PREM 19/1640

PART 3

MT

SECRET

Confidential filing

Reviews of Social Security Benefits

MISC 111

SOCIAL SERVICES

Pt 1: FEB 1985

Pt 3: APRIL 1985

[COMMAND PAPER IN FOLDER 1 ATTACHED]
[DRAFT GREEN PAPER ON TAXATION IN FOLDER 2].

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~3.6.85~~		~~3.12.85~~					
~~4.6.85~~		~~5.12.85.~~					
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~~8.11.85~~							
~~20.11.85~~							
26.11.85							

PREM 19/1640

PART 3 ends:-

D. Willetts to PM 29.11.85

PART 4 begins:-

DRN to DHSS 3/12/85.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 21st Conclusions, Minute 1	20.06.85
MISC 111(85) 14	11.10.85
MISC 111(85) 15	29.10.85
MISC 111(85) 16	29.10.85
MISC 111(85) 17	18.11.85
LCA to CC(85) 34th Conclusions, Minute 5	28.11.85

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 C Wayland Date 20 May 2014

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. Reform of Social Security (volumes 1, 2 and 3) published as Cmnd. 9517, 9518 and 9519, 3 June 1985

2. Cmnd. 9520: Housing Benefit Review, 3 June 1985

3. House of Commons Hansard, 27 June 1985, columns 1099 – 1175

Signed OMWayland Date 12 November 2013

PREM Records Team

Prime Minister!
Agree to write as proposed?
DRN 29/11

Modified – see comments MT

PRIME MINISTER 29 November 1985

DRAFT SOCIAL SECURITY WHITE PAPER

Norman Fowler's White Paper reads better than most. I recommend that you read Chapter 1 and the opening sections of Chapters 2 and 3. If you have time, you could skim the remaining parts of the second and third Chapters. There is no need to read Chapters 4, 5 and 6. — Para 6.16 is worth a glance.

The main issue is whether to lead with the chin, or to soft-pedal on losers. The current draft is good on the structural changes, but hardly conveys any sense that we will be saving approximately £1 billion a year from 1988-89. Norman Fowler's political judgment is that the softly-softly approach will reduce the row. But the risk is that as the Bill goes through the House, arguments will intensify as the full implications of the measures become clear. And toughness will be popular with some of your supporters — but not others.

we are spending an extra £4 bn

There are four ways in which Norman Fowler could better prepare the ground:

I do not like the phraseology losers & gainers

- The opening Chapter should at some point say: "There will be losers as well as gainers. No sensible reform of benefits is possible if nobody is to lose. But where there are losers, we believe that our measures are defensible. The new distribution of benefits will

The language is too crude, but the thought is useful. Suggest the idea without the words!

Agree but we have to indicate ? words MT be better. Moreover, transitional provision will ensure that the poorest people on Supplementary Benefit do not suffer as the reforms are implemented."

- The discussion of benefits for young people in Chapter 3, paragraphs 3.21 and 3.22, should quite unashamedly argue that there are sound labour market arguments for lowering the benefit level for childless younger people. Shifting money from them to poor families is positively popular.

- Paragraph 3.77 should be more aggressive on Housing Benefit. It could point out that this has always been one of the least satisfactory benefits - even Beveridge found housing costs the most difficult to handle. It is wrong that it goes to almost one-third of all households, and stretches so far up the tax scale.

- The White Paper should question the assumption that Child Benefit will be uprated annually in line with inflation. Norman Fowler could say quite clearly at about paragraph 3.87 that he wishes to finance better support for poor working families out of Child Benefit. This still leaves enough money for a generous Child Benefit which will still be uprated on occasions - there is no question of doing a death grant.

Pensions

Paragraph 2.31 covers information about people's pension rights, but not about the value of pension fund assets, which may be much greater. We should require funds to give information about the value of their assets. This will be popular with contributors, and would make it difficult for Roy Hattersley to waste the massive pension surpluses.

Paragraph 2.52 raises a tricky issue of equality between men and women. Norman Fowler proposes that equal contributions to provide pension schemes should buy equal annuities for men and women at the same age on retirement. But, on average, women live longer, so they are a different actuarial bet from men. Norman Fowler is going against the normal commercial logic of private pension provision. He should review this proposal, especially as there will be pressure on this as the Bill goes through Parliament.

I suggest phrasing this as a question, [illegible]

But men's contributions usually purchase pension for dependent spouse as well

Paragraph 2.65 says that all personal pension schemes will have to be approved by the Occupational Pensions Board. It then sets out what the Board's responsibilities will be. There should be a commitment to make these clearance arrangements as flexible, simple and straightforward as possible.

Figures

You will want to know what figures Norman Fowler proposes to publish in the White Paper.

Recommendations

I recommend that David Norgrove write to Norman Fowler:

- suggesting the changes in presentational emphasis; and
- pursuing the three points on pensions policy.

I suggest also congratulating Mr Fowler on a clear and well argued White Paper.

DRN
29/11

David Willetts

DAVID WILLETTS

BEMBEK

10 DOWNING STREET

From the Private Secretary

28 November 1985

JOINT DHSS/DE STUDY OF LOCAL OFFICE NETWORKS

Thank you for your letter of 18 November replying to mine of 30 September.

The Prime Minister has noted your Secretary of State's wish to move quickly on this review and that matters have effectively reached the stage where her proposals, as set out in my letter of 30 September, cannot be acted on. She assumes that your Secretary of State has established the reasons for this delay.

The Prime Minister sees it as most important that one individual (presumably the head of the study team) should be given personal responsibility for ensuring results from this review. It should be for that individual to make sure that his or her proposals are practicable and sensible and give best value. She hopes that it will still be possible to work to the disciplines of the scrutiny technique and would be grateful if your Secretary of State would make sure that action is taken accordingly.

The Prime Minister is pleased that a member of the Efficiency Unit has been invited to serve on the Steering Committee. This will be Andrew Jackson.

The Prime Minister thinks it will be important, once the options have been narrowed down, to appoint an Action Manager whose writ will run in both departments.

I am sending a copy of this letter to Rachel Lomax (HM Treasury), Leigh Lewis (Department of Employment), Mike Bailey (Department of the Environment), Paul Thomas (Mr. Luce's Office) and to Sir Robin Ibbs.

(DAVID NORGROVE)

Giles Denham, Esq.,
Department of Health and Social Security.

RR3.72

SECRET ~~CONFIDENTIAL~~

Prime Minister
All Ministers concerned have agreed to this. Content?

39A

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

DRN 28/4.

PRIME MINISTER

I don't like this.
I don't like our employees having less good treatment than they could expect from other employers.

PERSONAL PENSIONS AND THE PUBLIC SERVICES

At the discussion of Norman Fowler's revised pension proposals at MISC 111 on 31 October, I was asked to consider with Norman the implications of the introduction of personal pensions for public service schemes. We have now agreed on a proposal to contain unacceptable costs.

Minutes attached

We agreed in MISC 111 that there can be no question of exempting the public service schemes from the personal pension proposals. There will thus be some inescapable cost to the PSBR. When an employee in an unfunded scheme opts for a personal pension, the Exchequer loses the employee's contribution to an occupational pension, and the employer's contracted out rebate (the statutory minimum) is paid to the personal pension. To keep the cost to this minimum, the employer would have to refuse to make any additional contribution to a personal pension (for example, reflecting what he otherwise makes to the occupational pension). This would keep down the cost per head, and reduce take-up by making personal pensions less attractive to the employee. In principle, this policy could be adopted across the board in the public services, particularly if employers emphasise the benefits of remaining with what are, by any standards, very good occupational schemes.

We cannot, however, count on holding this minimum position for very long. The weak link will be the local authority employers over whom we have little or no control, and who, with funded occupational schemes, are likely to see attractions in encouraging people to take a personal pension by making some additional employer's contribution available, since if that is less than the contribution they at present make to their own local authority superannuation scheme they will save money. It will also be very difficult to avoid a similar concession in respect of Members of Parliament. W hile concessions on these funded schemes have no PSBR costs, the local authorities would find it very hard to resist giving the same treatment to teachers, firemen and policemen where there are large costs at stake. In such circumstances, there will then be pressure on central Government as employer to extend concessions to NHS employees and civil servants, Armed Forces and the judiciary. Not only would the unit cost per employee then rise (as the employers' contribution is bargained away), but the attraction to employees in opting for a personal pension will increase and so will take-up. If take-up were as high as 30 per cent, for example, the costs to the PSBR could be well over £1,000 million a year.

We have agreed that the right approach to these risks is to try to influence the circumstances in which public sector employers top-up the minimum provision available to employees who choose a personal pension. This might be done by making it clear, at the outset, that the Government considers that the statutory minimum of the contracted-out rebate is quite sufficient. At the same time we should make it equally clear that if some employers wish to make a larger contribution, they should do so only if the money, <u>together with</u> an amount equivalent to any additional employee contribution (which would no longer need to be paid to the occupational scheme) were put directly into a personal pension.

This approach should be consistent with the practice of good private sector employers in similar circumstances. And it would not derogate from the principle that everyone should have a meaningful right to a personal pension. It would have the advantage for public service schemes of reducing the likely PSBR costs by deterring those whose main motive for preferring to opt out of the service scheme is to secure an immediate incrase in take-home pay, in the form not only of their own contributions to the occupational scheme but of their employer's as well.

While some detailed points remain to be settled at official level, colleagues responsible for the main public service schemes generally concur with this approach. If it is to be adopted, however, we believe that our position, and that of employers in the private sector, would be much strengthened if the White Paper gave a clear indication of the Government's general attitude to additional contributions. I attach a suitable paragraph, to be fitted into the White Paper. If changes of wording are suggested, we can look at these later.

I am copying this minute to members of MISC 111, Quintin Hailsham, Keith Joseph, Michael Heseltine, George Younger, John Biffen, Kenneth Baker and Sir Robert Armstrong.

NL.

N.L.

27 November 1985

ANNEX

Outline draft paragraph for White Paper

"An employer will have no further obligation [beyond the contracted out rebate] to the employee who has chosen to opt for a personal pension. It will still be open to an employer to make an additional contribution. But it will also be open to the employer to agree that he only makes an additional contribution if it is matched in whole or in part by one from an employee, both contributions being paid directly into a personal pension scheme. Since the Government's proposals are intended to give people a new element of choice, by encouraging the growth of personal pensions, and not to reduce pension provision overall, the Government considers that this would be a reasonable approach. But the question of additional contributions and what form they may take will be purely a matter for negotiation between the employer and the employee."

SECRET AND CMO until 1 January 1986

39

Prime Minister

This will come to you again for the week-end, with any suggestions.

DRS 27/11

WHITE PAPER ON SOCIAL SECURITY

IN FOLDER AT BACK.

My paper for the Cabinet on the social security review (C(85)27) said that I would be circulating a draft of the White Paper. This is now attached.

Although discussion at tomorrow's meeting of the Cabinet will be of my memorandum, not the White Paper, I thought that colleagues might find it helpful to see a draft at this stage. It is still no more than a draft: I will want to make some changes in the presentation, but the substance will be unaltered.

I should, of course, welcome colleagues' comments on the draft. If I am to meet our publishing deadline of mid-December I must ask for them no later than next Tuesday 3 December.

I am copying this minute to the other members of the Cabinet and the Chief Whip, and to Sir Robert Armstrong.

N F

27 November 1985

SECRET

38

PRIME MINISTER

27 November 1985

THE BENEFIT REVIEWS

Norman Fowler's Cabinet Paper is a fair summary of the MISC 111 decisions. But you will want to reserve the right to comment in writing on the draft White Paper.

No problem on that.

Gainers and Losers

Poor working families are helped by the Family Credit. The new Housing Benefit régime helps people with low wages close to SB rates, but those higher up the scale lose.

Old people lose from the HB reforms because 3.5 million get rate rebates. Some will also lose from the abolition of various SB additions. As pensioners receive half the total benefits budget, savings are bound to affect them. But we don't break any pledges, and the increased pensioner premium has cut the number of losers.

Unemployed young single people are hit. They have a much tougher SB régime. Unemployed couples with families gain from the new Family Premium under SB, though - like all other SB recipients - they lose from the HB changes.

SECRET

The Critics

The Review will be attacked from both sides. The armchair radicals who want complete integration of tax and benefits will complain that it only registers 0.1 on the Richter Scale. But we want to pull tax and benefits apart, not bring them together.

The faint-hearted will be worried about losers. But these are not as politically awkward as they were and you can't cut benefit expenditure without cutting benefits.

What have we achieved from the Review?

There are seven bull points to get over:

i. Getting people back to work by helping the family man with a low wage, and by reducing the benefit floor for many unemployed people without children.

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

iii. Spreading property ownership by encouraging private pension provision and reducing the attractions of the state scheme.

iv. A responsible Government saving money on the future cost of SERPS (£12 billion saved by 2033). Now its affordable and realistic. Before it was fool's gold.

v. Making life more difficult for the scroungers and the claimants' unions by getting rid of some of the biggest loopholes, such as SB special payments and benefits for students.

vi. Simplifying the system and saving DHSS staff. One entire means test - the separate HB assessment of needs - disappears. Several minor benefits go - death grant, maternity grant, FIS.

vii. Some sensible, if modest, innovations in the benefit structure. The Social Fund is the first cash-limited area of Supplementary Benefit expenditure. And much of its spending will be loans not grants. The Family Credit paid through their pay packet is not part of Girocheque culture.

<u>Presentation</u>

Norman Fowler and other colleagues need to put these themes over vigorously. In particular there should be no [hints of any] concessions as the Bill goes through the House.

David Willetts

<u>DAVID WILLETTS</u>

010

CONFIDENTIAL

CCBG VB.1.

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

David Norgrove Esq
Private Secretary
10 Downing Street

27 November 1985

Prime Minister
You might read out the passage marked, at the end of the discussion.
DRN 27/11

Dear David,

SOCIAL SECURITY REVIEW

My Secretary of State has discussed with Bernard Ingham the handling of any press enquiries about discussion of the Social Security Review at Cabinet tomorrow. They agreed that information should not be volunteered about the review being on the agenda, nor about what conclusion was reached. However, in the event that the press got wind of the item and asked direct questions, a line would be needed, which could be provided to all Cabinet members.

My Secretary of State proposes the following line for this purpose:

- Ministers have completed their consideration of proposals for reforming social security.
- Ministers have agreed on a package, which meets the objectives set out in the Green Paper.
- A White Paper setting out the proposals will be published before Christmas followed shortly by the Bill.

Summary

- The reform is - agreed;
  - on course;
  - on time.

I should be grateful if you could ensure that Cabinet Members are advised that they should use this line, if pressed, and no more.

I am sending a copy of this letter to Bernard Ingham.

Yours ever,

Tony.

A Laurance
Private Secretary

CONFIDENTIAL

10 DOWNING STREET

Prime Minister

RTA invites a discussion of gainers and losers. There has to be recognition of this, but discussion risks contention to no great purpose.

The important point is that the presentation of the figures and generally should be agreed between

Mr Fowler
Lord Whitelaw
Mr Tebbit
Chancellor

and Mr Baker for rates.

DRN

MT, 27/11

CC 36/36

SECRET

(57)

Ref. A085/3071

PRIME MINISTER

Review of Social Security: Final Decisions

FLAG B —— (C(85)27)

BACKGROUND

The Cabinet last considered the Social Security Review at their meetings on 2 and 9 May 1985 (CC(85)15th Conclusions and CC(85)16th Conclusions) when they approved the Review package broadly as it went on to be published in the Green Paper. Following the consultations on the Green Paper, the Social Services Secretary returned to MISC 111 seeking modifications in the previously agreed proposals. Modifications were agreed at MISC 111(85)8th, 9th and 10th Meetings, and the Social Services Secretary now seeks Cabinet ratification of those decisions, so that the White Paper can be published before Christmas. The Social Security Bill would then be introduced after Christmas, with Second Reading in the second half of January. Mr Fowler then envisages Royal Assent by the end of July, but that is extremely optimistic: Royal Assent after the summer recess is much more realistic.

2. The main changes from the Green Paper package agreed by Cabinet in May are as follows.

(a) Pensions

3. Cabinet agreed to the abolition of the State Earnings-Related Pensions Scheme (SERPS), with appropriate transitional protection, and its replacement by a system requiring minimum private pension arrangements. MISC 111 have now agreed to modification rather than abolition of SERPS, on the basis that modification will still deliver large savings (now estimated at over £12 billion by 2033 at November 1985 prices). The main modifications are to base pensions under SERPS on 20 per cent of average life-time earnings (instead of the existing 25 per cent of the best 20 years' earnings) and to reduce the proportion of a pension

the figure was earlier £10.3 bn.

inherited by the surviving spouse to 50 per cent from the existing 100 per cent. These reductions in cost make it possible to transfer to approved schemes the responsibility for inflation-proofing contracted-out pensions up to 3 per cent a year, without incurring the adverse PSBR effects of increasing the contracted-out rebate. MISC 111 also agreed that the reductions in SERPS should be balanced by various measures to make occupational schemes and personal pensions more attractive. In particular, there should be a new universal right for employees to opt for personal pensions, and there should be a special 2 per cent bonus on the contracted-out rebate for 5 years for new occupational schemes and personal pension holders. Annex A to the Social Services Secretary's paper sets out the pensions issues fairly and clearly.

(b) Income-Related Benefits

4. Cabinet agreed to

(i) the replacement of supplementary benefit with a new simplified system of income support backed by a discretionary social fund.

(ii) radical simplification of and reduction in housing benefit and in particular a ceiling on the amount of housing benefit payable in respect of domestic rates so that everyone paid 20 per cent of their rates

(iii) replacement of Family Income Supplement with an improved Family Credit Scheme to be paid through the wage packet.

(iv) miscellaneous reforms in maternity allowance and widows' benefit, and replacement of maternity grant and death grant with discretionary selective provision through the social fund.

5. The Secretary of State for Social Services has proposed no change in the structure of this package but MISC 111 have agreed a number of

changes, some of which are set out in Annex B of the Social Services Secretary's paper. Those listed in Annex B comprise more generous treatment under income support than was originally proposed for couples under 25; reduced - rather than nil - assistance towards mortgage interest during the first 6 months on income support; reversion to separate housing benefit tapers for rent and rates; and the retention of local housing benefit schemes for war pensioners. More substantially, however, MISC 111 also agreed (although this is not referred to in the present paper) that the Social Services Secretary might discuss with the Chancellor of the Exchequer how he might accommodate increases he wanted to make to the proposed pensioner premium under income support to reduce the number of pensioner losers, and to the family credit arrangements to improve incentives. The Social Services Secretary felt that these concessions were politically necessary for the passage of the Bill, but you were clear in MISC 111 that the overall social security programme must be contained within the figure for 1988-89 that had been published as a provisional one in the Autumn Statement. The Chancellor of the Exchequer and the Social Services Secretary have now agreed how the cost of the concessions that Mr Fowler wants to make can be offset within the Autumn Statement figure, which is now final. Accordingly, the tables of gainers and losers circulated to the Cabinet separately by Mr Fowler take account of these changes. (The Social Services Flag C Secretary's minute to you of 25 November sets out the details of how the additional expenditure in 1988-89 can be offset.)

(c) Timing of Changes - April 1988

6. The Cabinet agreed to introduction of the changes in April 1987. MISC 111 subsequently agreed to defer implementation of the main changes until April 1988 to accommodate slippage in the timetable for introduction of the Social Security Bill as a result of the pensions changes and to allow local authorities and businesses a larger time-scale to prepare for implementation. The Social Services Secretary, however, agreed in both MISC 120 and MISC 111 to advance implementation of certain measures to secure savings in earlier years and these are reflected in the public expenditure totals agreed by Cabinet and published in the Autumn Statement.

MAIN ISSUES

7. This Cabinet consideration is the final stage of policy clearance for proposals that have been exhaustively discussed already, and there are no substantial issues that do not emerge from the background summarised above. So far as pensions are concerned, what is at issue is the change of course towards a less radical approach to SERPS that was explicitly rejected in the Green Paper. The adjustments to the earlier proposals on the structure of income-related benefits are relatively small - the basic structure remains unaltered - but Cabinet will no doubt wish to take a final political view of the distribution of gainers and losers. This is illustrated in the Tables attached to Mr Fowler's separate note of 26 November. Tables 1 and 2 show the effects the changes would have if the new structure were substituted for the existing structure as it is in November 1985. Tables 3 and 4 show the effects in cash terms, taking into account (as the Chief Secretary recommended at MISC 111) the mitigating effects on the pattern of gainers and losers of uprating of benefits and the agreed transitional protection arrangements. Tables 1 and 3 also exclude the effects of the proposed minimum 20 per cent rates contribution proposal, thereby substantially reducing the number of losers.

8. I suggest that in any discussion of the distributional effects you concentrate on Tables 2 and 4, which include the 20 per cent rate contribution, and are therefore on the same basis as considered by MISC 111 (subject to some changes in the numbers as a result of Mr Fowler's latest agreement on savings with the Chancellor of the Exchequer). However, since it is not possible at this stage to quantify the effects of the interaction between the 20 per cent rule and the rates reform proposals (final decisions on which will not be taken until well into next year) there is some justification for showing also the distributional effects (as in Tables 1 and 3) excluding the former. But great care will need to be taken in presenting this in order to avoid the charge of being deliberately disingenuous and misleading.

9. There are also the following subsidiary points.

(a) You asked the Social Services Secretary at the MISC 111 meeting on 31 October to consider whether the right to a personal pension might be implemented in 1987, before the main pension s measures. We understand that Mr Fowler is about to write to say that this would be undesirable for a number of reasons, and especially because the investor protection provisions of the Financial Services Bill must be in position before the right to a personal pension is given effect. (If the right were implemented before the investor protection machinery was in place, insurance companies would have an effective monoply of the new business in personal pensions).

(b) You have been concerned in MISC 111 that in public service pension schemes the right to a personal pension should be a meaningful one, while safeguarding the PSBR against large movements to fully funded arrangements. I understand that the Chancellor of the Exchequer and the Social Services Secretary hope to agree later today with the Ministers concerned that the White Paper should take the line that public service employers should not recognise liabilities to make payments above the contracted out rebate unless the employee is himself making additional contributions directly to his pension.

They have done so, and the Chancellor is writing.

(c) The Northern Ireland Secretary has recorded that the rationale of the 20 per cent contribution to rates does not apply clearly in Northern Ireland, where the range of local authority services is limited, and he himself sets the rate. That is perfectly true in itself, but Mr King does not appear to be going so far as to argue for any change in the longstanding arrangement for parity throughout the United Kingdom on social security. This point can be best taken as advance warning of a presentational issue.

HANDLING

10. You may wish to ask the Social Services Secretary to introduce his paper in two parts - pensions first, and then all other matters.

11. On each part, you may wish to ask the Chancellor of the Exchequer to speak next, and then to invite Ministers who are not members of MISC 111 to express their views.

12. On the next steps, you will wish to remind the Cabinet that publishing the White Paper in mid-December depends on the text being finanised next week. If colleagues have any drafting points on the text Mr Fowler is circulating separately to the Cabinet (hopefully later today), you will hope that they can settle them direct with him before 4 December. The Bill must have its Second Reading by the end of January, and you may wish to stress that this must not slip.

Your copy is below.

13. On presentation of the White Paper you will wish to invite Mr Fowler to consult the Lord President and the Chancellor of the Duchy of Lancaster. So far as the local government finance Green Paper is relevant, the Secretary of State for the Environment should also be involved.

And the Chancellor of the Exchequer

CONCLUSIONS

14. You will wish

(i) to ensure that Cabinet agree to any significant changes from the proposals made in the Green Paper;

(b) to secure the agreement of Cabinet to the revised proposals being published as a White Paper in mid-December;

(c) to invite Cabinet members to take up any points they may have on the text of the White Paper with the Social Services Secretary so that they can be settled before 4 December;

(d) to invite the Social Services Secretary to discuss presentation of the White Paper with the Lord President, the Chancellor of the Duchy of Lancaster and (so far as local government finance studies are relevant) with the Secretary of State for the Environment.

RA

27 November 1985

File
PGRAQL
bc B Griffiths

10 DOWNING STREET

From the Private Secretary

26 November 1985

Dear Tony,

SOCIAL SECURITY REVIEW

The Prime Minister has seen your Secretary of State's minute of 25 November and has noted the description of the savings measures which he has agreed with the Chief Secretary.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Richard Broadbent (Chief Secretary's Office, HM Treasury) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours ever,

David

David Norgrove

Tony Laurance, Esq.,
Department of Health and Social Security.

DA

a Bf
CBU
MS 3/6

PRIME MINISTER 2
DRW

SOCIAL SECURITY REVIEW

Since the last meeting of MISC 111 the Chief Secretary and I have discussed and agreed upon a number of savings measures which will together total about £200 million and have the effect of keeping my 1988/89 programme within the asterisked figures in the Autumn Statement. The details are annexed to this note. Our agreement is subject to the provisos that:

(i) the costing of individual measures has been undertaken hastily and may need refinement. We are, however, satisfied that the figures are all of the right broad order;

(ii) new measures may, by agreement, be substituted for any of those in the Annex which have not already been announced if, by so doing, we are able to save the same money in a more acceptable way;

(iii) if it remains necessary to score the lesser cost of transitional protection in order to reach the target for 1988/89, other measures will be identified to replace this saving as it runs out in later years.

On this basis we feel we can advise colleagues that we are agreed on the details of the scheme which I have put forward and, in particular, on the changes which I have made in order to minimise the number of pensioner losers. A further change which I am making to help pensioners is to alter the housing benefit tapers for rent and rates from 55%/25% to 60%/20% respectively. This has no PSBR cost, but transfers to Public Expenditure savings which were previously revenue forgone.

I am copying this to the Lord President of the Council, the Chancellor of the Exchequer, the Chief Secretary and the Chancellor of the Duchy of Lancaster.

25" November 1985

N F

ANNEX

Measures proposed	Public Expenditure Savings (£ million) in 1988/89
1. Reduction in the level of income support for single people under 25 and for childless couples	20
2. No uprating of child benefit in April 1988	75
3. Modification of the industrial injuries scheme, mainly designed to switch help from the less to the more severely disabled	40
4. Removal of title to reduced-rate short-term benefits for people who do not fully satisfy the contribution conditions	30
5. Offset of unemployment benefit against occupational pension exceeding £35 a week (which applies at present to pensioners over 60) for those between 55 and 60	10
6. Increased effort to recover money from "liable relatives" (net of extra administrative cost)	10
7. Reduction in the transitional protection needed for the new scheme	20
Total	205

If it didn't leak would be announced by October 1987

Difficult to stop this becoming public in autumn 1987 if it doesn't leak by then,

A [illegible] would not produce these savings.

25. XI. PM 8 5

~~CC~~BG

Note below

Perhaps the whole of DHSS should be scrutinised!
MT

MR NORGROVE

JOINT DHSS AND DE STUDY OF LOCAL OFFICES

This offers advice on the DHSS Private Secretary letter of 18 November.

2. Our understanding is that the review effectively got under way in early September. Mr Fowler minuted the Prime Minister about it on 19 September. The DHSS has taken 7 weeks to reply to your minute of 30 September. The effect of this delay is that it is now too late to change the review into a scrutiny without setting matters back.

3. The best course is to impose as much of the scrutiny discipline as we can at this stage. Andrew Jackson in the Unit has met the study team leader, Mrs Pat Bishop; she is a tough and intelligent Assistant Secretary who seems to understand what the scrutiny technique involves. In my view the key lies in reinforcing her position and making her personally responsible for showing the way to results.

4. I think the Efficiency Unit could help ensure this by joining the Steering Committee. (Our best contribution would have been to steer the review through as a scrutiny from the start but, as explained above, I think it is now too late for this.) I am ready for Andrew Jackson to be on the committee. I will ask him for an assessment by the end of January of the role being played by the committee and I will report to you if necessary.

5. This leaves the question of the Action Manager. There is a genuine difficulty here. Because there are two departments involved it would be prudent to wait until the options recommended by the study are displayed so that one can appoint an action manager whose writ runs sufficiently in both departments.

6. I attach a possible reply.

ROBIN IBBS
22 November 1985

DHSS1122

Prime Minister

You proposed that this study should be run like a Rayner scrutiny. This minute is advice on the DHSS reply. Agree to write as proposed?

DRN
27/11

Yes MT

E.35

Please type DRW

~~DRAFT~~ REPLY TO GILES DENHAM, DHSS

JOINT DHSS/DE STUDY OF LOCAL OFFICE NETWORKS

Thank you for your letter of 18 November replying to mine of 30 September.

The Prime Minister has noted your Secretary of State's wish to move quickly on this review and that matters have effectively reached the stage where her proposals, as set out in my letter of 30 September, cannot be acted on. She assumes that your Secretary of State has established the reasons for this delay.

The Prime Minister sees it as most important that one individual (presumably the head of the study team) should be given personal responsibility for ensuring results from this review. It should be for that individual to make sure that his or her proposals are practicable and sensible and give best value. She hopes that it will still be possible to work to the disciplines of the scrutiny technique, and

~~The Prime Minister~~ would be grateful if your Secretary of State would make sure that action is taken accordingly.

