is a feasible framework, as well as providing us with a benchmark against which to measure performance.

DAVID WILLETTS

ANNEX A.2

BENEFIT SAVINGS BY 1987-88: A SHOPPING LIST

Supplementary Benefit special payments abolished	£150m
Supplementary Benefit for under-25s tightened up	£75m
Mortgage interest out of SB for first 6 months	£50m
Steepening Housing Benefit taper for rents	£150m
Housing Benefit rate rebates curtailed (helps PSBR, but not public expenditure)	£350m
Abolish One-Parent Benefit	£70m
Abolish Death Grant	£15m
Abolish Maternity Grant	£15m

E.R.

ANNEX A.3

STAFF SAVINGS BY 1987-88: A SHOPPING LIST

SERPS abolished	-300 (at least)
Supplementary Benefit reform	-2,500
Housing Benefit reform	-500
Abolition of Death Grant, Maternity Grant and Maternity Allowance	-1,000
Computerisation	-1,500

Annex B

YOUR WORRIES ABOUT THE BENEFIT REFORMS

The new Capital Disregard extends the scope of SB

At the moment if you have savings of over £3,000 you are excluded from Supplementary Benefit. Norman Fowler is proposing that a taper above that point with a final cut-off of £6,000. Its brings 20,000 extra people within SB at a cost of about £20 million. That is why you are worried. But:

- Overall, Norman Fowler's proposals take 250,000 people out of SB and save £250 million. He is tightening up SB whilst finding room to meet the widespread backbench complaint that the current cliff-edge unfairly penalises thrift.

- There is no capital disregard in HB at the moment. If HB is based on SB rules and the new capital disregard applied then we save £45 million in HB. So overall we save about £25 million taking HB and SB together.

The new earnings disregard also extends the scope of SB

Any earnings above £4 per week are deducted £1 for £1 from SB.

E.R.

Norman Fowler is proposing a more generous disregard of £15 per week, at a cost of £20 million. But he is restricting it to people who have been unemployed for over a year. This is a pretty cheap way of scoring the political bull point of helping the unemployed to stay in contact with the labour market. It's a pretty tough package and it needs some positive features.

<u>The discretionary social aid scheme is unworkable</u>.

We currently spend more than £200 million a year on one-off special payments for supplementary benefit claimants. Expenditure has quadrupled from £50 million in 1980 and the number of payments has doubled. 3,000 staff are needed to administer the complicated rules. It is one of the main areas where the benefit budget is rising unchecked and where claimants' unions exploit the complicated rules so that a judgement in Inverness is applied in Bristol.

Norman Fowler wants to get rid of all the rules and replace it with a discretionary <u>cash-limited</u> budget, largely using loans not grants, totalling £50 million. You are right that there is a risk that his scheme will slowly expand until it reaches the same sorry state as the current scheme. But we will start off with a saving of over £100 million and a major simplification in the supplementary benefit rules. It's better than what we've got at present.

E.R.

<u>The changes in supplementary benefit and housing benefit clobber the elderly</u>.

The elderly get over half of all benefit expenditure:

- Out of the 7 million households getting housing benefit, over 3 million are headed by an elderly person.

- There is an average 25% premium over other groups for pensions in SB. Over a third of old people getting SB also save money.

- The basic pension has risen by 8% more than the rate of inflation since 1979, accounting for half the £2½ billion increase in benefits as a result of policy decisions.

So pensioners do lose out from the changes. But we keep to the pledges on the basic pension and supplementary pension. If we can't have pensioner losers it's difficult to reform either HB or SB.

<u>The housing benefit reform repeats the mistake of the unification of housing benefit in 1980</u>.

Sweeping away the complicated system of tapers and needs allowances is a big prize. Using the supplementary benefit

E.R.

means tests instead, and with a sharp 70% taper for rent and rates, gives us a simpler and more economical system. It also means that savings in supplementary benefit gear up into savings on housing benefit as well. Provided that we press Norman Fowler to fix rates of housing benefit lower than 100% for all, this could be a major contribution to improving local government as well as saving benefit expenditure.

Why invent the Family Credit?

If Norman Fowler can save us big money then there is a case for accepting his Family Credit proposal:

- It costs a net £70 million after abolishing Family Income Supplement. Compared with raising tax allowances it is a very cheap way of, in effect, taking poor people out of tax.

- It only goes to the working poor. It balances cuts in SB for the unemployed as a means of increasing the gap between those in and out of work.

- Delivering the benefit through the pay packet using PAYE and NIC tables may be administratively neat. It helps employers' to hold down pay rates and there is no harm in trying out employers' reactions in a Green Paper.

E.R.

Reforms won't save money.

The crucial condition for agreement to Mr Fowler's reforms is that he saves money. He can have his structural changes and save staff and improve the system provided he can also deliver big savings. That has been the deal all along and he can't shirk it.

DAILY TELEGRAPH MEDIASCAN LIMITED DATE 28 FEB 1985

GOVERNMENT TO STAND FIRM ON PENSIONS

36

By VALERIE ELLIOTT Political Staff

THE Government is expected to stand firm on its commitment to the State earnings-related pension scheme in its forthcoming review of the social security system.

But it is thought likely to offer new incentives to employers and workers to bring in their own occupational and private pension schemes in an attempt to shift the pensions burden into the private sector.

The Government believes that more and more people will decide to contract out of State earnings-related pensions if they can be offered attractive concessions.

But meanwhile the Government would stick by its assurance to pay the earnings-related pension to those contracted wish to take up any incentives on offer.

The full details are expected in the Government Green Paper consultative document on the overhaul of the security system in 9pril aor May.

Particularly concerned

The Government is particularly concerned as to how it can finance the state earnings-related pension scheme in the future and believes encouragement to employers to establish occupational pensions in their firms or for workers to take out their own private schemes will considerably reduce the load.

There are some 11,400,000 people at present contracted into the State earnings-related scheme, which began in 1978.

The full burden on the State will become evident in 1998 when those in the scheme will have completed 20 years' work, on which their pensions will be based.

It is believed that if something is not done to switch the burden to the private sector, those in work at the end of the century and in the next century will have to pay huge National Insurance contributions to finance earnings-related pensions.

Ministers are no doubt optimistic that such a move as they contemplate will work, and they have probably been heartened by the growth and popularity of occupational pension schemes.

For of the 11,600,000 people in the country currently enrolled in an occupational pension scheme some 10,300,000 opted out of the State scheme for an employer-initiated one.

The 1,300,000 others are in occupational pension schemes serving as a top-up to the State earnings-related scheme.

The move would also reinforce the consensus which has existed on pensions policy and would vindicate Mr Fowler, Social Services Secretary, on his commitment to pensions.

In November, 1983, he told the Commons: "My aim in setting up an inquiry (into Pensions) is not to call into question the fundamental pensions structure that was established in the 1970s with all-party agreement and in which I was a party."

THE TIMES

Opposition to tax on pension funds

11

From the Chairman of the Legal & General Group Plc

Sir, Your leader on "Budget boldness" (February 22) is marred by one very serious illogicality. You suggest that as part of a package of tax reform taxation should be levied on the investment income of pension funds.

As noted by the Meade committee in 1978 the current tax position of pensions is virtually ideal in itself, with tax relief on contributions, and investment income, and tax payments deferred until the actual receipt of pensions. That this way of saving has fiscal advantages does not derive from the improper tax treatment of pensions but from the inappropriate treatment of other forms of saving – implicitly recognised by your reference to "the shambles" of Britain's system of capital taxation. To condone a tax on pension fund income is to impose a further distortion on the system.

To depict such a development as part of a programme of "radical reform" is intellectually untenable. It may be good politics – or it may be bad politics. It has, however, nothing to do with "reform". The raising of tax income by a charge on the investment income of pension funds has no justification in terms of economic efficiency or in terms of the much-used and misunderstood objective of "fiscal neutrality". It would clearly represent what might be best described as "fiscal opportunism".

Finally, there is no foundation whatsoever for your statement that such a tax is one for which "the industry is already half-prepared". The innuendo in this statement is clearly that for "prepared" we should read "accepts". Nothing is further from the truth either as far as "the industry" is concerned or employers or, most important of all, the millions of current and future pensioners.

Yours faithfully,
JAMES BALL, Chairman,
Legal & General Group Plc,
Temple Court,
11 Queen Victoria Street, EC4.
February 26.

THE TIMES

Earnings related pensions to stay

36

By Anthony Bevins

The government review of the social security system is expected to safeguard the earnings-related state pension scheme while boosting the attractions of occupational and other schemes in a determined effort to shift a greater portion of the pensions burden into the private sector.

Work on the social security Green Paper is said to have slipped by as much as one month, with publication now scheduled for April or May, but it was said yesterday that the weekly Cabinet committee meetings, chaired by the Prime Minister, had been remarkably free of disagreement.

It would appear that one of the keenest difficulties has been the threat, raised by non-attributable Treasury sources, to tax pension funds or lump-sum payments.

But it was authoritatively stated yesterday that that threat could now be discounted because of the deterrent effect that it would have on the Green Paper proposal to make occupational and private pension schemes more attractive.

Abour 12.7 million people are now wholly or partially contracted into the earnings-related state scheme under which full pensions will become payable in 1998. The 1975 scheme proposes to double the pension for a man on average earnings from the present 20 per cent to about 40 per cent of previous earnings in 1998.

But diversionary action has been forced on ministers by the sheer scale of the costs.

With the number of pensioners due to increase from the present 10 million to 12.6 million by 2025, the cost to the Exchequer of an unchanged pension regime would treble at least, from £5,000 million to about £17,500 million at 1984-85 prices, over the 20 years from 2005.

The Green Paper, which will pave the way for legislation in the next session of Parliament, is expected to offer employers and employees extra incentives for starting alternative pension arrangements in order to build on the 75 per cent of working men who already belong to such schemes.

Letters, page 11

1. Mrs Bowtell
2. Mr Walmsley
3. Mr Montagu
4. Mr Moyer
5. Mr [illegible]

Keep

16 FEB 1985

EARNINGS-LINK PENSIONS FACE ECONOMY AXE

2

By DAVID FLETCHER Health Services Correspondent

A PACKAGE of sweeping reforms in social security benefits is to be announced by the Government in a Green Paper shortly after Easter. They will not only simplify the complex web of 30 existing benefits, but will cut the £40 billion cost of benefits now consuming nearly one-third of all public expenditure.

Mr Fowler, Social Services Secretary, has drawn up the outlines after conferring for 10 days at the Wilton Park conference centre, Sussex, with other social security Ministers and members of the review teams appointed last year to examine welfare benefits.

The package will now be put to the rest of the Government, and the shape of the Green Paper will only emerge after discussions in Cabinet.

The most controversial measure under discussion is abolition of the State earnings-related pension scheme at an estimated saving of £20 billion, at present prices, by the year 2030.

The scheme was introduced by the Labour government in 1978 and will pay employees, in addition to the basic state pension, an extra pension related to their best 20 earning years.

It will not reach maturity until the turn of the century when Ministers fear it will become increasingly costly to finance.

Boom in pensioners

This is because the number of contributors — those in work paying National Insurance — will rise only marginally from 21 million now to 22 million in 2025.

But the number of pensioners claiming the higher payments will jump from 9 million to well over 12 million over the same period.

Any Cabinet decision to abolish the scheme will provoke a furious reaction from the Labour party and from the unions, although the 950,000 people who are already benefiting from the scheme will continue to receive their pensions.

If the scheme is abolished it will be up to individuals to enter an occupational scheme or make private arrangements.

If they choose to use their spare cash in other ways it will be on the understanding that when they come to retire their only entitlement will be the basic state pension.

Mr Fowler would like to see some of the savings used from abolition of earnings-related pensions used to improve other parts of the social security system, but it is not yet clear whether he will win Treasury acceptance of this ideal.

A number of other changes in social security payments are also being put to the Cabinet. The one known to command Mrs Thatcher's sympathy is withdrawal of supplementary benefit from 16 to 18 year olds.

They will then be left with the choice of remaining at school or taking up a place on a Government training scheme.

The Cabinet is also thought likely to approve a simplification of the supplementary benefit scheme by withdrawing special payments for items such as heating, diet, furniture and laundry.

The benefit would also be restructured so that different rates are paid to different groups like single parents, couples, the disabled and pensioners.

More for poor

More controversial are proposed changes in the £6·85 a week child benefit at present received by all 7 million parents, irrespective of need.

The solution most likely to be favoured by the Cabinet is that the amount will be increased for poor families but the benefit will gradually reduce as income increases so that better-off parents receive nothing.

Changes are also expected to be agreed in housing benefit, one of the most costly benefits and one which is received by some recipients earning as much as £10,000 a year.

Daily Mail COMMENT

Time to think again on pensions

6

EVERYBODY would like a fat pension when they retire.

The State earnings-related scheme originally brought in by Mrs Barbara Castle but with all party support aims to do just that.

Why then does her present successor as Social Services Secretary, Mr. Norman Fowler, want to meddle with it?

Apparently because it is starting to pile up a commitment which the country will not be able to afford.

This is partly because he doubts whether the economy will grow at the 1½ per cent. per year necessary to pay for it.

That argument seems needlessly pessimistic for a Government bent on radical economic reform and should not on its own be decisive.

But what is more disturbing and seems to be beyond dispute is that in about 20 years the number of pensioners will start rising out of all proportion to those at work and the burden on the latter may become intolerable.

As yet, only comparatively few benefit from the scheme and any change will not affect them.

Regarding the rest, it should not be difficult to fit existing contributions into private self-financing schemes.

So there is a common-sense case for such a change.

All the same, it would be much more palatable if it were combined with legislation making all occupational pension rights transferable so that contributors may, without penalty, move from job to job.

Daily Telegraph

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DATE

18 APR 1985

PAY—LINKED PENSIONS TO BE SCRAPPED

Painful Whitehall curbs ahead

THE Government has decided to scrap the State Earnings-Related Pensions Scheme. Under proposed legislation the task of providing pensions geared to pay will be left to private schemes and companies, with the State providing "safety net" basic pensions.

But more than 25,000 married women over 65 will qualify for a pension averaging £1,000 a year under an amendment which the Government intends to make to a Bill already before Parliament.

Meanwhile Cabinet ministers have been warned that painful decisions will have to be taken in this year's public spending review which is just starting.

Pensions for 25,000

By FRANCES WILLIAMS Economics Correspondent

THE Government has decided to abolish the State Earnings-Related Pension Scheme, which was introduced with all-party support in 1978.

The controversial decision will be announced in the forthcoming Green Paper report on the wide-ranging review of the social security system initiated a year ago by Mr Fowler, Social Services Secretary.

The Green Paper is due to be published early next month.

The task of providing pensions related to earnings will become the exclusive province of the private sector, with the State's role confined to providing a "safety net" basic pension.

Ministers have been worried for some time that the State earnings-related scheme (SERPS) could impose intolerable costs on future generations of taxpayers. The 1984 Green Paper on spending and taxation identified the scheme as "the major source of future pressures on social security expenditure."

SERPS, which tops up the basic pension with one based on an individual's best 20 earning years, will come to maturity at the turn of the century.

Burden on people at work

Demographic changes, however, mean that the heaviest burden on the working population will fall between the year 2015 and 2030 when a static workforce will have to support a growing number of pensioners.

The number of National Insurance contributors is expected to edge up from 21,800,000 now to 22 million in 2025, while the number of pensioners will jump from 9,300,000 to 12,600,000.

On some estimates workers could be paying a quarter of their incomes to meet the cost of State pensions in 2025, nearly double existing contributions. Abolition of SERPS could save the Government up to £20 billion a year, at present prices, by the year 2030.

Besides cost worries, however, ministers take the view that, in principle, the State should target its resources on the most needy rather than provide income-related pensions for all.

The proposed abolition of SERPS is certain to cause a major political row. The thinking behind the 1975 Labour legislation, which brought in the scheme, was to provide all workers, whether or not they belonged to an occupational scheme, with an earnings-linked pension on retirement.

The Opposition will argue that the private sector cannot adequately fill the gap for many workers, especially the low-paid, who will have to rely on an inadequate basic flat-rate pension.

The Government's own Social Security Advisory Committee argued in a report last month that SERPS should continue because it was necessary to ensure pensioners' living standards did not slip behind.

The Government's decision marks an explicit abandonment of the consensus approach to pensions enshrined in the 1975 legislation.

In November 1983, Mr Fowler told the Commons: "My aim in setting up an inquiry (into pensions) is not to call into question the fundamental pensions structure that was established in the 1970's with all-party agreement and to which I was a party."

Under the Government's proposals the existing rights of the 11,400,000 people now contracted in to the State earnings-related scheme will be protected. But after abolition, people would have to enter occupational schemes or make private arrangements to top up the basic pension.

Immediate savings on pension payments will be small, but

Continued on Back P, Col 3

PENSIONS AXE

By FRANCES WILLIAMS

Continued from Page One

the Government could reap as much as £3 billion from ending the reduced rate of National Insurance contributions paid by the 10,300,000 workers contractde out of SERPS.

This would go almost all the way towards meeting the Treasury's demand for cuts of between £2 billion and £4 billion in the £40 billion a year social security budget which it wants the Fowler reviews to deliver. Mr Fowler, however, has been battling to keep any savings to raise basic benefits.

Savings of £3 billion a year would finance an increase in the basic pension of 20·25 per cent. or enable National Insturace cotributions to be reduced by one to two per cent.

Housing benefit to be cut

The Government plans to legislate on social security in the next session of Parliament. Apart from abolition of SERPS, the Green Paper proposes large cuts in housing benefit, saving several hundred million pounds, and simplification of the supplementary benefit system, involving the sweeping away of many discretionary payments in favour of a higher basic benefit.

But the present child benefit system will be left intact. Ministers have decided that the political and practical problems of means-testing or taxation, the two canvassed options, rule out changes for the time being.

18B.