The Prime Minister is pleased that a member of the Efficiency Unit has been invited to serve on the Steering Committee. This will be Andrew Jackson.

The Prime Minister thinks it will be important, once the options have been narrowed down, to appoint an Action Manager whose writ will run in both departments.

I am sending a copy of this letter to Rachel Lomax (HM Treasury), Leigh Lewis (Department of Employment), Mike Bailey (Department of the Environment), Paul Thomas (Mr. Luce's Office) and to Sir Robin Ibbs.

BEMBEK

SECRET

3 of 12

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

John MacGregor Esq OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

21st November 1985

CDP
to note.
DRS 22/11

Dear John,

SOCIAL SECURITY REFORMS : NORTHERN IRELAND

WILL REQUEST IF REQUIRED.

Thank you for your letter of 31 October commenting on mine to Norman Fowler of 14 October on this subject.

The purpose of my letter to Norman Fowler was to record my concern on those proposals which I saw as likely to impact significantly in Northern Ireland. This is not to say that the impact of the reforms will not be significant elsewhere in the United Kingdom. Nevertheless, I considered it important to highlight the specific proposals which, for the reasons explained in my letter, may be particularly difficult for me and Richard Needham to defend given not only the socio-economic and political background in the Province but also the different framework of local government and the different administrative structure for housing benefit. I was not arguing for special treatment for Northern Ireland, given the acknowledged constraints of the well-established policy of parity in social security provision, but simply contributing to the consideration of the reform package on a national basis.

The proposal which will give us most difficulty in Northern Ireland, as compared to the rest of the United Kingdom, will be the requirement for housing benefit claimants to meet 20% of their rates. In your fourth paragraph you say that "Apart from the accountability objective the requirement that claimants should contribute to the

/cost of

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cost of services is part of a complex housing benefit system". The housing benefit scheme is indeed complex, and will be considerably more complicated by the rates proposal, but the system for administering it in Northern Ireland is simple. The local authorities have no role, administration resting solely with the Northern Ireland Housing Executive and government itself.

I understand the justification for the 20% proposal was the desire to bring home to electors the need to maintain some control over the expenditure of local councils. My argument substantially is that this chain of responsibility does not exist in Northern Ireland except for that part of the rates which is determined by the District Councils. The major spending services are run under direct drive by Government Departments or by appointed Boards and I determine the rate, and I was simply pointing out that the logic of the argument does not apply with the same force in Northern Ireland. The 20% proposal will make the housing benefit scheme more expensive to administer; the increased cost of collection and recovery of small amounts of rates will obviously reduce any savings and could lead, certainly in Northern Ireland, to increased public debt. If the justification for the rates proposal is simply to make savings, I would not wish Northern Ireland to move out of parity with the rest of the system in view of the public expenditure implications. But against the savings achieved must of course be set off the substantial costs of collection and the extra staff required for administration.

On the question of the impact of changes, I cannot be dogmatic in the absence of statistics on gainers and losers in Northern Ireland. It seems however, that up to £20m pa could be abstracted from the social security system in Northern Ireland. My problem, politically, is that this could impact differentially on the Catholic community just at the time when through the Anglo-Irish process we are attempting to reduce alienation. It strikes me that the Northern Ireland experience can be extrapolated nationally and has some relevance for what is happening in the inner cities. Again, I do not argue for a departure from parity for Northern Ireland; the unpleasant political effects of the changes are likely to be reflected in the rest of the United Kingdom as in Northern Ireland.

I am anxious to ensure that the main points raised by concerned opinion in the Province have been fully considered. In doing so, I hope that we have added constructively to the consideration of these very difficult issues.

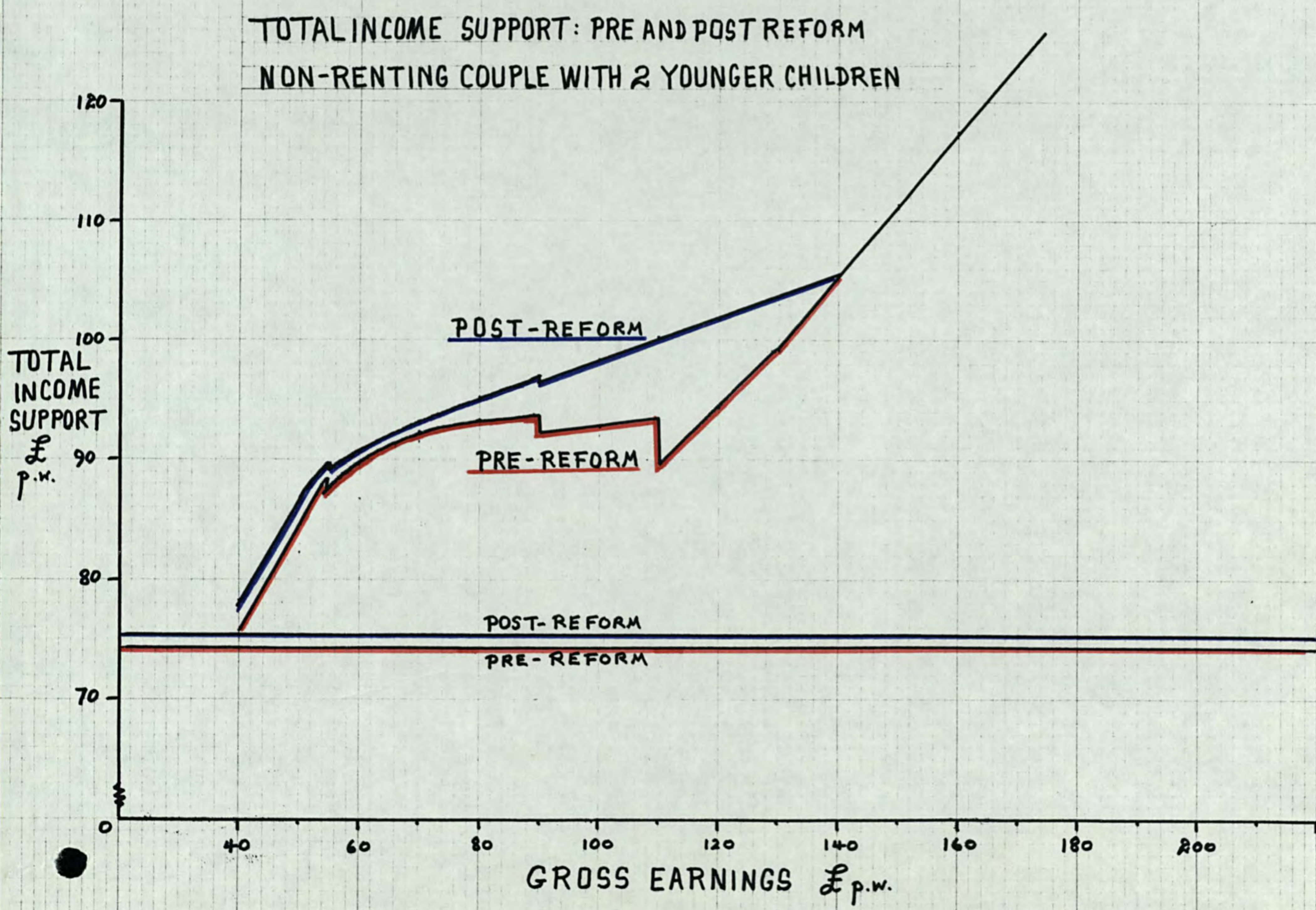
I am copying this response to the other members of MISC 111 and to Sir Robert Armstrong.

Tom

T K

ssd

SOCIAL SERVICES
REVIEW
PT 3


TOTAL INCOME SUPPORT: PRE AND POST REFORM
NON-RENTING COUPLE WITH 2 YOUNGER CHILDREN
TOTAL INCOME SUPPORT £ p.w.
120
110
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GROSS EARNINGS £ p.w.

BEMBEK

DRAFT REPLY TO GILES DENHAM, DHSS

JOINT DHSS/DE STUDY OF LOCAL OFFICE NETWORKS

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I am sending a copy of this letter to Rachel Lomax (HM Treasury), Leigh Lewis (Department of Employment), Mike Bailey (Department of the Environment), Paul Thomas (Mr. Luce's Office) and to Sir Robin Ibbs.

cc B/UP.
34

SECRET

P 01798

MR NORGROVE - No 10

SOCIAL SECURITY REVIEW: INCOME RELATED BENEFITS

In view of the overnight minutes by the Chief Secretary and Mr Fowler, a short supplement to my MISC 111 brief of yesterday may be helpful.

2. Although the underlying arithmetic is still far from clear (largely because DHSS have never really come clean on it), the essential issue of substance before the Group remains the same. This is whether, on whatever presentation, it is worth spending another £300 million to reduce the (still very large) number of losers and improve incentives. The essence of the Chief Secretary's case is that a large number of losers was an essential and intended part of the reform; spending another £300 million would not change the picture all that much, and could in any case be better presented; and that the extra spend on Family Credit could actually in some respects worsen the incentives problem. So the Chief Secretary is urging the Group to have the courage of their previous convictions and not now concede concessions that would add some £200 million to the social security autumn statement planning total for 1988-89.

3. On presentation, the issue is whether it is better to present the distributional effects net of the likely April 1988 uprating and transitional provisions (as Mr Fowler has done) or (as the Chief Secretary recommends) to build those effects into the cash arithmetic.

4. The advantage of the Chief Secretary's course is that it reduces the number of losers (I attach a summary table showing the main loser categories under Options 1 and 2 with and without the uprating and transitional protection effects). The disadvantage of this is that it would still show large numbers of losers; there would be no further cards to play; and Mr Fowler would feel bound to produce the figures on his basis also (if he refused, others would do them).

SECRET

5. The disadvantage of Mr Fowler's net presentation is, of course, the very much larger number of losers. The advantage, however, is that it would be possible, without attaching specific numbers, to accompany this with a statement about the mitigating effects of the April 1988 uprating and the transitional protection provisions. The April 1988 main uprating is assumed to be some 3.25 per cent; the main transitional protection will consist of freezing the level of Supplementary Benefit payments for those who would otherwise lose until their cash entitlement under the replacement income support scheme catches up (although they would be required separately to meet at least 20 per cent of their rates bill).

6. I see no reason why the Chief Secretary's presentation should not be accepted so as to avoid offering from the start the very large number of losers under the net presentation. But the Group will wish to make up their own minds on the political and presentational aspects of this.

7. I also attach a summary note on the costs of the alternative proposals.

This is ambiguous. The idea should be to produce the Treasury table and the DHSS table, and others if possible.

J B UNWIN

20 November 1985
Cabinet Office

LOSERS

	Option 1	Option 1*	Option 2	Option 2*
Pensioners	3490	1980	2300	1020
Couples with children	230	140	200	120
Overall Total (including other categories)	5210	2920	3850	1910

* Taking account of transitional protection and upratings

COSTS OF ALTERNATIVE PROPOSALS

	Option 1	Option 2
Public Expenditure*	- 80 million	+ 200 million

* These are net figures after allowing for transitional protection of £200 million under Option 1 and £150 million under Option 2.

The breakdown of the £280 million cost of option 2 over the cost of option 1 is as follows.

£200 million to reduce losers amongst pensioners.

£50 million to improve Family Credit.

£30 million (knock on effects on other benefits, etc)

33

PRIME MINISTER

19 November 1985

SOCIAL SECURITY REVIEWS: PENSIONER LOSERS

Norman Fowler is right that pensioner losers present a real political problem, but:

- it is not as bad as he claims; and
- there is a better way of dealing with it than his proposal.

What is the problem?

The Supplementary Benefit changes save about £160 million from 1.5 million pensioners. The savings in Housing Benefit affect over 3.5 million pensioners. But the position is not as bad as it sounds because:

i. The changes will be introduced at the time of a benefit uprating, so some of Norman Fowler's losers will be getting cash increases in their benefits. The Treasury paper allows for this by assuming a 3.25% uprating in April 1988.

ii. MISC 111 has already agreed to spend £200 million on transitional protection so that nobody actually loses cash as a result of the SB changes such as the loss of heating additions.

iii. Exposing old people to the cost of rates won't mean a reduction in the value of their girocheques. It means an extra bill coming from their local authority. So it is one step removed from the DHSS.

iv. A 3% uprating of tax allowances in 1988 would be worth about 65p a week to an elderly couple paying tax (and approximately 1.9 million old people do).

v. Kenneth Baker's rate reforms help the single pensioner.

Norman Fowler is showing the figures the Opposition will use. The Government can reply that most old people will carry on becoming better off.

But even the Treasury's figures show that there is a problem which cannot be swept under the carpet. 2 million pensioners suffer cash losses. And as most of the changes are to be implemented in 1988, the Opposition will exploit this issue in the Election campaign.

What is the best way of dealing with the problem?

Norman Fowler wants to spend £200 million increasing income support payments for pensioners by £2 per head. This is too expensive. Moreover, it would be a permanent increase in their level of income support to buy off a transitional problem. I recommend a solution which differs from Norman

SECRET

Fowler's in three ways:

a. Offer old people on SB an extra £1 per week. The Treasury's tables show that, of the 2 million pensioner losers, 1.2 million are losing under £1, and another 450,000 between £1 and £2. Most of these are on SB.

b. Make it temporary, declining say to 50p in 1989 and disappearing thereafter.

c. Find offsetting savings by toughening the SB regime for unemployed people without children, particularly people under 25. These are the 520,000 able-bodied people not in full time work who gain under Norman Fowler's present proposals. Many can also benefit from David Young's programmes.

Mr Fowler seems to have ignored your remit to him on this, given at your meeting last week.
DRN

The cost of my transitional proposal would be well under £100 million gross and maybe £50 million net of savings from the unemployed. That should just about enable Norman Fowler to keep to the Autumn Statement baseline.

David Willetts

DAVID WILLETTS

SECRET

010

cc DW 32
action please.

SECRET AND CMO

Prime Minister

SOCIAL SECURITY REVIEW: INCOME RELATED BENEFITS

It will be helpful to our discussion tomorrow to clarify some of the points that arise in John MacGregor's minute to you earlier today.

There is one central point about John's minute. Clearly it is helpful to put the figures of gainers and losers in cash terms. Equally we should be under no illusions that the White Paper will have to make the real position clear as well. This of course is the basis on which every outside body has produced its figures and it is also the basis on which the Select Committee on Social Services have carried out their own analysis. There is no prospect therefore of not publishing the real effect of the structural changes. I should add that even on John's cash figures there are two million pensioners who will be worse off in cash terms following implementation.

There are a number of other points that I will clearly wish to raise at our meeting. But there are several that I should correct immediately. There is no question (as paragraph 3 of John's minute perhaps suggests) of pensioners being relieved of the obligation to pay rates. Nor do my proposals have any effect on our decision to introduce a £6000 capital cut off for housing benefit. That proposal is entirely unaffected by my proposition.

On family credit I think the most important test is on the incentive to work which my preferred option improves. We should also be clear about how far family credit does extend up the income scale. Three quarters of the beneficiaries would be earning below £120 a week: 98 per cent of recipients (under either option) would be earning below £160 a week. As I think John will know, the reason for the gain for two child families earning between £120 and £140 a week (paragraph 10) is because of the indefensible present position. These are precisely the families who do particularly badly under FIS, sometimes receiving less net income than those on much lower gross earnings.

I am copying this minute to the members of MISC 111.

NF

19 November 1985 NF

31
~~cc B/UP~~
~~cc DW~~

SECRET

P 01797

PRIME MINISTER

MINISTERIAL GROUP ON SOCIAL SECURITY
Meeting on 20 November 1985
(MISC 111(85)17): INCOME RELATED BENEFITS

BACKGROUND

Following the decisions taken on pensions and deferral of implementation at the meeting of the Group on 31 October (MISC 111(85)9th Meeting), Mr Fowler is now seeking the Group's agreement to some modifications in the remainder of his Green Paper package concerning income-related benefits. It is most important that if at all possible the Group takes clear decisions on these remaining changes at this meeting so that the timetable for publication of the Social Security White Paper and Bill can be maintained. The present intention is that this should be the last meeting of the Group; that Mr Fowler presents his full revised proposals and draft White Paper to Cabinet on 28 November; that the White Paper is published in mid-December; and that the Bill is introduced in mid-January.

2. The package of changes in income-related benefits was agreed by the Cabinet at its meeting on 3 May. These consisted of the replacement of the supplementary benefits system with a new, much simpler, system of income support backed by a social fund from which discretionary special payments could be made; replacement of family income supplement with the family credit scheme paid through the wage packet; and a much simpler system of housing benefit with payments towards rates being subject to an 80% maximum; changes in the date of uprating social security benefits; and a miscellany of lesser changes. The package was intended to yield PSBR savings of £800 million in 1987/88 and £1000 million in 1988/89.

3. At their meeting on 31 October the Group agreed to defer implementation of the main package of reforms until April 1988 with certain

measures being brought forward for earlier implementation. Those measures (and other savings measures not related to the Social Security Review) were identified in MISC 120 and form part of the savings totals agreed for the first two years of the Public Expenditure Survey (1986-87 and 1987-88). In order to avoid prejudicing the further collective consideration of the Social Security Review, however, the savings figure for 1988-89, which is when the impact of the main Review measures will be felt, was identified as provisional only and published as such in the Autumn Statement. The outcome of the Group's discussion of Mr Fowler's paper will enable this provisional figure to be finalised.

MAIN ISSUES

4. Mr Fowler does not propose any major changes in the structure of the package of reforms but he considers that in order to make them generally acceptable it is necessary to make provision for a more generous family credit scheme and to minimise the number of pensioner losers. The central feature of Mr Fowler's paper is the contrast between two options. Option 1 is broadly equivalent to that developed in MISC 111 earlier in the year and endorsed by Cabinet in May. Option 2 is a modification of these proposals, reducing the savings to be achieved, but improving the distributional effects of the package, particularly for pensioners. Under Option 1 social security expenditure will be some £80 million less than the baseline figure published in the Autumn Statement as provisional pending further collective consideration. Option 2 would add about £200 million in public expenditure to that baseline in 1988-89, most of which would be spent on pensioners. In essence the paper invites colleagues to make a political judgement as to whether the benefit of fewer losers is worth the higher price to be paid in public expenditure. But in arriving at a conclusion on this point you will also want to consider the effects of the family credit element of both options on incentives to work.

(a) Gainers and Losers

5. Annex 2 of Mr Fowler's paper sets out details of gainers and

losers under both options. This is the first time the Group has seen these comparitive figures and if the timetable set out above is adhered to it will be their last opportunity to consider the overall impact of the social security proposals before they go to full Cabinet. You will want to be assured that the balance of the package is the best that can be obtained. Under Option 1 there are some 5.2 million losers of whom about 3.5 million are pensioners. There are over 1.8 million gainers, of whom nearly 600,000 are families with children and 280,000 of whom are pensioners. The high figure of pensioners losers is consistent with the general objective of shifting support away from pensioners who have been well protected by past uprating policy towards families who have fared less well in modern social security provision. Mr Fowler, however, considers the effect on pensioners of this shift is too severe. Those on supplementary benefit alone would lose about £240 million compared with now (£160 million from supplementary benefit; £80 million from the compulsion to pay 20% of domestic rates). Average losses would be nearly £3 a week. Although the transitional protection promised would mean that cash income would not fall, this would not affect new outgoings and they would have to pay 20% of domestic rates. He therefore proposes to mitigate the effects of this by increasing the pensioner's premium in income support by £2 a week over that originally planned. This would reduce the number of pensioner losers by just over a million and would mean the same amount being spent on pensioners as a group in income support as now. It would also be sufficient to cover the heating addition which now goes to all pensioners on supplementary benefit, as well as their normal scale rate.

6. You will wish the Group to take a view on whether these changes are right in terms of the overall balance of the package between pensioners, families and others and whether the benefits in terms of easier Parliamentary handling and the possible longer term electoral consequences are sufficient to justify the higher cost.

(b) Family Credit: Work Incentives

7. The other issue the Group will wish to consider in relation to

the modified package is the degree to which it deals with the problem to incentive to work. There are two ways in which incentives can be improved.

(i) by creating "clear water" between income in work and out of work (reducing the 'unemployment trap');

(ii) by ending the situation in which more effort and higher gross pay can mean lower take-home pay through the operation of marginal tax rates (the 'poverty trap')

The change from FIS to Family Credit should in principle make it possible to ease both these problems, although the extent will depend on the rate of credit set. The fact that it will be paid through the wage packet, in effect as an offset to tax and NI contributions, boosts the visible advantage of working; recipients will see their tax and NI contributions reduced or eliminated and some will receive a net payment on top. It is also a well-targeted benefit for this purpose in that it specifically helps working families. In addition there are two particular features of family credit which give it a significant advantage over the current FIS scheme. By basing assessment on net income it ends the absurdity whereby improved earnings leading to removal of benefit can leave a family worse off. By replacing benefits in kind with cash, it avoids the abrupt drop in net income at the point where entitlement to free school milk etc ceases.

8. In assessing the incentive effects of the reforms as a whole it is also necessary to take account of the changes in Housing Benefit and, to a less extent income support. The Housing Benefit changes tend to worsen the unemployment trap for most working families (because they will get less help with housing costs in work while generally protected out of work). Family credit offsets this. Thus without a reasonably generous Family Credit the unemployment trap would tend to worsen; with such a Family Credit, the overall position will improve. How much it improves depends primarily on the size of the credit. The best measure of the effect of the reforms on the unemployment trap is the individual's

"replacement ratio" ie the proportion of his income in work that he would still get out of work. A replacement ratio of 100% means that he is no worse off out of work than in work. Using this measure the tables at Annex 3 to Mr Fowler's paper contrast the effects of Options 1 and 2. They show that under Option 1 marginally more families have a replacement ratio of over 90% than under the present FIS. Under Option 2, where the family credit rate is increased by about £2 a family, the proportion of families with replacement ratios this high falls by a quarter. However, although such a change buys improvements in replacement ratios and thus helps reduce the unemployment trap, it also makes matters worse for some groups from the point of view of the poverty trap. As the tables in Annex 3 show, although the modification reduces the number of people paying marginal tax rates of 90% or more it increases the number of people paying marginal tax rates of 70%-89%, albeit by a smaller proportion. The position is thus less clear cut than it at first appears and you will wish to see that these effects are examined in discussion. As with the modification on pensioners you will wish the Group to make a judgement on whether the improvements are worth the extra expenditure (probably about £50 million of the total extra costs involved).

OTHER ISSUES

(a) Other Changes

9. In addition to the main changes set out above, Mr Fowler also includes in Annex 1 to his paper a summary of other changes he intends making to the Green Paper proposals to take account of comments received and further consideration. The principal changes involved are:

(i) Income Support: Modifying the impact on families of having a lower rate of benefit for those aged under 25 by allowing all couples with children aged 18 or over the full rate of benefit; giving limited rather than no help with mortgage interest payments; making improvements in ways of dealing with claims for income support from foreign nationals - the original intention to exclude them would be contrary to European law;

(ii) Housing Benefit: Reverting to separate rent and rates tapers rather than a single taper and also allowing local authorities to continue to operate local schemes - within their own resources - for war pensioners only instead of outright abolition of these schemes as originally proposed.

With the exception of this last item all these changes are broadly acceptable to the Treasury. I believe the Chief Secretary may wish to argue for discontinuation of local schemes.

(b) Public Service Pensions

10. An issue left over from the last meeting was what solution might be devised to prevent public servants opting out of occupational schemes in order to get a short term cash gain. This could have serious PSBR implications. The Chancellor of the Exchequer was remitted at the last meeting to take this matter further with the Ministers concerned and report back. We understand that progress has been made and there is no need to discuss the issue at this meeting but you may wish to invite the Chancellor to minute you with a proposed solution quickly. It is important to resolve this before the Cabinet considers the package as a whole, possibly on 28 November, in order to avoid time being wasted on a peripheral issue.

(c) Date for Introduction of Personal Pensions

11. Mr Fowler was asked at the last meeting to consider whether the right to a personal pension could be introduced in advance of the main package. Again you may wish to invite him to respond on this issue quickly but in correspondence.

HANDLING

12. You will wish to invite Mr Fowler to introduce his paper. Discussion might then be conveniently divided into three parts:

(i) main issues - modifed treatment of pensioners and more generous Family Credit scheme.

(ii) other secondary issues

(iii) presentation of the Review.

On (i) you will wish the Chancellor of the Exchequer to comment on the public expenditure consequences of the main proposals. The Lord President and the Chief Whip may have points to make about the contrast between the two options from the point of view of Parliamentary handling and the Chancellor of the Duchy about their wider political impact. The Paymaster General may wish to speak about the incentive effects of the options. (We understand that he discussed these points with the Employment Secretary before the latter left for his visit to the United States.)

13. On (ii) you will wish to establish whether any member of the Group has points to raise and to ensure that work on the two issues remitted from the last meeting - public sector pensions (the Chancellor of the Exchequer) and timing of introduction of personal pensions (Mr Fowler) - is in hand and that the results will be reported to you promptly.

14. On (iii) you will wish the Group to give Mr Fowler a steer on the presentational aspects of his White Paper in advance of the Cabinet meeting. In particular the Group will need to consider presentation of the distributional effects and the extent to which Mr Fowler can set the effects of the Social Security Review in the context of other initiatives. The interaction between the social security review and the local government finance studies has been recognised both in MISC 111 and E(LF). In broad terms the groups that lose under one set of proposals tend to gain under the other, but the scale of losses under the social security proposals is far greater and the precise countervailing benefits of the local government finance reforms cannot be determined until at least one year (more probably two years) after the social security changes take effect. However, the presentation of the two reforms will need to be harmonised, as Mr Fowler suggests, before the local government finance Green Paper is published in January to be available for Second Reading of the Social Security Bill. You

may wish to return to this topic at the E(LF) meeting on 12 December to approve the local government finance Green Paper. For the moment, however, what is immediately at issue is the preparation of the social security White Paper for publication as soon as possible. It would not seem appropriate for this to be used as a general trailer for the local government finance proposals, though the proposal for a minimum 20% contribution to rates is a direct link between the two, and on that particular point the social security White Paper will need to deploy the arguments of electoral accountability. Those arguments will then be developed more generally in the Local Government Finance Green Paper.

CONCLUSIONS

15. If possible, you will want the Group to take firm decisions on:

(i) the proposals for modified treatment of pensioners and more generous family credit;

(ii) the secondary changes in Annex A;

and (iii) to give Mr Fowler a steer as to the best presentation in the White Paper of the effects of his reforms on individuals.

16. If it is possible to take these decisions Mr Fowler should be invited to present both these and his revised pensions proposals to Cabinet at the earliest opportunity. A provisional place has been reserved on the Cabinet agenda for 28 November if you wished to take it then, or alternatively on 5 December. If it does not prove possible to meet this timetable, then it will not be possible to publish the White Paper this side of the Christmas Recess.

J B UNWIN

19 November 1985
Cabinet Office

18. XI PM 85

30

PRIME MINISTER 19 November 1985

SOCIAL SECURITY REVIEWS: FAMILY CREDIT

It is not very easy to design an in-work benefit which:

- helps the poverty trap (ie does not taper off too sharply);
- helps the unemployment trap (ie is worth more than being out of work);
- does not cost too much.

Norman Fowler, through no fault of his own, is impaled on this three-horned dilemma.

In addition, there is a real political problem. Our measures to save money on HB take more off families in work than Family Credit gives back to them. The result is that the Reviews don't do much to help poor working families, although that has been a main presentational theme. Without the Family Credit the position would, of course, be worse.

But Norman Fowler has not yet made out a strong enough case for spending more on the Family Credit. He is in danger of repeating the horrors of housing benefit by extending Family Credit too far up the earnings range. It might be better to offer a slightly more generous provision to very low paid families. This could taper off sharply and whilst it would not help the poverty trap it would encourage people into really low-paid work.

I recommend against agreeing to Norman Fowler's current proposal as we need more information about its impact.

David Willetts

DAVID WILLETTS

001/1281

SECRET CMO

cc B/JP

29

FROM: CHIEF SECRETARY
DATE: 19 November 1985

PRIME MINISTER

SOCIAL SECURITY REVIEWS: INCOME RELATED BENEFITS

The proposals which Norman Fowler is recommending (Option 2 in MISC 111 (85) 17) cost nearly £300 million more than those we agreed as the basis for the Green Paper (Option 1 in his paper). There were arguments put forward earlier in MISC 111 for a tougher approach than Option 1. On balance, however, it was decided to publish the Green Paper on that basis. I do not seek to re-open that compromise. But I think we must stick to our decision then and go no further than Option 1. This minute explains why.

2 This is the last chance we have to make a substantial change in the scale of the social security programme. If we get it wrong now, we will have to cope with the consequences for public spending not just in the Survey period but long into the next decade. We must not throw this chance away because of the transitional problems.

Pensioners

200m

3 Norman argues that we must spend £200 million more to reduce losers among pensioners. The major factor creating these losers is our decision that everyone should pay 20 per cent of their rates. Over 800,000 lose solely on that account. We decided that this was an essential part of our policy to increase awareness of the cost of local authority services and to influence local authority rating decisions. It would weaken the aims of this policy if we took separate steps to protect those affected.