SECRET

P.01501

PRIME MINISTER

Housing Benefit

(MISC 111(85)1, Appendix 3; MISC 111(85)4; MISC 111(85)3 Revise)

BACKGROUND

Under reforms in 1982 and 1983, various kinds of DHSS and local authority rents and rates assistance to low income groups were amalgamated into a theoretically uniform system of housing benefit (HB). It is wholly administered by local authorities: there are 7½ million recipients (one in three households) and it is costing £4,160 million a year (in real terms three times the 1979/80 figure). HB takes two forms: certificated HB which is payable to recipients of Supplementary Benefit (SB) and standard HB which is payable to others assessed through a separate income test. 100 per cent assistance with rent and rates is available to SB recipients while those in work receive only 60 per cent. The rules are complex, attempting to relate benefits in detail to individual circumstances, necessitating major additions such as Housing Benefit Supplement and High Rent Schemes and leading to intrusive questioning of claimants; and means testing for HB differs to an unwarranted extent from means testing for SB.

2. The Secretary of State for Social Services's proposals are:

i. To align the HB and SB income tests, which is feasible now that the SB regime is to be simplified.

ii. To pay HB at 100 per cent of rent and rates to people whose income falls within SB levels, and above that level to taper HB down to nil.

iii. Subject to further detailed investigation to assess benefit on rent and rates together.

iv. To give local authorities only 80 per cent subsidies for their HB expenditure (to discourage them from using it to inflate their rate and rent income); and to take reserve powers to withhold subsidy;

v. To simplify administration.

3. The objectives of these changes are described as simplification (to reduce caseloads and administrative burdens on local authorities); greater equity (as between those in and out of work); better targetting on those in greatest need; and encouragement of greater local authority efficiency together with strengthening of safeguards against abuse. The expected effects are no change for 40 per cent of recipients, a shift of help for non-SB recipients to those on the lowest incomes and withdrawal of help with rents from up to 200,000 people and with rates from up to 1 million.

4. Because 86 per cent of current expenditure goes to the poorest households (at or below SB levels of income) the scope for financial savings is considered to be limited. About £100-250 million per annum might be saved by, for example, adjustments to the rate of taper, but some of that might be taken up by transitional costs.

MAIN ISSUES

5. The main issues are:

a. Whether the Group agrees that those with incomes at or below the SB level should receive assistance with rent and rates at 100 per cent (as Mr Fowler proposes) or at a lower perecentage (as Mr Jenkin proposes in MISC 111(85)3 Revise).

b. Whether the Group is content in principle with the remainder of Mr Fowler's proposals.

c. What level of savings should be secured from reform of HB.

<u>100 per cent assistance</u>

6. Mr Jenkin argues against 100 per cent assistance on the grounds that one of the conclusions of the review of local government finance

is certain to be the need for full local accountability. This cannot exist when so many local authority electors are completely insulated from the level of rent and rates and from any increases. Furthermore Mr Fowler's proposals will give 100 per cent assistance for the first time to people not on SB but with incomes at that level and 100 per cent assistance with increases in rent or rates will extend above that level because of the way the taper works. As against this Mr Fowler argues there is no logic in treating SB recipients differently from non-SB recipients at the same income level and that, with less than 100 per cent assistance, recipients of SB will be substantially worse off than they are at present. How will they fund the balance? It may be possible to take a decision in principle now that the maximum rate of HB assistance should be less than 100 per cent, leaving details to be worked out between DoE and DHSS. It would be unwise to take a decision to retain 100 per cent assistance until Ministers have considered the initial report of the local government finance studies. (On the face of it, an alternative approach is to provide support related to need rather than to rents or rates actually paid. A major difficulty with this approach is the variation in rent levels around the country which it would require complex arrangements to allow for.)

The remainder of the proposals

7. The proposals to align the SB and HB income tests to have a simplified rate of taper and to align assistance with rate and rents are likely to prove generally acceptable. There are two possibilities to choose between for the taper; separate assessment (taper of 50 per cent on rents, 21 per cent on rates) or combined assessment (at 70 per cent). The latter provides the greater savings.

8. Mr Fowler also proposes to limit Exchequer funding of HB to only 80 per cent of what local authorities disburse. This would be an alternative but less direct way of discouraging local authorities from increasing rents and rates excessively, and it would not achieve Mr Jenkin's objective of making the rent and rate-payer personally

concerned about local authority decisions in this area. It would also presumably have implications for rates (to raise income to finance the local authority 20 per cent) which might sit oddly with other Government policies on rates.

Savings and overall judgement

9. Mr Fowler will table at the meeting illustrative costings. These will show potential savings of £90-260 million per annum from the new arrangements, depending on whether or not the taper is assessed separately from rent and rates, or at a combined rate. These savings assume 100 per cent assistance up to SB Level. With assistance limited to 90 per cent additional savings of £150 million arise, and at 80 per cent £300 million. The Group will wish to make a judgement about the level of savings needed, and whether this justifies the controversy that the changes will arouse.

HANDLING

10. The Secretary of State for Social Services will wish to open the discussion, and the Secretary of State for the Environment to enlarge on his memorandum about the local government implications. The Chancellor of the Exchequer and Chief Secretary, Treasury will wish to comment on the financial implications. The Paymaster General may be able to comment on public and parliamentary reactions.

CONCLUSIONS

11. You will wish to reach conclusions on:

i. whether 100 per cent assistance should be provided;

ii. the alignment of HB and SB income tests and of assistance with rent and rates;

iii. the proposal for a single taper and whether there should be separate percentages for rent and rates;

iv. whether local authorities should be reimbursed for only a proportion of their costs;

v. the level of savings to be sought.

PG

P L GREGSON

22 February 1985

10 DOWNING STREET

From the Private Secretary

Prime Minister

In addition to the circulated papers there is a note by the Chief Secretary raising the bidding on savings. Treasury now realise they were not ambitious enough at the opening of the MISC 111 discussions.

The Chancellor wants to discuss this when he comes to see you on Sunday. A copy is in that meeting folder.

AT

22/2

010/105

SECRET

Prime Minister
Chancellor will want to discuss this on Sunday. Treasury have belatedly realised that they pitched their initial bid too low

FROM:CHIEF SECRETARY
DATE:22 February 1985

PRIME MINISTER

AT 22/2

MISC 111 AND THE PUBLIC EXPENDITURE OUTLOOK

The Chancellor and I have been thinking further about what our objectives should be in MISC 111.

2 Our concern is this. The way decisions are shaping up in MISC 111, we are in danger of creating great political controversy for relatively small gain. The various administrative reforms proposed to the system are worthwhile in themselves. But a savings target of £¾ billion by 1988-89 will require controversial measures without making more than a marginal impact on the overall problem of social security expenditure.

3 The alternative - apart from foregoing the £¾ billion savings which the overall position does not allow us to consider - is to go for much bigger savings and to secure them earlier. I have in mind a figure of £2 billion by 1987-88. Only a package of this size will allow us to make significant headway in tackling the public expenditure problems which have recently emerged and which would otherwise threaten our ability to cut taxes before the next election.

4 Tactically a larger savings target would also give us valuable room for manoeuvre in securing the savings. Controversy would focus on the one or two "big" measures needed to save £2 billion, and there might be scope to defuse any really difficult situations that arose on the smaller economies.

SECRET

5 £½ - ¾ billion of this higher figure could be found, much as we presently envisage in MISC 111, mainly from reductions in housing and supplementary benefits. To reach £2 billion I suggest we need to consider one or more of the following areas:

- Unpledged benefits: a decision not to uprate the unpledged benefits that are not statutorily protected (listed in Annex A) would produce the earliest savings - £200 million in 1985-86 rising to nearly £600 million in 1986-87.

Biennial upratings for all benefits: postponing the 1985 uprating by one year for all benefits and uprating once every two years thereafter would save £600 million in 1985-86 and £1100 million in subsequent years. Legislation would be required.

- Means-testing child benefit: Annex B sets out a possible scheme. There would be administrative problems to overcome, but on the assumption that means-testing could be implemented in April 1987, there could be net savings of up to £1½ billion in 1987-88 and in subsequent years. In my view, there is already some support for a move on child benefit which we could build on.

6 I recognise that it is important that a bigger savings package should not be allowed to slow down the present timetable which envisages announcing decisions in a Green Paper after the Budget with legisltion following in 1985-86. We need to decide quickly, therefore, whether to adopt the bigger savings target and if so, which of the options set out in paragraph 5 above we should go for.

PB

for PETER REES

[Approved by the Chief Secretary]

ANNEX A

NON-UPRATING OF UNPLEDGED BENEFITS

Not all unpledged benefits can be frozen without legislation. Some (notably unemployment benefit and maternity allowance) are statutorily uprated in line with the RPI.

2 The unpledged, non-statutorily uprated benefits are:

- child benefit
- one parent benefit
- FIS
- supplementary benefit for non pensioners
- mobility allowance
- housing benefit

3 Non-uprating of these benefits in November 1985 would yield savings of:

			(£ million)
	1985-86	1986-87	1987-88
pe	200	580	600
+ non pe	20	55	55

4 If we announced simultaneously a nil uprating in November 1986 as well as in November 1985, the savings would be bigger:

pe	200	750	1100
+ non pe	20	75	100

5 If legislation was taken to non-uprate the statutorily protected unpledged benefits, these savings would be increased by £20 million in the first year and £60 million in a full year.

6 Non-uprating would have to be agreed and announced by June at latest and preferably by the Budget. This is because the Budget tax tables illustrate the position of families assuming an increase in child benefit (in effect the increase allowed for in the expenditure White Paper).

SECRET

ANNEX B

INCOME-RELATED CHILD SUPPORT

A possible scheme for means testing Child Benefit described in Annex 1 of the final report of the Children and Young Persons Review was briefly as follows:-

(i) 4 million families entitled (7½ million children).

(ii) entitlement range up to £190 per week.

(iii) All other forms of child support abolished (eg supp ben child rates, FIS).

(iv) Entitlement of £15 per week for each child at incomes of £60 per week and below, tapering to existing child benefit levels at £170 per week, 50% taper on whole amount thereafter.

(v) 3 million families gain.

(vi) Average gain of £6.50 per week.

(vii) 3½ million families lose.

(viii) Average loss of £10.50 per week.

(ix) Additional staff of 1400.

(x) Net savings of £1½ billion.

E.R.

BACKGROUND

ITEMS

1. Single payments are available for a wide range of items, for example, maternity needs, funeral expenses, furniture, household equipment, bedclothes, clothing and footwear. The categories of items and conditions regarding eligibility are set out in the Single Payments Regulations (NI) 1981, the details being reporduced in the S Manual.

2. With the exception of hospital fares, the scope of single payments in Northern Ireland is the same as in Great Britain.

AMOUNTS

3. The amounts generally payable for bedclothes, clothing and footwear are identical in Northern Ireland and Great Britain.

4. For other items, eg, furniture and household equipment, the amount of the single payment should generally represent the cost at which the items can be purchased in the Social Security Office area. Single payments can cover household items ranging in size from forks and spoons to beds and wardrobes.

COMMENT

5. The subject of single payments has attracted the attention of Mr Ross in the past. It has also exercised the minds of other Northern Ireland MPs and Assembly Members in recent months, particularly

cont ...

over the question of alleged abuse. The Permanent Secretary of the Department of Health and Social Services for Northern Ireland is due to appear before the Public Accounts Committee on 27 February 1985, single payments being one of the topics for discussion.

6. This element in the supplementary benefit scheme has attracted particular attention during the current policy review. It is expected that the Government will announce its proposals for reform of this and other social security schemes within the next few months.

STATUTORY RULES OF NORTHERN IRELAND

1981 No. 369

SUPPLEMENTARY BENEFITS

The Supplementary Benefit (Single Payments) Regulations (Northern Ireland) 1981

Made . . . . . . *11th November 1981*

Coming into operation . . . *21st December 1981*

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PART IX

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31. Revocations

SCHEDULES

SCHEDULE 1 — Bedclothes

SCHEDULE 2 — Clothing and Footwear

SCHEDULE 3 — Revocations

The Department of Health and Social Services, in exercise of the powers conferred on it by Articles 5(1) and (2) and 19(2)(*c*) of the Supplementary Benefits (Northern Ireland) Order 1977(**a**) and of all other powers enabling it in that behalf, and for the purpose only of consolidating regulations hereby revoked, hereby makes the following regulations:

(**a**) S.I. 1977/2156 (N.I. 27): provisions of the Supplementary Benefits (Northern Ireland) Order 1977, as amended by Article 7 of, and Part I of Schedule 2 to, the Social Security (Northern Ireland) Order 1980 (S.I. 1980/870 (N.I. 8)), are set out in Part II of that Schedule

PART I

GENERAL

Citation and commencement

1. These regulations may be cited as the Supplementary Benefit (Single Payments) Regulations (Northern Ireland) 1981 and shall come into operation on 21st December 1981.

Interpretation

2. In these regulations—

"the Order" means the Supplementary Benefits (Northern Ireland) Order 1977;

"the Act" means the Social Security (Northern Ireland) Act 1975(**a**);

"Requirements Regulations" means the Supplementary Benefit (Requirements) Regulations (Northern Ireland) 1980(**b**);

"Resources Regulations" means the Supplementary Benefit (Resources) Regulations (Northern Ireland) 1981(**c**);

"allowance" means a supplementary allowance under Article 3(1)(*b*) of the Order;

"assessment unit" means the claimant and any partner and dependant of the claimant;

"claimant" has the meaning assigned to it in regulation 4;

"close relative" means a partner, spouse, parent, child, step-parent, step-child, brother or sister;

"the Department" means the Department of Health and Social Services;

"dependant" means a person whose requirements and resources, by virtue of paragraph 3(2) of Schedule 1 to the Order, are or would be aggregated with and treated as those of the claimant;

"disregarded capital", in relation to a claimant, means capital which falls to be disregarded under regulation 6(2) of the Resources Regulations;

"employment" means remunerative full-time work, other than self-employment, within the meaning of Article 9(1) of the Order;

"Health and Social Services Board" means a Board established under Article 16 of the Health and Personal Social Services (Northern Ireland) Order 1972(**d**);

"home" means the accommodation, with any garage, garden and out-buildings, normally occupied by the assessment unit and any other members of the same household as their home, and it includes also any premises and land not so occupied which it would be impracticable or unreasonable to expect to be sold separately;

"normal requirements", "additional requirements" and "housing requirements" mean the requirements which are or would be taken into account in the determination of the claimant's requirements under Parts II, III and IV respectively of the Requirements Regulations;

"partner" means one of a married or unmarried couple;

"patient" means a person (other than a prisoner) who is undergoing medical or other treatment as an in-patient in any hospital or similar institution;

(**a**) 1975 c. 15
(**b**) S.R. 1980 No. 347
(**c**) S.R. 1981 No. 370
(**d**) S.I. 1972/1265 (N.I. 14)

"pension" means a supplementary pension under Article 3(1)(*a*) of the Order;

"prisoner" means any person whose detention in a prison, remand centre or young offenders centre is for the time being authorised by law;

"single payment" has the meaning assigned to it in regulation 3.

Meaning of single payment and determination of amount payable

3.—(1) In these regulations "single payment" means supplementary benefit payable by way of a single payment to meet an exceptional need in circumstances to which Parts II to VIII apply.

(2) A single payment shall be made only where—

(*a*) there is a need for the item in question; and

(*b*) in a case in which the payment would be in respect of the purchase of a particular item, the assessment unit does not already possess that item or have available to it a suitable alternative item, and has not unreasonably disposed of, or failed to avail itself of, such an item.

(3) Except in so far as regulation 5 provides that no amount or a reduced amount shall be payable, the amount of a single payment which falls to be made by virtue of any regulation in Parts II to VII shall be—

(*a*) subject to paragraph (5), the amount, if any, specified in that regulation;

(*b*) if no amount is so specified—

(i) where that regulation provides that the payment is to be made in respect of the purchase of an item, such amount as is necessary to purchase an item of reasonable quality, or

(ii) where that regulation provides that the payment is to be made in respect of costs of services provided, the amount of such costs to the extent that they are reasonable.

(4) The amount of a single payment which falls to be made by virtue of regulation 30 (discretionary payments) shall be determined according to the provisions of that regulation.

(5) Where pursuant to regulation 25 of the Supplementary Benefit (Claims and Payments) Regulations (Northern Ireland) 1981(**a**) (payment of single payments to third parties) a single payment is payable direct to the person who or the body which supplied the item in respect of which it is made, the amount of the single payment shall, notwithstanding any provision in these regulations, be the amount applicable under paragraph (3)(*a*) or, as the case may be, regulation 30(3)(*a*)(i), or the actual cost of the item in respect of which it is made, whichever is less.

(6) Nothing in these regulations shall be construed as precluding the payment of two or more single payments payable by virtue of one or more regulations by means of a single instrument of payment.

Meaning of claimant

4. In these regulations "claimant" means a person who claims a single payment and in respect of the day on which that claim is made either—

(*a*) he is entitled to a pension or allowance; or

(*b*) he would be entitled to a pension or allowance if he—

(i) made a claim for it, and

(**a**) S.R. 1981 No. 368

(ii) satisfied the conditions for claiming and payment of that pension or allowance prescribed pursuant to Article 19 of the Order,

but does not include a person who is or would be entitled to a pension or allowance by virtue only of the Supplementary Benefit (Urgent Cases) Regulations (Northern Ireland) 1981(a) during any period to which regulation 5(3)(*a*) of those regulations applies or would apply in the determination of the requirements applicable to him.

Effect of resources on amounts payable

5. Except in so far as regulations 16, 21, 25 and 30 provide otherwise, where a claimant has any disregarded capital which is in excess of £300, any single payment which would, but for this regulation, be payable shall be payable only to the extent that its amount, or where more than one single payment falls to be made on the same day their aggregate amount, exceeds the amount by which that capital exceeds £300.

Circumstances in which and items for which single payments shall not be made

6.—(1) Notwithstanding any provision in these regulations, in particular regulation 30—

(*a*) no single payment shall be made if a single payment has already been made in respect of the circumstances in question and those circumstances have not changed;

(*b*) no single payment shall be made where any member of the assessment unit is a person whose requirements fall to be disregarded to any extent by virtue of Article 12 of the Order (persons affected by trade disputes);

(*c*) no single payment shall be made in respect of a person in accommodation specified in sub-paragraph (*a*) or (*b*) of paragraph (4) of regulation 10 of the Requirements Regulations (residential accommodation); and

(*d*) except in so far as regulation 25 (voluntary repatriation expenses) provides otherwise, no single payment shall be made in respect of any need which occurs outside Northern Ireland.