SECRET CMO

4 Another large section of pensioner losers - almost 400,000 - are the result of our decision to introduce to housing benefit the same £6,000 capital cut-off as we are proposing for the new income support system. This is the result of a deliberate decision taken by MISC 111 earlier this year to target housing benefit more effectively. It was agreed in MISC 120 that this should be implemented in April 1987 in advance of the main review changes to meet our expenditure targets for that year. So those affected will already have suffered losses before 1988 when Norman proposes to implement his main proposals. I see no point in seeking to restore losses so long after the event.

5 The remaining losers arise as a consequence of the conclusion of the social security reviews that pensioners now are relatively favoured by the social security system compared with other groups and, following from that, the decisions we took to target resources more effectively within the housing benefit and income support schemes. We knew when we took those decisions that it would mean losers.

6. We also knew that in cash terms the losses would be mitigated by upratings; and we built generous transitional protection into the proposals - Option 1 provides for £200 million of transitional protection. Norman's paper and in particular the Tables at Annexes 2 and 3 make no allowance for the effect of upratings; or the effect of transitional protection.

7 I attach the same tables reworked on a cash basis. They take account of upratings and of transitional protection. Not only is the number of losers greatly reduced. Just as important, the size of loss faced by most individuals is much smaller. These tables show what the real position will be. I think they reveal a position which can be explained and justified to the public.

Family Credit

8 Norman also proposes to spend some £50 million more on working families with children, to improve incentives. When first discussed in MISC 111, Norman's proposals were costed at £170 million. In Option 1, the cost has increased to £195 million. I do not think a further £50 million is justified.

9 The additional £50 million will not improve the poverty trap. In one important respect it will make it worse. There will be more people facing marginal rates of over 70 per cent - the definition of the poverty trap which will be used by outside commentators. The limited improvement for the smaller numbers of people facing marginal rates above 90 per cent will not in my view make it easier to defend this result.

10 There are other problems which moving to Option 2 would exacerbate. First, on incentives, under Norman's proposals family credit will be extended well up the income scale. I understand that two child families earning between £120-£140 a week could gain an additional £10-12. I am concerned about the reaction to these gains of those earning significantly more in gross terms - say £180. Under Norman's proposals, the difference in net income between a man on £180 and one on £120 would be reduced from £30 to £18.

Option 1 30 to 20.

11 Second, we are in danger of recreating some of the problems we have faced with housing benefit reaching too far up the income scale, with a repeat in due course of all the difficulties we are confronting in putting this right. Under Norman's proposals, income support will be extended to over £160 a week for 2 child families and over £180 a week for 4 child families. These income levels are close to average male manual earnings. Option 1 is also preferable in this respect.

Conclusion

12 Norman's earlier proposals, discussed and agreed in MISC 111, involved about 3.9 million pensioner losers. Option 1 involves fewer pensioner losers than we were prepared to envisage then - some 3.5 million. In reality, allowing for upratings and transitional protection, the number of pensioner losers will be lower still - about 2 million. Many of these remaining losers will be those who stand to gain most from our policies on rate reform. This is a presentable package. Option 2 goes further than is necessary, and certainly further than is desirable.

13 I am copying this minute to members of MISC 111 and to Sir Robert Armstrong.

John MacGregor

JOHN MacGREGOR

OPTION 1: SCHEME WITH UPDATED FIGURES ON LINES PREVIOUSLY CONSIDERED BY MISC 111

ALLOWING FOR UPRATING AND TRANSITIONAL PROTECTION

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COMBINED EFFECT OF STRUCTURAL REFORM OF INCOME-RELATED BENEFITS AND CONTRIBUTION TO RATES

ALL INCOME RELATED BENEFITS: GAINS AND LOSSES BY CLIENT GROUP (000)

Client Group	Gain £5+	Gain £4-5	Gain £3-4	Gain £2-3	Gain £1-2	Gain <£1	No Change	Loss <£1	Loss £1-2	Loss £2-3	Loss £3-4	Loss £4-5	Loss £5+	Total Gainers	Total Losers
Pensioners age 80+	20	10	30	70	150	100	120	240	50	10	10	10	10	370	330
Pensioners age 60-79	60	30	30	100	270	240	940	930	400	120	80	20	100	720	1640
Sick or Disabled	110	10	40	40	50	20	30	10	20	*	*	*	10	260	30
Single parents	220	10	10	30	20	110	50	40	90	10	*	*	40	390	190
Couples with children															
- in full-time work	180	30	30	30	40	20	20	10	20	10	10	*	20	310	80
- not in full-time work	50	130	60	180	50	20	20	10	30	*	*	*	10	470	60
Others															
- in full-time work	10	*	*	*	10	*	10	20	50	50	10	20	40	20	190
- not in full-time work	20	160	10	20	370	160	460	120	170	10	10	20	60	730	390
Total	650	370	200	450	950	680	1640	1370	840	220	120	80	290	3290	2920
All pensioners	70	40	60	160	420	340	1060	1170	450	130	80	30	110	1100	1980
All couples with children	230	160	80	200	80	30	40	20	50	20	10	10	30	780	140

Note

Gains/Losses up to 50p included in 'No Change' column.

OPTION 2: SCHEME WITH IMPROVEMENTS TO FAMILY CREDIT AND TO PENSIONER PREMIUM IN INCOME SUPPORT PROPOSED IN MAIN PAPER ; ALLOWING FOR UPRATING AND TRANSITIONAL PROTECTION

SECRET CMO

COMBINED EFFECT OF STRUCTURAL REFORM OF INCOME-RELATED BENEFITS AND CONTRIBUTION TO RATES

ALL INCOME RELATED BENEFITS: GAINS AND LOSSES BY CLIENT GROUP (000)

Client Group	Gain £5+	Gain £4-5	Gain £3-4	Gain £2-3	Gain £1-2	Gain <£1	No Change	Loss <£1	Loss £1-2	Loss £2-3	Loss £3-4	Loss £4-5	Loss £5+	Total Gainers	Total Losers
Pensioners age 80+	50	40	60	130	170	70	80	170	30	10	10	10	10	530	230
Pensioners age 60-79	110	40	150	390	640	600	610	380	200	60	40	30	90	1930	800
Sick or Disabled	150	30	40	30	50	10	20	*	10	*	*	*	*	290	20
Single parents	230	10	10	30	20	110	50	40	90	10	*	10	40	410	180
Couples with children															
- in full-time work	230	20	40	30	40	10	10	10	20	10	10	*	20	370	70
- not in full-time work	100	100	50	190	30	20	20	10	30	*	*	*	10	480	50
Others															
- in full-time work	10	*	*	*	10	*	10	20	50	50	10	20	40	20	190
- not in full-time work	20	150	10	20	370	160	460	120	170	10	10	20	60	730	390
Total	880	390	350	820	1320	990	1250	750	580	150	80	90	270	4750	1910
All pensioners	160	80	210	530	810	670	690	550	220	70	40	30	110	2460	1020
All couples with children	330	120	80	220	70	30	30	20	40	10	10	10	20	840	120

Note

Gains/Losses up to 50p included in 'No Change' column.

SECRET

average earnings.

males.

manual	£163·60
non-manual.	£225·00
all	£192·40.

April 1985 (published in New Earnings Survey Oct 85)

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DCAAWE

PRIME MINISTER

MISC 111 : SOCIAL SECURITY REVIEW

You should know about a "non-conversation" which I had today with Ken Stowe about this meeting.

The papers make clear that the choice is between:

> "Option 1" - when expenditure would be some £80 million below the Autumn Statement base line figure; and
>
> "Option 2" - when expenditure would be some £200 million above base line.

Mr. Fowler recommends Option 2. The Chief Secretary backs Option 1.

Ken Stowe has warned Mr. Fowler that he may not get much support from you in requests for extra expenditure so soon after the public expenditure figures have been finalised. Ken has, rightly, discerned from your Weekend World appearance that the emphasis has to be on public expenditure prudence. Nevertheless, the enormous number of losers under Option 1 present real political difficulty*.

Ken Stowe is therefore ~~keen~~ going to explore tonight with Mr. Fowler the following approach:

> Keep to base line levels of expenditure while maintaining Option 2 levels of benefit by finding £200 million compensating savings from elsewhere within the Department's £41 billion programme.

---

* Understandably, Ken Stowe says that Mr. Fowler will resist to the end publication of only the Chief Secretary's tables of losers and gainers attached to his minute. That is an overtly tendentious presentation. Maybe, he would accept publication of both sets of tables. (Indeed, the more tables presented obscuring the gainers and losers equation, the better.)

Ken does not know whether his Secretary of State will buy this approach, though he is confident that sufficient savings could, if the will was there, be secured.

Even if Mr. Fowler is persuaded to put forward this approach, the Chief Secretary will not, if he is wise, buy it at tomorrow's MISC. First he should

- get his officials to check that savings are genuine; and

- get the Chief ~~Secretary~~ Whip's's assurance that any legislation necessary to secure them will be carried through the House.

I do not know how much of this will come out at tomorrow's MISC 111. But if there is an impasse between the DHSS and the Treasury you might wish to suggest the "compensating savings approach" sketched out above. But it will be essential that the two conditions (genuine savings and acceptability to Parliament) are met.

N.L.W.

(N.L. Wicks)

19 November 1985

SE

cc BG

|| B/f tomorrow pse with Efficiency Unit comments. DRN 21/11

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

David Norgrove Esq
Private Secretary
10 Downing Street

received 21/11

18 November 1985

Dear David

JOINT DHSS AND DEPARTMENT OF EMPLOYMENT STUDY OF LOCAL OFFICE NETWORKS

Thank you for your letter of 30 September. We welcome the suggested change to the terms of reference of the joint study and will amend them accordingly.

As to the conduct of the study, DHSS and DE Ministers are anxious to move quickly to meet the timetable set. The jointly chaired Steering Committee referred to in my Secretary of State's minute of 19 September has already been set up, the joint study team has already been appointed to do the necessary preliminary work. Ministers consider it essential, if the study is to result in workable proposals, for the study team to keep in close contact with operational and policy developments in both Departments. The follow-up work on the Social Security Review and the development of the operational strategy for computerising the social security system are major areas which will influence and be influenced by the study as it progresses. They do not wish to find themselves in a position where the outcome of the study is incompatible with major developments elsewhere with all the difficulties and delay which this could entail. It is for this reason that they see advantages in tying the study in to the existing management structures. The Joint Steering Committee will report to the Social Security Management Board, chaired by Sir Geoffrey Otton, Second Permanent Secretary, and he, aided by the Board Members (which include a Deputy Secretary from Department of Employment), will be responsible for recommending how the service can be improved for the taxpayer, the customer and the staff.

We are indeed anxious that the best methods and controls developed by the Efficiency Unit through the Scrutiny Programme should be applied by the study team. Its proposed working methods already reflect the guidance issued by the Unit on the conduct of scrutinies. We would be very willing to take this further and suggest that Ian Beesley, the Head of the Efficiency Unit, should become a member of the Steering Committee.

The outline proposals which the study team will submit by the end of March 1986 are likely to cover a range of costed options and will need to be considered by Ministers collectively. In our view, it would be better to appoint an action manager to oversee implementation in both departments, at the stage when Ministers have decided upon the preferred option.

E.R.

I am copying this letter to Leigh Lewis (Department of Employment), Rachel Lomax (HM Treasury), Mike Bailey (Minister for Local Government, Department of the Environment), Paul Thomas (Minister for the Arts), and to Sir Robin Ibbs.

Yours
Giles

GILES DENHAM
Private Secretary

SOCIAL SERVICES: MISC 111 Review: Pt 3

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cc DW.

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10 DOWNING STREET

From the Private Secretary

14 November 1985

MISC 111

Your Secretary of State with the Minister of State for Social Security yesterday saw the Prime Minister to discuss the proposals he would be putting to MISC 111. The discussion centred on the number of gainers and losers under the proposals.

The Prime Minister suggested that it would be right, if there was a need to reduce the number of pensioner losers, to look for savings elsewhere in the social security programme, for example, by reducing the extent of support given to younger people. Your Secretary of State undertook to look at this.

The presentation in the proposed White Paper of the figures for gainers and losers was also discussed. It was agreed that your Secretary of State would consider this further, taking into account the possibilities for, in some way, bringing together the distributional impact of the proposed changes to housing support and the proposals to be made in the Green Paper on rates reform. It would also be worth considering whether the distributional tables should take account of assumed up-ratings between now and April 1988, and of possible changes in tax allowances. The Chancellor and the Secretary of State for the Environment should be consulted.

David Norgrove

Tony Laurance, Esq.,
Department of Health and Social Security.

SMH.

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PRIME MINISTER

MEETING WITH NORMAN FOWLER

There is no alchemy whereby we can save money on social security without losers. It is sensible politics to consider how to fine-tune these losses but there can be no question of undermining the savings from the reviews.

Norman Fowler's note contains no expenditure figures because apparently he wants to talk about the politics without going behind the Chancellor's back on expenditure. But we need a costing of his various options, broken down into their components.

People in Work

Norman Fowler is worried because although family credit helps people in work its effects are in some cases more than offset by housing benefit losses. Provided we can find offsetting savings there is a case for increasing the family credit as it only goes to the deserving poor - family men going out to work on a low wage. Housing benefit by contrast is a pretty indiscriminate subsidy. Moreover, the family credit was one of the better received parts of the review.

Here is a possible shopping list of further reductions to finance increases in the family credit:

- reduce the family premium under the income support scheme. This helps with the unemployment trap.

- further reduce income support for people under 25 without children. This is already being cut but there is little sympathy for these people and again it would increase incentives for them to find work.

- further reductions in single payments from the social fund.

David Young is worried about the family credit because of two features:

(i) Family Income Supplement is structured so that you can get a big sum for having one child with much smaller modest additions for extra children. Family credit is designed so as to be more sensitive to the number of children.

(ii) Supplementary benefit pays more if your children are older. Until this year FIS did not. The family credit deliberately mimics the structure of supplementary benefit so as to keep an incentive to find work whatever the age of your children.

David Young rightly points out that this means that if you have a small family or very young children you might do less well under family credit than under FIS. But it seems to me that the family credit proposals still have a sound logic.

Old People

Pensioner losers are very tricky politically. About 3½ million old people get housing benefit and inevitably they are all affected by the 20% rule. There are several arguments against major concessions here:

- old people get about half of all benefits so if they are not to be affected by the reviews we would seriously jeopardise our scope for savings.
- the reviews stick to all your pledges for old people and that is the important point to get over in presenting them.
- it would threaten the crucial principle that everbody must pay some rates.

Presentation

The changes we are discussing are largely due in April 1988. It is unfortunate to get into a public row about them two and a half years in advance. Norman Fowler's problem is that he is committed to providing some figures in his White Paper but you could ask him about the possibility of reducing the impact by

- swamping the reader with figures

- including the effects of uprating the basic benefit rates, increasing tax allowances, (especially the age allowance) and the gains for the single elderly from rate reform. With all this going on it will be more difficult for the critics to focus on the bad bits.

David Willetts

DAVID WILLETTS

12 November 1985

MJ2BIP

PRIME MINISTER

MEETING WITH MR FOWLER

You are meeting Mr Fowler, at his request, at 1130 tomorrow morning for three-quarters of an hour to discuss the next steps on the Social Security Review. He is bringing Mr Newton and is also content for David Willetts to attend.

A note by the Policy Unit and a DHSS minute are below.

Mr Fowler wants to make sure you understand the political difficulties of the proposals he is being pushed into making. You will not want to show your hand. But you could say to him that the figures for gainers and losers have been shown to MISC 111 more than once, and most recently at their meeting on 15 October. You are not willing to see the public expenditure figures threatened when the ink on the autumn statement is not yet dry.

RHHamilton

Duty Clerk.

David Norgrove
12 November 1985

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CC DW
BL up

SECRETARY OF STATE FOR SOCIAL SERVICES

PRIME MINISTER

SOCIAL SECURITY REFORM

I shall need to put to MISC 111 and Cabinet the figures which illustrate the effect on individuals of our reforms. The figures (which we are committed to publishing in the White Paper) will stand until we implement the reform in April 1988.

Before committing myself on what advice to give my colleagues, I would like to discuss with you informally the options open to us and their political consequences.

The central problems are basically these. One effect of the changes at present is to create some major losses for pensioners. A second problem is that the impact of the housing benefit changes could worsen incentives to work. I have therefore examined both the position of pensioners and family credit - while at the same time endeavouring to meet my commitment to a savings target for the review amounting to £1 billion for 1988/89.

To illustrate the problem and possible options, I have shown in the tables attached the number of gainers and losers arising under three possible options for reform:

<u>Option A</u> is based on the provision in the Autumn Statement (which is subject to adjustment in the light of decisions yet to be taken on the Review);

<u>Option B</u> provides for a higher rate of adult credit in the family credit scheme and adds £1 to the pensioner premium in income support. Pensioners are also exempt from paying 20 per cent of their rates, which greatly reduces the number of pensioner losers without increasing public expenditure. Fewer families than now have out-of-work

E.R.

incomes within 90 per cent of their work incomes; and the number of losers among FIS families is reduced by about 20,000. Pensioner losers are reduced to below 2 million and the number losing over £5 is halved;

<u>Option C</u> assumes the same level of family credit as Option B but adds a further £1 to the pensioner premium in income support. Pensioners would still have to pay 20 per cent of their rates; and about 2.3 million of them will lose.

In the tables only significant gains and losses (more than 50p per week) are counted.

The political sensitivities of all this are obvious and I have not yet broadened the discussion outside a small circle of officials in my Department. I shall want to go through the issues with the Chancellor and then present them to MISC 111. But before doing so I wanted to be sure that you were fully seized of what is at stake.

12 November 1985 N F

GAINS AND LOSSES: ALL INCOME-RELATED BENEFITS

000s

Client Groups	Option A		Option B		Option B	
	Gainers	Losers	Gainers	Losers	Gainers	Losers
Pensioners	300	3,460	1,100	1,900	870	2,300
Sick/Disabled	180	90	210	70	230	70
Single Parents	250	250	270	240	270	240
Couples with children	600	260	670	200	670	200
(of whom:						
In f/t work	230	120	290	100	290	100
Not in f/t work	370	140	380	100	380	100)
Others	240	980	540	1,040	540	1,040
TOTAL	1,570	5,040	2,790	3,450	2,580	3,850

Option A: based on the provision in the Autumn Statement;

Option B: adds £2 to adult credit in family credit;
adds £1 to pensioner premium in income support;
excludes pensioners from paying 20% rates;
same rate of income support for all couples aged 18+;

Option C: adds £2 to adult credit in family credit;
adds £2 to pensioner premium in income support;
pensioners pay 20% rates;
same rate of income support for all couples aged 18+.

Mrs Ryder

Mr Norgrove

Fixed for 11.30.
CR.
11/11

10 DOWNING STREET

PRIME MINISTER

Mr. Fowler has asked to come and see you before the next MISC 111 to discuss with you his ideas for social security reforms.

The only time possible next week is 1130-1215 on Wednesday. Shall we fit him in then?

Yes md

N.L.W.

8 November 1985

cc Mrs Ryder

010

24

NBPM.

Treasury Chambers, Parliament Street, SW1P 3AG

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

30 October 1985

Dear Willie,

SOCIAL SECURITY

Following our discussion in the Group this morning, Norman Fowler and I have reached an agreement on this programme. I summarise the position in this minute. As for all our MISC 120 deliberations, the figures are in terms of the social security programme excluding local authority relevant spending. Sums for the latter will be added before the Autumn Statement, in the usual way, with appropriate rounding of the resulting totals.

1988-89

For 1988-89 we have agreed that (subject to additions for estimating changes, as mentioned below) the Autumn Statement figure should be the baseline plus a sum calculated by reference to the estimated amount which would be needed for a full 3¼ per cent prices uprating in that year. Officials have now confirmed that £380 million (as in paragraph 6 of Norman's memorandum before us this morning) is a reasonable estimate for this addition.

It is understood between Norman and me that the figure for 1988-89, including further estimating changes for that year, is without prejudice to two issues:

(a) whether a full prices uprating of benefits will in the event be agreed for 1988-89. Use of the inflation assumption in arriving at the Autumn Statement figure is purely to help meet Norman's presentational problems in the run up to the Review announcements; and is not to be regarded as acceptance of any principle on the point;

(b) the scale of the additions or savings on the social security programme, in 1988-89 or later years, which will arise from the Review measures. MISC 111 will be deciding later on the structure and scale of those measures.

To reflect point (b), the Group agreed this morning that the 1988-89 programme total would be annotated in the Autumn Statement to indicate its provisional nature. Subject to Norman's views I would suggest the following:

"The provision for 1988-89 is subject to adjustment in the light of decisions yet to be taken on the social security Review."

Norman has suggested that the public presentation of this approach may need changing to avoid revealing in the Autumn Statement itself the intention to postpone implementation of main Review measures to April 1988. This does not however affect his agreement to the figures themselves with the 1988-89 figure alone being subject to review.

1986-87 and 1987-88

For the record, I note here that the further reductions which we agreed for those years this morning are:

1986-87	1987-88
91	278

These savings are secured as described in paragraph 5 of Norman's memorandum, with a further £10 million in 1986-87, which Norman indicated that he would hope to find by implementing the mortgage interest restriction in supplementary benefit in October 1986.

There will be estimating changes to be added in both 1986-87 and 1987-88 as I indicated this morning.

Programme figures and further estimating changes

Again for the record, this morning's decisions leave us for the moment with programme figures of:

	1986-87	1987-88	1988-89
Survey baseline	41547	43553	44642
net additions after savings measures	+891	+181	+380
totals	42,438	43,734	45,022

In our further discussions Norman and I agreed that the Autumn Statement should include the most realistic estimates available for expected spending on the social security programme. Our officials are working urgently on the latest figures, with the aim of providing revised estimates in time for the MISC 120 report to Cabinet, which will need to be finalised by the end of this week.

The estimating changes - to be added to the underlying figures now agreed as above - will need to cover two factors; first, the latest trend of spending on individual benefits, including a steep rise in Supplementary Benefit single payments and second, possible adjustment of underlying economic assumptions for the future, on unemployment for example.

I am sending copies of this minute to other members of MISC 120, to Norman Fowler and to Mr Unwin of the Cabinet Office.

Yours ever,

JM

JOHN MacGREGOR

SECRET

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PRIME MINISTER

30 October 1985

PENSIONS

Savings on SERPS

Norman Fowler has changed his package slightly.

He was proposing to meet the cost of inflation-proofing for contracted-out schemes whenever inflation rose above 5%. Now he wants to be more generous, and meet the costs whenever inflation rises above 3%. He proposes to offset this reduction in savings by lowering the SERPS pension from 25% of earnings to 20%. He still intends to save money by giving widows only half their husband's pension.

Here are the crucial figures:

SAVINGS ON SERPS £bn

	2013	2023	2033
Full cost of SERPS	9.6	15.7	23.1
Savings from complete abolition	2.5	7.4	16.7
Savings under proposals of 11 October 1985	2.9	5.9	9.5
Savings under latest proposals	2.3	5.7	10.3

SECRET

Breakdown of savings under latest proposals:

	2013	2023	£bn 2033
Reduction from 25% of earnings in 20 best years to 20% of life-time earnings	1.5	4.0	8.0
Half inheritance for widows	0.8	1.4	1.7
3% inflation-proofing	0	0.3	0.6

Between what earnings bands?

On what basis are they revalued?

I recommend that, rather than delaying further, MISC 111 should go ahead with these proposals.

Contracting-out

Norman Fowler's proposals on contracting-out will:

i. Give everyone a right to take out a personal pension with a contribution from the employer, and make it simple to exercise this right.

ii. Make it simpler to contract-out from SERPS into a normal occupational scheme.

iii. Give an additional 2% National Insurance rebate for new contracted-out schemes.

This sounds fine, but:

- Will it encourage employers to set up new blue-collar schemes instead of creating industrial harmony by allowing blue-collar workers to join existing white-collar schemes?

- Will the new inflation-proofing arrangements for occupational pensions also cover new personal pensions? (If not, as Norman Tebbit pointed out, no-one will take out a personal pension.)

- Shouldn't people in private schemes be told the value of their pension fund, as well as their pension rights, so that they realise what they are worth? (There is no reason for identifying either value or rights in the case of SERPS, because people in SERPS are paying for present pensions, not saving for their own.)

- Norman Fowler is envisaging implementing most of these proposals in 1988. But can the right to opt out from SERPS into a personal portable pension be implemented earlier?

I recommend that you accept the proposals on contracting-out if Norman Fowler can satisfy you on these points.

Presentation

The danger is that, after all the detailed discussions, the SERPS proposals will be represented as technical changes with no purpose except saving money.

I recommend that you end the discussion by reminding colleagues that the SERPS proposals can be an Election winner:

- People want their own pensions.

- They don't want paper promises drawn on future taxpayers.

- The aim is to encourage everybody to save for his own retirement.

David Willetts

DAVID WILLETTS

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P 01761

PRIME MINISTER

MINISTERIAL GROUP ON SOCIAL SECURITY:
Meeting on 31 October
Flag A - (MISC 111(85)15 and MISC 111(85)16) - Flag B.

BACKGROUND

The main purpose of this meeting is to consider Mr Fowler's revised proposals on SERPS. You will recall that at the Group's meeting on 15 October Mr Fowler made an initial report on the reactions he had received, and suggested ways in which the Green Paper should be adjusted. In particular, he proposed that SERPS should be modified, rather than abolished, and that the main implementation date for the social security reforms should be April 1988 rather than April 1987. The Group did not finally agree either of these proposals but asked Mr Fowler to do more work on both of them.

2. He is now reporting back on this, and it is most important that if at all possible the Group take clear decisions on pensions policy tomorrow so that preparation of the legislation can go ahead at full speed. (Indeed the issues are so technical and complex that if you do not reach at least broad decisions tomorrow there must be a risk of not being able to get that part of the legislation drafted and through Parliament in the 1985-86 Session). The Group will also be able to take note of the overall position on timing, though Mr Fowler's list of candidates for implementation earlier than 1988 is currently under discussion in the Star Chamber and should not be discussed in detail in MISC 111 at this stage (see further paragraphs 5 to 8 below).

MAIN ISSUES

Pensions

3. Mr Fowler's paper MISC 111(85)15 recognises that the twin policy

aims on pensions must be to reduce the cost, and attractiveness, of SERPS, and to make contracting out (and especially personal pensions) a more attractive option. At the last meeting the Group were not convinced that the balance of the alternative package Mr Fowler then proposed was right. It still left SERPS looking too attractive, and personal pensions not attractive enough. And the treatment then proposed for the benefits under SERPS meant that savings had to be found by transferring a substantial amount of the cost of inflation-proofing to the private sector which affects the PSBR through the contracted-out rebate.

4. Mr Fowler's new package, agreed with the Chancellor of the Exchequer, is addressed to all these problems.

(a) SERPS

The previous proposals included basing SERPS on average life-time earnings (instead of the best 20 years, as in the existing scheme), and reducing the proportion of a pension inherited by the surviving spouse to 50 per cent (from the existing 100 per cent). These proposals are retained, but it is now proposed that the rate of the pension should be reduced to 20 per cent of the relevant earnings, so that what is now proposed is 20 per cent of average life-time earnings instead of the existing 25 per cent of the best 20 years.

The reduction in the rate to 20 per cent, which applies equally to the calculation of guaranteed minimum pensions under contracted-out schemes, means that the cost of inflation proofing up to 3 per cent can now be moved on to contracted-out schemes without requiring any increase in the rebate.

(b) Encouraging Contracting-out

The proposed reduction in the rate of SERPS pensions, described above, also makes room for a special bonus of 2 per cent on the contracted-out rebate (see paragraph 7 of MISC(85)15). This bonus is the key new proposal that Mr Fowler is making to encourage contracting-out. It would apply to the new occupational schemes and personal pension holders, and would run for 5 years. This is a simple, clear and visible way of meeting the Group's wish to make contracting-out more attractive, though it should be noted that there is no way of ensuring that employers put the extra money into pensions rather than anything else.

The remaining elements of Mr Fowler's package are not substantially changed from those he put to the Group at the last meeting, when they seemed generally welcome. The most positive proposal is doubtless that every employee should have a right to opt for a contracted-out personal pension. However, whatever declaratory rights of this kind are conferred, the relative attractiveness of buying one's own pension or relying on the State scheme will be dictated by the specific measures discussed above.

(c) Savings and transitional questions

The savings from modifying SERPS in these ways are about £10 billion in 2033, which is beyond the target of £9.5 billion that you set at the last meeting and should be an adequate demonstration of the government's determination to tackle the emerging cost of SERPS. There is, however, an important transitional and potentially controversial point embedded in these costings to which I should draw your attention. It is to do with the rights built up before 1988 by people retiring after the end of the century. (If they retire before the end of the century they will continue to enjoy full SERPS benefits on Green Paper lines). In the context of the abolition proposals then being advanced the Green Paper said that "all those who have already contributed to SERPS will also have their accrued rights preserved until they retire". It will doubtless be argued that people contributing to SERPS between 1978 and 1988 should have their full entitlement for those years when they retire in the

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next century. The problem about this is that the entitlements presently earned at a rate of 1.25 per cent a year are designed as part of a system that works on the "20 best years" approach. To preserve the entitlements literally conferred by the present legislation for years up to 1988 and then to switch to a lower rate applied to average life-time earnings would lead to very generous pensions for that group when they eventually retired. Honouring literal pre 1988 entitlements is estimated to cost £4.2 billion in 2033. A cost of that order would seriously prejudice the whole exercise and the only sensible way to deal with the matter is as Mr Fowler describes at the end of paragraph 3 of MISC(85)15. Nevertheless, although the government's case on this is a logical and persuasive one that Mr Fowler should be able to present effectively, the language of the Green Paper seems bound to lead to accusations of broken promises, and very great care will he needed in its presentation.

(d) Public Service Pension Schemes

The papers before the Group do not mention this, but you should know that there is a very important issue here, which the Chancellor of the Exchequer is briefed to raise. Put briefly, there would be significant public expenditure implications if the new right to a personal pension led to many people in public service pension schemes contracting-out and if public service employers were pressured into contributing at a higher rate than the normal rebate. It is important that this gets resolved before Cabinet considers the White Paper, since the Defence and Education Secretaries are both much concerned with this. The Chancellor will propose that he will prusue the matter with Mr Fowler outside the meeting: that is clearly the best way to proceed, but it is important that they report back to MISC 111 on 20 November.

(e) Consultations with Industry

Mr Fowler has met the CBI representatives of the pensions industry. They have emphasised that more than simply modifying SERPS will be required to encourage a significant shift to contracting out. They consider the rules and administrative arrangements governing contracting out would need to be made simple and an incentive provided. The Social Services Secretary believes as a result of these talks that there will be support for modifying SERPS but reservations about the reqirement to inflation proof GMPs and some resistance to giving everyone the right to a minimum pension. No new arguments to support this view were advanced and Mr Fowler considers that the Government should not be deflected by these reservations from what is a central plank in the pensions reform package.

Other Social Security Green Paper Proposals

5. Mr Fowler has not so far set out for the Group his proposals on the non-pensions aspect of the Green Paper. This means that the Group have not so far been able to take a view on the reform package as a whole. We know, however, that in a number of cases Mr Fowler is proposing changes from the measures set out in the Green Paper in order to reduce the number of losers and make the proposals more presentationally acceptable. We do not yet have details, but the Treasury believe that the new proposals on Family Credit and Income Support are markedly more generous than those in the Green Paper and would add substantially to the costs of the reform.

6. The position is complicated by the Star Chamber. In order to complete its assessment of the scope for savings, the Star Chamber has had to make assumptions about the social security figures and an agreement was in fact reached with Mr Fowler this morning which, though not eliminating the additional bids entirely, would deliver large reductions and largely meet the Star Chamber's own targets (for example, Mr Fowler has now accepted a reduction of £600 million in the bid for the third year). But the Lord President has been particularly careful to preserve

your position and that of MISC 111. Accordingly, the Lord President proposed, and Mr Fowler agreed, that the figures for the third year (1988-89) should be marked as provisional in the autumn statement and subject to the final outcome of the social security review, so that any further changes decided by MISC 111 or the Cabinet can be reflected in the detailed figures that will appear in next Spring's Public Expenditure White Paper.

7. Some of the reductions agreed by Mr Fowler with the Star Chamber involve bringing forward selected review measures to April 1987 (as was originally intended). These are included in and entirely consistent with the list of measures to be brought forward that are set out in paragraph 4 of MISC 111(85)16. I suggest, therefore, that you do not at this meeting seek to discuss these but simply note that some of them have been taken into account in the Star Chamber and that MISC 111 will need to return to them at its next meeting.

8. A further meeting of MISC 111 has been arranged for 20 November. It is most important that Mr Fowler should produce for that meeting a paper on the non-pensions elements of his package so that the Group can take a proper overall view of the reform. I suggest you ask him to do this. Mr Fowler ought in that paper to show clearly the differences between his new proposals and those approved by MISC 111 in the summer, together with their financial and distributional consequences. That meeting will also provide an opportunity to consider further the prospective timing of the Social Security White Paper and its relationship to the handling, substance and timing of the proposed Green Paper on Local Government Finance, on which substantial further progress should have been made by then.

HANDLING

9. I suggest you open the meeting by saying that the main purpose is to reach decisions on pensions, so that work can proceed on the Bill and the White Paper. You may also wish to mention that the Star Chamber has been considering some of the non-pensions aspects (you may wish to

invite the Lord President to comment briefly on this), but that you intend to use the meeting on 20 November to take an overall view of the whole package including non-pensions matters and alongside the decisions that will by then have been taken on the local government finance studies.

10. You will then wish to invite Mr Fowler to speak to his paper on pensions. The Chancellor of the Exchequer will wish to speak next, and you will wish to invite the Trade and Industry Secretary to speak on the acceptability of the present package to the pensions industry. The Chancellor of the Duchy of Lancaster was especially concerned with the balance of the package at the last meeting and you may wish him to comment on the revised proposals from that point of view.

11. If the question of pre-1988 entitlement does not emerge naturally you may wish to ask Mr Fowler to comment particularly on how he intends to handle that aspect.

12. You will then wish to invite Mr Fowler to introduce his second paper on advance review measures and timing, though you will not want the meeting to get into a detailed discussion of the terms he suggested might be brought forward. (These are tied in with the Star Chamber and MISC 111 can take stock on 20 November). The essential point is whether the Group should now accept that April 1988 must be the realistic start date for most of the review measures, given the legislative timetable that is now emerging and the difficulties foreseen with local authorities. There now seems virtually no room for manoeuvre on this, but you will wish the Lord President and the Chief Whip to comment.

CONCLUSIONS

13. You will wish to ensure that:

(i) the Group takes clear decisions on Mr Fowler's latest proposals for modifying SERPS and encouraging contracting-out;

(ii) the Chancellor of the Exchequer and Mr Fowler are put on notice to report back on 20 November about public service pension schemes;

(iii) the Group take note of the position that is developing on timing, with April 1988 being the main implementation date, and that it will consider the presentation and content of the overall package at the meeting on 20 November;

(iv) that, in particular, Mr Fowler is asked to produce for the 20 November meeting a clear account of how he proposes to adjust the Green Paper proposals on non-pensions matters, including their financial and distributional consequences.

J B UNWIN

30 October 1985
Cabinet Office

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I really must discuss this before deciding. The matter is of considerable moment.

PRIME MINISTER

25 October 1985

SERPS

I attach two notes on SERPS. I am afraid that they are rather technical, but this is an inherently technical subject.

How SERPS Works, based on a Treasury note, attempts to summarise SERPS in two pages.

The second note is about changing SERPS. DHSS, Treasury, and the Policy Unit have been working away on various options since the last MISC 111 discussion. It would be very helpful to have a preliminary reaction from you now, before concrete proposals are put to MISC 111 next Thursday.

~~Any preliminary views may help to close off blind alleys.~~

David Willetts

DAVID WILLETTS

Prime Minister

Yes – it would be useful to have a preliminary reaction from you. But I am puzzled by the figures for total savings on page 3: the changes listed here seem to have very little different effect from those proposed by Mr Fowler at Misc 111 on October 15. To be pursued on Monday.

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CHANGING SERPS

Saving Money by Reducing the Value of the Additional Component

At present, SERPS gives you a pension worth 25 per cent of your earnings, accruing over the 20 best years. It is likely that Norman Fowler will propose reducing it to 20 per cent of earnings, accruing over a working life - though with protection for mothers not earning, and the disabled. This is tougher than the option he put to MISC 111, which kept 25 per cent accrual. The savings would be:

		£bn
2013	2023	2033
1.5	4.0	8.0

These are the biggest single savings on SERPS, and I support them for that reason. But you should be aware of one potentially tricky political problem.

In the spring we were worried about people retiring before the year 2000, and successfully resolved that problem by keeping full SERPS for them. But we have now hit a snag affecting people who retire after that, because the Green Paper said we would honour everyone's SERPS entitlements that have already accrued. But if we change to the new system, we can only achieve large savings if SERPS rights for people retiring in the next century are accrued from 1978 at the new slow rate. One way round this would be to introduce an elaborate two-speed system giving full accrual for the period 1978-88, and a much slower rate of accrual thereafter so as to get to the same end point. But that would be an administrative nightmare. My recommendation is that we accept that the slower rate of accrual of SERPS for people retiring in the next century will apply back to 1978.

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The second main proposal for savings is that widows and widowers should inherit half the pensions of their spouses, rather than the full pension as at present. This would match normal occupational provisions, and the indications are that the pension lobby would accept this. Widows and widowers, of course, retain their rights to their own pension. This would save:

Perhaps people could have the option to buy additional rights within SERPS for widows. This might help reduce criticism.

2013	2023	2033 £bn
0.8	1.4	1.7

A more generous provision for widows and widowers of two-thirds of earnings would be politically easier, but reduce the savings to:

2013	2023	2033 £bn
0.6	0.9	1.1

Shifting some of the Burden of Price Protection to Companies

At present the burden of price protecting the GMP after retirement falls on us. We could save money by giving private schemes responsibility for financing the first 3 per cent of inflation-proofing of the contracted-out GMP. This would save:

2013	2023	2033 £bn
--	0.3	0.6

These savings look so small because they are on top of the savings from lowering the GMP, and the two effects interact. We could achieve larger savings of:

2013	2023	2033 £bn
0.1	0.5	0.9

by putting on companies the burden of meeting the first

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5 per cent of inflation. This would be better, but risks a row with the CBI, and their complaints about the extra burden on contracted-out firms would tend to undermine our efforts to make contracting-out more popular.

Total Savings

This gives a package consisting of slowing the rate of accrual, half inheritance for widows, and 3 per cent inflation-proofing of GMPs by companies. It generates useful savings:

	2013	2023	£bn 2033
Current forecast cost of SERPS	9.6	15.7	23.1
Savings from possible package *	-2.3	-5.7	-10.3
Revised cost of SERPS	7.3	10.0	12.8
* compared to savings proposed by Mr Fowler on October 15	-2.9	-5.8	-9.5

But this exercise has never been just about savings. The crucial objective is to encourage private pensions. Making SERPS less generous helps. So do the other possible measures discussed below.

Administrative Incentives to Contracting-Out

At the moment, any pension schemes is closely scrutinised by the DHSS and the Inland Revenue, to check it meets a complicated set of conditions, before it is allowed to contract-out. The DHSS and Revenue are working on a a simpler, off-the-shelf package to make it easier to contract-out. This fits neatly with our initiative to ease burdens on industry.

Money purchase schemes are to be allowed to contract-out for the first time, and again the objective is to establish a streamlined procedure to cut down work for employers and speed approval by the Revenue and the Occupational Pensions Board.

Financial Incentives to Contract-Out

At the moment, the contracted-out rebate is 6.25 per cent. The Government Actuary is likely to recommend in his quinquennial review that the rebate be reduced to about 5.5 per cent in 1988, because funds are making such a good return on their assets, and so smaller extra contributions are needed to meet their pension commitments. Cutting the value of SERPS entitlements will also lead to a reduction in the contracting-out rebate, as companies need to fund a less generous pension. On the other hand, the shift of the burden of inflation-proofing pensions to companies will require higher contributions from them, and so an increase in the rebate. The overall effect is likely to net out at a contracted-out rebate of about 6 per cent.

We should be trying to increase the contracted-out rebate as far as is politically sustainable to give companies and individuals a greater incentive to take out their own private pension, and to penalise more heavily those who stay in SERPS. The Chancellor is worried about the political costs of increasing the contracted-out rebate above the current level. That would mean the main contribution rates going up, which will reduce take-home pay and increase the cost of employing everyone who stays in SERPS just at the time when we are anyway reducing their entitlements. They will be paying more for less. But at the very least, we should aim to keep the rebate up at its current level rather than allowing it to fall.

Targetted Incentives to Contract Out of SERPS

We have been looking at special incentive schemes to encourage contracting-out. Two options are:

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i. A special incentive for the low-paid. If you earn less than £130 a week, you get the full £6 contracted-out rebate available to somebody on £130 a week. This can then be put towards a personal portable pension or an occupational scheme. The attraction of this is that it gets at the group which is predominantly contracted-in to SERPS. Out of the 9 million people in SERPS, 1.7 million have earnings under the LEL; and another 6 million have earnings between the LEL and £160 per week.

ii. A special rebate of, say, an extra 2 per cent for the next 5 years for new schemes that contract-out of SERPS. This focusses specifically on new contracted-out arrangements. It could also go to individuals who opt for their own personal portable pension instead of the company scheme. It has the advantage of directly encouraging new private pension provision. But if the rebate only lasts the first 5 years, it might not have much of an effect. There might also be administrative complications in defining the coverage of the new scheme. And it might encourage exactly what you want to avoid - companies setting up separate new schemes for the second-class blue-collar employees who are currently in SERPS.

Young People

We are still working on the basis that saving for a second pension must be compulsory for everyone aged over 16. I appreciate the argument for compulsory pension provision in general. But it would be politically feasible to make saving for a second pension voluntary for people under 25. We would exclude them from SERPS (giving them and their employers the lower contracted-out rate) and give them incentives to private pension provision if they wished.

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Such a measure could be attractive, as:

- It would ensure that any young people wanting a second pension would start saving privately. This gets the right habit going at first.

- It makes young people cheaper to employ.

If you like this idea, I would go to departments to see if we can develop a workable scheme.

Knowing the Value of your own Pension

We are looking at a scheme for every member of the pension fund to get a triennial report of the value of his pension. Unfortunately, there is a risk the DHSS option will restrict this to the value of accrued pension rights. But we also want people to know the value of their share of a pension fund. Recent calculations by an independent consultant suggested that the assets of pension funds were currently worth about £130 billion - at least £30 billion more than the pension rights they had to fund. So Roy Hattersley could waste £30 billion of savers' money in his National Investment Bank before anybody had their pension rights affected (though the discretionary awards clearly would be).

So we must publicly state the asset value of pension funds as well as people's accrued entitlements.

Conclusion

It would be useful to have your guidance on the following points:

- 20 per cent lifetime accrual under SERPS

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- half or two-thirds entitlement for widows

- 3 per cent or 5 per cent GMP responsibility for companies

- the case for increasing the contracted-out rebate

- special incentive schemes for the low-paid or for new schemes

- exemptions for the under 25s

- knowing the value of your pension.

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HOW SERPS WORKS

1. There are two calculations that matter in SERPS: the Additional Component (AC) and the Guaranteed Minimum Pension (GMP).

Contracting-in: The Additional Component

2. If someone is contracted-in to the state scheme, he or she earns an Additional Component (on top of the basic pension) of one-eightieth (or 1.25 per cent) of their "relevant earnings" for each year, to a maximum of 20 years. "Relevant earnings" are those between the Lower Earnings Limit, currently £35.50 a week, and the Upper Earnings Limit, current £265 a week. Other earnings are disregarded. The "relevant earnings" for each year are revalued to a common price basis using an index of average earnings, and the best 20 years are used in calculating the pension.

3. Multiplying the one-eightieth accrual rate and the best 20 years rule gives the maximum possible Additional Component - 25 per cent of average earnings (loosely referred to as 25 per cent accrual). Years out of work or on low pay do not pull that average down, provided you have at least 20 years of good earnings. Once the pension is awarded, it is indexed in line with the RPI.

Contracting-out: the Guaranteed Minimum Pension

4. If someone is contracted-out of SERPS, then the occupation scheme of which he or she is a member undertakes to pay a Guaranteed Minimum Pension. The formula for calculating the GMP is also based on "relevant earnings" for each year, revalued to a common basis using an index of average earnings. The accrual rate ensures that the maximum

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GMP that can be earned is still 25 per cent of relevant earnings, as for the Additional Component (AC).

5. But there are also differences from the AC calculations. The GMP is calculated on lifetime average earnings, so years out of work or on low earnings can drag the average down. Nor is the GMP indexed once the pension is awarded. It remains a fixed cash sum (often a nominal part of a larger, occupational pension).

6. Once the contracted-out pension is in payment, DHSS work out, each year, what the pensioner would have been entitled to if he had been contracted-in. This inflation-proofed Additional Component is compared ith the GMP being paid by the employer, and the balance is made up by the DHSS and paid direct to the pensioner, along with his basic retirement pension. So contracted-out pensioners indirectly gain the benefit of the generous SERPS provisions.

The Contracted-out rebate

7. The contracted-out rebate is the amount which the Government Actuary estimates should, on certain assumptions, be invested by an occupational scheme to fund the GMP liability. Changes in the GMP formula would affect the rebate because they alter the amount of funding that is necessary.

8. National Insurance rates currently stand as follows:

	Contracted-In	Contracted-out*	Value of Rebate
Employer	10.45	6.35	4.10
Employee	9.00	6.85	2.15
Total	19.45	13.20	6.25

* Between LEL and UEL

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To see
DW
24/10

DW 24/10

P 01740

CONFIDENTIAL

From: J B UNWIN
21 October 1985

MR LANGDON

cc Mr Wiggins
Mr Eland
Mr Roberts
Mr Norgrove - No 10 (for info)

COPY FOR

DW
24/10/85

SOCIAL SECURITY REVIEW

Thank you for your minute of 18 October about next steps on the social security review.

2. I agree that we should aim to concentrate at next Monday's MISC 111 meeting on the proposals for modifying SERPS and the timing. On the latter, it is important, as you say, for DHSS to be forthcoming on any proposals, either on SERPS or the rest of the overall package, that could still be introduced in advance in April 1987.

3. In the briefing we should remind the Prime Minister that Mr Fowler has still not come clean on the non-pensions part of his package. Let us consider after next Monday whether a further meeting of MISC 111 is necessary to deal with this, or whether it could be handled in correspondence before the White Paper goes to Cabinet. Subject to the outcome of MISC 120, it may be possible for Mr Fowler to reach agreement with the Treasury and with DOE on the components of the rest of the package so that they do not require further Committee discussion.

4. The briefing should also remind the Prime Minister again of the desirability of a sensible overview of the combined effects of this and the local government package before final decisions are taken. Mr Scholar at the Treasury told me at the end of last week that he did not think there would be any great problem in updating the Treasury's distributional analysis as Mr Norgrove has requested. But let us take account of where this stands later in the week.

J B UNWIN

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bc D Willetts
B Unwin (CO)

10 DOWNING STREET

From the Private Secretary 16 October 1985

SOCIAL SECURITY AND LOCAL AUTHORITY FINANCE

The Prime Minister was grateful for the thorough and clear analysis set out in the paper attached to your letter to me of 14 October. I believe she would find it helpful to see an updated version at a suitable moment as the discussions on social security and local authority finance progress.

(David Norgrove)

Mrs. Rachel Lomax,
HM Treasury.

SECRET

JB

CCNO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

NBPM

15 October 1985

Dear Giles

Your Secretary of State copied to mine his minute of 19 September to the Prime Minister about the joint DE/DHSS study of local office networks.

I note that the Prime Minister has suggested that the Efficiency Unit's help should be sought in setting up and carrying out the scrutiny.

My Secretary of State also believes that the PSA has a valuable part to play in the study. The cost of providing and maintaining the buildings used by the two departments are important factors in deciding which offices to keep and develop and which to give up. PSA already has experience of similar rationalisation plans currently being carried out in conjunction with Inland Revenue.

I am copying this letter to the recipients of David Norgrove's letter of 30 September.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

Social Services Pt 3

Review

cc, Dy

HOUSE OF LORDS,
SW1A 0PW

LORD CHANCELLOR

CONFIDENTIAL

15 October 1985

NBPM 12/10

Dear Tony:

GREEN PAPER PROPOSALS FOR NEW PENSION ARRANGEMENTS

Your letter of 6 September sought my agreement to the inclusion of provision in a Bill introducing new pension arrangements, which would confer jurisdiction on county courts to grant coercive orders and hear actions for unpaid minimum pension contributions.

One of my main concerns is to contain an ever-increasing court caseload with limited resources and I consider that county courts are quite inappropriate for your proposals regarding coercive orders. I think a large fine imposed in summary criminal proceedings is likely to be far more effective than applying for the committal to prison of an employer in proceedings for contempt, which is presumably the threat behind issuing a coercive order. Your officials could no doubt discuss with those in the Home Office and in my Department the form of a possible criminal offence and appropriate criminal penalties.

Contempt proceedings are particularly expensive in terms of the time of judges and bailiffs. As proceedings involving the liberty of the subject have to be given priority over other listed cases, implementation of your proposal will cause delay to other litigants. The proceedings will not be straightforward; the process of adjudicating whether a respondent has remedied breach of an order to make "appropriate pension arrangements" is likely to be both protracted and difficult.

.../ As regards

Anthony Newton Esq., OBE MP
Minister of State for
Social Security and the Disabled
Department of Health and
Social Security
Elephant and Castle
London SE1 6BY

As regards your proposals concerning actions for recovery of unpaid minimum pension contributions, I am not concerned with the underlying principles, but only with the potential increased workload. There may be ways of minimising any such increase and I have, accordingly, instructed my officials to get in touch with yours to explore the various possibilities.

Copies of this letter go to the Lord Advocate, George Younger, colleagues who were members of MISC 111, Leon Brittan and Robert Armstrong.

yrs:

Q.H.

From: THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE CH FRS DCL

SOCIAL SERVICES REVIEW

PT 3

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cc BU1

18

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

David Norgrove Esq
Private Secretary
10 Downing Street

14 October 1985

Dear David

REVIEW OF SOCIAL SECURITY

In considering the proposals on the State Earnings-Related Pension Scheme (SERPS) set out in paper MISC 111(84)14, the Prime Minister may find it helpful to have the attached scorecard of the savings that would be achieved. I am sending a copy also to Brian Unwin (Cabinet Office).

Yours sincerely

A Laurance
Private Secretary

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PRIME MINISTER pa

14 October 1985

THE COST OF SERPS

1. In £bn, 1984-85 prices

£bn

Year	Unchanged	Fowler Mk.I	Fowler Mk.II
2013	9.6	7.1	6.7
2023	15.7	8.3	9.9
2033	23.1	6.4	13.6

2. Contribution rates (National Insurance and compulsory private contributions) as a % of wages and salaries

%

Year	Unchanged	Fowler Mk.I	Fowler Mk.II
2013	6½	7½	7
2023	8½	7½	7½
2033	10½	6½	8

David Willetts

DAVID WILLETTS

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HOME SECRETARY

Prime Minister

I regret that I shall be unable to attend tomorrow's meeting of MISC 111 because of a call on the Indian Prime Minister. I thought nevertheless that I should write to express my general support for the proposals put forward in Norman Fowler's most recent paper on the future of SERPS and the timing of the implementation of changes in pensions and benefits.

I was originally persuaded of the need to abolish SERPS which seemed an attractive new element in our policy of extending personal responsibility and freedom of choice. I am now convinced, however, that if a package can be designed which limits the open-ended nature of the SERPS commitment, which puts the Government in the position of offering a reasonable basis for a consensus about pensions provision and which falls short of abolition, we should opt for it.

The reaction of many groups to the abolition proposal was predictable but the lack of support from the industry itself makes it difficult to proceed as originally envisaged. We do not want an adverse reaction on pensions to sour the whole review package. Having said that I should be interested to see, and this impinges on my responsibility for equal opportunities, how Norman's proposals for protecting women who take time off from employment to raise children will work.

On the question of the implementation date it seems preferable to aim for April 1988. Having said that I wonder if there would be scope for activating some aspects of any SERPS reforms which encourage competition and are likely to stimulate the growth of personal pensions in 1987?

I am copying this minute to members of MISC 111 and to Sir Robert Armstrong.

Douglas Hurd.

14th October 1985

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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

15

The Rt Hon Norman Fowler MP
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

14 October 1985

Dear Secretary of State,

SOCIAL SECURITY REFORMS

When we met at Blackpool last week I expressed my concern about the possible effects in Northern Ireland of some of your proposals, and we agreed that I should write to you setting out my views before the meeting of MISC III on 15 October.

The Green Paper has been universally and vociferously criticised in Northern Ireland, not only by the usual claimant lobbies but by all the political parties, and most recently in a Report by the Northern Ireland Assembly which I have already sent to you. Apart altogether from the problems caused for individual claimants, the White Paper does need to be seen to have taken greater account of the specific problems of those in need in Northern Ireland.

Not surprisingly, most of the criticism has been directed at those aspects which would mean reductions in the existing levels of support, scant recognition being given to the areas of the reform which would improve the position of some groups of beneficiaries, for example, families with children. Nevertheless, factors such as the proportionately high dependence on benefits in Northern Ireland and the relatively high cost of living there, in particular the cost of fuel, mean that those proposals which would lead to reductions in real terms in the help at present available are viewed as particularly harsh in this part of the United Kingdom. It is against this background that we have been weighing up the likely impact in Northern Ireland.

There are three specific proposals which have a special significance for Northern Ireland if applied on a national basis.

The first is the proposal that all householders claiming housing benefit should be expected to pay a proportion (about 20%) of their

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domestic rates, the main argument in favour being that it might increase electoral accountability. This is the most difficult of your proposals to justify in Northern Ireland where elected District Councils are responsible only for a restricted range of services. The bulk of what (in other parts of the UK) should normally be local government services (education, welfare, police, roads, water, sewerage, housing and planning) are carried out in Northern Ireland by Government Departments or agencies appointed by and responsible to me, and I determine the regional rate. As a result we have achieved much tighter control of expenditure on those functions, and the link between rate borne expenditure and direct accountability to an electorate of ratepayers is much more tenuous in Northern Ireland than in Great Britain. In order to reflect accurately the principle underlying the GB proposal, the 20% requirement would have to apply to that part (about 30%) of the domestic rate levied by District Councils in Northern Ireland. However, the cost of collection of such sums could be difficult to justify on a value for money basis and even this proposal could lead to an increase in public debt and re-open controversy in Northern Ireland about the benefit allocation system which deducts arrears from benefits at source.

The second proposal which is likely to cause difficulty locally concerns the level of support for claimants in the 18 to 25 age group, particularly householders. I understand that this is a problem which you may wish to reconsider on a national scale, but it is of particular importance here as there would appear to be proportionately more such claimants in Northern Ireland than in the rest of the United Kingdom. I would therefore support any moves aimed at modifying the original proposals for this particular age group.

Finally there is the question of the resources to be made available for payments under the proposed new Social Fund. Although the existing single payments regulations in Northern Ireland are to all intents and purposes identical to those which apply in Great Britain, proportionately the level of expenditure in Northern Ireland is significantly higher both in terms of the number of payments and the amounts involved. The main reasons for this are believed to be the higher numbers of claimants with children, chronic long-term unemployment and high take-up. I understand that research is to be undertaken into the existing pattern of single payments expenditure with a view to devising an equitable formula for distribution of the available funds. While conscious of the need to maintain control of such expenditure, and also conscious of the need for Northern Ireland to be guided by any national formula in setting the level of its Social Fund, I believe that the formula should be sufficiently flexible to reflect the needs of particular regions as indicated by, for example, past experience and the composition of the local caseload.

I have a further concern that the changes are much more likely to affect the Roman Catholic community in places like West Belfast and

Londonderry where there is a high dependence on benefits and a high take-up of single payments, and growing alienation and disaffection.

Apart from these specific suggestions, it will be important for me to have adequate information on which to weigh up the effects of the final proposals on Northern Ireland where some of the main changes could impact disproportionately compared with the rest of the United Kingdom. In order to calculate gains and losses, gainers and losers, and costs and savings, I should be grateful if your Department can ensure that we have figures for Northern Ireland at the same time as those for Great Britain. Richard Needham and I will need to have convincing arguments in defending the Government's position.

I am copying this letter to other members of MISC III and to Sir Robert Armstrong.

Yours sincerely,

Jonathan Duke-Evans

TK

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

14. X. PM 85

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P 01726

Prime Minister

From: J B UNWIN
14 October 1985

MR NORGROVE - NO 10

REVIEW OF SOCIAL SECURITY (MISC 111(85)14)

Our discussion with the Prime Minister earlier this afternoon confirms that it would be sensible at MISC 111 tomorrow to take the discussion in two distinct parts - the first on SERPS, and the second on the other social security measures.

2. The key issues are:-

(i) SERPS:

- Does the Group accept the arguments for modifying rather than abolishing SERPS?

- If so, is it broadly content with Mr Fowler's proposals, subject to a more detailed examination and report?

- does the Group accept postponement of the main changes (except perhaps on personal portable pensions - see below) until April 1988?

(ii) Other social security measures:

- subject to a more detailed explanation of what is proposed, and examination of the expenditure implications in the Star Chamber, is the Group broadly content with the changes Mr Fowler proposes from the package set out in the Green Paper?

- if so, do they also accept that implementation should be postponed until April 1988.

3. If MISC 111 could form at least an interim view on these main issues tomorrow morning, it would set the framework for further urgent work before the next meeting of the Group at present planned for 28 October. The elements of that work would be:-

- consultation by DHSS with the Treasury and others concerned on the feasibility of Mr Fowler's proposals for modifying SERPS (including the possibility of a provision in the legislation to give every one a right to a personal portable pension in April 1987;

- examination by the Star Chamber of the detailed expenditure implications of the new package (I strongly recommend that MISC 111 should not try to discuss these tomorrow;

- (if the Prime Minister so wishes) a report from the Cabinet Office, with the help of the Treasury, DHSS and DOE, on the distributional implications of the social security and local government finance packages and the other key interactions between them.