(2) Notwithstanding any provision in these regulations, in particular regulation 30, no single payment shall be made in respect of any of the following—

(*a*) an educational or training need;

(*b*) distinctive school uniform or sports clothes or equipment;

(*c*) travelling expenses to or from school;

(*d*) school meals and meals taken during school holidays by children who are entitled to free school meals;

(*e*) mobility needs;

(*f*) garaging, parking, purchase and, except in so far as payments may be made for travelling expenses, running costs of any motor vehicle;

(*g*) installation or rental or call charges for a telephone;

(*h*) a television or radio, or licence, aerial or rental charges for a television or radio;

(*i*) holidays;

(*j*) expenses arising from an appearance in a court such as travelling expenses, legal fees, court fees, fines, costs, damages or subsistence;

(*k*) removal charges where a claimant is permanently rehoused following the imposition of a compulsory purchase order, or a redevelopment or closing order, or a compulsory exchange of tenancies, or where those charges are met by the Department of Manpower Services;

(a) S.R. 1981 No. 372

(*l*) domestic assistance provided by a Health and Social Services Board;

(*m*) any repair to Northern Ireland Housing Executive property.

PART II

MATERNITY NEEDS

Maternity needs

7.—(1) Where any member of the assessment unit—

(*a*) is pregnant and has reached a stage in her pregnancy which is not more than 6 weeks before the expected week of confinement; or

(*b*) has recently given birth to a child, or has recently adopted a baby,

a single payment shall be made for the purchase of such items as are necessary to meet the immediate needs of the child, other than any requirement excluded under Article 3(3) of the Order (exclusion of medical, surgical, optical, aural or dental requirements).

(2) The items mentioned in paragraph (1) may include in particular the following items—

(*a*) clothing sufficient for a new-born baby;

(*b*) a sufficient quantity of napkins;

(*c*) a sufficient quantity of feeding bottles;

(*d*) a cot;

(*e*) a cot mattress;

(*f*) a pram or carry-cot;

(*g*) a sufficient quantity of cot blankets and sheets;

(*h*) a baby bath.

(3) Subject to paragraph (4), any amount payable by virtue of the preceding paragraphs of this regulation shall be—

(*a*) in the case of an item to which paragraph (2)(*d*), (*f*) or (*h*) applies, the cost of a second-hand item, if such item is available;

(*b*) in the case of an item specified in column 1 of Schedule 1 (bedclothes) or column 1 of Part VI of Schedule 2 (baby clothing), the amount specified for that item in column 2 of Schedule 1 or column 2 of Part VI of Schedule 2; and

(*c*) in the case of any other item, such amount as is necessary to purchase a new item.

(4) The amount of a single payment, or where more than one payment falls to be made the aggregate amount of such payments, which would, but for this paragraph, be payable under this regulation shall be reduced by the amount of any maternity grant paid under the Act in respect of the relevant birth unless that grant has been spent on any item in respect of which a single payment would otherwise have been made.

PART III

FUNERAL EXPENSES

Funeral expenses

8.—(1) Where any member of the assessment unit takes responsibility for the cost of a funeral or cremation (in this regulation referred to as the "responsible member") and—

(a) the deceased was—

(i) a close relative of the responsible member, or

(ii) a member of the same household as the responsible member;

(b) there is no other person, being a close relative of the deceased, who could more reasonably, having regard to how closely they were related and the financial circumstances of that person, be expected to take responsibility; and

(c) the accommodation where the deceased normally lived prior to his death ("the deceased's home") was in Northern Ireland and he died either—

(i) in Northern Ireland, or

(ii) during a temporary absence from Northern Ireland,

and the funeral or cremation takes place in Northern Ireland,

the claimant shall be entitled to a single payment of an amount sufficient to meet any essential expenses of the funeral or cremation which are specified in paragraph (2) and which fall to be met by the responsible member.

(2) The essential expenses mentioned in paragraph (1) are as follows—

(a) the cost of any necessary documentation;

(b) the cost of a plain coffin;

(c) the cost of transport for the coffin and bearers, and one additional car;

(d) the reasonable cost of flowers from the responsible member;

(e) undertaker's fees and gratuities, chaplain's, organist's and cemetery or crematorium fees for a simple funeral or cremation;

(f) the cost of any additional expenses arising from a requirement of the religious faith of the deceased, not in excess of £75; and

(g) where the death occurred away from the deceased's home—

(i) if the death occurred in Northern Ireland, the cost of transporting the body to that home,

(ii) where the death occurred elsewhere, the cost only of transporting the body within Northern Ireland to that home.

(3) The following amounts or sums shall be deducted from any amount which would, but for this paragraph, be payable under this regulation and, where more than one amount or sum falls to be deducted, priority shall be given in the following order—

(a) the value of the deceased's estate at the date of his death less the value of the deceased's home if owned solely or jointly by him and not occupied solely by him;

(b) the amount of any death grant payable under the Act in respect of the deceased's death unless that grant has been spent on any item in respect of which a single payment would otherwise have been made under this regulation;

(c) any lump sum due to the responsible member or any other member of the assessment unit on the death of the deceased by virtue of any insurance policy, occupational pension scheme or analogous arrangement;

(d) the amount of any contribution which has been received by the responsible member or any other member of the assessment unit from a charity, but only to the extent that that amount or, if more than one contribution has been received from any charity, the aggregate of the amounts received exceeds the cost of any funeral expenses other than those to which paragraph (2) applies;

(e) the amount of any contribution which has been received by the responsible member or any other member of the assessment unit from a relative of his or from a relative (but not a close relative) of the deceased, but only to the extent that that amount or, if more than one contribution has been received from any such relative, the aggregate of the amounts received exceeds the aggregate of the cost of any funeral expenses other than those to which paragraph (2) applies and the cost of flowers from the responsible member;

(f) an amount in respect of any surviving close relative of the deceased equal to a proportionate share of the amount which would, but for this sub-paragraph, be payable after the application of the preceding sub-paragraphs, less the cost of flowers from the responsible member, except that no such share shall be assumed in respect of a relative—

(i) to whom a pension or allowance is payable, or

(ii) from whom, having regard to his financial circumstances, it would be unreasonable to expect such a contribution, or

(iii) who has had no contact with the deceased in recent years,

but this sub-paragraph shall not apply where the responsible member is the surviving spouse of the deceased or where the deceased was a dependant of the claimant.

PART IV

HOUSEHOLD EXPENSES

Meaning of essential furniture and household equipment

9. In this Part "essential furniture and household equipment" means the following items—

(a) sufficient beds and mattresses and dining and easy chairs for all the members of the assessment unit, and a dining table;

(b) sufficient storage units for clothing, food and household goods (for example crockery) for the needs of the assessment unit;

(c) a cooker;

(d) space-heating appliances, but excluding items which are part of a central heating system within the meaning of paragraph 3 of Schedule 3 to the Requirements Regulations;

(e) fire-guards;

(f) where a member of the assessment unit is elderly or infirm, a covered hot-water bottle;

(g) curtains and fittings;

(h) polyvinyl chloride (or equivalent) floor coverings;

(i) a washing machine, but only where an additional requirement under paragraph 16 of Schedule 3 to the Requirements Regulations (laundry) is not appropriate because—

(i) there is no laundry or laundrette which the assessment unit can reasonably be expected to use, or

(ii) where there is such a facility, it cannot be used for the assessment unit's laundry because the claimant or his partner is mentally or physically ill or disabled or because there is no public transport to it;

(*j*) a vacuum cleaner, but only where a member of the assessment unit is allergic to house dust;

(*k*) a refrigerator, but only where a member of the assessment unit requires, for medical reasons, a special diet for which it is necessary to keep foodstuffs at refrigerated temperatures;

(*l*) minor items such as cleaning implements, cooking utensils, crockery and cutlery, but only in a case to which regulation 10(1)(*a*) applies;

(*m*) a garden fork or spade and shears, but only where the home includes a garden and digging, or cutting of lawns and hedges, is necessary;

(*n*) an iron;

(*o*) light fittings;

(*p*) towels;

(*q*) a pushchair;

(*r*) a high chair;

(*s*) a hot water cylinder jacket.

Purchase, repair and installation of essential furniture and household equipment

10.—(1) This paragraph shall apply where either—

(*a*) the claimant has recently become the tenant or owner of an unfurnished or partly furnished home and one or more of the following applies—

(i) one of sub-paragraphs (*a*) to (*f*) of regulation 13(1) applied to or in respect of his previous home, or

(ii) the claimant has changed his former home as a consequence of actual or, in the opinion of a benefit officer, reasonably apprehended intimidation, or

(iii) a member of the assessment unit is over pensionable age, aged 15 or less, pregnant or chronically sick or mentally or physically disabled, or

(iv) the claimant has been in receipt of an allowance for a continuous period of 6 months or more and has, in the opinion of a benefit officer, no immediate prospect of employment, or

(v) immediately before he became such a tenant or owner, the claimant was a prisoner, or was living in accommodation provided by a statutory authority or voluntary organisation for the purpose of providing special care and attention for him, or had been a patient for a continuous period of more than one year,

and in a case to which head (iv) or (v) applies there is no suitable alternative furnished accommodation available in the area; or

(*b*) the claimant has not recently become such a tenant or owner and one or more of the following applies—

(i) a member of the assessment unit is over pensionable age, aged 15 or less, pregnant or chronically sick or mentally or physically disabled, or

(ii) the claimant has been in receipt of an allowance for a continuous period of 6 months or more and has, in the opinion of a benefit officer, no immediate prospect of employment, or

(iii) the item is a cooking or heating appliance mentioned in regulation 9(*c*) or (*d*), or

(iv) the item is a bed and the claimant has entered the home without permission of the owner but permission to occupy the home has been granted to him as a temporary expedient, but, except in a case to which sub-paragraph (*b*)(iv) applies, no payment shall be made by virtue of sub-paragraph (*b*) to a claimant who has entered the home without permission of the owner, notwithstanding that permission to occupy that home as a temporary expedient has or has not been granted.

(2) In a case to which paragraph (1) applies a single payment shall be made for the purchase of any item of essential furniture or household equipment which the claimant either—

(*a*) does not possess; or

(*b*) does possess, but which is defective or unsafe and the cost of repair to which paragraph (4) would otherwise apply would exceed the cost of the replacement or would be uneconomic having regard to the future viability of the item.

(3) The amount payable in a case to which paragraph (2) applies shall be—

(*a*) in the case of a bed or mattress, the cost of a new item, except that where the claimant—

(i) has already acquired or negotiated for a second-hand item, the amount shall be the cost of that second-hand item,

(ii) is a person to whom paragraph (1)(*b*)(iv) applies, the amount shall be the cost of a second-hand item or of a new sleeping bag if preferred;

(*b*) in the case of any other furniture or a pushchair or gardening tools, the cost of a second-hand item, if such item is available;

(*c*) in the case of a cooker or any electrical or gas appliance, the cost of a reconditioned item, if such item is available; and

(*d*) in the case of any other item, such amount as is necessary to purchase a new item,

and in the case of an item to which regulation 9(*a*), (*b*), (*c*), (*d*), (*h*), (*i*), (*j*) or (*k*) applies shall include the cost of delivery.

(4) In a case to which paragraph (1) applies, except where paragraph (2)(*b*) provides otherwise, a single payment shall be made to meet the costs of essential repair to any item of essential furniture or household equipment which the claimant possesses but which is defective or unsafe.

(5) In a case to which paragraph (1) applies, a single payment shall be made to meet the reasonable costs of installation of any item mentioned in regulation 9(*c*), (*d*), (*h*), (*i*) or (*k*).

(6) In any case, notwithstanding paragraph (1), where a claimant has moved to a new home, and one of sub-paragraphs (*a*) to (*f*) of regulation 13(1) applied to or in respect of his previous home, a single payment shall be made to meet the reasonable costs of re-installing on removal any item mentioned in regulation 9(*c*), (*d*), (*h*), (*i*) or (*k*).

Essential furniture and household equipment on hire purchase

11.—(1) This regulation shall apply where a claimant, or his partner, has entered into a hire purchase agreement ("the agreement") to purchase an item of essential furniture or household equipment but only where, in the opinion of a benefit officer, the claimant is likely to remain entitled to a pension or allowance, or would remain so entitled if he made a claim for it, for the remainder of the period to which the agreement relates.

(2) Where at the time at which the agreement was made the claimant was not entitled to a pension or allowance, and would not have been so entitled had he made a claim for it, a single payment shall be made—

(*a*) if the outstanding debt is not more than the amount which would have been paid had regulation 10(2) applied, of an amount equal to the outstanding debt;

(*b*) if the outstanding debt is more than the amount which would have been paid had regulation 10(2) applied, of an amount not greater than that amount, provided that as a consequence of such a payment the further instalments falling to be paid can be met by the claimant out of any sum which in the calculation of his resources falls to be disregarded by virtue of regulation 10(5) or 11(5) of the Resources Regulations (partial disregard of earnings or other income respectively).

(3) Where—

(*a*) at the time at which the agreement was made the claimant was entitled to a pension or allowance, or would have been so entitled if he had made a claim for it; and

(*b*) the outstanding debt is not more than the amount of a single payment which would have been payable had regulation 10(2) applied,

a single payment shall be made of an amount equal to the outstanding debt.

Bedclothes

12.—(1) A single payment shall be made for any item of bedclothes specified in column 1 of Schedule 1 where, in the opinion of a benefit officer, the assessment unit's stock of that item is inadequate for its needs, having regard in particular to whether the state of health or any physical disability of any member of the assessment unit creates additional need for that item (for example, extra blankets for warmth, or extra sheets because of necessary frequent washing).

(2) The amount payable for any item to which paragraph (1) applies shall be the amount specified for that item in column 2 of Schedule 1.

Part V

Housing Expenses

Removal expenses

13.—(1) A single payment shall be made, other than to a claimant to whom paragraph (2) applies, in respect of the cost of the removal within Northern Ireland of the household goods and personal effects of any member of the same household as the claimant where the assessment unit and any other member of the household are moving to a new home and either—

(*a*) the existing home of the assessment unit is structurally deficient or insanitary;

(*b*) having regard to the age, state of health or any physical disability of any member of the assessment unit, the size of the assessment unit and whether any other person lives in the home, the existing home is unsuitable either in size or structure or because it is too far removed from close relatives;

(*c*) the change of home is in consequence of the death of, or divorce from, the claimant's partner or any other breakdown of the marriage or relationship;

(*d*) as a consequence of the change of home the claimant's prospects of employment will be significantly improved or without a change of home he would be unable to take up employment which has been offered to him;

(*e*) the housing requirements applicable to the claimant are reduced under regulation 21 of the Requirements Regulations (restriction where amounts are excessive); or (*f*) the additional requirements applicable to the claimant have recently included an amount under paragraph 18 of Schedule 3 to the Requirements Regulations (storage of furniture).

(2) Paragraph (1) shall not apply where the housing requirements applicable to the claimant in respect of the new home would be reduced under the said regulation 21, unless the amount of the reduction will be met by the claimant out of any sum which in the calculation of the claimant's resources falls to be disregarded by virtue of regulation 10(5) or 11(5) of the Resources Regulations (partial disregard of earnings or other income respectively).

(3) In pursuance of a claim for a single payment under this regulation, a claimant shall furnish 2 competitive estimates of the cost of the removal, unless in any case the Department directs that, having regard to urgency or the claimant's age or state of health, it would not be reasonable for him to obtain more than one estimate.

(4) The amount payable in a case to which paragraph (1) applies shall be that of the estimate which is the cheaper or, where the Department has directed that only one estimate be furnished, that estimate.

(5) There shall be deducted from any amount which would, but for this paragraph, be payable by virtue of paragraph (4) an amount, in respect of any person who is not a member of the assessment unit but is a member of the same household as the claimant, equal to a proportionate share of the amount to which paragraph (4) would apply, unless he is a person—

(*a*) to whom or in respect of whom a pension or allowance is payable; or

(*b*) from whom, having regard to his financial circumstances, it would be unreasonable to expect such a contribution.

Deposits

14.—(1) Where on taking up the tenancy of a home, a claimant or his partner—

(*a*) is required under the terms of that tenancy to pay a returnable deposit, in the form of advance rent or otherwise (for example to be held against dilapidations or departure without notice); and

(*b*) would lose the tenancy if he did not comply with those terms,

a single payment shall be made in respect of that deposit.

(2) No payment shall be made under paragraph (1) in respect of a premium required for accommodation.

(3) The amount payable in a case to which paragraph (1) applies shall be either the amount which the claimant or his partner is required to pay or an amount equal to 8 times the amount of the housing requirements applicable to the claimant for the accommodation in respect of which the deposit is required, whichever is the lower.

Legal fees

15. A single payment shall be made to a claimant where he—

(*a*) is liable for legal fees in respect of renewing or extending the lease of leasehold accommodation; and

(*b*) does not intend to dispose of the lease within 12 months of the day on which a payment under this regulation would fall to be made,

and the amount payable under this regulation shall be the amount of those fees, but only to the extent that they are reasonable.

Housing requirements of discharged prisoners

16.—(1) A single payment shall be made where the claimant has been a prisoner for a period of less than one year and has been discharged from the prison, remand centre, or young offenders centre in which he was detained and—

(*a*) during that period he has accrued a debt in respect of either—

(i) housing requirements for accommodation of which he is the owner or the tenant, or

(ii) charges for storage of essential furniture of which he is the owner;

(*b*) either—

(i) he is chronically sick, physically or mentally disabled or over pensionable age, or

(ii) in a case to which sub-paragraph (*a*)(i) applies, the accommodation was, or is, or is to be occupied by any other member of the assessment unit; and

(*c*) if a single payment were not made, he would lose the accommodation or forfeit the furniture.

(2) Paragraph (1) shall not apply to any debt, or any part of a debt, which has accrued during the period when housing requirements in respect of the accommodation were included in the requirements of another person or would have been included had that other person made a claim for a pension or allowance.