The Treasury work you already have seen should not be mentioned at the meeting.

4. Subject to discussion, and the results of this further work, this could lead to an outcome on the following lines:

December 1985	-	Publish Social Security White Paper
January 1986	-	Introduce Social Security Bill (covering both SERPS and other social security measures)
November 1986	-	Bill receives Royal Assent
April 1987	-	(if feasible) right of everyone to a personal portable pension takes effect
April 1988	-	Changes to SERPS and other Social Security measures take effect.

5. On the basis of the above, I attach a revise set of conclusions which the Prime Minister might find it helpful to draw on tomorrow.

J B UNWIN

Cabinet Office
14 October 1985

SECRET

MISC 111: Possible Conclusions

1. SERPS

(a) To take a provisional decision on whether Mr Fowler's proposals for modifying rather than abolishing SERPS is acceptable.

(b) If so, to express interim views on Mr Fowler's proposals for modification and to ask him to discuss them further with the Chancellor of the Exchequer and, as appropriate, the Secretary of State for Trade and Industry; and to report the outcome of this consideration to the next meeting of the Group at the end of October.

Mr Hurd favours some action in 1987 if possible.

(c) To ask Mr Fowler also to report back on the possibility of including in the legislation a provision to give everyone a right to a personal portable pension in April 1987 at the latest.

(d) To note that final decisions on SERPS must await consideration of the further work at (b) and (c).

2. OTHER SOCIAL SECURITY CHANGES

(a) To express provisional views on the other proposed social security policy changes from the Green Paper.

(b) To refer the detailed expenditure implications of those changes to the Star Chamber.

(c) To invite Mr Fowler to report more fully on the nature and effects of these changes to the next meeting of the Group.

The Treasury work you have seen should not be mentioned at the meeting.

(d) To invite the Cabinet Office to prepare, with the help of the Treasury, the DHSS and DOE, a report for the Group on the combined distributional effects of the social security and local government finance proposals, and the main interactions between them.

(e) To note that the final decisions on the other measures must await consideration of the further work at (b), (c) and (d).

3. TIMING AND IMPLEMENTATION

(a) To express interim views on the White Paper, legislation and implementation timetable, and in particular on the possibility of legislation providing for implementation of the main changes on SERPS and the other social security changes in April 1988, but preceded by giving the right to personal portable pensions in April 1987.

(b) To note that final decisions on the timetable must await consideration of the further work on SERPS and the other measures under 1 and 2 above.

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ANNEX

ESTIMATED SAVINGS FROM MODIFYING SERPS (£ billion)

	2013	2023	2033
Full cost of SERPS	9.6	15.7	23.1
SAVINGS			
1. Make schemes responsible for inflation-proofing contracted-out pensions up to 5% a year.	1.1	2.2	3.2
2. Base SERPS pensions on lifetime earnings since 1978 not on 20 best years, with protection for those bringing up children, the long term sick and disabled and those caring for them.	0.9	2.0	4.0
3. Widows and older widowers to inherit half their spouse's SERPS rights.	0.9	1.6	2.3
	1.8	3.6.	6.3
Total Savings	2.9	5.8	9.5
Compared to: savings from abolition	2.5	7.4	16.7

Annex to
DHSS to DN 14/10

1610 DW734

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PRIME MINISTER

REVIEW OF SOCIAL SECURITY : THE NEXT STEPS

As you know, I shall be unable to attend the MISC 111 meeting on 15 October, since I shall be meeting the Indian Prime Minister. I should therefore like to let you and colleagues have my views on the major elements of Norman Fowler's paper (MISC 111(85)14) - ie those relating to the abolition of the State Earnings Related Pensions Scheme (SERPS).

I welcome the broad approach that Norman now proposes, and agree with the concept of reducing the costs of a mature SERPS, and of encouraging the maximum provision of occupational and personal pensions within the private sector. I also share Norman Fowler's view that - in the light of the very substantial consensus amongst the industrial and other voices commenting on the Green Paper - we need to reconsider the means of achieving those objectives.

On the basis of Norman's new proposals, I endorse his view that the way forward lies in the modification of SERPS rather than its abolition. Some of the modifications suggested - for example the proposal to base pensions on lifetime earnings rather than the best 20 years - are likely to find considerable favour with industry. But I must add that I have reservations about two elements of his proposals. I think it would be a great pity if these elements were to spoil what is potentially an attractive package, which could bring substantial support from the business community.

SECRET

My first worry relates to the effect on business costs (and the PSBR) of the proposed transfer of guaranteed minimum pension inflation-proofing to the private sector. I have no problems with the principle of the modification, but it will impose a major new obligation on employers and employees, and we shall have to do all we can to prevent it from being presented as a £1 billion increase on taxation.

My second reservation relates to the timetable. Here Norman proposes to publish a White Paper as planned in the autumn and legislation shortly thereafter, but to allow an extra year for implementation of the new system. I wonder whether this will be sufficient to allay industry's concerns. The responses to the Green Paper have stressed that pensions reform must not be rushed. They have also pointed to the need, if it can be achieved, to have a degree of consensus on pensions issues. Industry has asked for a more careful study of a modified SERPS. There may be a case for announcing the decision on pensions now but deferring legislation on this element of the social security package until the 1986-87 session.

I am copying this letter to colleagues on MISC 111 and to Sir Robert Armstrong.

L.B.

L B

14 October 1985

Department of Trade & Industry

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C

PRIME MINISTER

14 October 1985

MISC 111

It is vital to rescue something from the rubble of SERPS reform.

This is the only way in which the boundaries of individual responsibility can be increased. The rest of the welfare state is politically inviolate and well defended. Norman Fowler has lost ground over SERPS by consulting twice instead of once; and by failing to prime the lobbies who are in favour of change, whilst allowing those against change to be too vocal.

You now need decisions quickly; there is neither time nor need for further consultation.

I still favour complete abolition of SERPS and its replacement by personal saving schemes. However, the timetable for this is now tight, given the delays.

The best parts of Norman Fowler's watered down proposals are

(a) giving everyone the right to opt for a contracted-out personal pension; and

(b) making contracting-out simpler for occupational schemes.

You could add to this:

(c) a change in the relative cost of National Insurance Contributions for contracting-in - it should be made much dearer, to reflect the future costs of SERPS and to discourage people from contracting-in in the first place; and

(d) giving members of all existing pension funds unit values, to bring home the relationship between occupational savings and their future provision for retirement; to underline the improvements made for early leavers, who could then take their money with them on changing jobs; and to prevent employers pocketing pension fund surpluses when they are generated - as they are doing at the moment.

If we are driven back onto draining SERPS rather than abolishing it, it is important to set fairly penal rates for those remaining in SERPS, and to allow as many categories of people as possible out of it. Norman Fowler should be invited to produce final proposals along these lines to a future meeting of MISC 111, which should then be issued promptly as a White Paper and as a Bill.

I attach copies of leaflets circulated in the Reading area as examples of the kind of propaganda we are encountering. I am told these are not the worst, but they are the only ones I have so far been able to track down.

JOHN REDWOOD

Is THIS in store for 1986?

CLOSING DOWN SALE!

Fantastic Reductions!

LAST FEW MONTHS

Rate Rebates
Maternity Grants
This year only for many!

Death Grant
Must Go!
"DIE NOW!"

FREE School Dinners
Eat Now!
Must End with FIS.

MUST END APRIL '87

The Welfare State plc

CALL IN NOW

Reading Campaign Against Benefit Cuts is a broad-based, non-Party Political Campaign set up to defend the Social Security system. It welcomes help, support, and donations from interested people/organisations

or THIS for 1987?

MOTHERS!
Always broke?
Missing your FIS Book?
Ask your husband to apply for a Family Credit in his wage packet!

Apply: Any DHSS Office

PS. Pensioners and single people – and most pension schemes – are affected too!

WHAT YOU CAN DO

TELL YOUR MP the proposals are unacceptable:
- write to him at the House of Commons or
- send him the tearoff overleaf or
- go and see him at his surgery.

(Reading East – Sir Gerard Vaughan
Reading West – Tony Durant.)

TELL NORMAN FOWLER his proposals are unacceptable – write to him c/o House of Commons, London SW1.

TELL DHSS HQ the proposals are unacceptable – write to DHSS, Room D406, Alexander Fleming House, Elephant & Castle, London SE1.

GIVE LEAFLETS to friends, neighbours, relatives, workmates. TELL them what the proposals really mean. URGE them to write to their MPs.

JOIN Reading Campaign Against Benefit Cuts.

HELP RCABC with its activities.

DISCUSS THE REVIEWS at any club, society, church, or organisation you belong to – eg put down a motion, suggest RCABC send a speaker, or both.

PUT OUT LEAFLETS at meetings.

GET SIGNATURES on a petition.

Published by, donations to, and more information from:–
READING CAMPAIGN AGAINST BENEFIT CUTS, 54 Bedford Road, Reading, RG1 7HS (Tel: 589036)

"The Social Security Reviews"

for.....

FAMILIES,

WIDOWS, & PREGNANT WOMEN

and.....

What YOU

Can DO –

The GOVERNMENT is PROPOSING:-

FAMILIES

- everyone will have to pay at least 20% of their general rates bill, plus all of their water rates.
- "Income Support" will replace Supplementary Allowance; an 'average' amount for water rates, 20% of general rates, and "additional requirements" (heating, diet, laundry, etc), will be built into the scale rates.
- anyone with a partner in full-time work will be barred from claiming Income Support.
- help with rent and rates will go down except for those on wages at about Income Support levels.
- the FIS order book will become a Family Credit paid via the wage packet.
- free school meals and welfare foods will end except for families on Income Support. Nearly 1300 Berkshire kids will lose their free school dinners.
- Child Benefit won't be taxed, or means-tested, or improved. It could be frozen, or cut.
- there will be a specially reduced scale rate for Income Support for everyone under 25, single or married (except single parents). It will not be enough to live away from home on.

The WELFARE STATE:

- GOING ....

- GOING ....

APPLY NOW WHILE IT LASTS

PREGNANT WOMEN

- the universal £25 Maternity Grant goes. Low-income mothers, on or off Income Support, will be able to apply for about £75 from the 'Social Fund'.
- Maternity Allowance will have a new 'recent work' test - but more flexibility about the period for which it can be claimed.

NEW WIDOWS

- the universal £30 Death Grant goes.
- help with funeral expenses, from a 'Social Fund' will be means-tested, and will usually be repayable; from your husband's estate or from you.
- all new widows will get a £1000 lump sum, instead of the £1300 + (£1400 from November 1985) now paid over 26 weeks as Widows Allowance.
- new widows with dependent children will get Widowed Mothers Allowance at once.
- other new widows will get nothing else if they are under 45, and a reduced widows pension if they are under 55 (compared with under 40 and under 50 now).

WORRIED ?

- These are only proposals - so far. They won't happen if most MPs oppose them. Write to your MP or send him the tearoff opposite. (Tony Durant for Reading West, Sir Gerard Vaughan for Reading East.)
- Turn to the back page for what else you can do.

To: ...., MP
House of Commons, Westminster, London, SW1

I find the proposals in the Green Paper 'Reform of Social Security - Programme for change' unacceptable and I ask you to oppose them.

Signed..............................Name(printed)..............................

Address..

....

Will YOUR Pension be enough to live on ??

The Government Green Paper "Reform of Social Security"

PROPOSES ON PENSIONS:-

* ABOLISHING the State Earnings Related Pension Scheme (SERPS) for men under 50 and women under 45 in April 1987. Instead you will HAVE to join an employer's pension scheme, OR buy a "personal pension".

* ALLOWING and encouraging occupational pension schemes to provide lower pensions than now.

PROPOSES FOR PENSIONERS:-

* REPLACING Supplementary Pensions with a flat rate "Income Support". There will be no extra payments for special needs like heating, or high rates bills.

* MAKING everyone pay all of their water rates and at least 20% of their general rates bills.

WHICH REALLY MEANS.......

* SERPS makes pensions inflation-proof. THIS WILL GO!

* SERPS protects pension rights for people whose wages fall with age, and for people who have long periods when they can't go out to work. THIS WILL GO!

* Existing pensioners will mostly have LESS MONEY!

* Few people working today can be sure they will have ENOUGH MONEY to live on when they retire!

WORRIED ?

These are only proposals - so far. They won't happen if most MPs oppose them. Fill in the letter overleaf and send it to your MP. (Tony Durant for Reading West, Sir Gerard Vaughan for Reading East.)

PS. Other Benefits are to be cut too!

Published by, and more information from:
Reading Campaign Against Benefit Cuts
54 Bedford Road, Reading, RG1 7HS (Tel: 589036)

Address

To:

House of Commons
London
SW1

Dear

Reform of Social Security - Programme for Change

I am very concerned about the proposals for the abolition of SERPS and other changes to the pensions system and ask you to oppose them.

Yours sincerely,

Name

THE SOCIAL SECURITY REVIEWS

SOME KEY POINTS FOR....
Today's Pensioners - The Bereaved - Tomorrow's Pensioners - Families - Single People - Disabled People - New Widows - Pregnant Women - Jobs

AND....
What you can do.

-0-0-0-0-

TODAY'S PENSIONERS
- all householders will have to pay at least 20% of their rates bill, plus water rates.
- Supplementary Pensions will be replaced by "Income Support"; an 'average' amount for water rates, 20% of general rates, and for "additional requirements" will be included in the scale rates.
- the Income Support scale rates will be the same for all pensioners, except the very elderly, whether householders or living with someone else.
- pensioners with income a bit above the "Income Support" levels will get less help, or no help, with rent and rates. The rules on treatment of savings will change completely. 600,000 pensioners will lose all help; another 1.2 million will get less help than now.

THE BEREAVED
- the universal £30 Death Grant abolished.
- help with funeral expenses, from a new "Social Fund", will usually be repayable - either from the deceased's estate or from whoever asks for the help.

TOMORROW'S PENSIONERS
- Occupational Pension schemes will be encouraged, and legally allowed, to provide lower pensions.
- for those now "contracted-in", the State Earnings Related Pension Scheme (SERPS) will be abolished in April 1987 for everyone under 50(men) or 45(women). But you will have to buy a 'personal pension' instead.
- The inflation-proofing, by SERPS, of a part of everyone's pension is to go.
- the pension protection under SERPS for those out of the labour market for some years, and for those whose earnings fall with age, goes.

/....

FAMILIES

- everyone will have to pay at least 25% of their general rates bill, plus all of their water rates.
- "Income Support" will replace Supplementary Allowance; an 'average' amount for water rates, 20% of general rates, and "additional requirements" (heating, diet, laundry, etc) will be built into the scale rates.
- anyone with a partner in full-time work will be barred from claiming Income Support.
- help with rent and rates will go down except for those on wages at about Income Support levels.
- the FIS order book will become a Family Credit paid via the wage packet.
- free school meals and welfare foods will end for all families not on Income Support.
- Child Benefit won't be taxed, or means-tested, or improved - but it could be cut or frozen.
- there will be a specially reduced scale rate for Income Support for everyone under 25, single or married (except single parents); it will not be enough to live away from home on.

SINGLE PEOPLE

- help with rent and rates will go down except for the very low-paid.
- those in work will be expected to pay a larger share of the household rent and rates if the head of household is on Income Support.
- students will not be able to claim Income Support or Housing Benefit at all.
- unemployed people under 25 will all get a specially reduced rate of Income Support. Grants for furniture etc, to set up home on their own, will be abolished.
- but single parents under 25 will qualify for the full adult Income Support scale rates.

DISABLED PEOPLE

- help with rent and rates will go down, except for the very low-paid.
- those on Income Support will get a flat scale rate which will include an 'average' amount for water rates, 20% of general rates, and the present "additional requirements" payments (heating, diet, laundry etc).

NEW WIDOWS

- [illegible] new widows will get a £1000 lump sum, instead of the £1300+ now paid, as Widows Allowance, at £50.10 a week for 26 weeks.
- new widows with dependent children will get Widowed Mothers Allowance at once.
- other new widows will get nothing else if they are under 45, and a reduced widows pension if under 55 (compared with under 40 and under 50 now).

PREGNANT WOMEN

- the universal £25 Maternity Grant goes. Low-income mothers, on or off Income Support, will be able to get about £75 from the "Social Fund".
- Maternity Allowance will have a new 'recent work' test - but more flexibility over the period for which it can be claimed.

JOBS

- Dinner ladies will have about 300,000 fewer free school meals to prepare and serve.
- Council officials will have less claims to Housing Benefit to assess (though they will have to collect 20% of general rates from everyone).
- DHSS will lose at least 3,000 staff, giving no improvement in their service to the public.

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TURN OVER for "What You Can Do"

Reading Campaign Against Benefit Cuts is a broad-based, non-Party Political Campaign set up to defend the Social Security System

It welcomes help, support and donations from any interested individual or organisation.

WHAT YOU CAN DO

TELL YOUR MP the proposals are unacceptable:
- send him the tearoff below or
- write to him at the House of Commons or
- go and see him at his surgery.
(Sir Gerard Vaugham for Reading East, Tony Durant for Reading West)

TELL NORMAN FOWLER his proposals are unacceptable:
- write to him c/o House of Commons, Westminster, SW1

TELL DHSS HQ the proposals are unacceptable:
- write to DHSS, Room D406, Alexander Fleming House, Elephant & Castle, London SE1

TELL YOUR FRIENDS and neighbours and relatives and workmates about the proposals and what they really mean. Urge them to write to their MPs.

JOIN Reading Campaign Against Benefit Cuts.

HELP RCABC with its campaigning activities.

DISCUSS THE REVIEWS at any club or society or church or organisation you belong to - eg, put down a motion, or suggest RCABC send a speaker, or both.

PUT OUT LEAFLETS at meetings

PASS LEAFLETS to friends, neighbours, relatives, workmates

GET SIGNATURES on a petition.

-0-0-0-0-

p&p: RCABC; 54 Bedford Rd, Reading, RG1 7HS. Tel: 589036

- -

To:................................, MP, House of Commons, Westminster, London SW1

I find the proposals in the Green Paper 'Reform of Social Security - Programme for Change' unacceptable and I ask you to oppose them.

Signed............................ Date...............

Name (printed)..

Address...

E

B/UP. 43034 E.

cc Brian Unwin
~~David~~ Willetts.
(noting classification).
DRN
14/10.

12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Mr D Norgrove
10 Downing Street

14 October 1985

Dear David,

SOCIAL SECURITY AND LOCAL AUTHORITY FINANCE

You asked in your letter of 24 September for an analysis of the combined impact of the proposed changes to social security and to local authority finance. Officials here have carried out an analysis on the basis of information available to them and the results are in the attached paper.

2. The study is based on the social security proposals agreed in MISC 111 in the Spring and, for local authority finance, those presented to E(LF) by Mr Baker on 23 September. These proposals were, of course, the only ones available - or sufficiently clear - during the period in which the analysis was undertaken; but I recognise that they are now, in some important respects, overtaken and that the study is therefore already out of date. One particular example of this is that the analysis of local authority proposals takes credit for a reduction in local authority spending (and therefore in the burden of local taxation) as compared with the present position, even though that reduction is brought about by existing precept controls on ILEA and the transport boards. The Treasury has always regarded this as highly artificial (and it has now, I understand, been dropped by the DOE) but we have been forced to adopt it in the present study as it lies behind the information provided by Department of Environment officials on the impact of that set of proposals.

3. I should also emphasise other limitations of the study:

(i) although 1983 FES data is now available, the study is based, consistently with the rest of the DHSS' analysis, on 1982 data, and its results are expressed in 1984 prices;

(ii) it is based on entitlements to means-tested benefits, and makes no allowance for the fact that take-up of some benefits is substantially below 100 per cent;

(iii) its results were obtained by grossing-up evidence from a small sample of families.

The study is therefore necessarily illustrative and should be taken to give only broad indications of the direction of these changes.

4. I will not attempt to summarise the study, which speaks for itself. In some cases the changes reinforce each other, in others they cancel

out. This may mean, for example, some two million people losing their entitlement to Housing Benefit as a result of social security changes, and then, by becoming liable to a higher local charge, one million finding themselves eligible for Housing Benefit. But on the present timetable, there will be a year or two between these changes and other changes in personal circumstances may have a greater impact on the eligibility of individuals for different benefits. Overall, however, there seems to be limited direct interaction between the two sets of proposals.

5. Since the study was completed, Mr Fowler has tabled new proposals on social security. We have not been able, in the time available, to analyse these proposals in the form adopted in the study. But tables in the annex to this letter show the main changes (they are not strictly comparable because those for the new proposals are on a take-up, not entitlement, basis). Mr Fowler's new proposals involve much higher social security spending than was implied by the Spring package and, naturally, they reduce the average overall loss. The changes will reduce significantly the number of those who lose from the new social security structure and also increase the number who gain.

6. Nevertheless, the overall pattern of gainers and losers does not change greatly. Apart from lone parents (who appear to be net losers under Mr Fowler's new proposals), no group of households switches from being a net loser to a net gainer (or vice versa), and the broad summary analysis of the effects of proposals on household types given in Table 5 of this paper holds generally true for Mr Fowler's new proposals.

7. The group for which the new proposals make most difference are pensioners. The tables show that the number of losers is reduced by about 1 million and that the number of gainers increases by about ¾ million. Those who are still losers, tend to lose less, and those who gain, gain more. Nevertheless, pensioners would remain as a group net losers from the new proposals, with some losses remaining substantial.

Yours sincerely,

Philip Wynn Owen

P WYNN OWEN

ANNEX B TO
MISC 111 (85) 14

GAINS AND LOSSES: ALL INCOME RELATED BENEFITS (000)

Client Group	Gainers £5+	Gainers £3-£5	Gainers £1-£3	Gainers £1	No change	Losers £1	Losers £1-£3	Losers £3-£5	Losers £5+	Total gainers	Total losers
Pensioners	80	135	485	570	20	1155	1120	365	235	1270	2875
Sick or disabled	90	70	65	25	*	20	35	5	10	260	65
Single parents	215	25	20	25	*	140	155	30	60	285	380
Couples with children	205	175	235	100	*	85	85	30	80	715	290
Others	25	160	30	170	315	230	390	300	245	380	1160
Total	615	565	840	890	335	1630	1785	730	630	2900	4770

NOTES

1. Totals may not sum because of rounding.
2. November 1985 benefit rates. All November 1985 changes assumed to have been made.
3. Child benefit assumed to be £7 in real terms.

i.e. Mr Fowler's present proposals

SECRET

Annex

ANNEX B TO MISC 111 (85) 14

Secret

GAINS AND LOSSES: ALL INCOME-RELATED BENEFITS

As implied by MISC 111 Spring conclusions

Client group	Gainers £5+	£3-5	£1-£3	<£1	No Change	Losers <£1	£1-£3	£3-5	£5+	Total Gainers	Total Losers
Pensioners	45	40	190	250	0	640	2130	805	260	525	3835
Sick or Disabled	65	10	85	5	0	40	35	20	5	165	100
Lone Parents	205	20	95	95	0	85	155	25	110	415	375
Couples with children	315	185	250	125	0	115	125	40	145	875	425
Others	55	180	20	115	375	240	340	295	320	370	1195
Total	685	435	640	590	375	1120	2785	1185	840	2350	5930

Mr Fowler's Spring proposals.

REFORM OF SOCIAL SECURITY AND OF LOCAL AUTHORITY FINANCE

1. This paper analyses the combined impact of proposed changes to Social Security benefits and local authority taxes. It concentrates on the impact on effective marginal rates of taxation/benefit withdrawal for those on low incomes; on the ratio of in-work and out-of-work incomes for the low paid; and on the distribution of gains and losses between different groups.

The Proposals

2. The social security proposals analysed are as presented to MISC 111 in the spring and would yield the savings agreed by that Group. For local authority finance, the proposals analysed are those which were presented to E(LF) on 23 September. Recent changes in these proposals either came too late or are still insufficiently clear to be taken account of in the analysis. The analysis is also based on a small sample of families, and assumes that the changes are effective immediately. For these and other reasons, therefore, it is necessarily illustrative and its results should be treated only as indicators of the broad direction of the effect of these changes.

Timetable

3. It is assumed that the main social security proposals will take effect from 1 April 1987. The local authority proposals are assumed to come into effect after the next General Election, and, therefore, after the introduction of the new social security regime. A more detailed timetable is set out at Annex 1.

The proposals in detail

4. The features of the two sets of changes which have the main impact in the analysis are as follows:

(i) The single steeper taper on Housing Benefit (HB) which replaced the two previous tapers and which increased the rate at which HB is withdrawn as incomes rise.

(ii) The requirement that all who are liable to local taxation will have to meet at least 20 per cent of their total local tax bill (at present Supplementary Benefit recipients have their rates paid in full).

(iii) A more generous system of family support (as compared with FIS), which gives help to more people, and whose withdrawal rate, as income rises, will be based on net income rather than gross.

(iv) The withdrawal of the householders' scale rate of Supplementary Benefit, and the substitution (where appropriate) of an over-25 rate.

(v) The replacement of local authority rates levied on householders, with a 30:70 combination of a property tax* and a residents' charge levied on all adults.

(vi) Changes in the systems of rate support grants and of non-domestic rates which have the effects of raising average local tax bills in some (high spending) authorities and lowering them in others.

Marginal Rates (the "poverty trap")

5. At present, low-paid working families are entitled to child support (FIS), help with housing costs (HB) and non-cash benefits (such as free school meals), subject to a means test. These benefits are withdrawn as income rises. High rates of such benefit withdrawal together with liability for income tax plus national insurance contributions can mean that a working family loses most or all of any additional income it earns; indeed in some cases it may lose more than £1 for every extra £1 of income. These losses (the "marginal effective rate of tax/benefit withdrawal") can have a severe disincentive effect on some working families.

6. Table 1 shows the overall impact of the proposals on marginal effective rates of taxation/benefit withdrawal. The main points are:

(i) The means test for the new family support scheme is based on net income and this eliminates all marginal rates of more than 100 per cent.

(ii) The steeper HB taper removes many people from HB support altogether, thus reducing their marginal rates but increases marginal rates for those still receiving HB.

(iii) The wider coverage of family support increases marginal rates for those receiving this for the first time under the new regime.

(iv) Adult non-householders will pay local taxation for the first time. Some will be able to claim HB thereby raising their marginal rates.

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*the exact form of the property tax is still to be decided; for the purpose of this analysis existing rateable values have been used.

TABLE 1

(thousands)

Marginal tax rates (per cent)*	0-50	50-70	70-100	100+
Present system	14790	190	370	130
Change due to:				
Social Security proposals	-100	-160	+390	-130
LA proposals	-30	-10	+40	-
After changes	14660	20	800	-

7. As a result of these changes:

(a) All 130,000 working families with marginal rates of more than 100 per cent see those marginal rates reducing to 90 per cent or so.

(b) The number of working families with marginal rates of more than 70 per cent increases from 500,000 to 800,000 (an increase of 300,000). Most of these are families with children. Of the 300,000 increase 260,000 is due to social security changes.

In effect, therefore, the two sets of proposals eliminate marginal rates above 100 per cent but increase the number of benefit recipients and hence the number with very high marginal rates of tax/benefit withdrawal.

Replacement Ratio (the "unemployment trap")

8. The fact that people in work pay tax at relatively low levels of income, together with the existing levels of benefits for those out of work - particularly for families with children - can mean that many families can receive as much, or even more, income out of work as in work. The higher the ratio ("replacement ratio") of benefit income out of work to pay in work, the greater the disincentive to employment. Table 2 shows the number of working families with different replacement ratios.

9. The main impact of the social security and local authority changes are:

(i) More generous family support for those in work virtually eliminates replacement ratios of more than 100 per cent.

(ii) The requirement to pay at least 20 per cent of local tax bills reduces Supplementary Benefit for the unemployed, and thus reduces replacement ratios for those affected.

*figures are based on entitlements to benefit. Figures on the basis of take-up would show smaller numbers with high marginal rates.

TABLE 2 (thousands)

Replacement ratios (per cent)	0-50	50-70	70-90	90+
Present system	6460	5370	1850	270
Change due to:				
Social Security proposals	+370	-270	-30	-70
LA proposals	+50	-20	-30	-
After changes	6880	5080	1790	200

10. As a result of these changes

(a) the number of working families with replacement ratios above 70 per cent reduces by 130,000, from over 2.1m to under 2m (100,000 of the 130,000 is attributable to social security changes).

(b) the number of working families with replacement ratios above 90 per cent reduces by 70,000, from 270,000 to 200,000.

Gainers and losers

11. Both sets of changes produce substantial changes in the net income of particular groups. The social security proposals would reduce net incomes on average, reflecting the savings agreed in MISC 111, with pensioners losing most and working families losing least. The local government proposals increase net incomes on average because the Department of Environment have assumed that existing precept control of ILEA and transport boards will produce spending reductions before the new system comes into operation. Pensioners would gain most and the unemployed least. But the social security reductions outweigh these assumed local government gains with pensioners overall losing most, and working families having little overall change in net income.

Table 3: Average effect of proposals on Net Income (£ per week)

	Working Families	Unemployed Families	Pensioners	Overall
Net income before changes	139.82	59.56	67.05	107.95
Effect of social security proposals	-0.42	-0.85	-1.78	-0.82
Effect of local government proposals	+0.22	+0.13	+0.55	+0.28
Net income after changes	139.62	58.84	65.78	107.41
% change net income	-0.14%	-1.2%	-1.8%	-0.5%

13. These average changes are relatively small but the averages mask some quite large gains and losses by particular groups (see table 4). About 1.3 million families stand to lose more than 10 per cent of net income as a result of the social security proposals and a further 2.4 million stand to lose 5-10 per cent. There are smaller numbers of large losses from the local authority proposals and few counteracting gains, so that overall 1.3 million families stand to lose more than 10 per cent and 4 million to lose more than 5 per cent. Against this, ½ million families will gain more than 10 per cent from the social security proposals and a similar number gain 5-10 per cent from the local authority proposals. Overall 1.2 million will gain more than 5 per cent. For each of the sets of proposals and, overall, more than 80 per cent of families have their net incomes changed by less than 5 per cent, and most of these changes are less than 3 per cent.

14. These gains and losses would be masked by the effect of the uprating in the year in which they were introduced. This, if it is assumed for illustrative purposes that all benefits are uprated in that year by about 3% a significant proportion of the 7.4 million families shown in Table 4 as losing 1-5% of their net income would in the event suffer no cash loss. For some tax-paying families the reduction in net income might be offset by any tax reductions which were made in the year in which the new social security structure was introduced.

Table 4: Effects on Net Income (millions)

	Losses			No change	Gains		
	10%+	5-10%	1-5%	±1%	1-5%	5-10%	10%+
Social Security proposals	1.3	2.4	7.4	11.4	3.3	0.3	0.5
LA proposals	0.1	0.6	6.8	12.0	6.5	0.6	0.1
Social Security and LA proposals together	1.3	2.7	8.8	7.7	5.1	0.6	0.6

15. Some of the large net income changes are concentrated amongst particular types of family. Table 5 identifies the main impact of the two sets of proposals on different family types (more detailed tables are at Annex 2).

Table 5: Effects on different types of family

	Social Security proposals	Local Government proposals	Combined effect
Families with working head			
Single non householders	Little effect	All lose	Most lose
Single householders	Many small losses	Most gain	Many small gains
Couples without children	Little effect	Little effect	Little effect
Couples with children	Many small losses	Many small gains	Mixture of small gains and losses
Lone parent	Many small losses	Many small gains	Mostly small gains
Families with head not working			
Single non householders	Little change for most but some large gainers and losers	All lose	Most lose
Single householders	Large numbers with large losses	Most gain	Most lose - many large losses
Couples without children	Some large losses	Little effect	Some large losses
Couples with children	Many lose, some large losses	Little effect	Many lose, some large losses
Lone parents	Most lose but some large gains	Little effect	Most lose, but some large gains
Pensioners			
Single	Large numbers, with large losses	Most gain	Most lose, some large losses
Couples	Most lose	Little effect	Many small losses

16. The family types most affected by the social security proposals are:

Unemployed - young householders lose because of both the switch from a householder rate of SB to different rates for under- and over-25s, and changes to HB. Older non-householders gain. Overall, more than ½m would lose more than 10 per cent of their net income (currently averaging about £60 per week).

Pensioners - over 600,000 lose more than 10 per cent of net income (currently averaging about £67 a week), most of them single and on low incomes, because of the housing benefit changes.

17. The family types particularly affected by the local authority proposals are:-

Single non-householders - all will start paying a local charge for the first time and so will lose.

Single householders - whether working, unemployed or pensioners, will gain as they only pay one per head element of the local charge. The gain will vary with rateable value.

18. There is little direct interaction between the two sets of proposals, although the new housing benefit rules will affect the impact of the local government proposals on those receiving HB. More of the new local local charge on single non-householders would bear directly on the unemployed and those on low incomes than under the present system. Similarly, more of the gain to unemployed, pensioner and low income single householders will find its way into net income.

19. The two sets of proposals may in some cases cancel each other out; in other cases they reinforce each other. For example

Working single householders	where local authority gains outweigh social security losses
Working couples with children	where there is a mixture of gains and losses arising from social security losses and local authority gains
Unemployed single householders	where large losses from social security are to a limited extent offset by gains from the local authority proposals, but most still lose.
Single pensioners	where large losses from social security are partly offset by gains from local authority changes, but most still lose.

ANNEX 1

SOCIAL SECURITY AND LOCAL AUTHORITY FINANCING IMPLEMENTATION TIMETABLE

	Local Authority Finance(*)	Social Security Reviews
December 1985	Publish Green Paper	Publish White Paper Publish Bill
July 1986		Early uprating
October 1986	Publish White Paper	
April 1987		Uprating Introduction of new Benefit regime 1st phase of new pension arrangements
October 1987	Bill published(1)	
April 1988	Bill enacted (1)	Uprating 2nd phase of pension arrangements
July 1988	[Bill published (2)]	
April 1989	[Bill enacted (2)] New proposals implemented (1)	Uprating Final phase of new pension arrangements
April 1990	[New proposals implemented (2)]	New pension arrangements complete

(1) If General Election 1987
(2) If General Election 1988

(*Consideration is also being given to an accelerated timetable, under which the White Paper would be published in July 1986, the Bill would be published in December 1986 and enacted in July 1987; and the new regime would come into force in April 1988.)

Table 1: Effect of social security proposals - numbers with different gains and losses (thousands)

		Working	Not Working	Pensioners	Total
Loss over	10%	70	640	610	1320
	5-10%	160	690	1570	2410
	1-5%	4720	1000	1670	7390
No change	± 1%	7450	1800	2130	11380
Gain	1-5%	2900	300	110	3310
	5-10%	110	140	80	330
	over 10%	70	390	40	490
Average %		-0.3	-1.4	-2.7	-0.8
Average £		-0.42	-0.85	-0.78	-0.82
Current average net income £		139.82	59.56	67.05	107.95

Table 2: Effect of local government proposals - numbers with different gains and losses (thousands)

		Working	Not Working	Pensioners	Total
Loss over	10%	10	110	20	140
	5-10%	270	210	70	550
	1-5%	4260	1300	860	6780
No change	+ 1%	6380	2470	3160	12040
Gain	1-5%	4010	700	1750	6460
	5-10%	140	110	300	550
	over 10%	10	50	40	100
Average %		+0.16	+0.21	+0.82	+0.26
Average £		+0.22	+0.13	+0.55	+0.28
Current average net income £		139.82	59.56	67.05	107.95

Table 3 : Combined effect of social security and local government proposals (thousands)

		Working	Not Working	Pensioners	Total
Loss over	10%	110	710	430	1250
	5-10%	490	740	1430	2660
	1-5%	5250	1490	2010	8750
No change	+ 1%	5800	830	1080	7710
Gain	1-5%	3480	560	1070	5110
	5-10%	270	200	130	600
	Over 10%	90	420	50	560
Average %		-0.14	-1.2	-1.8	-0.5
Average £		-0.20	-0.72	-1.33	-0.54
Current average net income £		139.82	59.56	67.05	107.95

LOCAL GOVT
RELATIONS
PT 28

11

PRIME MINISTER

MISC 111 TOMORROW

Here are some further papers for tomorrow's meeting:

- Flag B: note by the Cabinet Office about issues for discussion tomorrow, together with a helpful list of possible conclusions to be drawn on in your summing up;

- Flag C: note by John Redwood;

- Flag D: figures for the savings from modifying SERPS;

- Flag E: paper by the Treasury on inter-actions between the social security proposals and local authority finance proposals. The existence of this study should NOT be mentioned at the meeting tomorrow;

- Flag F: minute by Mr. Brittan;

- Flag G: minute by Mr. Hurd;

- Flag H: letter from Mr. King.

The analysis in the Treasury paper (Flag E) is based on earlier proposals by Mr. Fowler and Mr. Baker but the results are broadly indicative of the likely pattern with the new proposals. See in particular the covering letter, table 5 and paragraph 19.

The Cabinet Office have proposed that a further study should be carried out under their chairmanship. The Treasury are nervous that Mr. Fowler or others could use this as an excuse to undo the proposals or undermine the work of the Star Chamber. There is something in this, and I understand the Chancellor mentioned it to you on Sunday. The timing of a study would however be under the control of the Cabinet

Office consulting No.10 and the Treasury. Alternatively the Treasury could do another study. (The present Treasury paper is a very good piece of work mainly by Michael Scholar and Ian Byatt and I should like to thank the Treasury warmly on your behalf.)

Of the Ministerial letters only Mr. Brittan's (Flag F) is worth your attention. Mr. Hurd is writing to support Mr. Fowler on SERPS and the timing of changes, and Mr. King has written about special difficulties with presenting the proposals in Northern Ireland.

DN

(David Norgrove)

14 October 1985

cf B u/p.

SECRET

10

PRIME MINISTER

11 October 1985

WHAT SHOULD WE DO ABOUT SERPS?

I suggest that MISC 111 on Tuesday should focus on the future of SERPS. Norman Fowler's proposals for the other benefits are best looked at by the Star Chamber as the main objective is to get useful savings in 1987/88 as originally planned.

There are four options for the future of SERPS:

i. abolish SERPS in 1987 as planned

ii. delay abolishing SERPS to 1988

iii. abolish SERPS but without a compulsory alternative

iv. make SERPS less attractive and private pensions more attractive

Going Ahead Regardless

Abolishing SERPS furthers the objective of a property-owning democracy and in the long run delivers big cuts in tax and public expenditure. Anything else looks like a retreat. After failing to tax pension funds we would be bowing to pressure from them twice in one year.

But even the institutions which support the policy now genuinely doubt whether 10 million people can be signed up in private pension schemes by April 1987. Selling council houses to willing buyers over a five-year period is one thing. Compelling everyone to buy their council house within 18 months despite opposition from estate agents and building societies would be trickier.

SECRET

So I reluctantly recommend that we go for as good a combination as possible of the other three options.

Delay Abolition to 1988

This meets the widespread objection that it simply isn't feasible to get the new system in place by April 1987. But we have been messing around with pension proposals for far too long already. The only proposal that has actually been inplemented is improved rights for early leavers. We need more such concrete achievements.

If everything is delayed to 1988, pensions will succumb to planning blight. The surge of savers into personal portable pensions would be delayed, so there wouldn't be any beneficiaries of the new policy until after the next Election. We need to pick out practical proposals for encouraging private pensions which can actually be implemented in April 1987. In particular everyone should have the right to opt for a private portable pension.

Abolish SERPS With a Voluntary Private Alternative

This is closest to the true spirit of Beveridge - a basic contributory benefit for all and voluntary provision on top. The only compulsion is that those employees who want a pension can oblige their employers to match their own contributions.

You rejected this approach earlier for two reasons. First, you were afraid that the improvident would end up on supplementary benefit. This danger is not as great as may appear because the number of old people on supplementary benefit will fall anyway as widows get better treatment under their husbands' occupational schemes, contribution records improve and home-ownership spreads.

The second problem was political: that we would be accused of abolishing SERPS without replacing it with anything at all. It might however be politically feasible to make second pensions voluntary for people under 30. We could exclude them from SERPS (giving them and their employers the lower contracted-out rate) but give incentives to private pension provision if they wished. This is attractive as it:

- starts the habit of private savings for pensions
- lowers the cost of employing young people
- cuts the the eventual cost of SERPS.

Making SERPS Less Attractive

Norman Fowler wants to drain people out of SERPS and into funded schemes, particularly into personal portable pensions. He presents this as meeting our main objective of spreading private pensionsand cutting the ruinous cost of SERPS. It also defuses criticism from the pension funds that they are being obliged to cover unattractive as well as attractive bits of the pension market.

But it has its drawbacks. The sort of measures which Norman Fowler envisages to save money on SERPS will be politically unpopular. It would just be making SERPS meaner with no greater vision. Several of the expensive features of SERPS (full entitlement after only 20 years of employment, generous provision for widows), were aimed specifically at women who would lose heavily from his proposed savings. Norman Fowler says he will protect them, but can he do this without reducing the savings?

Recommendations

We should give everyone a right to a personal portable pension in April 1987 at the latest. At the same time, we should give anyone aged under 30 the right to opt out of SERPS and his occupational scheme if he so wishes.

Other measures will have to wait until 1988. We could still get away with abolishing SERPS then if you judged extra private provision could be voluntary. If that is politically impossible then we should settle for draining SERPS of the maximum number of people. Norman Fowler should be asked for estimates of the number of people likely to leave SERPS under his proposals and how that number can be increased.

David Willetts

DAVID WILLETTS

ORO

CCPW

8

SECRET

Prime Minister
We are meeting you at 1400 on Thursday to discuss this before MISC 111 on Tuesday.
DRN 11/10.

P 01721

PRIME MINISTER

REPORT ON THE REVIEW OF SOCIAL SECURITY
(MISC 111(85))14 – Flag A

BACKGROUND

1. This is the first opportunity that Ministers collectively have had to consider the social security reform package in the light of comments received on the Green Paper published in June. The Social Services Secretary now proposes a number of changes to the original package agreed at Cabinet on 2 and 9 May. He also sets out a new timetable for legislation and implementation.

Green Paper Proposals

2. The Secretary of State's original proposal fell into the following main parts:

(a) PENSIONS: The State Earnings Related Pensions Scheme (SERPS) would be phased out and replaced with compulsory private provision through occupational, industry or personal schemes with a minimum contribution of 2 per cent each by employers and employees by the end of the transitional period. Broadly those who did not contribute to SERPS would not be covered by the new compulsory requirement. In particular the position of the self-employed would be unchanged. The low-paid and unemployed would not contribute.

(b) INCOME SUPPORT SCHEME: The supplementary benefit scheme would be replaced by a system of income support. This would eliminate the present complex system of differing rates and additional payments and in its place introduce a much simpler system under which the level of benefit would depend only on age with premia for families with children, single parents, pensioners and long term sick and disabled. There would no longer be extra entitlements - for example, for heating - related to detailed assessment of individual circumstances and assistance would not be available with mortgage interest payments during the first 6 months on benefit. There would, however, be a social fund fall-back scheme for emergencies and special needs operated within a budget with no legal entitlement or detailed rules. The level of disregard for both capital and earnings would be increased to encourage the incentive for self help.

(c) A FAMILY CREDIT scheme for low-income working families with children would replace family income supplement. This new scheme would be based on the same structure as the new income support scheme so that those in and out of work would be treated consistently. The aim would be to alleviate the poverty and unemployment traps. Family credit would be paid in the wage packet to the principal wage earner as an offset to tax and national insurance. No change would be made in universal child benefit but it would be subject to less frequent uprating.

(d) HOUSING BENEFIT (HB): Major simplifications were proposed. Benefit would be provided on the same income test as the income support scheme to ensure consistent treatment for people in and out of work. It would be reduced as income rose, through a single taper instead of, as at present, six different tapers for rent and rates and different types of claimant. The same rules for capital disregard would apply as for the income support scheme. Powers would be taken to fix percentages of rebate for both rent and rates with the maximum assistance for rent being set at 100 per cent but that for rates at 80 per cent, so that households would not be insulated from the effect of rate increases. The intention of this very important change is to improve the accountability of local government in line with the proposals being taken forward in E(LF), and it accounts for a large share of the savings expected from the package. A reserve power would also be taken to enable rents eligible for HB to be capped in any individual local authority area in which rents were being raised unreasonably because the bill was being met by housing benefit. The direct subsidy to local authorities by specific grant would also be limited to 80 per cent of benefit cost so as to give local authorities a greater incentive to control costs.

(e) MISCELLANEOUS: Death and maternity grant would be replaced by help out the social fund. The maternity allowance would be concentrated on working expectant mothers who would have a choice over the period it could be drawn. A new lump sum of £1,000 would be paid to widows instead of the present weekly widows' allowance paid for 6 months. Weekly benefit would be focussed on widows with children and older widows without children.

(f) The UPRATING of benefits would be brought forward from November to April. The first April uprating would be April 1987, with an interim uprating in July 1986.

(g) Improvements would be made in the management of the social security system to improve efficiency and effectiveness in its operation.

Consultation Reactions

3. The Secretary of State reports that comment on the Green Paper contains a good deal of support for the objectives in pension reform - to reduce the cost of SERPS, to expand occupational provision, and to increase choice through the option of personal pensions. But there is also widespread concern about the means proposed. Employers and the pensions world, including the large insurance companies, believe the proposal on pensions will lead to higher administrative and wage costs for employers and that a pension contribution of 4 per cent will be too low to secure employees in adequate pension when they retire. They

therefore support modification of SERPS rather than outright abolition on the basis that this would reduce the risk of pensions again becoming a "political football" and that employers would find change within the existing structure easier to cope with than a radical disruption of existing arrangements.

4. On HB, in addition to the expected opposition to the proposition that all householders should pay 20 per cent of rates and that central government subsidy be limited to 80 per cent, there have been strong representations from local authorities that the timescale for implementation is too short and could lead to a repeat of the problems experienced in 1983 when HB was introduced. Finally there have been representations about the severity of the effects of some proposals on individuals or groups of individuals.

Proposed Modifications

5. In the light of this reaction the Secretary of State now proposes the following main modifications.

(a) PENSIONS: This is the main change to the original package. Mr Fowler proposes to retain SERPS, but to modify it. His detailed proposals are at Annex A of the Memorandum. The effect is to reduce the emerging costs; to simplify contracting-out arrangements and extend them; and to encourage the spread of occupational pension schemes, by limiting exclusions and by stimulating industry-wide schemes and measures to extend personal pensions. This last proposal would involve giving everyone the right to opt for a personal pension. Personal pensions would be contracted-out, with minimum age-related contributions paid by DHSS to the scheme of the employee's choice as a national insurance contribution rebate.

(b) INCOME SUPPORT: Mr Fowler proposes implementing these proposals broadly as intended except that there would be no budget limit on the payments out of the social fund for maternity

To Unwin prepared this brief before seeing the paper, unavoidably. (b), (c) and (d) here are not discussed in detail in the paper.

and funerals. Negotiations are also still continuing with the building societies over his proposal not to pay mortgage interest for the first 6 months during which an individual receives income support.

(c) FAMILY CREDIT: Mr Fowler proposes that family credit should be assessed on 5 weeks earnings not 13 weeks as originally proposed. He believes this will be more flexible and less trouble for employers.

Summer work? Will mean lag in payments

(d) HOUSING BENEFIT: Mr Fowler proposes to return to an earlier proposal to separate assessment and tapers for rent and rates; the tapers would be 55 per cent on rents and 25 per cent on rates. He considers this is necessary to avoid disproportionate losses for owner-occupiers - especially pensioners. He also suggests that some concession may have to be made to local authorities on the proposal to limit direct subsidy to HB to 80 per cent, while keeping incentives to economy through the power to set the level of subsidy annually. He considers a concession may also need to be made on local authorities transitional costs. Finally, he proposes the continuation of special local relief schemes for war pensioners.

Why?

(e) TIMING OF IMPLEMENTATION: The other major change proposed is to defer implementation of the main proposals until April 1988 to accommodate slippage in the preparation of the Social Security Bill as a result of the pension changes and to allow local authorities and businesses a longer timescale for preparation of implementation. Mr Fowler believes that local authorities will simply not be willing or able to implement the new HB system before April 1988.

6. Mr Fowler does not make clear in any detail in his paper the financial and distributional consequences of his new proposals compared with those approved by MISC 111 in June and embodied in the Green Paper. I understand from the Treasury, however, that the combined effect of the

But see Annex B of Mr Fowler's paper.

changes in the measures themselves (notably to the Family Credit and Income Support schemes) and the change in timing will be to add substantially to both public expenditure and the PSBR in both 1987-88 and 1988-89. There is, however, no agreement between the Treasury and DHSS on the precise numbers; the current argument between them relates to bids over the Survey baseline rather than to the difference between the costs of these new proposals and those in the Green Paper. So far as distribution is concerned, the changes will obviously reduce the number of expected losers from the Green Paper package. Again, we have no agreed details, but I believe the overall number of losers could be reduced by around 1 million, of whom over three-quarters would be pensioners.

MAIN ISSUES

7. The problems of timing and of harmonisation with other current proposals are as difficult as the substantive policy issues. In particular, there is a complex interaction with the local government finance studies in E(LF), and you will be concerned to ensure that the present meeting does not pre-empt any of the room for manoeuvre in the Star Chamber for holding down social security expenditure. (There is also an interaction with the proposed Green Paper on personal taxation, though this is less clearly discernible at present).

8. I suggest that your general objective at this meeting should be to achieve a strategic political overview of all the Social Services Secretary's new proposals, against which he can take work on the White Paper and Bill forward. But in view of the necessary lead-time in preparing this highly technical legislation (on which drafting will now have to start again from scratch), it would be desirable for the Group to take provisional decisions in principle now on the pensions element of the package, especially on the basic question of the abolition of SERPS.

Pensions

9. The pensions questions do not raise significant public expenditure

issues for many years, though they have short-term organisational and administrative implications in both the public and private sectors. As Mr Fowler's paper explains, the proposal to abolish SERPS has clearly elicited a quite unexpectedly hostile response not just from the Government's political opponents but from most quarters representing the interests that would be involved in operating the new regime. In the light of this, members of the Group may see advantage in moving quickly away from the plan to abolish SERPS before the Government are committed to it any more deeply, and a decision in principle not to proceed with the abolition of SERPS may well readily emerge.

10. Even if that decision in principle is acceptable, however, it does not necessarily follow that Mr Fowler's proposals are a viable alternative to abolition. There are basically three issues here:

(i) Do the new proposals do enough to tackle the huge cost of SERPS in the next century, to which the Green Paper has drawn so much attention?

Any figures?

(ii) Can the proposals be plausibly presented as being significantly different from the ones that the Green Paper summarily rejected?

(iii) What kind of response will the new proposals get from those who will have to administer them, especially employers and the pensions industry?

Other Social Security Policy Proposals

11. Although the changes that Mr Fowler is proposing to the rest of the Green Paper package are not as drastic as his new proposals on SERPS, most of the adjustments being canvassed are designed to get broader acceptance for them and would cost money (see paragraph 6 above). As you know, the social security net additional bids are the highest the Star Chamber will need to consider (£1.2 bn, £1.1bn, and £1.9 bn in the three Survey years respectively) and, as indicated above,

there is a complex and unresolved argument between DHSS and the Treasury about the proper scoring of the savings agreed in MISC 111 when the Green Paper was being worked up. The current proposals also need to be examined more deeply than time has so far allowed, simply to test the costings. Against that background, you will not wish the Group to get drawn into details or to do anything that would reduce the pressure for savings that can be brought to bear in the Star Chamber. Within these constraints, however, it will be valuable to get the general sense of the Group's views on the overall balance of the package that is emerging.

Timing

12. The implementation date foreshadowed in the Green Paper was April 1987. That would have meant getting Royal Assent by the beginning of July 1986 (in order to leave time for making a number of regulations and commissioning much preparatory work), and second reading before Christmas 1985. Mr Fowler now proposes a start date of April 1988 which would enable second reading to be postponed until, say, the end of next January. It would also presumably make it unnecessary to rush out the White Paper as soon as early or mid-November, as Mr Fowler still proposes. That would provide another month before second reading in which to produce the local government finance Green Paper. It may be, however, that despite the difficulties described by Mr Fowler you would not wish to contemplate a later start than April 1987 on other grounds. And, in any event, you will not want at this stage to authorise a final decision to delay implementation, because the start date is an integral part of the sums that will be before the Star Chamber. The public expenditure and PSBR implications of the start date will need further analysis along with most of the figuring in the paper.

A coy way of mentioning the election.

13. The meeting also enables you and colleagues to take note of the wider implications for the legislative programme. Introduction in January should be manageable if the date of Royal Assent ceases to be dictated by the requirement of an April 1987 start, but anything later than that would present great difficulties in getting the Bill through

both Houses. The worst conceivable scenario would be attempting to legislate for the whole plan of the review (ie including pensions) with a late introduction and still aiming for a 1987 start. If, however, you still wish to aim at an April 1987 start, a possibility that might be worth considering is to press forward now with a Bill covering the non pensions proposals, leaving pensions to a separate later Bill following a period of further consultation on the practical details of implementation.

The two departments do not know it has been done.

Interaction with Local Government Finance Proposals

It should be available on Monday.

14. This brief is unable to take account of the analysis you have requested from the Treasury, which is coming forward separately. (A further synoptic analysis may also be needed in due course in respect of the personal taxation proposals). However, whatever that analysis may show on the way the two packages affect individuals and households, it is clear that there will be one difficult organisational and institutional problem. This is thrown up by the HB changes, on the one hand, and a new "residents' charge", on the other. The thrust of the social security measures would be to streamline HB and push a large number of households off local authorities' HB case loads (while collecting at least 20 per cent towards rates from all householders). The effect of the "residents' charge", however, will be to bring non-householders into what was previously the rate paying net and make them eligible for rebates if they have a low income. Over a million people could be so affected. The problem here is therefore not just one of public presentation. There must be a doubt about the willingness of local authorities to co-operate in a radical upheaval of housing benefit in the knowledge that the "residents' charge" proposals, with further radical effects, were programmed for early implementation thereafter. (There could be problems, too, if the local authorities were told to implement the two sets of proposals simultaneously, though that would appear possible only if the local government finance reform was legislated in the 1986-87 session and implemented in April 1988). There is no complete resolution of this point, assuming that a "residents' charge" remains near the heart of the local government finance review,

and streamlining HB is one of the central themes of the social security reform. But there will clearly need to be a very careful scrutiny of the substance, timing and presentation of the DOE Green Paper proposals as they bear on this issue, and on the effects on individuals and households. Indeed, you may think that it would be prudent to commission a further study of the overall distributional effects before final decisions on the proposed White and Green Papers are taken. If necessary, the Cabinet Office could be asked to arrange this with the help of the Treasury and the other relevant departments.

Yes, but better not to mention the Treasury study to their colleagues.

Future processing

15. In practice the Star Chamber (which includes most of the main Ministers concerned) will have to take on some of the role of MISC 111 when it considers the social security programme. Thereafter it will be necessary to take stock of the overall balance and presentation of the review as it emerges from the Star Chamber, and a time is being kept open for this on 28 October. (We currently envisage a MISC 111 meeting then but you may want to reconsider that in the light of progress and, perhaps, convene a smaller group). Ultimately the White Paper giving the promised illustrative figures of effects on individuals and households will need to go to Cabinet before the social security bill is published. You do not need to settle the precise timing of that at the moment; if the implementation date is to be April 1988, publication, as suggested above, could be a little later than mid-December. By the time the White Paper goes to Cabinet further progress should have been made on the main outstanding issues on local government finance. We have arranged for the Lord President to chair a meeting of E(LF) on 4 November; and a further meeting under your chairmanship on 12 November.

HANDLING

16. Time will be short and most members of the group will want to speak on each main point. You may think it best to take the meeting in 3 sections, inviting the Social Services Secretary to open each section by speaking to his paper, as follows:

(i) Pensions

(a) arguments for not abolishing SERPS

(b) Main features of what is now being proposed instead.

(ii) Other policy changes from the Green Paper, other than timing.

(iii) Deferral until April 1988.

Govt

17. On (i)(b) you will want to make it clear that the Group cannot take a final decision, and that the Social Services Secretary will need to have further discussion with the Chancellor of the Exchequer.

18. On (ii) and (iii) you will want to explain that this is the first chance to take stock of the response to the Green Paper in the round, and that you do not wish the Group to do more than express broad views for the Star Chamber to bear in mind in considering the public expenditure implications.

CONCLUSIONS

19. You will want the Group:-

1. To take a provisional decision whether the non-abolition of SERPS is acceptable.

2. To express interim views on the Social Services Secretary's new proposals on pensions and to remit further consideration of them for bilateral discussion between the Social Services Secretary and the Chancellor of the Exchequer.

3. To express interim views on the other proposed policy changes from the Green Paper and to note that further consideration of the financial implications will proceed in the Star Chamber.

4. To express interim views on the implementation date (and legislative timetable) and to note that final decisions must also await the outcome of the discussions in the Star Chamber.

5. To note the connection between the White Paper that must precede the social security bill and the development of proposals on local government finance and possibly to commission a report from the Cabinet Office on their combined distributional effects for consideration before final decisions are taken on the social security White Paper and the local government finance Green Paper.

J B UNWIN

11 October 1985
Cabinet Office

01

Covering SECRET

7

K01214

MR UNWIN

cc Mr Norgrove
Mr Eland

SOCIAL SECURITY

I attach a copy of a note I have obtained from DHSS on a personal basis that gives the gainers and losers that would flow from the Green Paper package without any further adjustment. It is on the same basis as Annex D to the draft MISC 111 paper that you were sent by Nick Montagu, and we shall certainly need to get further into these distribution effects before DHSS publish their White Paper.

I also attach a copy of an internal DHSS note summarising the commitments that Ministers have given about publishing illustrative figures on the social security review. You will notice that the Prime Minister's commitment of 19 June was that figures would be published "in the autumn once the main structure is settled."