(3) The amount payable in a case to which paragraph (1) applies shall be an amount either equal to the debt, or equal to the sum of the housing requirements which would have been applicable to the claimant if he had not been detained, whichever is the lower, except that that amount shall be payable only to the extent that it exceeds the claimant's disregarded capital.

Essential repairs and maintenance of the home

17.—(1) A single payment shall be made in respect of the cost of repairs to, and any consequential redecoration of, the home where the claimant is a person falling within sub-paragraph (*a*), (*b*) or (*c*) of paragraph (1) of regulation 17 of the Requirements Regulations (persons in respect of whom an amount is applicable for maintenance and insurance) and—

(*a*) the repairs are essential to preserve the home in a habitable condition;

(*b*) the total cost of the repairs and redecoration does not exceed £225;

(*c*) the cost is such that it would be unreasonable in the circumstances in which the repairs have become necessary to expect the claimant to be able to pay for them out of the amount allowed towards repairs under the said regulation 17; and

(*d*) the claimant is unable to finance the repairs in any other way.

(2) Paragraph (1) shall not apply to any item to which regulation 18, 19 or 21 applies, nor to any other home improvement.

(3) The amount payable in a case to which paragraph (1) applies shall be the reasonable cost of the repairs and redecoration.

(4) A single payment shall be made for survey fees incurred by a claimant in connection with the arrangement of a loan or mortgage for—

(*a*) repairs to which paragraph (1)(*a*) applies; or

(*b*) repairs and improvements to which regulation 18 of the Requirements Regulations (interest on loans for repairs and improvements) applies.

(5) A single payment shall be made where the home has a garden and—

(*a*) owing to the inability of any member of the household to maintain it, the garden is in such a state that it has resulted in—

(i) a summons from a city, borough or district council as defined in the Local Government Act (Northern Ireland) 1972(**a**), or

(ii) a notice to quit; and

(*b*) a voluntary organisation is willing to do the work in the garden which is necessary,

and the amount payable under this paragraph shall be equal to the necessary costs incurred by that organisation in carrying out that work.

Draughtproofing

18. Where the home is draughty and the draughts would be reduced by simple measures (for example, draught-stripping of windows and doors, but not double-glazing or loft or cavity wall insulation), a single payment shall be made of an amount equal to the cost of necessary materials.

Redecoration

19.—(1) A single payment shall be made in respect of expenses of essential internal redecoration to a claimant's home where—

(*a*) the claimant has lived at his present home for at least one year;

(*b*) the claimant is responsible either as the owner of the freehold or leasehold or under the terms of his tenancy for periodic internal redecoration; and

(*c*) the need for redecoration is not connected with any major repair, renovation or alteration to the property.

(2) The amount payable under paragraph (1) shall be the cost of materials, but where the area to be redecorated is used by any member of the household who is not a member of the assessment unit he shall be assumed to contribute a proportionate share of that cost unless he is a person—

(*a*) to whom or in respect of whom a pension or allowance is payable; or

(*b*) from whom having regard to his financial circumstances it would be unreasonable to expect such a contribution.

Fuel meters and reconnection charges

20. Where—

(*a*) the installation of a pre-payment gas or electricity meter is necessary to assist the claimant with budgeting for the cost of that fuel; or

(*b*) the claimant is chronically sick or mentally or physically disabled, and the resiting of a pre-payment meter for those fuels would make it accessible for him; or

(*c*) the supply of such a fuel has been disconnected by reason of non-payment of a debt which is subsequently met either by a single payment or pursuant to arrangements in Part IV of the Supplementary Benefit (Claims and Payments) Regulations (Northern Ireland) 1981 (deductions and payments to third parties) or the Payments for Debt (Emergency Provisions) Act (Northern Ireland) 1971(**b**) and in consequence reconnection is or is to be made,

a single payment shall be made of an amount equal to any charges made for such installation, resiting or reconnection.

(**a**) 1972 c. 9 (N.I.)
(**b**) 1971 c. 30 (N.I.)

Housing costs which arise irregularly

21.—(1) Where in the determination of the claimant's housing requirements no amount is applicable under regulation 17 or 19 of the Requirements Regulations (maintenance and insurance and miscellaneous outgoings respectively) for an item solely because charges for that item occur only irregularly (for example charges under a lease for redecoration of common and external areas, or charges for the emptying of a cess-pit or septic tank), a single payment shall be made of an amount equal to the amount of each charge.

(2) For the purposes of this regulation, the provisions of regulation 5 (effect of disregarded capital on amounts payable) shall not apply.

PART VI

MISCELLANEOUS EXPENSES

Travelling expenses

22.—(1) A single payment shall be made in respect of travelling expenses within Northern Ireland in the following circumstances —

(*a*) the journey is undertaken, because of a domestic crisis, by—

(i) a dependant to enter, or to return from, the care of a relative, or

(ii) a member of the assessment unit to visit a child of whom he is the parent and who is in the care of a relative, or

(iii) the claimant or his partner to care for a child who is related to him, where by reason of that crisis the child's parent or parents are unable to do so;

(*b*) the journey is undertaken by a parent in order to visit his child who is with the other parent pending a decision by a court as to the custody of the child;

(*c*) in a case to which sub-paragraph (*a*) or (*b*) applies, the child or person undertaking the journey is incapable of doing so alone and needs to be accompanied;

(*d*) in the case of a claimant seeking employment in another area of Northern Ireland, he —

(i) has, in the opinion of a benefit officer, reasonable prospects of finding employment in that area, and

(ii) would, if his search were successful, have to change accommodation in order to take up his new job, but

(iii) is not eligible for travelling expenses from the Department of Manpower Services;

(*e*) the claimant has an interview for employment and—

(i) the interview is at a distance of more than 10 miles from the home, and

(ii) he is not eligible for travelling expenses in advance from the prospective employer or the Department of Manpower Services;

(*f*) the claimant incurs travelling expenses when seeking employment within a radius of 10 miles of his home at the instigation of an officer acting on behalf of the Department;

(*g*) the claimant is starting new or resuming employment and incurs travelling expenses in his journey between his accommodation and that employment;

(*h*) the journey is undertaken in connection with the arrangement of or attendance at a funeral or cremation to which regulation 8 applies by a person to whom paragraph (1) of that regulation applies or by a close relative of the deceased;

(*i*) in a case to which regulation 13 applies, any member of the assessment unit incurs travelling expenses in the journey to the new home;

(*j*) paragraph 4 of Schedule 2 to the Requirements Regulations (single claimants without accommodation) applies to the claimant and he—

(i) has been offered suitable accommodation within reasonable travelling distance which he intends to accept, and

(ii) incurs travelling expenses in the journey to that accommodation.

(2) The amount payable in a case to which paragraph (1) applies shall be—

(*a*) the cost of second-class public transport by whichever method is used; or

(*b*) where private transport is used—

(i) where public transport is available, the cost of the petrol not exceeding the public transport cost,

(ii) in any other case, the cost of the petrol,

except that the amount allowed under this sub-paragraph in respect of journeys undertaken by taxi shall be, if public transport is not available or if the person concerned is unable to use other transport by reason of physical disability, the cost of the taxi fare, and in any other case the cost of second-class public transport by the method appropriate to the case.

(3) Where in a case to which paragraph (1) applies the circumstances are such that—

(*a*) a return journey in one day is impracticable (for example on the grounds of distance); or

(*b*) return on a day later than the second day is reasonable (for example so that a person may seek employment over a period of several days),

the amount payable under paragraph (2) shall be increased to cover the cost of one night's lodging or, in a case to which sub-paragraph (*b*) applies, lodging for the number of days which is reasonable, in either case including any charge for breakfast only if that charge is inclusive and inseparable.

Expenses on starting work

23.—(1) A single payment shall be made in respect of any item to which paragraph (2) applies where—

(*a*) without such item the claimant would be unable to take up employment which has been offered to him; and

(*b*) such an item, or the cost of such an item, is not provided or met in full or in advance by the prospective employer.

(2) This regulation applies to—

(*a*) basic tools;

(*b*) working clothes and footwear specified in column 1 of Part II of Schedule 2;

(*c*) driving licence fees (but not fees for driving instruction);

(*d*) fees for a medical examination required by the prospective employer;

(*e*) any other item or items, provided that no amount shall be paid under this sub-paragraph in excess of £35.

(3) Subject to paragraph (2)(*e*), the amount payable in a case to which this regulation applies shall be—

(*a*) in the case of an item specified in column 1 of Part II of Schedule 2, the amount specified for that item in column 2 of that Schedule;

(*b*) in any other case, the cost of purchase of the item or the fees required,

except that where the cost is met in part by the employer, the amount payable shall be the difference between the amount paid by the employer and the amount otherwise payable under sub-paragraph (*a*) or (*b*) or, where the employer supplies the item at a cost less than the amount otherwise so payable, the amount payable shall be equal to that cost.

Debts accrued during absence from Northern Ireland

24.—(1) Where the claimant has been absent from Northern Ireland for a period of less than 26 weeks and—

(*a*) his entitlement to a pension or allowance continued during, or during part of, that absence by virtue of regulation 3 of the Supplementary Benefit (Conditions of Entitlement) Regulations (Northern Ireland) 1981(**a**) (persons temporarily absent from Northern Ireland whose entitlement is to continue) and he is again entitled to that pension or allowance immediately on his return from that absence;

(*b*) during the period of that absence a debt for a continuing commitment in Northern Ireland has accrued; and

(*c*) if he had been in Northern Ireland during that period provision would have been made for that commitment in the determination of his entitlement to a pension or allowance,

a single payment shall be made in respect of that debt.

(2) The amount payable in a case to which paragraph (1) applies shall be the amount of the debt or, where there is more than one debt, the aggregate of such debts, provided that in either case the amount does not exceed the aggregate of the pension or allowance which would have been paid to the claimant during the period of interruption of his entitlement by reason only of his absence from Northern Ireland.

Voluntary repatriation expenses

25.—(1) Where a claimant who was born in a country other than the United Kingdom, the Republic of Ireland, the Isle of Man or the Channel Islands wishes to return to the country of his birth or to go to any other country in which, prior to his acceptance for settlement in Northern Ireland by the immigration authorities, he was resident for a long period (other than the Republic of Ireland, the Isle of Man or the Channel Islands) ("the new country"), provided that in either case he has while in Northern Ireland maintained close connections with that country and intends to take up permanent residence there, a single payment shall be made to enable him to do so if all the following conditions are satisfied—

(*a*) the claimant has not been able to settle in Northern Ireland nor is there any prospect of his doing so;

(*b*) the claimant—

(i) is not or would not be required to register and be available for employment pursuant to Article 7 of the Order, provided that the reason for his not being so required is not temporary, or

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(**a**) S.R. 1981 No. 371

(ii) is or would be required so to register and be available, but in the opinion of a benefit officer has no prospects of employment in Northern Ireland in the foreseeable future because of physical or mental disability, or

(iii) is within 5 years of attaining pensionable age;

(*c*) the cost of the fare is not available to the claimant from any other source (for example, from a close friend or a person to whom Article 22(1)(*c*) of the Order (sponsor of an immigrant) applies, or from the proceeds of the sale of any property owned by him);

(*d*) the claimant is to be accompanied by any partner, and any dependant or any child of whom the claimant or his partner is the parent except where the benefit officer is satisfied that adequate arrangements have been made for such a dependant's or child's care and maintenance in Northern Ireland; and where any dependant who is a child who is to accompany the claimant is—

(i) in the care of the Department under any provision of the Health and Personal Social Services (Northern Ireland) Order 1972(**a**), or

(ii) the subject of a training school order under the Children and Young Persons Act (Northern Ireland) 1968(**b**),

the benefit officer is to be satisfied that the claimant has obtained the necessary approval for removing the child from the jurisdiction;

(*e*) where the claimant has custody of a dependant of whom the other parent is not a member of the assessment unit, the benefit officer is satisfied that the claimant has obtained the necessary approval for removing the dependant from the jurisdiction;

(*f*) the benefit officer is satisfied that there is suitable accommodation and means of support in the new country for the claimant and those accompanying him;

(*g*) the benefit officer is satisfied that the claimant is able to travel and that, if appropriate, suitable medical treatment will be available in the new country; and

(*h*) the Department is satisfied that if a single payment is made there will within 2 years of the claimant's departure be a saving in expenditure on social security benefits greater than the amount of that single payment.

(2) The amount payable in a case to which paragraph (1) applies shall be—

(*a*) the cost of a single fare by the cheapest available means for the claimant and any partner, dependant and child to whom paragraph (1)(*d*) applies;

(*b*) the cost of travel to the extent to which regulation 22(2) would apply to the point of departure in Northern Ireland and, where necessary, the cost of travel from the point of arrival in the new country to the place of residence there;

(*c*) in respect of incidental expenses on the journey, for the claimant and each person accompanying him (other than a person to whom sub-paragraph (*e*) applies), an amount equal to the amount of the ordinary rate appropriate to each of them under paragraph 2 of the Table in paragraph 2(3) of Schedule 1 to the Order (ordinary rate for relevant persons) or paragraph 1, 2 or 3 of Schedule 1 to the Requirements Regulations (normal requirements of non-householders);

(*d*) the cost of any necessary documentation;

(*e*) where, in the opinion of the benefit officer, the claimant is unable to travel alone and needs to be accompanied, amounts in respect of the preceding sub-paragraphs (other than sub-paragraph (*c*)) in respect of a person

(**a**) S.I.1972/1265 (N.I. 14)
(**b**) 1968 c. 34 (N.I.)

accompanying him, and additionally, unless the person accompanying him does not intend to return, the cost of the return journey and any amount which would be applicable under regulation 22(3),

but only to the extent that the aggregate of such costs and amounts is in excess of the amount by which any capital resources of the claimant which fall to be disregarded under the Resources Regulations exceed £50.

(3) Where the claimant was born in or has close connections with, and wishes to return or go to, Great Britain, the Republic of Ireland, the Isle of Man or the Channel Islands ("the new country") with the intention of taking up permanent residence and—

(*a*) the conditions of paragraph (1)(*c*), (*d*) and (*f*) are satisfied;

(*b*) one of the conditions set out in regulation 13(1) is satisfied, or the claimant wishes to join in the new country a wife or husband from whom he or she is estranged, and a child of whom they are the parents is living with either of them; and

(*c*) in the opinion of the benefit officer the claimant has no immediate prospects of employment in Northern Ireland,

a single payment shall be made to enable him to do so.

(4) The amount payable in a case to which paragraph (3) applies shall be the cost of a single fare by the cheapest available means for the claimant and any partner, dependant and child to whom paragraph (1)(*d*) applies, only to the extent that that amount is in excess of the amount by which any capital resources of the claimant which fall to be disregarded under the Resources Regulations exceed £50.

(5) A single payment shall not be made in any case to which paragraph (1) or (3) would, but for this paragraph, apply—

(*a*) where the claimant is a patient; or

(*b*) in respect of a child in the care of the Department under any provision of the Health and Personal Social Services (Northern Ireland) Order 1972 who is not a member of the assessment unit; or

(*c*) in respect of a dependant who is the subject of a training school order under the Children and Young Persons Act (Northern Ireland) 1968 and who is not a member of the assessment unit.

(6) No amount shall be payable in any case to which paragraph (1) or (3) applies in respect of the cost of removal of effects not included in the standard baggage allowance appropriate to the principal means of travel.

(7) For the purposes of this regulation, the provisions of regulation 5 (effect of disregarded capital on amounts payable) shall not apply.

PART VII

ITEMS TO WHICH THE CATEGORIES OF NORMAL, ADDITIONAL AND HOUSING REQUIREMENTS RELATE

Fuel costs

26.—(1) A single payment shall be made in respect of a claimant's fuel costs where they are greater than the amount which he has put aside to pay for them because—

(*a*) a period of exceptionally severe weather has resulted in consumption greater than normal, having regard to any available information on previous levels of consumption; or (*b*) he is unfamiliar with the cost of running the heating system in his home because he has recently moved to that home or the system has recently been installed.

(2) The amount payable in a case to which paragraph (1) applies shall be—

(*a*) in a case to which paragraph (1)(*a*) applies, the cost of the amount of the excess over normal consumption;

(*b*) in a case to which paragraph (1)(*b*) applies, one half of the aggregate amount of the claimant's costs in respect of fuel during the first 6 months of his use of the heating system.

Clothing and footwear

27.—(1) A single payment for any item of clothing or footwear specified in column 1 of Schedule 2 shall be made where any member of the assessment unit needs new or replacement clothing or footwear and—

(*a*) that need has arisen otherwise than by normal wear and tear, for example where the need has arisen because of—

(i) pregnancy, the birth of a child, or rapid weight loss or gain,

(ii) heavy wear and tear on clothing or footwear resulting from any mental or physical illness, handicap or disability (except where an additional requirement is applicable),

(iii) the accidental loss of, damage to or destruction of an essential item of clothing or footwear,

(iv) physical or mental illness or disability which necessitates the purchase of a particular or additional item of clothing or footwear,

but not where the need has arisen in the normal course of events (for example where an item of clothing or footwear is outgrown); or

(*b*) the need arises on his admission to hospital or similar institution as a patient and for the purposes of his stay there, but not where the need arises after admission.

(2) The amount payable for any item to which this regulation applies shall be the amount specified for that item in column 2 of Schedule 2, the amount for an item in Part IV or V of that Schedule (boys' and girls' clothing and footwear) being, subject to paragraph (3), the higher or lower of the amounts specified or an intermediate amount depending on the child's size, unless the person concerned is outsize or disabled so that the amount specified is not appropriate in his case.

(3) In the case of—

(*a*) a child aged 14 or over; and

(*b*) a child aged less than 14 who is large for his age,

Part I or III of Schedule 2 (men's or women's clothing and footwear) shall apply, and in the case of any other child Part IV, V or VI of that Schedule (boys' and girls' clothing and footwear and baby clothing) shall apply.

Costs where supplementary benefit not paid or not claimed

28.—(1) A single payment shall be made where a claimant either—

(*a*) in respect of a past period has not received an amount of pension or allowance—

(i) to which he was entitled, or

(ii) to which he would have been entitled had he made a claim for it and satisfied the conditions for claiming and payment of it prescribed pursuant to Article 19 of the Order; or (*b*) has spent, on any item for which had he claimed it a single payment would have been made under these regulations, money set aside to provide for any item to which the category of normal, additional or housing requirements relates,

and as a consequence is unable and cannot reasonably be expected to meet the cost of any item to which one of those categories relates which it is essential that he should meet.

(2) The amount payable in a case to which paragraph (1) applies shall be the amount of the cost, or where more than one item is concerned the aggregate amount of the costs, which he is unable to meet, subject to a maximum of—

(*a*) in a case to which paragraph (1)(*a*) applies, the total amount of pension or allowance not received;

(*b*) in a case to which paragraph (1)(*b*) applies, the amount of the single payment which would otherwise have been made.

(3) Where subsequent to the award of a single payment under paragraph (1)(*a*) it is determined that arrears of pension or allowance are payable to the claimant in respect of the whole or any part of the past period there mentioned, that single payment shall be treated as paid on account of those arrears.

Prisoners on leave

29.—(1) A single payment shall be made where a prisoner—

(*a*) is granted preparatory to his release a short period of leave to be spent in a claimant's home; and

(*b*) would if he were not a prisoner be a member of the same household as the claimant.

(2) The amount payable in a case to which paragraph (1) applies shall, in respect of each complete day spent by the prisoner in the claimant's home, be one-seventh of—

(*a*) if the claimant is the partner of the prisoner, the difference between the amount applicable for normal requirements for a person to whom paragraph 2 of the Table in paragraph 2(3) of Schedule 1 to the Order applies and the amount applicable for normal requirements in respect of the claimant (but not any dependant);

(*b*) in any other case, the appropriate ordinary rate specified in paragraph 1, 2 or 3 of Schedule 1 to the Requirements Regulations.

Part VIII

Discretionary Payments

Discretionary payments

30.—(1) Where a claimant is entitled to a pension or allowance and he—

(*a*) claims a single payment for an exceptional need under any of the regulations in Parts II to VII, but fails to satisfy the conditions for that payment; or

(*b*) claims to have an exceptional need for which no provision for a single payment is made in any regulation in those Parts,

a single payment to meet that exceptional need shall be made in his case if, in the opinion of a benefit officer, such a payment is the only means by which serious damage or serious risk to the health or safety of any member of the assessment unit may be prevented.

(2) In the application of this regulation—

(*a*) the determination of means shall include any disregarded capital;

(*b*) if the means available to the claimant are insufficient to meet the cost of the item or services in question, any single payment payable under it shall be payable only to the extent that its amount exceeds the amount of the means available.

(3) Except in so far as paragraph (2) provides that a reduced amount shall be payable, the amount of a single payment payable under this regulation shall be—

(*a*) where the payment is to be made in respect of the purchase of an item—

(i) subject to regulation 3(5), if that item, and an amount for that item, is specified in any regulation in Parts II to VII (including Schedules 1 and 2), that amount,

(ii) in any other case, such amount as is necessary to purchase an item of reasonable quality, and if provision is made for the purchase of that item in Parts II to VII (for example, that the amount shall be in respect of the purchase of a second-hand item) that provision shall apply;

(*b*) where the payment is to be made in respect of costs of services provided, the amount of such costs to the extent that they are reasonable.

PART IX

REVOCATIONS

Revocations

31. The regulations specified in column 1 of Schedule 3 are hereby revoked to the extent mentioned in column 3 of that Schedule.

Sealed with the Official Seal of the Department of Health and Social Services for Northern Ireland on 11th November 1981.

(L.S.) *I. M. S. Jordan* (Miss)

Assistant Secretary

SCHEDULE 1 Regulation 12

Bedclothes

Column 1 *Item*	Column 2 *Amount* £
Blanket (cot)	5·30
Blanket (single)	9·80
Blanket (double)	12·50
Pillow	4·60
Pillow-case	1·80
Quilt—terylene (single)	13·00
Quilt—terylene (double)	15·25
Sheets — cotton (single) pair	13·00
Sheets — cotton (double) pair	17·75
Sheets — flannelette (cot) pair	5·00
Sheets — flannelette (single) pair	11·25
Sheets — flannelette (double) pair	14·75
Sheets — nylon (single) pair	7·50
Sheets — nylon (double) pair	9·20

SCHEDULE 2 Regulations 7, 23 and 27

Clothing and Footwear

PART I

Men's Clothing and Footwear

Column 1 *Item*	Column 2 *Amount* £
Anorak	19·75
Cap	4·30
Cardigan	10·75
Dressing-gown	17·25
Overcoat	46·50
Pullover	7·00
Pyjamas	9·20
Raincoat	30·50
Shirt	7·00
Shoes	14·00
Slippers	4·30
Socks	1·20
Sports-jacket	36·50
Suit	55·00
Trousers	14·00
Underpants — briefs	1·60
Underpants — woollen (long)	6·50
Underpants — woollen (short)	4·85
Vest — singlet	1·95
Vest — woollen	5·50

PART II

Working Clothes and Footwear

Column 1 *Item*	Column 2 *Amount* £
Boiler suit	11·50
Boots	14·00
Donkey-jacket	19·75
Dungarees	9·20
Jeans	11·00
Overalls	10·50
Wellingtons	9·20

PART III

Women's Clothing and Footwear

Column 1 *Item*	Column 2 *Amount* £
Blouse	6·80
Boots (ankle)	16·75
Brassiere	3·65
Briefs	1·40
Cardigan	8·60
Corset	9·20
Dress — summerweight	12·50
Dress — winterweight	16·00
Dressing-gown	12·50
Hat	2·70
Jumper	7·30
Knickers	1·95
Nightdress (standard length)	6·80
Nightdress (full length)	8·60
Overcoat	43·00
Pantie-girdle	4·90
Petticoat	4·30
Pyjamas	9·20
Raincoat	30·50
Shoes	13·50
Skirt	9·20
Slippers	4·30
Stockings/tights	0·65
Trousers	9·80
Vest — cotton	1·85
Vest — woollen	4·30

PART IV

Boys' Clothing and Footwear

Column 1 *Item*	Column 2 *Amount* *Small to Large* £	 £
Dressing-gown	8·60	11·75
Dufflecoat	14·75	19·75
Jacket/anorak	11·00	14·75
Overcoat	18·25	26·00
Pyjamas	4·90	6·15
Raincoat	13·50	20·75
Shirt	4·30	6·50
Shoes	8·60	11·75
Slippers	3·25	4·10
Socks	0·70	0·95
Sweater	4·90	6·80
Trousers — long	6·80	9·80
Trousers — short	4·30	5·50
Underpants	—	1·25
Vest	—	1·45
Wellingtons	3·75	5·50

Part V

Girls' Clothing and Footwear

Column 1 *Item*	Column 2 *Amount* *Small to Large* £	 £
Blouse	4·30	4·85
Brassiere	—	2·70
Briefs	—	1·10
Cardigan	4·60	6·80
Dress — summerweight	5·50	8·60
Dress — winterweight	7·50	10·75
Dressing-gown	8·60	11·75
Dufflecoat	14·75	19·75
Jacket/anorak	11·00	14·75
Jumper	4·90	6·80
Nightdress	4·90	6·80
Overcoat	17·25	25·00
Pantie-girdle	—	4·90
Petticoat	—	3·05
Pyjamas	4·90	7·30
Raincoat	13·50	19·75
Shoes	8·60	11·75
Skirt	5·90	8·60
Slippers	3·25	4·10
Socks	0·70	0·95
Stockings/tights	—	0·65
Trousers	6·50	9·70
Vest	—	1.35
Wellingtons	3·75	5·50

Part VI

Baby Clothing

Column 1 *Item*	Column 2 *Amount* £
Napkin	0·95
One-piece stretch sleeping suit	4·00
Plastic pants	0·50
Pramsuit	6·50
Vest	0·95
Wrap/shawl	5·20

SCHEDULE 3 Regulation 31

Revocations

Regulations revoked 1	*Reference* 2	*Extent of revocation* 3
The Supplementary Benefit (Single Payments) Regulations (Northern Ireland) 1980	S.R. 1980 No. 363	The whole of the regulations
The Supplementary Benefit (Miscellaneous Amendments) Regulations (Northern Ireland) 1980	S.R. 1980 No. 415	Regulation 4
The Supplementary Benefit (Miscellaneous Amendments) Regulations (Northern Ireland) 1981	S.R. 1981 No. 215	Regulations 4 and 11
The Supplementary Benefit Up-rating Regulations (Northern Ireland) 1981	S.R. 1981 No. 275	Regulation 2 and Schedules 1 and 2

EXPLANATORY NOTE

(This note is not part of the Regulations.)

These regulations are made for the purpose only of consolidating the Supplementary Benefit (Single Payments) Regulations (Northern Ireland) 1980 with subsequent amending regulations. They provide for supplementary benefit to be payable by way of single payments of specified amounts to meet exceptional needs.

Part I contains provisions for citation, commencement and intrepretation of Parts II to VII. In particular, regulation 3 defines "single payment" as one to meet an exceptional need in circumstances to which those Parts apply and, subject to regulations 5 and 30, prescribes the amount payable. Regulations 4 and 5 provide subject to certain exceptions that the persons who are entitled to claim such a payment are those who are either entitled to supplementary pension or allowance or would be if they made a claim for it and that an amount which would otherwise be payable is to be reduced or extinguished if the claimant has capital over £300 which is otherwise disregarded. Regulation 6 prescribes the circumstances in which and items for which a single payment will not be payable, even under the provisions for discretionary payments (regulation 30).

Parts II to VIII set out the circumstances in which and the items for which a single payment will be made, and identify the costs to be met.

Part II (regulation 7) relates to the circumstances in which a single payment will be made for the immediate needs of a new-born or recently adopted baby.

Part III (regulation 8) contains provisions for the payment of specified funeral costs where a member of the assessment unit is responsible for the funeral of a close relative or another member of the household.

Part IV (regulations 9 to 12 and Schedule 1) relates to the circumstances in which payments for household expenses will be made. Regulations 10 and 11 contain provisions for the purchase, repair and installation of items of essential furniture or household equipment (defined in regulation 9), including provision for the discharge of hire purchase debts on such items. Regulation 12 and Schedule 1 provide for payments in respect of bedclothes.

Part V (regulations 13 to 21) contains provisions for the payment in certain circumstances of removal expenses, deposits on taking up a tenancy, legal fees for renewal of a lease, housing costs of ex-prisoners, maintenance and improvements (including survey fees), simple draughtproofing measures, internal redecoration of the home, charges for installation or resiting of gas or electricity meters or for reconnection of gas or electricity supplies, and irregular housing costs which are not taken into account in the determination of the claimant's housing requirements.

Part VI (regulations 22 to 25) relates to the payment in specified circumstances of fares and, where necessary, overnight accommodation, payment of essential expenses on starting work, payment of debts accrued in Northern Ireland by a beneficiary during an absence from Northern Ireland of less than 26 weeks and payment towards travelling costs of persons wishing to return to their home country or go to another country with which they have maintained connections.

Part VII (regulations 26 to 29 and Schedule 2) relates to items which are specifically covered by the category of normal, additional or housing requirements and an element in respect of which is or would be therefore allowed in the determination of the claimant's supplementary pension or allowance. Provision is made for a single payment, however, for an abnormally high fuel bill or an item of clothing and footwear where there is an unforeseen or unusual reason for it; where the claimant has not received the full amount of benefit to which he was entitled for a past period, or where money has been saved but spent on an item for which a payment under these regulations would have been made; and for a prisoner on home leave whose requirements and resources have not, because he is a prisoner, been taken into account.

Part VIII (regulation 30) confers a discretion on the benefit officer (and consequently on the other determining authorities) to make a single payment where none of the preceding provisions applies but where payment is necessary to prevent serious damage or serious risk to the health or safety of the claimant or any partner or dependant of his.

Part IX (regulation 31), with Schedule 3, specifies provisions which are revoked.

8.26

SECRET

Prime Minister (2)

To note Chancellor's objections to Mr Fowler's proposals on employee NIC's

AT 15/2

17

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 February 1985

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

Dear Norman

I share the Chancellor's concern

REVIEW OF SOCIAL SECURITY

I thought it might be helpful to you and our colleagues on MISC 111 if I were to comment on the proposals for employee national insurance contributions set out in Appendix 12 of MISC 111(85)1.

I do of course appreciate that the statutory responsibility for national insurance contributions lies with you, reflecting the link with benefit expenditure, particularly on pensions. But I am sure that you recognise that the implications of changes in employee NICs are absolutely crucial for our policy on personal taxation. While I would not subscribe to the theory that employee NICs are a tax, they have just as much impact on take home pay as income tax, and comparisons are frequently made of the change in the total of employee NICs and income tax combined. Moreover, employee NICs also have administrative consequences for employers and Government, and we are of course anxious to avoid placing unnecessary new burdens on either.

In the light of these wider considerations, I have to say that I find your proposals unattractive. I refer both to your proposal to lower the LEL from £35.50 to about £20 per week and convert it into a threshold, and to abolish the UEL (in both cases for employees only).

On the LEL, substantially lowering the starting point for employees' NICs would have undesirable implications both for employers' compliance costs and for administrative costs in the Inland Revenue. More employees would be brought within the scope of the NIC charge. This would add to the burdens of employers who already operate NIC and PAYE schemes, and perhaps

and for the chances of ? or young people more important, oblige some employers to begin operating NIC for the first time. We are talking about very small employers indeed - someone employing a cleaner in London for 7 hours a week would in theory have to deduct and pay over NIC on the cleaner's wages. In practice of course, given that the costs of compliance would far exceed the pennies actually due in contributions, there would be widespread evasion, to which we would have to turn a blind eye. It would be a pity gratuitously to extend the frontiers of the black economy in this way.

I can understand your desire to turn the LEL into a threshold, in order to reduce the disincentive effects of the present LEL. But as you are aware, this would cost around £3 billion at its present level, and I am not convinced that, even if sums of this order were available, it would be sensible to use them in this way. The amount of damage which the theoretical distortion of the present LEL inflicts in practice seems likely to be very limited. Even 16 and 17 year olds earn well over £60 a week on average. I am convinced that money would be far better spent on our declared policy of raising tax thresholds in real terms.

Your other proposal is to phase out the employee UEL over a period. I do not think your paper brings out the full implications of such a move. Abolition of the UEL, if all other NIC rates stayed the same, would mean an extra £1,000 per year in contributions for someone earning £25,000 gross a year. The impact on take home pay, as you can see, would be very significant. If at the same time, the contracted-out employee rate disappeared with the abolition of SERPS, as you propose, then the effect would be intensified.

The effect of your proposal would, inter alia, be to increase all the higher rates of deduction from earnings by 9 per cent, with the top rate rising to 69 per cent - after all we have said about the importance of having reduced it to 60 per cent. Moreover, there is no way of compensating for these effects through the tax system. If the higher tax rates were correspondingly reduced by 9 per cent, the top rates on pensions and investment income would be reduced from 60 per cent to 51 per cent, which would confer a costly and wholly unnecessary benefit on better-off pensioners and recipients of investment income.

Furthermore, even if this were done, there would be no means of compensating those middle managers and highly skilled workers with earnings between the existing UEL and the beginning of the higher rate bands. These people would lose substantially and the effect could only be mitigated by reductions in the basic rate of tax which would be prohibitively expensive.

I have set these considerations out at some length because I think it is important that MISC 111 should be aware of the constraints on action in this area. I appreciate your desire to see a more obviously rational structure of social security contributions, but I would not wish us to make pronouncements in this very difficult area until we were clear about their implications.

I am copying this letter to the Prime Minister, to the other members of MISC 111 and to Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

This is a subject on which
I had a great deal of work
done during 1983-84, since its
superficial attractions are obvious.
But I was obliged to conclude
that there is simply no practicable
way of overcoming the obstacles
set out in this letter.

N.L.

16 A.

SECRET

Copy No 1

MISC III

SUPPLEMENTARY AND HOUSING BENEFIT: ILLUSTRATIVE COSTINGS

The tables attached provide illustrations of the broad costs and savings, and the numbers of gainers and lossers, which could result under the proposals for supplementary benefit and housing benefit described in paper MISC III(85)4.

13 February 1985 N F

SECRET

Copy No ....1.....

SUPPLEMENTARY BENEFIT: ILLUSTRATIVE COSTINGS

A. EXPENDITURE

(i) Current scheme — £6,370m

(ii) Changes proposed

Savings

New income support scheme	- £ 140 m
Single payments (replaced in part by social aid)	- £ 100 m
Mortgage (no payment for first six months)	- £ 60 m
	-£ 300 m

Costs

Capital (£3000 disregard, tariff up to £6000 then cut off - but introduction of same rule into housing benefit produces savings of £45 m)	+ £ 20 m
Earnings (higher disregard for couples after 1 year)	+ £ 30 m
	- £ 250 m

Net saving

Transitional protection to prevent cash losses in 1987-88	+ £ 175 m

Other potential reductions in supplementary benefit budget (offset by increases in other programmes)

16-17 year olds	- £ 250 m
Students (including housing benefit savings)	- £ 100 m

B. CASELOAD

(i) Current scheme

4.2 million households

(ii) Under proposed arrangements

New income support scheme — - 250,000

In addition exclusion of 16-17 year olds and students would reduce caseload by over 300,000

C. GAINS AND LOSSES (NUMBER OF HOUSEHOLDS IN THOUSANDS)

Gains	over £5 a week	230
	£2-5 a week	485
	Under £2 a week	535
No change		330
Losses	Under £2 a week	985
	£2-£5 a week	935
	Over £5 a week	250

HOUSING BENEFIT: ILLUSTRATIVE COSTINGS

Copy No ....1....