AJL

A J LANGDON

10 October 1985

Client group	Gainers £5+	£3-5	£1-£3	<£1	No Change	Losers <£1	£1-£3	£3-5	£5+	Total Gainers	Total Losers
Pensioners	45	40	190	250	0	640	2130	805	260	525	3835
Sick or Disabled	65	10	85	5	0	40	35	20	5	165	100
Lone Parents	205	20	95	95	0	85	155	25	110	415	375
Couples with children	315	185	250	125	0	115	125	40	145	875	425
Others	55	180	20	115	375	240	340	295	320	370	1195
Total	685	435	640	590	375	1120	2785	1185	840	2350	5930

SECRET

Mr Hickey

MR GORDON BROWN: FIGURES/EXPENDITURE

1. We submitted yesterday a batch of quotes by Ministers from PQs, debates etc on illustrative figures, gainers/losers and expenditure. I have gone through these and reduced the volume to more manageable proportions by selecting what seem to be the quotes most helpful in rebutting suggestions that Ministers have been less than frank about the effect of the Green Paper proposals.

2. In fact the record (represented by the selection of quotes attached) shows that Ministers have made it clear that

* the proposals were tested to ensure that they could be afforded and that they would meet the objectives

* there are bound to be losers from such structural reform

* family credit will get extra cash and that this has to come from within the existing social security budget

* family credit will have priority as between family credit and child benefit

* more people on family credit inevitably means more with high marginal tax rates

* money will be saved on housing benefit - about £500 million

* no savings will result from the reform of the main structure of supplementary benefit

* those on supplementary benefit at the point of change to the new structure will be protected from cash loss as far as possible

* about 85,000 people who now qualify for maternity allowance would not have qualified under a "recent work" test

* widows' benefit would cost money in the first year and that savings would build up after year 2 to reach about £50 million in year 5

* above all, final decisions on rates have not, and cannot, yet be taken.

3. The record demonstrates clearly that people like Mr Gordon Brown seem to prefer to stick with pre-publication speculations rather than listen to what Ministers have actually said.

TFCrawley

T F CRAWLEY
CRU D405 AFH Ext 7404

19 July 1985

cc	Mr Phillips	Mr Cockett	Mr Bird	Mr Heppell	Mrs Bowtell
	Mr Ellis	Mr Regan	Mr Storer	Mr Walmsley	Mr J H Ward
	Mr Montagu	Mr Lerner			

STATEMENTS BY MINISTERS ABOUT FIGURES/EXPENDITURE

Illustrative figures

Prime Minister to Mr Kinnock. Letter of 6 June 1985

"Assessing the wider merits of our proposed structure does not depend on figures which at this stage .... could only have a spurious precision and might be actively misleading"

Prime Minister PQ from Gordon Brown 19 June Cols 92-3

"I have said [Hansard, 13 June at col 1015] that we will publish illustrative figures showing the effects of the Green Paper proposals in the autumn once the main structure is settled .... the final effect cannot be known until the April 1987 benefit rates are settled."

Prime Minister to Gordon Brown - letter of 4 July

"The cabinet saw their task, rightly, as being to satisfy themselves that the structure proposed could be afforded and would meet its objectives. They did not seek to settle detailed figures."

Secretary of State to Social Services Committee - 19 June (not yet published)

"Obviously we, in the Department and Government, have satisfied outselves that the structure proposed could be afforded and would achieve its objectives ..... but we decided as a matter of approach not to set out the illustrative figures and those will be set out in a few months time."

Overall expenditure/cuts/gainers-losers

Minister of State in debate on the elderly - col 478/9 - 6 June

"In any structural reform such as we are proposing there will be swings and roundabouts. Some people will gain and others will lose."

Secretary of State in Green Paper publication statement - col 42 - 3 June

"Changes in supplementary benefit structure are not intended to reduce the overall help provided. As a result of the structural changes in supplementary benefit, we shall ensure that as far as possible there are no cash losers. Support for low income families will be increased by family credit. .... spending on housing benefit to be reduced considerably ... by about £500 million."

Minister of State in debate on the elderly - Col 476 - 6 June

Income support - "Broadly, our intention is to put back into the simplified structure of rates, including the premia ....., the money that is currently spent on various additional requirements."

Minister of State PQ from Brynmor John - col 104 - 18 June

Social fund - "Provisional figures for 1983 suggest that 171,000 single payments were made for maternity and 11,000 for funeral expenses in that year. More people will benefit from these payments than do so under the present single payments regulations."

Also confirmed that the lump sum paid to widows on bereavement will be disregarded for applications to the social fund for help with funeral expenses.

Secretary of State to Social Services Committee - 19 June

Family credit - "There will have to be increased resources devoted to family credit ... That will generally have to come .... from within the social security budget" ".... the first claim on those resources [to help families with children] is for low-income families with children."

Secretary of State to Social Services Committee - 19 June

High marginal tax rates - "The position .... will depend on the rates that we decide but, clearly we will move away from a basis of over 100 per cent .... I cannot ... discount the prospect .... that there will be as well high marginal tax rates"

Minister of State to Social Services Committee - 3 July

"I think it [more on high marginal tax rates] is a price that inevitably has to be paid if you want to increase the number of people assisted by an income related benefit"

Minister of State to Social Services Committee - 26 June

Housing benefit - "... the decisions which would enable detailed costings have not been taken ... The £500 million figure ... is a broad indication of ... the reduction in resources that we would expect ... . A significant part of them [the savings] would be expected to come from the proposals for people to meet 20 per cent of their rates bill and that would be ... about half"

Minister of State to Social Services Committee - 3 July

"... the effect of a single taper, given that the present rates go further up the income scale ... than rent rebates would imply some degree of curtailment for those receiving ... benefit on rates only."

Minister of State to Social Services Committee - 3 July

Maternity allowance - "It has not been put forward specifically as a saving proposal but depending on the balance of those who do not get maternity allowance now and those who would not get it in future .... the proposal could have effect in either direction."

".... some 25 per cent of those who receive maternity allowance have not worked at any time during the pregnancy ... The number of people who might not qualify under a test of recent work would be ... about 85,000". [Mrs Bowtell added: "Until we have settled the test it is difficult to put a figure on how many we are likely to bring in"]

Minister of State - PQ Sir David Price - Col 361-2 - 8 July

Widows - "Implementation of all the Green Paper proposals for widows' benefits would cost ..... about £28 million during the first full year and be broadly cost free in the second year. Savings would build up gradually after then with an approximate saving of £50 million by the fifth full year." [Figures assume November 1984 benefit rates and a lump sum of £1000.]

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SECRET AND PERSONAL

P 01715

From: J B UNWIN
9 October 1985

MR NORGROVE - NO 10

REVIEW OF SOCIAL SECURITY

I attach on a personal basis a copy of the draft MISC 111 paper which DHSS have let me have in great confidence.

2. This is only a first draft, to be discussed at Blackpool this week with Mr Fowler, but it conveys fairly clearly the substance of Mr Fowler's new proposals. What is not at all clear, however, either in the covering paper or the annexes, is the public expenditure and PSBR implications both of the various changes in the proposals themselves and of the proposed change in timing. Paragraph 13, for example, provides only the bearest of information, and only related to public expenditure.

3. As we have discussed, I think that final decisions both on the measures and their timing must depend on more detailed discussion of the social security programme in the Star Chamber. My brief for MISC 111 will seek to guide the Prime Minister on this. However, I am pressing DHSS to produce more information in this paper on the financial implications of the new proposals.

4. You will note also the comments on timing. I imagine that at next Tuesday's meeting the Prime Minister will still want to preserve the option of an April 1987 start. I will address this also in the briefing; one possibility, for example, might be to detatch the pensions proposals into a separate and later Bill. Again, however, final decisions will need to be postponed until the end of the month in the light of discussion in the Star Chamber, which could in practice operate on these issues as a mini MISC 111.

5. I should be grateful if you would have a word with me about this paper before passing on any further copies.

J B UNWIN

SECRET AND PERSONAL

DRAFT PAPER FOR MISC 111

Copy No ..10A
MISC 111(85)14

REVIEW OF SOCIAL SECURITY: THE NEXT STEPS

Memorandum by the Secretary of State for Social Services

1. The social security Green Paper generated tremendous public interest and debate. Over 6,000 individuals and bodies sent in their views during the consultation period. Nothing in the responses leads me to question the validity of the objectives of our reforms. Nor - with the single exception of pensions, which I examine below - do I believe that we should reconsider the broad structure of those reforms. The proposal to use a common assessment for all income-related benefits based on net income has been particularly welcomed, as has the alignment of income support and housing benefit. Criticism has been mainly directed at details of the proposals, or expressed in fears that the benefit rates may be inadequate.

2. I have however identified a number of points on the income-related benefits where I believe we should move from our original proposals. These are listed in annex A: none of them affects the overall structure of the changes, and meeting them has the presentational attraction of showing our readiness to take full account of consultations in finalising our proposals. Annex B lists some minor changes to social security legislation which I would like to include in the Bill and which have not

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previously received collective approval. Many of them further the general aim of having common rules across a number of benefits.

3. My chief concern is over the reactions to our pension proposals. The main elements in these were to phase out the State earnings-related pension scheme (SERPS) for all but those within fifteen years of pension age; and to replace it by a requirement on employers to provide occupational or personal pensions, with a minimum joint contribution of 4 per cent of earnings.

4. Our objectives - to reduce the costs of SERPS, to see an expansion of occupational provision and to increase choice through the option of personal pensions - command a good deal of assent. But there is considerable worry over the means we have chosen. Employers and the pensions world, including the large insurance companies, believe that our proposals will lead to higher administrative and wage costs for employers. They also fear that a pension contribution of 4 per cent will commonly be too low to secure employees an adequate pension when they retire.

5. These reactions from bodies who would normally be our firm supporters and on whom we will depend heavily in getting new arrangements in place have led me to think again about the path we have chosen. I believe it would be possible to meet the major objectives of change in a different way. Many of the bodies who commented on our proposals have suggested that they would prefer to see the acknowledged problems tackled through modifications to SERPS rather than outright abolition. They believe that this would reduce the risk of pensions again becoming a political football and that employers would find change broadly within the present structure easier to cope with than a radical disruption of existing arrangements.

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6. I therefore propose that our final pension proposals in the White Paper and the Bill should be to modify SERPS in order to reduce its emerging costs; to make contracting-out for occupational pension schemes simpler; and to give everyone the right to opt for a contracted-out personal pension, instead of remaining in his employer's scheme or fully in SERPS. I have set out in annex C the details of a possible package of measures and their effects on long-term pension costs.

7. A plan on these lines should be welcome to employers and the pensions world, which will reassure our supporters, and might well attract the support of opposition parties in Parliament, other than the Labour Party. We would be able to defend a change of direction as being a response to the concern voiced on the Green Paper proposals and as proof that we had conducted a genuinely consultative exercise. A further round of consultations would not therefore be needed before publishing the White Paper and the Bill.

8. I do not think that this change of direction should affect the timing of the White Paper. We are subject to understandable pressure to make our final decisions known as soon as possible; and we have undertaken to publish illustrative figures showing the effects of our proposals at the ame time. I therefore hope to publish the White Paper, as previously planned, in early to mid-November.

9. But a substantial change in pensions policy inevitably affects the timing of the Bill and of implementing our proposals. The redrafting of the clauses dealing with pensions will mean that the Bill cannot be ready for introduction before mid-December at the earliest - and mid-January may be a more realistic target. That may make it possible for Second Reading to take place after the Secretary of State for the Environment has made an announcement on his local government finance

proposals. There would be advantages in this, because of the obvious link between rating changes and my housing benefit proposals.

10. If the Bill is not introduced until mid-December or later, it will be impossible for us to obtain Royal Assent by the end of June, and so to get affirmative Regulations approved before the summer recess and guidance out to employers and local authorities. That in turn rules out the option of introducing the major reforms in April 1987 (although I shall examine the scope for retaining that date for changes to widows' and maternity benefits). ?

11. We had up to now taken the view that it was important to implement all the reforms in this Parliament. But I think that a later date - April 1988 - for most of them could be to our advantage. In the response to the Green Paper the pensions bodies suggested in the strongest terms that April 1987 was unrealistic as a start date. Even a modified SERPS approach, with provision for easier contracting-out and personal pensions, would involve changes for employers on a scale likely to require considerable discussion and preparation. An April 1988 start will avoid the risk of ill-preparation; it will also mean that the Financial Services Bill framework, on which we shall depend heavily for investor protection for personal pensions, will be firmly in place.

12. The extra time will also enable us to meet the very strong representations from the local authority associations that the timetable for implementing the housing benefit changes was too tight. We shall not in any case have their good will in meeting that timetable and we do not want to risk a repetition of what happened in 1983 when housing benefit was introduced. A 1988 start will make it impossible for them to argue that they have had insufficient time. It will also maintain the ? coherent strategy between the housing benefit and rating reforms.

13. The later start for implementing the major reforms will mean deferring some of the savings and costs from them. This will not significantly affect the total quantum, apart from shifting the transitional costs into the second year. Annex D shows the broad distributional effects of the changes in the benefit structure designed to achieve those savings. These rest on my view (yet to be agreed with the Chief Secretary) of the savings needed to meet the target. They will be amplified in the illustrative figures published with the White Paper. I am discussing separately with the Chief Secretary the short-term effect of a deferred start: this is likely make the same contribution to public expenditure restraint in 1986/87, and a rather better one in 1987/8, than our original timetable.

PSBR effects? [illegible] 88-89.

14. I invite my colleagues to:

i. agree that we should stand by our proposals on income-related and other benefits, except pensions, subject to the points in annex A;

ii. approve the other minor changes to social security legislation in annex B;

iii. agree that our pension reforms in the White Paper and the Bill should be on the lines set out in annex C;

iv. agree that the White Paper should be published in early or mid-November, and that the Bill should be introduced in mid-December or mid-January, with implementation of the major reforms in April 1988;

v. note the broad distributional effects of the changes as set out in annex D.

OCTOBER 1985 NF

ANNEX A

MAIN BENEFIT PROPOSALS (EXCEPT PENSIONS) AND CHANGES OR ADDITIONS IN THE LIGHT OF CONSULTATIONS

1. Supplementary Benefit

Proposals: - supplementary benefit to be replaced by income support: standard personal allowances with premiums for certain groups (families with children, pensioners etc)

- a social fund to provide discretionary help with exceptional difficulties, including budgeting and community care. Also help at a realistic level with maternity and funeral costs, replacing present universal grants.

Changes/additions: - negotiations continuing with building societies to get round need to pay 100% of mortgage interest for everyone on income support

- no budgeting limit on social fund payments for maternity and funerals.

2. Housing Benefit:

Proposals: - assessment for housing benefit (income and capital) to be on same basis as income support

- maximum level of help 100% rent, 80% rates, same as for people on income support

- single taper of 70% for withdrawing benefit as income rises

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- rents and rates to be assessed together

- direct benefit subsidy to authorities to be variable, initially 80%; administrative subsidy to be subsumed in rate support grant.

Changes/additions: - have separate assessment and tapers (55% on rent, 25% on rates) for rent and rates. This avoids disproportionate losses for owner-occupiers - especially pensioners - under the Green Paper proposals

- possibly some concession to local authorities on direct benefit subsidy, while keeping (through the power to set the level of subsidy annually) incentives to economy

- continue to allow authorities to operate local schemes to give war pensioners favourable treatment

- possible concession on authorities' transitional administration costs

3. Family Support

Proposals: - replace family income supplement (FIS) with a new family credit assessed on net earnings on a similar basis to income support and housing benefit and paid by employers through the wage-packet. The rate of the credit to include an extra amount in place of free school meals and milk.

Changes/additions: - family credit to be assessed on 5 weeks' earnings, as for FIS, not 13, as in the Green Paper: more flexible and less trouble for employers

- possible need for some concession to keep milk for pregnant women.

4. **Widows and maternity benefits**

Proposals: - widows' allowance to be replaced by tax-free lump sum of £1,000

- widowed mothers allowance and widows' pension to be payable immediately, but minimum age for widows' pension to be raised from 40 to 45

- maternity allowance to be based on recent work and contributions test and paid for a flexible (not fixed, as now) period of 18 weeks

Changes/additions: - the test for maternity allowance to be based on recent contributions (26 weeks in the last year)

ANNEX B

MINOR CHANGES TO BE INCLUDED IN 1985/86 SOCIAL SECURITY BILL

Note: Most of these changes are to carry through the Social Security Review's aims of simplification and increasing common rules and ground between different benefits.

Adjudication

A further step towards harmonization of decision-making on social security benefits (the process began with the Social Security Adjudications Act 1983). Main interests have been consulted and broadly support the proposals of which the main one is that appeals to Commissioners from decisions of local appeal tribunals will be made, with leave, only on matters of law (not fact as is currently possible on some decisions). This has been agreed by the Lord Chancellor's Department.

Benefit fraud

It is intended to provide local authorities with power to prosecute in cases where housing benefit is obtained fraudulently. This has been agreed by the Home Secretary.

Recovery of overpaid benefit

We shall make common provision, covering all main benefits (except statutory sick pay and housing benefit), for recovering benefit paid due to misrepresentation or failure by the claimant to disclose information.

Consultation on subordinate legislation

We intend to clarify existing powers to introduce subordinate social security legislation where the need for urgency requires this to be done before a report is received from the Social Security Advisory Committee, the Occupational Pensions Board [and local authorities].

Northern Ireland

The Bill will bring legislation on social security in Northern Ireland into line with Great Britain by transferring administrative functions (affecting NI Social Security Commissioners) to the Lord Chancellor and by amending the law to give a right of appeal from a medical appeal tribunal to a Commissioner. These changes have been agreed by the Northern Ireland office.

Industrial injuries legislation

No major change is proposed but (1) a right to an increase of benefit for a husband is to be introduced for those suffering from an industrial disease who were employed in prescribed occupations before 5 July 1948; (2) industrial death benefit will be restructured to match the changes to be introduced for widows under main social security legislation (see above), and (3) for most beneficiaries of special hardship allowance, the award will be periodically revised by the percentage movement in earnings in the industry in which the claimant was previously employed, rather than by making individual enquiries to employers.

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Uprating

Changes enacted in the 1985 Social Security Act paved the way for annual uprating of benefits in the first complete week of April. This Bill will generalise the annual review to all main benefits and will require a comparison of the general level of prices at the beginning and end of a 12 month review period. The obligation to uprate some and power to uprate other benefits at least in line with the increase in prices will not be altered by this ~~legislation~~.

Trade Disputes

The Bill provides an opportunity to reinforce and clarify existing legislation on unemployment benefit and income-related benefit for those involved in a trade dispute. The main changes will enable a person withholding his labour to be disqualified for benefit even if there is no general stoppage of work. The income support payable to a non-striking spouse will be half the appropriate rate for a married couple. Other changes will affect the recovery of benefit after return to work and the taking into account of any payments received by the striker or his family.

Consolidation

The Bill will look forward to the later consolidation of social security law by providing a power to make minor amendments of the benefit Acts by Order in Council in conjunction with the Law Commissions for England and Wales and Scotland.

SECRET

ANNEX C

ELEMENTS IN A NEW PENSIONS POLICY AND THEIR EFFECTS ON LONG-TERM COSTS AND NATIONAL INSURANCE CONTRIBUTION RATES

The elements in the new package of pension measures proposed in the main paper are as follows:

Modifications to SERPS in order to reduce the emerging costs

- base full SERPS rights on 30 years' earnings, rather than 20

- allow widows to inherit only half their husband's additional pension; at present, they can have all of it, plus any of their own, up to a ceiling

- require contracted-out schemes to protect guaranteed minimum pensions after award against inflation up to 5 per cent. The full inflation-proofing of the State additional pension would provide protection above this ceiling, and contracted-out national insurance contribution rates would reflect the additional burdens on schemes.

Changes to contracting-out arrangements, and encouraging the spread of occupational schemes

- simplify the present contracting-out requirements for salary-related occupational pension schemes

- allow money purchase schemes to qualify for contracting-out on the basis of the level of contribution; at present, only salary-related schemes qualify

- encourage the spread of occupational pension schemes, possibly by limiting exclusions from them (e.g. of part-timers and younger employees), and by stimulating industry-wide schemes.

Personal pensions

- give everyone the right to opt for a personal pension, instead of staying in his employer's scheme or fully in SERPS. Personal pensions would be contracted-out, with minimum age-related contributions paid by DHSS to the scheme of the employee's choice as a national insurance contribution rebate. This would avoid involving employers in a great deal of extra administration, and would simply mean the employer and employee paying national insurance contributions as if they were fully in SERPS.

/DN: The Government Actuary's Department are working on the implications of various options for the long-term costs of pensions and for national insurance contribution rates. But it will not be possible to be precise about these until Ministers decide the package of proposals on which they wish to go to colleagues. For the same reason, this draft annex does not at the moment cover the "radical" option outlined in the Hannibal House paper HH12./

JW

ANNEX D

GAINS AND LOSSES: ALL INCOME RELATED BENEFITS (000)

Client Group	Gainers £5+	£3-£5	£1-£3	<£1	No Change	Losers £1	£1-£3	£3-£5	£5+	Total gainers	Total losers
Pensioners	90	150	500	615	20	1285	1145	370	235	1355	3025
Sick or disabled	90	70	85	30	*	20	35	10	10	285	70
Single parents	215	25	20	25	*	140	165	30	60	285	395
Couples with children	210	185	235	100	*	90	90	30	85	725	300
Others	25	160	25	170	315	235	395	300	245	385	1175
Total	630	590	875	950	335	1770	1840	745	630	3040	4960
										2.9	4.8

NOTES

Totals may not sum because of rounding.

November 1985 benefit rates. All November 1985 changes assumed to have been made.

? Child benefit assumed to be £7 in real terms.

Housing benefit assumed to be on separate assessment: 55 per cent rent taper, 25 per cent rates taper.

SECRET

2087/32

1. MR WATSON
2. CHIEF SECRETARY

The nub of the problem is in paras 15 and 16. The tactics for getting there are complex. I am very keen to discuss with you as early as possible next week.

4/10

copy no 5 Mr Willetts

FROM: M T FOLGER
DATE: 4 October 1985

cc Chancellor of the Exchequer
Sir Peter Middleton
Mr Bailey
Mr Anson
Mr Byatt
Mr Scholar
~~Mr Turnbull~~
Miss Noble
Mr P Hall
B38
R44

SOCIAL SECURITY REVIEWS AND 1985 SURVEY: MR FOWLER'S 2 OCTOBER PACKAGE

We met DHSS officials yesterday to go through Mr Fowler's latest proposals, which he put orally to the Chancellor on 2 October. This note discusses their implications for the Survey and Review arithmetic. It discusses too the tactics to be adopted in any discussions with Mr Fowler in Blackpool next week and seeks your guidance on how to handle the paper which Mr Fowler will be circulating to MISC 111 on Friday 11 October, in preparation for the 15 October meeting of that Group.

2. Despite its length (which is I fear unavoidable) this submission does not cover the SERPs issues, on which we will submit a further note when we have something useful to tell you. Pensions will be discussed at MISC 111 but they have no direct bearing on Survey discussions of the social security programme.

3. All figures in this note are best estimates as of today, but are subject to minor revision as DHSS do further work. Costs and savings are quoted to the nearest £ million to keep the accounting straight but are not accurate to that degree.

Main Features of the package

4. Mr Fowler's main proposal is to implement Review measures in two stages:

(i) April 1987 implement just some useful, but relatively minor, savings measures (some restriction of benefit payments in respect of mortgage interest, cuts in benefits to students, introduction of capital rule in Housing Benefit).

(ii) April 1988 (ie 12 month delay compared with Green Paper plans) implement the rest of the Review measures (Family Credit (now with considerable net cost) Housing Benefit with its big saving in PSBR terms, Social Fund and (now more expensive) Income Support scheme, partially offset by savings on Supplementary Benefit single payments, etc.)

The breaking of step on uprating timings (interim uprating at July 1986, annual upratings from April 1987 onwards) would remain. On July economic assumptions, it throws up savings of about £300m in both 1987-88 and 1988-89.

5. It appears that Mr Fowler has settled on this two-stage approach mainly because he now accepts that local authorities will not be able to implement the new Housing Benefit system before April 1988. It also gives him more time to organise for the new system within DHSS (at what should be a more moderate transitional staff cost than we have guessed at hitherto) and means that the timetable is more robust to possible slippage of the Bill. Politically, he judges it better to wait for a April 1988 implementation of the main elements of the package rather than risk a botched job in 1987. The uprating (announcement of it in autumn 1987 or its implementation in 1988) could then get caught up with a General Election, but he does not see that as unacceptable.

6. A side effect of this retiming is that, because items with a big public expenditure cost are slipped to 1988-89, there would be a worthwhile public expenditure saving in 1987-88. Overall the 2 October package implies £456m less public spending on social security in 1987-88 than was implied by the latest costing of the package attached to Mr Fowler's 24 September letter. (Costings of the individual elements are at Annex B to this note.) But because the big Housing Benefit savings are also slipped by a year, the overall PSBR position in 1987-88 is improved by only £55m and for 1988-89 would be £105m worse.

Survey arithmetic

7. Taking account of Mr Fowler's revised offer the Survey figuring on the social security programme would now be:

	1986-87	1987-88	1988-89
£m savings (-) from:			
pure "Review" measures including Family Credit	-32	-89	+370
holding Child Benefit to £7 at Nov 85		-150	-171
further Child Benefit savings		-50	-50
total savings from new policy measures	-32	-289	+149

Remembering also the estimated savings from changing the uprating timing:

	-164	-285	-305

and other adjustments, as listed at annex A, this means total 1985 PESC savings in relation to the social security baseline of:

	-322	-585	-169

8. The net additional bids from Mr Fowler would then be:

	1199	1144	1880

Compared with net additional bids implied by the 24 September package of:

	1199	1600	1775

So although the 1987-88 picture is improved by £456m that for 1988-89 worsens by £105m. (mainly because more transitional relief would arise in that year.) Expenditure in 1989-90 will also be worse, by £100m, because some transitional relief would continue into that year and some extra spending on widows would not now come through until then.

PSBR arithmetic and Review target savings

9. Review measures, strictly defined, would now reduce the 1987-88 PSBR by an estimated £132m (as against a £77m reduction previously). In 1988-89 the PSBR would fall by £89m (as against a £194m reduction previously). Slippage of that big element of the Housing Benefit savings which helps only the PSBR picture is the main reason why the PSBR picture is not really helped by Mr Fowler's proposed rephasing.

10. Where Mr Fowler may be deemed to stand on the Review commitments, to PSBR savings of £800m in 1987-88 and £1000m in 1988-89, depends partly on what view is now taken about the 1987-88 savings of £150m estimated to flow from the decision to hold Child Benefit at £7 in the November 1985 uprating. By agreement with Mr Fowler, we have been allowing him to score these savings (and the corresponding £171m in 1988-89) against the net costs of introducing Family Credit. The Child Benefit savings nevertheless reflect 1984 Survey decisions, taken well before Mr Fowler's Green Paper was published. And so, arguably, if Family Credit is not now to be implemented until 1988-89 the £150m of 1987-88 Child Benefit savings should no longer feature as part of the Review arithmetic. It should instead be used to offset Mr Fowler's demand-determined bids (analogously with our position on the £118m of excess savings in 1986-87).

11. In practice, it will be difficult for you to sustain that argument, especially as the £150m definitely helps in the Survey context. Scoring the £150m as a Review saving and treating the £50m of further Child Benefit savings in the same way, the overall Review picture then becomes:

£m PSBR savings (-)	1987-88	1988-89
from strict "Review" measures, including Family Credit and consequentials on other programmes	-132	-89
excess savings from 1984 PESC (mainly from 1985 Child Benefit uprating)	-150	-171
further savings from Child Benefit	-50	-50
Totals	-332	-310

On this basis, the shortfalls compared with the Review targets are:

	1987-88	1988-89
	468	690

12. Mr Fowler of course has a different view of the Review savings accounting. He argues for additional factors to be taken into account:

£m PSBR savings (-)		
a Treasury view of net Review and Child Benefit savings	-332	-310
plus:		
uprating timing savings	-285	-305
savings "on account of Review" from 1984 PESC, already in 1985 Survey baseline	-184	-190
Mr Fowler's totals	-801	-805

13. On this basis, Mr Fowler sees himself as delivering his 1987-88 commitment in full and 80 per cent of his 1988-89 commitment. But we regard both his adjustments as unacceptable: the uprating timing change was decided well after Cabinet endorsed the Review package of structural measures on benefits and the savings from it are to be found additionally. And 1984 PESC is a closed book.

Red herrings

14. Mr Fowler may drag two red herrings across the path. Both relate to transactions irrelevant to the 1985 Survey figuring and the MISC 111 PSBR savings commitment:

(i) £100m of "public service pension costs no longer incurred" in 1987-88 [because the SERPS proposals have changed]. Arithmetically, this estimate is correct. But it does not help to close the gap in the Survey. The £100m would arise across a whole variety of programmes and Departments have not generally bid for it in the 1985 Survey. And the (adverse) impact of the Green Paper SERPs proosals on the public sector accounts has not been reckoned as part of the Review arithmetic. It cannot be so scored now simply because it suits Mr Fowler.