A. Expenditure (£ million)

	Current scheme	Change from current scheme under: Separate assessment (tapers 50% on rents, 21% on rates)	Combined assessment taper 70%
Total	4210	- 90	- 260
of which renters	3780	- 30	- 70
owner-occupiers	430	- 60	- 190

B. Caseload (No. of households (rate rebates))

	Current scheme	Separate assessment	Combined assessment
Total	7.7m	- 1.1m	- 1.6m
of which renters	5.1m	- 0.5m	- 0.3m
owner-occupiers	2.6m	- 0.6m	- 1.3m

C. Gains and Losses (No. of households in thousands)

	Separate assessment	Combined assessment
Gains - over £5 a week	175	150
£2 to 5 a week	430	375
Under £2 a week	1200	625
No change	3300	3300
Losses - Under £2 a week	2300	2150
£2 to £5 a week	575	1200
Over £5 a week	240	300

D. Expenditure effects of less than 100% assistance with rates *

	Separate assessment	Combined assessment
Option A 90 per cent	- 170	- 150
Expenditure on supplementary benefit households	- 75	- 75
Expenditure on other households	- 95	- 75
Option B 80 per cent	- 340	- 300
Expenditure on supplementary benefit households	- 155	- 155
Expenditure on other households	- 185	- 145

*These savings are additional to those in A above.

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P.01492

PRIME MINISTER

MISC 111(85)2nd Meeting: Wednesday 13 February

I have sent you separately Cabinet Office briefs for this meeting.

In addition to the base documents (MISC 111(85)1 and MISC 111(85)2) that the Group had in front of them last week, Mr Fowler has circulated two further papers on provision for retirement; and supplementary benefit and housing benefit. Both of these papers have been circulated very late, partly because of Mr Fowler's apprehension about leaks following Mr Pauley's article in the Financial Times on Monday. Mr Fowler also intends to hand to his colleagues at the meeting, further information on costs and savings. Colleagues may complain about the lack of time for considering the additional material.

You may wish to say that papers for future meetings should be circulated in good time for colleagues to digest them before the meeting, but also to remind members of the Group of the need for extreme sensitivity in handling papers.

PLG

P L GREGSON

12 February 1985

P.01493

13

PRIME MINISTER

PROVISION FOR RETIREMENT

(MISC 111(85)1: Appendix 1)
(MISC 111(85)5)

1. The Secretary of State for Social Services makes the following proposals:

(i) Retirement provision should be based on the "twin-pillar" approach (ie. basic provision by the State, supplementary provision by individuals).

(ii) The State earnings related pension scheme (SERPS) should be abolished, but rights already accrued should be honoured.

(iii) Private pension provision should be encouraged by National Insurance contribution (NI) rebates to employers, by incentives for personal pensions and by efforts to create industry-wide schemes.

(iv) No commitment to move to a common retirement age for men and women but consultation on increasing flexibility (perhaps a "decade of retirement" - between the ages of 60 and 70 - giving entitlement to a reduced or enhanced basic pension).

(v) The earnings rule for pensioners should be abolished.

(vi) The indexation of public sector pensions for new entrants should be limited to the lower of the RPI or 5%.

(vii) The age addition (25p a week) paid to pensioners over 80 should be abolished, with the savings applied for the benefit of the elderly.

2. At MISC 111(85)1st meeting there was general agreement with the "twin pillar" approach, and to the abolition of SERPS. There was, however, concern that abolition of SERPS should be linked with fully adequate alternative arrangements by employers or individuals

to supplement the basic pension so as to avoid the State having to do this itself. There was also some concern that the proposal to limit index-linking of public sector pension for new entrants, where the savings will be several decades off and will depend on future levels of inflation, might not be worth the considerable short-term controversy.

MAIN ISSUES

3. The main issues are -

(a) Are the Group satisfied with the adequacy of the measures to encourage employers and individuals to supplement the basic pension when SERPS is abolished?

(b) Should there be consultation on increased flexibility in the retirement age?

(c) Should the earnings rule be abolished?

(d) Should the age addition for the over-80s be abolished?

(e) Should index-linking of public sector pensions be limited for new entrants?

<u>Alternative provision when SERPS is abolished</u>

4. MISC 111(85)5 sets out Mr Fowler's thinking on what arrangements should replace SERPS. He offers two alternatives. The first uses "encouragement" only: employers would be encouraged to set up occupational schemes by offering them a rebate on their NI contribution; the rebate would be phased out over time; and a personal pension would be a permitted alternative. The second adds an element of "compulsion" in that after a transitional period employers would be required to provide a scheme matching the minimum qualification. In both cases the minimum qualification level for a scheme would be a contribution of 5% of earnings, at least half of which would come from the employer. The costs for employers and employees are shown in para 8 of MISC 111(85)5 and the likely benefits of schemes replacing SERPS are shown in paragraph 9.

Except at the lowest income levels the result is likely to be pensions reduced by between 10% and 30% for slightly greater contributions. The NI contribution rebate proposed for a transitional period will both encourage employers to set up schemes and soften the effect of abolishing SERPS for employer's contributions for contracted-out employees. (Para 11 of MISC 111 (85)5).

5. Recipients will do less well under post-SERPS arrangements than under SERPS so the change is not likely to be popular. But in the other scale is the fact that the cost of SERPS suggests that either the benefits would be reduced in due course or the contributions of the then-employed very substantially increased. An element of compulsion in future provision on the lines suggested by Mr Fowler will prevent employers from opting out of pensions provision with the likely future burden on the state.

The retirement age

6. Present policy on the age at which the state retirement pension is payable (60 for women, 65 for men) may not be stable. There are arguments for reducing the male age to 60 (on both sex equality and assisting with unemployment grounds) or for equalising them at some other age eg. 63. There are also arguments for enabling people to work longer, eg. up to age 70, given the increasing number and good health of people in their 60s. Mr Fowler does not ask for a final decision in this area but for agreement to consult on the possibility of a "decade of retirement" (60 to 70) with a reduced or enhanced basic pension depending on when the retirement option is chosen. The possible costs involved are not clear. It will be difficult to consult on policy on retirement provision generally without saying something about the retirement age. However, unless it is clear that nil net cost proposals can be developed, it may be better to stick on the present line rather than to raise expectations.

The earnings rule

7. The 1983 Manifesto committed the Government to abolish the earnings rule "as soon as they can". Abolition would cost

£70 million net (£170 million gross) and there is already provision in PES to abolish the rule in two equal stages -in November 1987 and 1988.

The over 80s age addition

8. Just under a million pensioners over 80 receive an additional 25p a week (£13 a year). Mr Fowler proposes abolition with the savings being applied for the benefit of the elderly eg. for a higher pension uprating or relevant health services. This payment can bear little relation to any costs that fall on the over-80 pensioners. On the other hand the savings will not go far.

Indexation of Public Service pensions

9. The proposal is to limit the indexation of the pensions of new entrants to the lower of the RPI or 5%, basically on the grounds that it is not fair that public service pensioners should have fully-indexed pensions when private sector schemes cannot afford them. This would be a policy of potential long-term gains (40 years hence), depending on the rate of inflation at that time, at the expense of immediate controversy. It would seem better for the Group to leave this issue on one side, for decision separately in the context of public-sector employment policies as a whole.

HANDLING

10. The Secretary of State for Social Services should introduce his proposals. The Chancellor of the Exchequer and the Secretaries of State for Employment and Trade and Industry will particularly wish to contribute on the impact on the economy and industry.

CONCLUSIONS

11. You will wish to reach conclusions on:-

(i) the abolition of SERPS and alternative arrangements thereafter, in particular whether there should be an element of compulsion in the latter;

(ii) whether to consult on a "decade of retirement";

(iii) the abolition of the earnings rule, and the over 80 age addition;

(iv) Limiting the indexation of public sector pensions

PG

P L GREGSON

12 February 1985

SECRET

P.01495

Prime minister.
Mr Fowler will be circulating at the meeting a note on the costings of HB & Supp B. A copy of this has been sent to you in advance and has been inserted in MISC 111(85)4.

12

PRIME MINISTER

SUPPLEMENTARY BENEFIT

(MISC 111(85)1, Appendix 2)
(MISC 111 (85) 4)

1. Supplementary Benefit at present costs over £6 billion per annum and there are over 4 million recipients. The present system, consisting of regular weekly payments topped up by a variety of single payments for particular needs is bewilderingly complex for claimants and requires 16,000 paragraphs of office instructions. The level of the income disregard and capital cut-off discourage people from helping themselves. There is evidence that families with children find it very hard to manage. The Secretary of State for Social Services proposes new arrangements which would be simpler, better targetted, encourage incentives, and maintain fairness between those in and out of work. The main elements are:-

(i) Replacing supplementary benefit by an 'income support scheme' on a simpler basis without entitlement to any extra payments related to detailed assessment of individual circumstances. Benefit would consist of

- basic income support, depending only on marital status and age;

- extra money for those with children, pensioners, the long-term sick and the disabled.

(ii) Housing costs (rent and rates) to be dealt with through housing benefit which will have a parallel structure and use the same income test. Mortgage interest to be payable for those on supplementary benefit - but only after the first 6 months on benefit.

(iii) Better income and capital disregard rules to increase incentives to save and, for long-term unemployed couples, to help resume contact with the labour market.

SECRET

(iv) A discretionary fall-back ('social aid') scheme for real emergencies and special needs. Operated by DHSS local offices against cash limits, with no legal entitlements or detailed rules.

2. About 250,000 claimants would lose entitlement to benefit altogether. There would be a lot of turbulence among existing claimants; overall as many would be as well or better off as would lose. Because they are now seen as relatively less in need, some 80% of pensioners staying on benefit would lose (130,000 of them would lose over £5 a week). As presently planned, the reform has been costed to provide sufficient savings (£100 million +) to pay for transitional arrangements in order to prevent cash loss at the time of change. Savings of up to £250 million could then accrue subsequently. There would be staff savings of 2,000 to 3,000.

MAIN ISSUES

3. The main issues are:

(a) Are the basic proposals for an "income support scheme" supplemented by discretionary "social aid" acceptable in principle to the Group?

(b) In principle should the income and capital disregards be raised to increase incentives to save and to work?

(c) Should mortgage interest only be payable after the first six months on benefit? (It is proposed that rent and rates should be dealt with entirely through housing benefit).

(d) What level of future savings would make the turbulence (gainers/losers and administrative upheaval) implicit in the reforms acceptable?

"Income support scheme" and "Social aid"

4. The new Income Support scheme will aim to give people a reasonable level of help for them to manage as they wish. It

will not seek to provide in detail for every variation in individual circumstances. Help will be set by three elements. All claimants will have a personal allowance based on their age and marital status. There will be a higher rate for people over 25. Those with children will get extra help, through a flat-rate addition for all those with family responsibilities and, as now, amounts for each child depending on age. The new system will thus give more help to those with children. Finally, there will be extra allowances for special groups to reflect their higher needs. These groups will be pensioners, the long-term sick and disabled, and lone parents. This system will replace the present structure based on age and marriage, householder status, family responsibilities, and time on benefit; all topped up by a separate system of weekly additions.

5. The supplementary system of Social Aid will provide for exceptional circumstances and emergencies. It will be operated on a discretionary basis rather than be set by complex regulations and instructions. It will be controlled by a cash limit.

6. On the face of it these proposals will effect a considerable simplification in the arrangements in this area. The danger must be that as consultation and further work goes forward, complexity will be reintroduced to deal with this or that special case. Furthermore, the approach to social aid will be affected by the level of income support. If the latter is set too low, the burden on social aid will be increased.

Income and Capital Disregards

7. The papers do not spell out what new levels of disregard are contemplated. Increases will have a beneficial effect on the incentive to save and on the unemployment trap. They will,

however, give rise to criticism that state help is being wasted on people who do not need it.

Mortgage Interest

8. At present mortgage interest payments are eligible for supplementary benefit support from the beginning. The proposal is that they should not be eligible until it is clear that the recipient is in more than short-term difficulties, and should therefore not be paid for the first six months.

Savings and Overall Judgment

9. Mr Fowler will table at the meeting illustrative costings. They indicate gross savings of £300 million from the new arrangements offset by £50 million for higher earnings and capital disregards. Mr Fowler also argues for transitional protection of £175 million in 1987/88 to prevent cash losses. On that basis, net savings could be £75 million in 1987/88 (or £125 million if raising the disregards is delayed by a year) and £250 million in subsequent years. These savings are rather more than the Group were led to believe last week, though possibly still not so much as the Chancellor and Chief Secretary might wish for. The Group will need to decide in the light of their judgment about the controversies and difficulties of going forward, whether they wish to ask Mr Fowler to produce options showing further savings.

HANDLING

10. You may wish to suggest that discussion should first concentrate on the structure and detail of the proposals, and then consider the merits of proceeding in the light of possible savings. The Secretary of State for Social Services should introduce his proposals. He will hand round further information on costs and savings. The Secretary of State for Employment and the Minister without Portfolio will have comments on the effect on the unemployment trap, and the Secretary of State for the Environment on mortgage interest payments. The Chancellor of the Exchequer and the Chief Secretary, Treasury, will wish to contribute particularly on the efficiency and expenditure aspects.

The Lord President, the Chief Whip and the Paymaster-General will have views on the public and Parliamentary impact.

CONCLUSIONS

11. You will wish to reach conclusions on:

i. whether the Group endorse Mr Fowler's structural proposals in the supplementary benefit area;

ii. any particular points of reservation, or where further work needs to be done; and

iii. at least in a preliminary way, the judgment of the Group on whether prospective savings justify going forward with the proposals, and whether further savings should be sought.

PG

P L GREGSON

12 February 1985

SECRET

PRIME MINISTER   12 February 1985

SUPPLEMENTARY BENEFIT AND HOUSING BENEFIT

Norman Fowler's illustrative costings at last provide useful expenditure savings. They show how we could cut £0.5 billion from Housing Benefit and £0.25 billion from Supplementary Benefit.

Housing Benefit

A 70% combined rent and rate taper would save £260 million. 70% sounds steep, but it is calculated on income after deducting tax and national insurance: it is therefore closer to a 50% taper on gross income. It takes 1.6 million people completely out of housing benefit. They are losers but as they come out of the benefit system their efective marginal tax rate falls.

We could then save a further £300 million by limiting rate rebates to 80%. The average rate is £5 per week so this will mean that families at the supplementary benefit level pay on average £1 per week. This is a very useful first step towards phasing out rate rebates. But if we are too greedy and cut them more now there is a risk that pressure from losers will lead to offsetting increases on Supplementary Benefit and we must resist that.

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To get housing benefit savings above the £1 billion mark we would need to make everyone pay some rent as well. You could press Norman Fowler here. The problem is that some families living in high rent areas will lose significant amounts of money which might not be politically sustainable as the housing market is so gummed up that it's difficult to move to cheaper accomodation. The prize is greater political accountability in LAs.

Corrected in revised version of 85(3)

Incidentally, Patrick Jenkin's claim that the existing DHSS proposals will extend 100% Housing Benefit to another million people is odd. The number is closer to zero and may even be negative!

Supplementary Benefit

Norman Fowler illustrates the set of rates which would save us £0.25 billion with no transitional protection.

You will want to focus on losers and gainers. Pensioners lose out because the evidence is that they do best from benefits at the moment. A recent survey of Supplementary Benefit claimants showed:

	Pensioners	Unemployed couples
Put money away most weeks	36%	6%
Get into financial difficulties most weeks	5%	44%

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But by focussing solely on need, Norman Fowler has not attached sufficient weight to effects on the labour market. The £22.45 rate for under-25s is probably as mean as one could get away with at the moment. But unemployed couples with and without children do too well out of his proposals at the moment and there should be more savings here.

The loss of heating additions, crucial to the simplification and administrative saving, will be at the centre of the political opposition.

David Willetts

DAVID WILLETTS

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SECRET AND PERSONAL

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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

12 February 1985

Dear Andrew,

MISC 111

My Secretary of State has asked me to send, for the advance information of the Prime Minister and the Chancellor, a copy of the tables which he proposes to present at the meeting of MISC 111 tomorrow.

I should add that the figures are intended to broadly illustrate the kind of savings which could be achieved under the proposals which have been put forward. It is not suggested that the Committee need take a final view on all the specific details which underpin them, but my Secretary of State was anxious to provide indications of the kind of financial and other implications of his proposals.

I am copying this letter and enclosures to Margaret O'Mara (HMT).

Yours sincerely,

Stephen

S H F HICKEY
Private Secretary

SECRET Copy No 2

SUPPLEMENTARY BENEFIT: ILLUSTRATIVE COSTINGS

A. EXPENDITURE

(i) Current scheme £6,370m

(ii) Changes proposed

Savings

New income support scheme	- £ 140 m
Single payments (replaced in part by social aid)	- £ 100 m
Mortgage (no payment for first six months)	- £ 60 m
	-£ 300 m

Costs

Capital (£3000 disregard, tariff up to £6000 then cut off - but introduction of same rule into housing benefit produces savings of £45 m)	+ £ 20 m
Earnings (higher disregard for couples after 1 year)	+ £ 30 m
	- £ 250 m

Net saving

Transitional protection to prevent cash losses in 1987-88	+ £ 175 m

Other potential reductions in supplementary benefit budget (offset by increases in other programmes)

16-17 year olds	- £ 250 m
Students (including housing benefit savings)	- £ 100 m

B. CASELOAD

(i) Current scheme

4.2 million households

(ii) Under proposed arrangements

New income support scheme - 250,000

In addition exclusion of 16-17 year olds and students would reduce caseload by over 300,000

C. GAINS AND LOSSES (NUMBER OF HOUSEHOLDS IN THOUSANDS)

Gains	over £5 a week	230
	£2-5 a week	485
	Under £2 a week	535
No change		330
Losses	Under £2 a week	985
	£2-£5 a week	935
	Over £5 a week	250

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HOUSING BENEFIT: ILLUSTRATIVE COSTINGS

A. Expenditure (£ million)

	Current scheme	Change from current scheme under: Separate assessment (tapers 50% on rents, 21% on rates)	Combined assessment taper 70%
Total	4210	- 90	- 260
of which renters	3780	- 30	- 70
owner-occupiers	430	- 60	- 190

B. Caseload (No. of households (rate rebates))

	Current scheme	Separate assessment	Combined assessment
Total	7.7m	- 1.1m	- 1.6m
of which renters	5.1m	- 0.5m	- 0.3m
owner-occupiers	2.6m	- 0.6m	- 1.3m

C. Gains and Losses (No. of households in thousands)

	Separate assessment	Combined assessment
Gains - over £5 a week	175	150
£2 to 5 a week	430	375
Under £2 a week	1200	625
No change	3300	3300
Losses - Under £2 a week	2300	2150
£2 to £5 a week	575	1200
Over £5 a week	240	300

D. Expenditure effects of less than 100% assistance with rates *

	Separate assessment	Combined assessment
Option A 90 per cent	- 170	- 150
Expenditure on supplementary benefit households	- 75	- 75
Expenditure on other households	- 95	- 75
Option B 80 per cent	- 340	- 300
Expenditure on supplementary benefit households	- 155	- 155
Expenditure on other households	- 185	- 145

*These savings are additional to those in A above.

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P.01494

PRIME MINISTER

Housing Benefit

(MISC 111(85)1, Appendix 3; MISC 111(85)5; MISC 111(85)3)

BACKGROUND

Under reforms in 1982 and 1983, various kinds of DHSS and local authority rents and rates assistance to low income groups were amalgamated into a theoretically uniform system of housing benefit (HB). It is wholly administered by local authorities: there are 7½ million recipients (1 in 3 households) and it is costing £4,160 million a year (in real terms three times the 1979/80 figure). HB takes two forms: certificated HB which is payable to recipients of Supplementary Benefit (SB) and standard HB which is payable to others assessed through a separate income test. 100 per cent assistance with rent and rates is available to SB recipients while those in work receive only 60 per cent. The rules are complex, attempting to relate benefits in detail to individual circumstances, necessitating major additions such as Housing Benefit Supplement and High Rent Schemes and leading to intrusive questioning of claimants; and means testing for HB differs to an unwarranted extent from means testing for SB.

2. The Secretary of State for Social Services's proposals are:

i. To align the HB and SB income tests, which is feasible now that the SB regime is to be simplified.

ii. To pay HB at 100 per cent of rent and rates to people whose income falls within SB levels, and above that level to taper HB down to nil.

iii. Subject to further detailed investigation, to assess benefit on rent and rates together.

iv. To give local authorities only 80 per cent subsidies for their HB expenditure (to discourage them from using it to inflate their rate and rent income); and to take reserve powers to withhold subsidy;

v. To simplify administration.

3. The objectives of these changes are described as simplification (to reduce caseloads and administrative burdens on local authorities); greater equity (as between those in and out of work); better targetting on those in greatest need; and encouragement of greater local authority efficiency together with strengthening of safeguards against abuse. The expected effects are no change for 40% of recipients, a shift of help for non-SB recipients to those on the lowest incomes and withdrawal of help with rents from up to 200,000 people and with rates from up to 1 million.

4. Because 86% of current expenditure goes to the poorest households (at or below SB levels of income) the scope for financial savings is considered to be limited. About £100 million might be saved by eg. adjustments to the rate of benefit, but some of that might be taken up by transitional costs.

MAIN ISSUES

5. The main issues are:-

(a) Whether the Group agrees that those with incomes at or below the SB level should receive assistance with rent and rates at 100% (as Mr Fowler proposes) or at a lower percentage (as Mr Jenkin proposes in MISC 111 (85)3).

(b) Whether the Group is content in principle with the remainder of Mr Fowler's proposals.

(c) What level of savings should be secured from reform of HB.

<u>100% Assistance</u>

6. Mr Jenkin argues against 100% assistance on the grounds that one of the conclusions of the review of local government finance is certain to be the need for full local accountability. This cannot exist when so many local authority electors are

completely insulated from the level of rent and rates and from any increases. As against this Mr Fowler argues that, with less than 100% assistance, recipients of SB will be substantially worse off than they are at present. How will they fund the balance? It may be possible to take a decision in principle now that the maximum rate of HB assistance should be less than 100%, leaving details to be worked out between DoE and DHSS. It would be unwise to take a decision to retain 100% assistance until Ministers have considered the initial report of the local government finance studies.

The remainder of the proposals

7. The proposals to align the SB and HB income tests, to have a single rate of taper, and to align assistance with rate and rents are likely to prove generally acceptable. Mr Fowler also proposes to limit Exchequer funding of HB to only 80% of what local authorities disburse. This would be an alternative but less direct way of discouraging local authorities from increasing rents and rates excessively, and it would not achieve Mr Jenkin's objective of making the rent and rate-payer personally concerned about local authority decisions in this area. It would also presumably have implications for rates (to raise income to finance the local authority 20%) which might sit oddly with other Government policies on rates.

Savings and overall judgment

8. Mr Fowler will table at the meeting illustrative costings. These will show potential savings of £90 -£260 million per annum from the new arrangements, depending on whether or not the taper is assessed separately for rent and rates, or at a combined rate. These savings assume 100% assistance up to SB level. With assistance limited to 90% additional savings of £150 million arise, and at 80% £300 million. The Group will wish to make a judgment about the level of savings needed, and whether this justifies the controversy that the changes will arouse.

HANDLING

9. The Secretary of State for Social Services will wish to

open the discussion, and the Secretary of State for the Environment to enlarge on his memorandum about the local government implications. The Chancellor of the Exchequer and Chief Secretary, Treasury will wish to comment on the financial implications. The Paymaster-General may be able to comment on public and parliamentary reactions.

CONCLUSIONS

10. You will wish to reach conclusions on -

(i) the alignment of HB and SB income tests, with a single taper and of assistance with rent and rates

(ii) whether 100% assistance should be provided

(iii) whether local authorities only should be reimbursed for a proportion of their costs

(iv) the level of savings to be sought

PG

P L GREGSON

12 February 1985

PRIME MINISTER

12 February 1985

PENSIONS

Norman Fowler's paper has the figures without the politics.

His bald figures are unattractive, showing employers and employees both paying more in order to get less pension.

What they fail to reveal is:

1. Taxes would rise rapidly and dramatically over the next 30 years to pay for the generous SERPS scheme - by much more than the modest increase required to buy a proper funded pension scheme for everybody.

2. The pensions derived from the employee fund may be much more than suggested if investment returns stay strong. Conversely, the pension from SERPS may be less, as future generations may be unwilling to meet the big bill.

3. Nowhere is the importance of individual savings and control over assets stressed - a vital part of the wider wealth-ownership policy.

4. The balance in NIC contributions between currently contracted-out (people with their own pension funds) and currently contracted-in (people in the state

scheme) is difficult. However, funds are very flush with assets at the moment and many are reducing the employers contribution. Now is therefore the time to do the change: and the funds still enjoy great tax privileges.

Abolishing SERPS can be attractive politics, but only in the context of a major drive to stress the values of savings and wider wealth-ownership. **Why not give people the right to know the value of their share of their existing pension fund so they can see what their assets are and can transfer them more freely if they wish?** This would be an exciting move to get people to understand the wealth at their command liberated by the Government's moves to encourage transfers.

The choice between compulsion and encouragement is a choice between a cheaper route and a dearer but politically more attractive route. Compulsion stops people coming back on benefit and removes the need for NI rebates as incentives. Encouragement will upset fewer people but has some financial risks. You could accept the DHSS compromise - although Treasury will be unhappy about the rebate.

JOHN REDWOOD

SECRET

PRIME MINISTER ② AT 8/2 8 February 1985

MISC 111

The political choice

None of this is easy politics. No-one has ever said it would be.

But remember the origins of this exercise. By far and away the largest programme in government has been growing like Topsy. 'Protected' and 'demand-led' programmes have to be scrutinised and cut if we are to stop the momentum of public expenditure. Moreover, the benefit system is cumbersome, widely disliked by the public, and costly in manpower and administrative resources. Worse still, the system is a disincentive to work and a discouragement to self-help.

And it's not just basic principles that are wrong. It's practical politics as well. Because the Government has tried to rein in the rate of growth of the programme, it has had regular rows, has come to be seen as petty and mean-minded, constantly tampering with the problem at the margins. This was inevitable, given the way in which the leaking of the Think Tank Report left the Government in the mire before the last Election, and with the understandable pledges that had to be made in order to win that Election. We have now had a sequence of rows:

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Indexing pensions only to prices	1980
Abolishing earnings-related supplement to UB	1980
2-week deferral of uprating	1980
5% abatement of sickness, invalidity, maternity and UB	1980
Not uprating Child Benefit for 18 months	1979-81
Taxing UB	1982
Delaying period before FIS uprated	1982
Recovery of 1% uprating overshoot	1982
Phasing out child dependency additions from short-term contributory benefits	1980-84
Switch from forecast to historic basis for uprating	1983
Housing Benefit tapers steepened	1983-84
Increasing available scale margin for SB	1983&84
Mortgage interest for strikers	1984
Board and lodging for SB claimants	1984

These are not just isolated examples of ham-fisted politics that can be sorted out by more skilful presentation. They are symptomatic of the whole approach to social security, which does the Government great damage.

<u>What are the political choices</u>?

The Government is now at a point where it has to decide between two very different courses.

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It could decide that the whole thing is too difficult. It could tear up the idea of controlling public spending, and try and accommodate more of the pressure groups for more welfare spending, giving up the notion that it can bring this budget under control. It would involve either tearing up, or being seen to tear up, the rhetoric and ambitions of many years. And it would not necessarily end the arguments. All the evidence is that the more you give to client groups, the more they demand, the stronger their lobby becomes, and the more money they have to advertise against you. Having marched Norman Fowler to the top of the hill, we would then be marching him down again.

The second option is to go the Norman Fowler way, with sensible improvements, as a result of MISC 111 deliberations, to get the best trade-off between money saved ?? and political cost. The advantage of the Fowler way is that by introducing a new structure, issuing a Green Paper, and restating your ambitions and principles for the system, you have a chance to change the debate in your favour. Norman's draft Green Paper is an excellent first draft. Unlike most Government Green Papers, it makes you want to read on; there is a clear thematic unity; and although not everyone will agree with it, it is at least a straightforward statement of the case and builds on what has gone before. Having done that, you can then set benefit rates within the new structure that allow you good savings that make the anguish worthwhile.

There are four strong candidates for action:

i. abolish SERPS, which could be attractive politically if handled well;

ii. a major assault upon Housing Benefit to make everybody pay a little bit of rent and rates, and to make a substantial reduction in the numbers of people eligible;

But the paper doesn't

iii. reduce the numbers eligible for Supplementary Benefit; sweep away expensive and complicated extra payments; and set new basic rates which yield large net savings.

The paper does the opposite

iv. freeze Child Benefit and the other unpledged benefits for a year. This could save £600m in a full year but it doesn't have the political camouflage provided by Fowler's reform.

Discussion

SERPS. The abolition of SERPS is crucial to any sensible public expenditure planning for the future.

It is not as difficult as some people make out. Remember that, on this occasion, you will have the baying hordes of the pension industry, advisers, intermediaries, investors and others on your side if it is put to them in the right way. It represents to them a bonanza of business opportunities. The leading institutions might even be persuaded to argue and advertise in favour of the Government's case.

This would leave Labour claiming we have broken faith and have shattered the pensions consensus; and some groups currently covered by SERPS, who will have to make a bigger contribution to their own independent pension, arguing against it on cost grounds. This should be a winnable debate, although far from a trouble-free ride.

Good language can be deployed in its favour. It is part of the wider wealth-ownership movement; of giving people control over their own destinies and future; of giving a great stimulus to private thrift and savings; and preventing people arriving at old age only to discover that their pension scheme is no more than a broken promise, as the succeeding generations refuse to see their tax and National Insurance Contributions hiked from 40% to around 55% to pay for those promises.

Housing Benefit. The bad news in reform of Housing Benefit is that the people most likely to lose by cutting out a million or more small payments, which are expensive to make, are pensioners who used to enjoy some element of rate rebate. But out of the 7.7 million people getting rate rebates, over 4 million are pensioners. So you can't

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simplify and reduce the eligibility for benefit unless you are prepared to attack that group. The cuts don't hit them disproportionately hard.

Cutting Housing Benefit entitlement to some 90% of housing costs, compared with 100%, can save £500m, and builds on the general feeling that everyone should pay a little bit of rent and rates. Supplementary benefit meets everything.

Together with Norman Fowler's reforms, this would give us a package that:

- sweeps away the complicated system of needs allowances and differential tapers

- takes around 1.25 million people out of Housing Benefit

- saves at least £600m

- exposes everyone to the cost of rents and rates. It doesn't

Supplementary Benefit. Currently we spend £200m on special payments. They are expensive to administer, and they grow rapidly and unpredictably as an adjudication decision in one place is exploited by claimants' unions around the country. If a pregnant mother in Carlisle is given £30 to buy a pram then the pregnant woman in Cardiff gets entitlement to

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£30 as well. There is no scope for distinguishing between the deserving and the undeserving. So Norman Fowler is proposing to sweep these special payments away and instead set up a £50m cash-limited purely discretionary budget as a safety valve. Obviously there are problems with leaving more discretion in the hands of SB offices. It is not a particularly Conservative way of going about things. But if you want to save staff and money, the system has to be drastically simplified, and the political cost accepted.

He also wants to make the earnings and capital disregards more generous, financing this by offsetting cuts in SB. You rightly pointed out that increasing the disregards extends the scope of SB. On the other hand, it seems good politics to meet widespread political pressure here. The improved earnings disregard for the long-term unemployed helps keep them in touch with the jobs market. And there could be an ingenious twist. The disregards for Housing Benefit are currently much more generous. If we align the two benefits on the new SB arrangements, we actually save more on Housing Benefit than we spend on SB. Overall, we save around £35m.

There is also scope for saving more money within the new structure by reducing benefit rates for people under 25. This will encourage them to seek work.

<u>Family Income Supplement</u>. Your scepticism about this proposal is well understood, and I think widely shared by many of your colleagues. We had explained earlier to Norman Fowler privately that this was the most difficult and contentious of all his proposals, and that no-one wanted to see a Review, designed to curb the social security system, come up with a major benefit which in its turn would create a big lobby group. But remember that it is targetted on people at work. The aim is to increase the gap between what you get on benefit if you are unemployed and what you receive from low paid work. It is in effect a neat way of raising tax allowances for poor families. Together with toughening up supplementary benefit and increasing tax thresholds it will help with the "why work?" problem.

<u>Conclusion</u>

Above all, we need to shift the rhetoric in this debate. Now that the average person on Supplementary Benefit receives the same amount in real terms as somebody on average earnings after the War, we do need to think about persuading the public that the kind of world we want is one in which the numbers of people gaining eligibility for benefits falls year after year rather than rises. To do this, it requires some tough decisions on benefit eligibility; and, more importantly, a successful package of measures to get the jobs market going again as a matter of considerable urgency.

A Second Reading debate for the first meeting was most helpful. It gives you a clear idea of the way in which the arguments are likely to run in the important next two Sessions which will take the detailed decisions.

There seemed fairly general agreement that reductions in public spending are required as a result of this exercise. There was natural concern about how many losers there would be, and about the balance between the advantages of cost reduction and the political disadvantages of losers. But there is no alchemy whereby we can save money without losers. That is why we need reforms in the system as well. It makes a cost cutting package politically easier to sell.

There seemed general agreement on getting rid of SERPS, reducing Housing Benefit, more caution about consolidating Supplementary Benefit, and outright scepticism concerning the proposals for the family.

We have asked DHSS to send over a table of changes and savings, and suggested to Treasury they come in firmly for some major reductions.

We can then minute you on the cost/policy balance.

David Willetts

JOHN REDWOOD/DAVID WILLETTS

SECRET

4

5 February 1985

PRIME MINISTER

MISC 111

At tomorrow's MISC 111, it might be useful to distinguish between:

- structural reforms;

- new rates of benefit.

The structural changes are sensible. Norman Fowler is to be congratulated on taking a bold strategic look at the benefit system. He is proposing:

- abolishing SERPS;

- massively simplifying Supplementary Benefit;

- abolishing the separate Housing Benefit means tests; Poverty Trap

- a purge of decaying minor benefits such as Death Grant and Maternity Grant;

SECRET

- abolishing Family Income Supplement and holding Child Benefit to finance a family credit for poor working men.

But after praising him for this achievement, we then want to press him to set tougher rates of benefit within the new structure so as to achieve expenditure savings. The structural changes enable us to achieve savings which would otherwise be politically impossible. And they offer the prospect of better control of spending in the future.

The current benefits system could have been designed by Heath Robinson. Norman Fowler is proposing a much better mechanism. The argument is about how it is to be calibrated.

David Willetts

DAVID WILLETTS

3

P.01486

PRIME MINISTER

Report on the Review of Social Security
(MISC 111(85)1)

FLAG A

BACKGROUND

The reviews of provision for retirement, supplementary benefit, housing benefit and benefits for children and young people, initiated by the Secretary of State for Social Services last year have been completed, and the document circulated under cover of MISC 111(85)1 contains his proposals for new arrangements for all aspects of social security. His hope is to publish a Green Paper before Easter with a White Paper and legislation following later in the year (Session 1985/86). The draft of Volume I of the Green Paper, which has just been circulated for background information rather than discussion at this stage, illustrates the main thrust of the proposed presentation.

2. The Secretary of State's proposals amount to a very wide-ranging reform of the social security system in all its aspects. The underlying principles are set out in Section 3 and the proposals in Section 4 of his paper. The political and public expenditure implications as well as the effect on individuals will need to be carefully assessed. A great deal of work will be needed to prepare legislation for the next Session.

COLLECTIVE CONSIDERATION

3. You have agreed to the establishment of MISC 111 to consider the proposals. There are at present four meetings arranged over the next month. I suggest that the work might be divided up between them as follows:

First meeting (6 February)	-	"Second reading" consideration of the programme as a whole; the timetable.

Second meeting (13 February)	-	The major elements, ie pensions; supplementary benefit; housing benefit; and family support.
Third meeting (25 February)	-	The remaining elements, ie 16-18 year olds and students; unemployment benefit; death grant, maternity and widows' benefits; industrial injuries; restructuring of contributions.
Fourth meeting (5 March)	-	Final consideration of the draft Green Paper, presentation and handling.

If this scheme proves too ambitious, we will arrange further meetings as necessary.

4. Given the importance of the subject, you will wish to give the Cabinet an opportunity to discuss at least the main issues before matters become too far advanced. If the timetable in paragraph 3 is adopted, Cabinet discussion on 28 February would be convenient. MISC 111 would have gone over all the ground and the Cabinet's views would be available to influence the drafting of the Green Paper and guide the final MISC 111 discussion.

MAIN ISSUES

5. On this basis, the main issues for the first meeting of MISC 111 are:

i. what is the Group's assessment of the proposals as a whole;

ii. are there any particular proposals about which members of the Group have major reservations;

iii. what should be the timetable.

The objectives of reform

6. Section 3 of the paper sets out the principles of reform:

i. The "twin pillars", ie the State providing a basic level of support, with individuals supplementing that level through working, saving and occupational arrangements.

ii. Helping those most in need.

iii. Helping people to help themselves, by encouraging employment.

iv. Simplification so that the system can be more easily understood and run more economically.

7. The Group may not find it difficult to endorse these general principles, which sound attractive. There are however two basic questions which need to be asked at this stage about the package:

- does it go far enough in reducing public expenditure?
- will it command support from Parliament and the public?

Financial effects

8. The financial effects are summarised on pages 21 to 23. The abolition of SERPS provides a very large saving in the longer term (£22 billion by 2033) but nothing significant until the 1990s. The remaining proposals appear to be at best cost-neutral. Any savings from withdrawing supplementary benefit from 16 and 17 year olds is likely to be more than offset by the proposed expansion of youth training. The family credit scheme appears to have a net additional cost, unless there are to be offsetting savings by holding down child benefit or reductions as yet unspecified. There appear to be only modest savings (around £100 million) on housing benefit expenditure of over £4 billion.

Presumably the rate of credit could lower.

9. Bearing in mind the pressures likely to arise in the remaining public expenditure surveys of this Parliament, the Group will wish to consider whether the proposals should be reworked within more

demanding cost constraints. Such radical proposals are bound (see below) to arouse considerable opposition in any case. Would greater savings significantly increase that opposition?

Likely support for the proposal

10. Support for the proposals will inevitably be influenced to some extent by the numbers of gainers and losers, on which information is provided in the Appendices. Most of the proposals have direct losers, eg Supplementary Benefit: 250,000 claimants will lose entitlement to benefit altogether, 80 per cent of pensioners will get less help; Housing Benefit: up to 200,000 people will lose all help with rents (and 1,000,000 with rates). Others will gain, but it is the losers and their lobbies who will make a fuss. As the Group discuss the detailed changes they will need to make a judgement as to whether the benefits are worth the inevitable controversy.

Particular proposals: first reactions

11. You will wish to avoid getting into details of the proposals at this first meeting. But it would be helpful if members of the Group could register now any major reservations about particular proposals. This will assist in judging how realistic the timetable is, and how to plan the business for future meetings. You may find it convenient to run over the main headings as follows:

i. abolition of SERPS

ii. index linking of public sector pensions limited to 5 per cent for new entrants

iii. supplementary benefit - switch away from special payments to simplified income support, with cash limited discretionary "social-aid" fund

iv. housing benefit - rent and rates to be met in full for all with net income at supplementary benefit level (not just those receiving Supplementary Benefit); tapered support above that level

v. two-tier family support - universal child benefit plus family credits to replace family income supplement and benefits such as free school meals.

vi. withdrawal of means-tested benefits from 16-18 year olds and students

vii. unemployment benefit - for six months only but at a higher rate

viii. minor proposals (death grant, maternity grant, widows' benefits, industrial injuries)

ix. restructuring national insurance contributions.

Timetable

12. Mr Fowler's aim is to publish the Green Paper before Easter and to legislate next session. On both counts this is a very tight timetable allowing very little time, taking account of the scope of the proposals, for Ministerial discussion before the Green Paper, or for consultation and detailed work on proposals before legislation has to be drafted. Depending on the discussion so far, you may wish either to confirm Mr Fowler's timetable as a working target, or to revise it. It seems inevitable that any delay in publishing the Green Paper will effectively close off the option of legislating next Session.

HANDLING

13. You may wish to begin by saying that the purpose of this meeting is to have a "second reading" discussion and to look at the timetable. Subsequent meetings will go into the elements in more detail. The Secretary of State for Social Services should then introduce his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury will wish to contribute on the public expenditure aspects, and the Lord President, the Chief Whip and the Paymaster General on the public and Parliamentary impact. The Secretary of State for the Environment will have particular comments on Housing Benefit, the

Secretary of State for Education and Science on young people and the Secretary of State for Employment and the Minister without Portfolio on unemployment and supplementary benefit. On the timetable, the Lord President and the Chief Whip may in particular have views on the Parliamentary aspects.

CONCLUSIONS

14. You will wish to reach conclsuions on:

i. how far the Group are prepared to endorse the overall scope and balance of Mr Fowler's proposals;

ii. whether there are any particular proposals on which members of the Group wish to register major reservations at this stage;

iii. whether the proposed timetable is approved (Green Paper by Easter, legislation next Session).

15. Depending on progress, you may wish to say that the next meeting will consider in more detail the proposals on pensions, supplementary benefit, housing benefit and family support, that the remaining proposals will be taken at a subsequent meeting and that it would be sensible to plan for a Cabinet discussion of the broad principles at its meeting on 28 February.

PLG

P L GREGSON

5 February 1985

PRIME MINISTER 1 February 1985

SOCIAL SECURITY REVIEWS

We broadly support Norman Fowler's proposals. They have attractive political themes: rewarding individual thrift, cutting the number of benefits, simplifying and reducing means tests, encouraging people to get jobs. But you will want to press him on three key questions at MISC 111.

Will we save money?

There is no point in going through these major reforms - however sensible in their own right - unless we can cut spending. The whole appeal of these wide-ranging reviews is that they provide an opportunity to save money without just looking like a cuts exercise. A shopping list of savings is attached at Annex A. It omits two even bigger money-spinners:

- **Child Benefit**. This costs us over £4 billion. But unless the Chancellor can allow for the cost of children in the tax system (eg by a Family Tax Allowance) it is probably not politically feasible to save money here.

- Only meet 80% of the **housing costs** of people on Supplementary Benefit. This gets us large savings, and helps remind everyone of the costs of extravagant local authorities. But there will be more paperwork and some hard cases.

Benefit expenditure also tends to spring expensive and unpredictable leaks as claimants devise new ways of getting money, such as booming SB mortgage interest expenditure. Sweeping away Supplementary Benefit special payments, and restricting the scope of Housing Benefit, should help stop those leaks in future.

Will we save staff?

I also attach a shopping list, at Annex B, showing how we could save several thousand civil servants. The administrative costs of minor benefits, death grant and maternity grant, are now approaching the cost of the actual benefits. There are very useful staff savings here.

Are the reforms practical?

Norman Fowler is aware of the need to implement these changes carefully and efficiently. That is unfortunately why we won't get savings until 1987. You could press him for a timetable for implementation. This will ensure there is a feasible framework, as well as providing us with a benchmark against which to measure performance.

David Willetts

DAVID WILLETTS

E. R.

ANNEX A

BENEFIT SAVINGS BY 1987-88: A SHOPPING LIST

Supplementary Benefit special payments abolished	£150m
Supplementary Benefit for under-25s tightened up	£75m
Mortgage interest out of SB for first 6 months	£50m
Steepening Housing Benefit taper for rents	£150m
Housing Benefit rate rebates curtailed (helps PSBR, but not public expenditure) ?	£350m
Abolish One-Parent Benefit	£70m
Abolish Death Grant	£15m
Abolish Maternity Grant	£15m

E.R.

ANNEX B

STAFF SAVINGS BY 1987-88: A SHOPPING LIST

SERPS abolished	-300 (at least)
Supplementary Benefit reform	-2,500
Housing Benefit reform	-500
Abolition of Death Grant, Maternity Grant and Maternity Allowance	-1,000
Computerisation	-1,500

YdS

2

Prime Minister

SOCIAL SECURITY REVIEW

My proposals for the reform of social security, which we discussed on 22 January, are going round to MISC 111 today. The paper is designed to give a clear view of the proposals as a whole.

No need to read at present, other than to sample the style.

In addition there will be Volume 1 of the Green Paper which will set out the case for reform and a summary of the proposals. This will be circulated next week but in the meantime I am enclosing a draft of this for your information.

No need to read this I have kept it back.

Volume 2 of the Green Paper will set out the proposals in detail. You certainly do not want to be burdened with all this at present but - purely for reference - I thought you might like to see the proposals on supplementary benefit, since they illustrate the degree of detail the review has involved.

I want in addition to let you have my personal assessment of the impact of the proposals. If the proposals are agreed, they would amount to the biggest change in social security since the 1940s. Ever since Beveridge, successive Governments have based their policy more and more on the assumption that it is the responsibility of the Government to provide an all embracing social security system. I believe it is essential that we turn this tide. We must move away from this perception of social security to a twin pillar approach, where one pillar is the state system but the other is private provision and builds on individual responsibility and initiative.

The specific proposals also involve major change. On pensions, we shall move to a position where the Government's role is to provide a decent basic pension, leaving it to individual and employer initiative to augment that with an occupational or personnal pension. We should thus be rejecting the general view since the late 1950s that the Government has a responsibility to provide earnings related as well as flat rate pensions. It would be an integral part of this approach to encourage as wide a coverage of occupational and personal pensions as possible, since we do not want people to rely on means-tested help in addition.

For supplementary benefit I am proposing the most radical change since 1948 and probably since the 1930s. It would reverse the trend of seeking to provide a very detailed system of help, designed to respond to each individual variation of need. This has led in practice to a position where we are trying to deliver on a national basis to over four million households a casework system suited to a few thousands of households. It is just too complicated ever to be delivered effectively on anything like this scale. It has also led to a position where officials have to inquire in detail into personal circumstances and where there is more and more reliance on the state to look after day to day needs. And it has led to the continual involvement of "welfare rights" officers (often employed by local authorities) who seek to establish new "needs" and so new benefit precedents. None of these developments is desirable. So the existing arrangements would be replaced by a straightforward system of income support, providing people in need with an income on which like anyone else they would be expected to manage. This would be backed up by a discretionary fall-back system of help for real emergencies. The fall back system would be tightly administered on a cash limited basis to ensure that it was not exploited, as the present system can be.

Housing benefits would be substantially simplified and reduced in scope. The effect would be to reduce by over one million the numbers who are on benefit.

My family support proposals recognise that, with the improvement in the position of pensioners, low income families with children, in and out of work, are the group who are now most in need. More help is also needed for low income working families in order to reduce the effect of the unemployment trap and improve wage flexibility. The family income supplement scheme does not do this satisfactorily. It gives less help to larger families, is difficult to administer satisfactorily and does not have any direct effect on pay packets. So we propose to replace it by a family credit, which, by being paid through employers, would in practice reduce deductions from take home pay and so enable working parents to keep more of their own money.

At present there is a very unsatisfactory overlap between unemployment benefit and supplementary benefit. This is wasteful and time consuming, for both beneficiaries and staff, and means there may be little financial advantage in having paid national insurance contributions. I am therefore proposing that we pay a higher rate of unemployment benefit for six months and cut out the need for supplementary benefit in that period. That will be a considerable simplification for all concerned.

Taken together, the proposals will have a substantial impact on the social security budget and on the number of staff required to run the system. The savings will begin to emerge soon after the introduction of the changes - there will be savings of £100 million on both supplementary and housing benefit in the second or third years. The savings on earnings related pensions will reach £500 million by 1993-94. And once the new structure is in place, the budget and priorities within it can be adjusted by changing basic benefit rates. On staffing, over the next 10 years savings of around 17,000 posts can be achieved.

Is this enough?

There may be concern from colleagues whose departmental policies assume that the social security system will continue to pick up the bill, whether this involves students, increases in rates and rents, fuel costs or other special interests. I am anxious not to cut across other important Government policies. But if the social security system is having to pick up other people's bills, then it is important as a matter of good financial management that the responsibility for those bills be identified and dealt with in the context of the particular programme concerned. Otherwise we shall see the social security budget continually increasing.

As I have already said, the timetable is tight. If we are to introduce legislation this autumn, we need to publish the Green Paper by Easter.

1 February 1985 N F

Prime Minister

David Willetts' note sets out how Norman Fowler's thinking is developing and seeks your initial reactions

28/12

PRIME MINISTER

BENEFITS FOR CHILDREN AND YOUNG PEOPLE

Norman Fowler's review of benefits for children and young people is now coming to an end. Two main proposals have emerged:

- take supplementary benefit from 16 - 17 year olds.
- a new Family Credit for the working poor.

A steer from you at this stage would be helpful.

Removing Supplementary Benefit from 16 - 17 year olds

David Young has kept you in touch with this. It is going well and Norman Fowler is being very positive. But two notes of caution:

- it might cost money (YTS places at £26 are more expensive than SB at £17). We must try to get funds either from employers or other savings from the benefit reviews.

- the MSC needs to be flexible. Consider a 16-17 year old who has been working (540,000 do) and is made redundant. He might not be entitled to Unemployment Benefit. There may be no parental support and no SB. He may be married and have a child. He will turn to the MSC for funds immediately. If they say he should come back in 2 months when they will have a training place then cases of hardship will make the policy difficult to sustain. But he must not be referred to the DHSS as that defeats the object of the exercise. The MSC must tide him over and find him a place quickly.

Family Credit

The Family Credit is the main new idea to emerge from the review. It would be paid through the wage packet. The employer funds it by paying over less national insurance or tax to the Exchequer. It might go to about 1 million families

E. R.

with about 2 million children. If you earned up to about £48 a week you would get the full rate of £13 plus £10 per child over 11 and £5 per child under 11. It would taper off at 50p for every £ of net income. So a married man with two children under 11 extinguishes his Credit at a wage of £94 per week.

Advantages

- It goes only to the working poor, thereby easing the unemployment trap.

- It helps the family man price himself into work as he can accept a lower wage and still meet his family responsibilities.

- The Poverty trap is less severe. Marginal rates of more than 100 per cent are eliminated. But the number of families with a marginal rate of more than 60 per cent doubles to 900,000.

- Paying through the wage packet means it is not another step towards a girocheque culture. It can be presented as a move towards bringing together tax and benefits.

Disadvantages

- The credit costs over £300m after allowing for savings from abolishing FIS (though strictly speaking it is revenue foregone rather than public expenditure). Norman Fowler will have to find the money. Introducing Family Credit in November 1986 with no child benefit uprating in November 1985 or 1986 would be one option (cancelling a 5% uprating saves £215 m). And every 10p off child benefit saves £55m.

- Assessment is based on a DHSS means test needing at least another 1,000 civil servants.

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- An extra burden on employers: if too onerous the whole scheme is scuppered.

It is important whether the Family Credit is presented as a benefit or an offset to tax. If Family Credit were just another benefit - a more expensive version of FIS - it is not very attractive. But if it were an offset to tax it is a cheap way of cancelling out the tax payments of several hundred thousand people. I believe the Credit is neither a benefit nor an increase in tax allowances but in between - a tax credit in fact. The Chancellor's views on this point will obviously be important.

Recommendation

The idea has attractions and obvious drawbacks. I recommend you give it a cautious welcome subject to three points:-

- the burden on employers must not be excessive.
- Norman Fowler must find the means to finance it.
- it should be capable of presentation as something other than just another benefit.

Initial reactions are clear.

a) extremely disappointing.

b) will probably increase expenditure

c) why do it

MT.

David Willetts

David Willetts

28 December 1984

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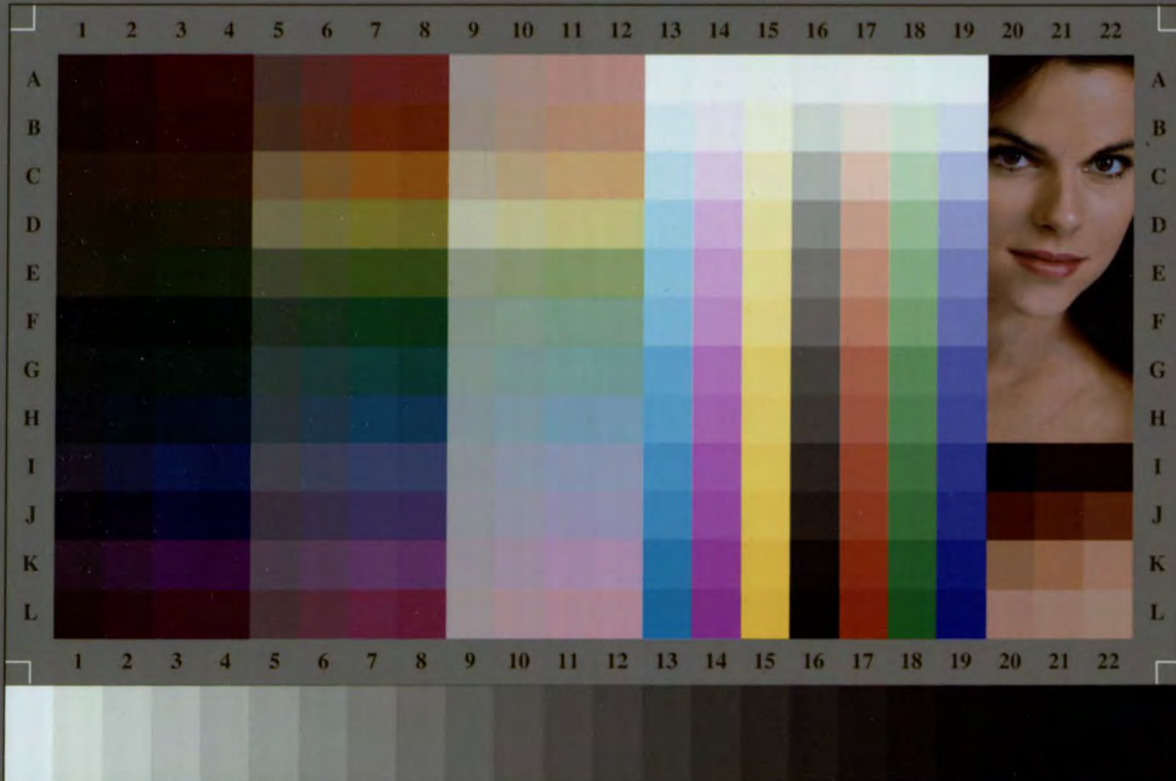

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