(ii) possible changes n the balance of the National Insurance Fund as a result of the changed proosals on SERPs. As a first round effect, the change could mean a tendency for the Fund balance to grow but on the usual assumptions (ie that NIC rates are set to avoid a rising surplus) it is unlikely there there would be any significant benefit to the PSBR.

Why Mr Fowler is in a jam

15. In discussions with DHSS officials, it has become clearer why Mr Fowler is in difficulty in delivering the commitments which we consider due. His evaluation of the consequences of the Family Credit regime proposed to MISC 111 seems to have been awry, possibly because of a faulty computer programme. To restrict the scale of losers to something like that presented to MISC 111 now necessitates a scheme about £100m more expensive. Mr Fowler now also seeks more generous treatment for pensioners under income support and Housing Benefit (a £2 rise in the weekly premium for the elderly).

16. DHSS officials have told us that, within the structure of benefits which Mr Fowler is likely to recommend to MISC 111, it would be technically possible to secure the full savings due. The numbers of losers would however be bigger than envisaged in the MISC 111 discussions, for the reasons discussed at paragraph 15 and bigger than those indicated in the attachment to Mr Fowler's 24 September letter. He would be bound to make a great deal of the political consequences.

Recommended Tactics

17. There is probably little to be gained by any softening of the Treasury position in advance of the Star Chamber. But some discussion with Mr Fowler in Blackpool may be desirable to prevent his accusing us of not being constructive.

18. I therefore recommend that, drawing as necessary on the material sent by you Office to No.10 on 27 September, you continue to defend the current Treasury position on the following lines:

(i) grateful to him for showing some flexibility, which recognises our public expenditure problem but does not go far enough.

(ii) under previous Cabinet and other commitments, still require:

(a) 1986-87:	£150m of measures (at July 1986 uprating or by other means if necessary) over and above £118m of "excess savings" from 1984 Survey measures.
(b) 1987-88:	at least another £470m odd of measures to generate total £800m PSBR savings from 1985 PEWP baseline. [£620m of measures if the £150m of Child Benefit savings is not scored towards the Review]
(c) 1988-89:	another £690m of PSBR savings to yield commitment of £1000m.

and (d) extra £100m costs in 1989-90 not acceptable.

(iii) grateful therefore if could look further at his proposals, to find requisite PSBR reductions - without scoring estimated uprating timing savings or savings agreed in 1984 PESC, long before MISC 111 began its work.

19. If Family Credit does slip to 1988-89 and we did then score the £150m of Child Benefit savings towards the Review savings for 1987-88, it will be more difficult to sustain the position that the £118m of excess savings from 1984 PESC should not score in 1986-87. Movement on one or both points could form part of an eventual deal but I recommend that you do not concede either in isolation.

MISC 111

20. If you agree with the tactics recommended above - ie no concessions to secure a deal at this stage - then Mr Fowler's MISC 111 paper, will pose some difficulties. We cannot stop him including at least illustrative benefit rates in the paper, with accompanying material on winners and losers. (Colleagues will demand as much.) But we should have to ensure, if necessary through a "Treasury paragraph" in the paper that the figuring is described as marking the upper limit of what he envisages. The actual levels of benefit will have to be decided with full regard to the coming public expenditure discussions in the Star Chamber and Cabinet. This may spur him to say how terrible are the distributional consequences of even his illustrative best case, but he will probably be doing that anyway.

21. Are you content with this way of handling the MISC 111 paper, please?

MTF

M T FOLGER

2085/15

ANNEX A
(4th revise)

SECRET

SOCIAL SECURITY AND DHSS ADMINISTRATION

Mr Fowler's position at 2 October 1985

savings = -, additional spending = +, [ ] means item subject to amendment.

£ million cash

		1985-86	1986-87	1987-88	1988-89
a.	PESC report baseline (including pay and admin; excluding LA relevant current)	39962	41547	43553	44642
b.	Further spending adjustments				
	b.1 Excess saving from measures adopted to deliver Cmnd 9428 totals		-118≠	-150	-171
	additional cost of Family Credit		not applicable		+265
	b2. p.e.** Savings from Reviews (excluding admin savings £30m 1987-88 and 1988-89, and £50m in each of those years from cutting real level of Child Benefit, and all 1984 PESC measures)		-32≠	-89*	+110*
	Savings from cutting real value of Child Benefit somewhat (exact mechanism unclear)		nil	-50	-50
	b3. Estimating savings from New Uprating Cycle		-164	-285	-305
	b4. Measures to meet additional cost of Nov 1985 board and lodging uprating (promised by Secretary of State)		-8	-11	-13
	Total adjustments		-322	-585	-164
c.	Additional Bids				
	c1. Demand determined benefit bids		+1492	+1694	+2004
	less potential benefit savings from extra DE anti-fraud staff		-13	-26	-26
	and from extra DHSS UROs		-15	-15	-15
	c2. Administration bids (excluding DE Admin element)		+57	+75.5	+85.6
	total bids		+1521	+1729	+2049
	SO NET INCREASES MR FOWLER WANTS, OVER BASELINE		+1199	+1144	+1885

(excluding claimed admin savings for 1987-88 and 1988-89, which will need to be set against further admin additional bids expected for Review implementation)

Treasury position on savings still due following previous decisions, taking account o consequentials on other programmes.

	- further pe savings due, leaving aside Family Credit excess (**assuming** total Review p.e. savings 150,300,500)	-118	-222	-605
	- savings to offset extra spending now envisaged for Family Credit (ie excesses not met by savings from holding Nov 1985 CB uprating to £7)	n.a.	n.a.	-9[illegible]
	totals	-118	-222	-699
d.	Options for further Reductions in Benefit spending			
	d1. Drop provision for abolition of RP earnings rule	-	-30	-105
	d2. Maintain Child benefit at £7 cash (ie no upratings at all)	-35	-120	-230
	d3. Other measures including additional Review savings in July 1986 uprating	-115	-200	-215
	Total	-150	-350	-550

2087/33

SECRET

Annex B

Mr Fowler's 2 October package:

Effects of individual Review measures including Family Credit (excluding admin consequences, to be considered separately)

£m, savings = -

	1987-88 (2 Oct package)	1987-88 (24 Sept)	1988-89 (2 Oct)	1988-89 (24 Sept)
- Housing Benefit (p.e. element only)	-35	(-35)	-40	(-40)
- abolish single payments	0	(-240)	-240	(-240)
- restrict benefits for mortgage interest	-30	(-30)	-30	(-30)
- cut students benefits	-24	(-24)	-25	(-25)
- end maternity & death grants	0	(-25)	-25	(-25)
- end old awards of central heating additions	0	(-40)	-30	(-30)
- income support	0	(190)	195	(195)
- transitional protection	0	(150)	150	(75)
- family credit	0	(271)	265	(265)
- Social Fund	0	(125)	125	(125)
- widows	0	(25)	25	(-5)
Social security p.e. savings from Review measures	-89	(367)	+370	(265)
health programme p.e. consequentials: welfare milk	0	(-15)	-15	(-15)
increased free prescriptions	0	(+4)	+4	(+4)
education programme (student grants)	+11	(+11)	+11	(+11)
total pe effects of Reviews	-78	(367)	370	(265)
add Housing Benefit rate rebate savings (including 9 each year from students measures)	-54	(-444)	-459	(-459)
PSBR effects of Review measures	-132	(-77)	-89	(-194)

ST1
4 October 1985

CONFIDENTIAL

ECDW

QUEEN ANNE'S GATE LONDON SW1H 9AT

4th October 1985

NBP7.

Dear Tony,

Thank you for your letter of 6 September about the enforcement of requirements under the new pension arrangements proposed in the Green Paper.

The proposed new powers for your inspectors are of course quite sweeping in appearance, though I recognise that so far as employers are concerned the powers already exist, and the proposals represent no more than a widening of the matters in respect of which they may be exercised. The issue is a little different when it comes to the trustees and managers of pension schemes. You will understand my concern to avoid anything which could be seen either as a fresh state burden on businesses, or as an intrusion into confidential professional relationships. You will recall the anxieties generated during the Parliamentary passage of the Police and Criminal Evidence Act over the suggestion that the police might be gaining unrestrained access to the records, for example, of accountants and financial institutions - to meet which fear we were forced to provide a number of additional safeguards, including a requirement for access to be gained only on the authority of a circuit judge. You will be relieved to hear that I am not going to suggest a similar mechanism here. I think a distinction can be made between the police gaining access to traditionally confidential areas of business and professional relationships, and a new sort of relationship (between employers and pension providers) which both parties will enter in the knowledge that they will be subject to the oversight of your inspectors. I would hope that on those grounds the powers could be defended in the face of any objections there may be. But I gather that this is an aspect of the proposals which has not yet received a public airing, so that it is not possible to judge at this stage what the possible reaction might be. If it were to prove unexpectedly controversial - either in the minds of those likely to be professionally involved in the new arrangements, or of the public generally - then I think it might be necessary to consider modifying this aspect of the powers. But with that proviso I am content with the proposed extension of your inspectors' powers of entry in the form you have suggested.

I welcome your assurance that the new offences you propose would be involed only sparingly. On this understanding, I am broadly content with the offences and penalty levels you suggest. I agree that we can leave it to officials to sort out the details.

I am copying this letter to recipients of yours.

Yours,

Doug las.

Tony Newton, Esq, OBE, MP

CONFIDENTIAL

SOCIAL SERVICES PT 3
REVIEW

c: Lord President

MR NORGROVE

NOTE FOR THE RECORD

This is to confirm our discussion today of the presentation of the payment of arrears of housing benefit, covering the period when a rate had not been set, to Liverpool, among other authorities.

I said that given the risk of legal challenge, it seemed important to get the Government on side quickly by making the payments.

However, I believe that if this were done the Government should not simply post the cheques and leave Liverpool (and other authorities) to misrepresent their payment.

We needed to command presentation. The way to do this was to issue a press notice at the same time as the LAs involved received the payments, or notice of payment, explaining what the payments were and why they were being made. It would be important to list all the authorities benefiting and the breakdown of payments, and to bring out the fact that the subsidy in payment to Liverpool in September alone exceeded the amount of back pay.

I further said that if the cheques, or notice of payment, went out today a press notice should be released tomorrow morning; we must not let Liverpool (or others) get in first. If the cheques went out on Friday we should issue the press notice on Saturday.

I should add that DHSS should pay particular attention to the local media in each of the authority areas involved.

BERNARD INGHAM
3 October 1985

010

006/105

CSAO

FROM: CHIEF SECRETARY
DATE: 30 September 1985

NBPM.
DRN
1/10.

PRIME MINISTER

JOINT DEPARTMENT OF EMPLOYMENT AND DHSS STUDY OF LOCAL OFFICE NETWORKS

att. File on B/UP.

Norman Fowler sent me a copy of his minute of 19 September to you about the joint Department of Employment and DHSS study of local office networks.

I am content with the terms of reference and the proposed timetable which he agreed with David Young. I hope there will be scope for significant savings from rationalising the networks following the Social Security review and the planned computerisation. Grading and pay levels will need to be watched so that potential problems there do not eat into economies that should be feasible. With these points in mind, I should be grateful if DHSS and DE could keep my officials in close touch with the progress of the study.

3 I am sending copies of this minute to Norman Fowler, David Young, Kenneth Baker and Richard Luce.

JM

JOHN MacGREGOR

SOCIAL SERVICES: MISC 111 : Pt3.

01.X. AM85

4

SECRET

P 01692

MR NORGROVE

The Prime Minister is seeing Mr Fowler tomorrow afternoon. This minute seeks briefly to identify the key points that it would be useful to raise with him. These relate to the Green Paper on Reform of Social Security and the forthcoming public expenditure discussions.

Green Paper on Reform of Social Security

2. The Green Paper was published in June. The period of formal consultation is now over. A meeting of MISC 111 has been arranged for 15 October when Mr Fowler is due to report the outcome of the consultations.

3. We do not yet know what Mr Fowler will recommend. The main Green Paper proposals may be summarised as:

- abolition of SERPS;
- new family credit scheme paid through pay packets and based on net income;
- replacement of supplementary benefit by new income support scheme;
- new cash limited "social fund" for special needs;
- simplified housing benefit scheme covering 100% of rent but only 80% of rates;
- replacement of death, maternity etc grants.

4. The signs are that the package is running into considerable difficulties. For example, abolition of SERPS is widely opposed (by the insurance industry and CBI as well as the poverty lobbies); and

DHSS are said to be having second thoughts on such matters as the rates of benefit for income support, the family credits scheme, and the practicability of the simplified (single taper) housing benefit scheme. Apart from the political dimension, any major changes could have serious implications for the timetable of legislation and implementation, and for the savings expected from the reforms. In brief:-

- On timetable, implementation in April 1987 requires publication of a White Paper and Bill in November, Second Reading before Christmas, and Royal Assent by next June;

- on savings, MISC 111 agreed the following (part public expenditure, part PSBR)

1986-87	1987-88	1988-89
£150m	£800m	£1,000m

5. The Prime Minister may, therefore care to ask Mr Fowler, in view of the very tight timetable for decisions ahead, whether he can give her some indication now of:-

(i) his likely conclusions and recommendations on the main Green Paper proposals in the light of the consultations (eg is he likely to want to recommend any major changes on SERPS and on the income and family support and housing benefit schemes?);

(ii) the implications of his likely recommendations for the timetable (is implementation in April 1987 still feasible?) and public expenditure and PSBR savings.

The Prime Minister may also wish to confirm that Mr Fowler will be able to circulate a paper on his proposals in good time for the MISC 111 meeting on 15 October (any slippage will make the timetable problems even more acute).

Public Expenditure Discussions

5. As indicated above, any changes in the Green Paper proposals could reduce the savings Mr Fowler contracted to deliver, and so add to the problems facing the Treasury on the public expenditure Survey. On the latest count, the Treasury reckon that the additional bids on social security alone (ie the amounts claimed by Mr Fowler above the agreed baseline) amount to some:-

£ billion

1986-87	1987-88	1988-89
1.2	1.6	1.8

6. The precise position reached between the Treasury and DHSS is not clear. The Treasury believe that Mr Fowler (eg by proposing more generous arrangements for the income and family support schemes) will not deliver the promised Green Paper savings in full; but will (illegitimately) count towards them other savings agreed last year (eg from changing the uprating date) which were always intended to be separate from, and additional to, the Green Paper review. Mr Fowler, on the other hand, will no doubt argue that the Treasury's interpretation is incorrect and that he still intends to deliver the review savings to which he is committed.

7. Both the numbers, and the correct interpretation of the various earlier agreements, are complex and unresolved and I do not advise the Prime Minister to try to get into any detail at this stage. The detailed arguments and unpicking must fall to the Star Chamber. But whatever the precise rights and wrongs, the fact is that Mr Fowler's present additional bids are a very large element of the problem facing Ministers in validating their July decisions on the Survey. In the three Survey years they account for some 40%, 32%, and 33% respectively of total additional bids from all Departments.

8. The Prime Minister may, therefore, wish to indicate to Mr Fowler that:-

- she is most concerned at the size of what she understands to be the likely additional bids on the social security programme (which are, of course, additional to the large bids also likely on the health programme);

- she very much hopes that Mr Fowler will contribute constructively to reducing these in the forthcoming Star Chamber discussions and in particular that there will be no question of not delivering both the Green Paper review and other social security savings that have been agreed over the past year.

J B UNWIN

30 September 1985
Cabinet Office

Confidential

10 DOWNING STREET

Prime Minister

You will not want to talk details and numbers with Mr Fowler. The need is to fire him off in the right direction.

I have seen the letter, attached, on a personal basis. Please do not indicate that you have seen it. The last paragraph shows what the Treasury is up against, and illustrates why David Willetts' proposal is important.

DRN
30/9.

3

PRIME MINISTER

MEETING WITH NORMAN FOWLER: SOCIAL SECURITY SAVINGS

The Treasury and DHSS are arguing about how much was promised when by whom. The Treasury interpretation of the learned texts is closer to the truth. But it misses the real issue. The real reason why Norman Fowler is trying to escape from the MISC 111 deal is his concern about losers. We saw his rough and ready assessment of gains and losses during the MISC 111 discussions. But if he has some new worries he should bring them out into the open by allowing us and the Treasury full access to his internal modelling of the effects of the MISC 111 decisions and of any revised proposals he may have. This is anyway bound to come up at MISC 111 on 15 October.

Please could you therefore ask Norman Fowler to instruct his officials to co-operate urgently and fully with the Treasury in assessing gainers and losers under the MISC 111 proposals. Summary tables aren't enough.

M

David Willetts

David Willetts
30 September 1985

Cf papers

File JA

cc Min/Portfolio
Treasury
D of Env
FCO
Robin Ibbs

10 DOWNING STREET

From the Private Secretary 30 September 1985

JOINT DEPARTMENT OF EMPLOYMENT AND DHSS STUDY

OF LOCAL OFFICE NETWORKS

The Prime Minister has seen your Secretary of State's minute of 19 September and your letter to me of 25 September.

The Prime Minister has agreed to your Secretary of State's proposed study of the relationships between the DE and DHSS networks and local offices. She has however proposed that the second sentence of the terms of reference should be amended to read:

> "The study should aim to promote efficiency and value for money....."

She has further proposed that a designated official should be put in charge of the study, which should be made a scrutiny, that the man or woman concerned should be made personally responsible for recommending how the system can be made to give a better service to the claimant at a lower cost to the taxpayer, and that an action manager should be appointed now who would be held responsible for making a go of the project once the recommendations are accepted. She has asked that the help and advice of Sir Robin Ibbs and the Efficiency Unit should be sought in setting up and carrying out the scrutiny.

I am copying this letter to Leigh Lewis (Minister without Portfolio's Office), Mrs Rachel Lomax (HM Treasury), Mike Bailey (Minister for Local Government, Department of Environment), Hayden Warren Bash (Minister of State, Foreign and Commonwealth Office), and to Sir Robin Ibbs.

(DAVID NORGROVE)

Giles Denham, Esq.,
Department of Health and Social Security.

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY AND SOCIAL SECURITY

You are meeting Lord Whitelaw at 12 noon on Monday to talk about the approach to Cabinet on 3 October and the Star Chamber. The Chancellor, Chief Secretary and Brian Unwin (provided you agree) will also be present.

I understand that the Chief Secretary will be seeing Lord Whitelaw for half an hour before your meeting, to bring him up to date.

On the approach to Cabinet, you have already agreed with the Chancellor that it would be better not to go into detail on individual programmes but to try to set the right climate for the operation of the Star Chamber. The Treasury should provide you with a speaking note. The Chief Secretary will be putting to you overnight on Monday a draft of his paper for Cabinet, and you might give him the opportunity to raise any points on that at the meeting, if he wishes to do so.

You discussed the composition of the Star Chamber with the Chancellor and Chief Secretary, and agreed provisionally on Mr Tebbit, Mr Wakeham, Mr Edwards and Mr Brittan (provided the DTI had by the time of the Star Chamber reached a settlement). Is this still feasible, and acceptable to Lord Whitelaw?

It would be useful for the Chancellor or Chief Secretary to outline how they see the timetable.

There is one programme that may be worth discussing in particular: social security. Below are a minute by the Treasury and comments by David Willetts. The first two pages of the Treasury minute (a summary) and paragraph 19 of the detailed note give a flavour. You might want to discuss how this problem is to be tackled.

There is a slot available in your diary for Tuesday afternoon in which you might see Mr Fowler. You could use this to find out from him how he sees the picture and to emphasise to him your view that he needs to find ways to deliver the much-needed savings. You could discuss on Monday whether this would be useful and the best approach.

There is then a question how the social security reviews are to be handled as between MISC 111 (due to meet on 15 October) and the Star Chamber which will also be operating in the latter part of October.

The Treasury are reported to be inclined to think that MISC 111 should only look at SERPS leaving all the more detailed discussion of the social security proposals to be handled in the public expenditure context in the Star Chamber.

The Cabinet Office believe this would be wrong: MISC 111 should at least be given the opportunity to express views on where the social security reforms have got to.

A possibility is that the emphasis at MISC 111 might be mostly, but not exclusively, on SERPS, so that a wider group of colleagues can at least have some say, before the Star Chamber.

A discussion would help the Cabinet Office in putting together proposals.

[signature]
Duty Clerk.

pp DAVID NORGROVE

27 September 1985

SL3AMB

PRIME MINISTER

You questioned the need for a further study of Unemployment Benefit Offices and DHSS Offices. On this see DHSS letter at Flag A.

See now Sir Robin Ibbs' Minute at Flag B. I suggest:

(i) change the terms of reference to read "... The study should aim to promote efficiency and value for money ..."; Yes

(ii) propose the mechanics in Sir Robin Ibbs' final paragraph; Agree

(iii) say that the help and advice of Sir Robin Ibbs and the Efficiency Unit should be sought. agreed MT

Content?

R. Hamilton Duty Clerk

pp David Norgrove

27 September 1985

CO 005/1286

cc ~~NO~~ 2
cc B. Unwin (Cabinet Office)

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

D Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

27 September 1985

Dear David

SOCIAL SECURITY REVIEWS AND THE SURVEY

PES file on Blop/6 rey.

Following the Chief Secretary's talk last Wednesday with the Prime Minister, I attach as agreed a background note on the position on social security expenditure. At the Chief Secretary's request, I have added a short covering note summarising what he believes are the main issues.

Yours ever
Richard

R J BROADBENT
Private Secretary

SOCIAL SECURITY EXPENDITURE

In this year's Survey, there are demand led additional bids for social security expenditure of:

(£ million)

	1986-87	1987-88	1988-89
	+ 1525	+ 1740	+ 2060

These bids represent a large element of the overall problem we face on the Survey.

2 Over the past year, various measures have been agreed which would help offset these bids. In particular:

	1986-87	1987-88	1988-89
i) 1984 PES Measures: the measures implemented after last years Survey produce additional savings in 1986-87 (and in the later years but offset in those years by the cost of Family Credit).	- 118	-	-
ii) Reviews: savings agreed in MISC III (some PSBR, some public expenditure)	- 150	- 800	- 1000
iii) Uprating: savings agreed after the Reviews from moving the uprating date	- 164	- 285	- 305

3 The Chief Secretary regards these savings as an important first step in reducing the additional bids. Depending on how much of the Review savings score as public expenditure, this year's additional bids could be reduced by these earlier commitments to:

	1986-87	1987-88	1988-89
	+ 1085	+ 1094	+ 1192
But, as explained below, the Secretary of State's proposals lead to higher additional bids of	+ 1200	+ 1600	+ 1800
Difference	+ 115	+ 506	+ 608

4 This difference arises because, despite the scale of his additional bids, the Secretary of State is arguing that the previously agreed measures require him to produce lower savings than those set out in paragraph 2. The key points are:

i) PES Measures: in 1986-87 he has suggested the £118 million flowing from measures agreed last year should count towards fulfilling the later agreement to bring forward £150 million of Review savings into 1986-87;

ii) Reviews: in 1987-88 and 1988-89, he has suggested that some measures agreed in last year's Survey should be counted as Review measures. £184 million and £190 million respectively is at stake;

iii) Uprating: in 1987-88 and 1988-89, he has suggested that the savings from moving the uprating should count towards fulfilling the earlier agreed Review savings target.

5 The Secretary of State has also increased the cost of his Family Credit scheme, adding net additional costs in the two later years of £55 million and £39 million.

6 The attached note sets out the position in more detail including the extent to which these numbers represent PSBR as opposed to public expenditure savings.

2087/25

1985 PESC: SOCIAL SECURITY

Commentary on key aspects as at 24 September 1985

(All figures are £m cash and based on DHSS estimates liable to adjustment)

Review Savings

1. Following the spring meetings of MISC 111, and Cabinet discussions in early May of the Review conclusions, Mr Fowler agreed to deliver PSBR savings of 800 in 1987-88 and 1000 in 1988-89 through "structural" changes in social security. (A large slice of these savings would take the form of reduced help, through Housing Benefit, with claimants rates. This amounts to a lower rebate of a tax - ie less revenue foregone - rather than reduced government spending.)

2. Subsequently, in discussions concluded by a meeting chaired by the Prime Minister on 22 May, Mr Fowler was asked to deliver savings of at least 150 in 1986-87, by early implementation of Review measures from the July 1986 uprating date.

3. So, noting the uncertainty over the definition of the 1986-87 figure, the PSBR savings to be secured from the Reviews, in the light of decisions since April are:

1986-87	1987-88	1988-89
at least 150	800	1000

A 23 May letter from Mr Fowler's office explained the kind of measures he had in mind to deliver savings of at least 150 in 1986-87. No details were given of the measures to be taken to deliver the 800 and 1000.

Savings from changing timing of upratings

4. The Prime Minister's meeting of 22 May agreed that, despite the big public expenditure savings available (£570m in 1986-87) if there were no uprating of benefits between November 1985 and April 1987, there should be an interim uprating effective in July 1986. This yields smaller savings (and it was in this context that Mr Fowler was asked to bring forward some Review measures to secure savings of at least £150m in 1986-87).

5. The public expenditure savings estimated to flow from breaking step to April upratings via a July 1986 interim uprating are highly uncertain. They depend crucially on the seasonal pattern of increases in the RPI, which cannot b

precisely predicted. They are currently estimated as follows:

1986-87	1987-88	1988-89
164	285	305

<u>1984 PESC measures</u>

6. In MISC 106 discussions in the autumn of 1984, Mr Fowler agreed to find a package of measures which would deliver total savings rising from 218 in 1985-86 to 735 in 1987-88. In a 25 October 1984 letter to the Lord President, he said one source of these savings would be:

> "...measures of which the details will have to be settled later in the light of the priorities which emerge from my programme of reviews. The precise amount to be found "on account" will depend on what I can get from [elsewhere]."

7. The package of measures eventually adopted to deliver the PESC 1984 targets was a wide ranging one, which included some measures (eg the June 1985 announcement of an uprating of Child Benefit to only £7 from November 1985) consistent with the priorities emerging from the Reviews. Except for a last minute (14 June) decision to announce that the Housing Benefit rates taper was to rise from 9 to 13 per cent, the measures were however quite different from those indicated in the 23 May letter from Mr Fowler's Office as the possibilities he had under consideration to secure, subsequently, the saving of at least 150 in 1986-87.

<u>"Excess" savings emerging from 1984 PESC</u>

8. The measures adopted to meet 1984 PESC decisions yielded "excess" savings in 1986-87 and later years. (The measures had to deliver the required 1985-86 savings but were implemented only part way through that year and so had a bigger effect in a full year.) The amounts concerned are:

1986-87	1987-88	1988-89
118	150	171

9. The figures for the later years reflect almost entirely savings flowing from the decision to hold the November 1985 Child Benefit uprating to only £7. Treasury and DHSS Ministers agreed that for those years the extra savings should be set against the expected extra cost of Family Credit (see para 11 below for current figuring on this).

10. As for the 118 in <u>1986-87</u>, the then Chief Secretary wrote to Mr Fowler on 13 June explaining that he proposed to credit this sum against the big additional

bids already emerging on the social security programme for that year. (The Prime Minister's 22 May meeting had been told that these were already over £1 billion.)

Financing the Family Credit scheme

11. In the spring the additional cost of the Family Credit scheme (over and above FIS which it replaces) was costed at 135 in 1987-88 and 140 in 1988-89. But Mr Fowler now reportedly seeks 205 and 210. So, compared with the excess savings which arose from 1984 PESC, a net additional public expenditure cost arises in each year:

	1987-88	1988-89
cost of Family Credit	205	210
1984 excess savings	-150	-171
net additional cost arising	55	39

Mr Fowler's position

12. Mr Fowler's position seems to be broadly as follows:

(i) the estimating savings arising from changing the timing of upratings should properly be regarded as structural changes in the system resulting from the Reviews. They should thus score, in 1987-88 and 1988-89 at least, as part of the Review savings of 800 and 1000 rather than as additional to those figures.

(ii) things done to achieve the 1984 PESC targets which he regards as having been within the spirit of the Reviews should similarly be reckoned towards his Review savings targets. Mr Fowler suggests that 184 and 190 of the due savings can be accounted for in this way.

(iii) for 1986-87, the 118 of "excess savings" from 1984 PESC should now be regarded as accounting for all but 32 of the further 150 which he was asked to find on 22 May through early implementation of Review measures.

Treasury position

13. The Treasury does not accept Mr Fowler's approach on any of these three issues:

(i) the 1987-88 and 1988-89 uprating timing savings reflect decisions taken well after Cabinet endorsed the 800 and 1000 savings to be secured through Review measures. (They are, moreover, highly uncertain, depending on the exact month by month profile of the RPI.) So they should be secured in addition to the Review savings. Mr Fowler has already accepted in correspondence that this is the position for the 1986-87 timing savings.

(ii) the effects of measures adopted to meet 1984 PESC targets were reflected in the Cmnd 9428 social security figures, published well before Ministerial discussion of the Reviews. And the reasonable commonsense interpretation is that the savings decisions apply from the Cmnd 9428 figures (ie the 1985 Survey baseline).

(iii) as Mr Rees made clear in June, the reasonable way to treat the 118 of 1986-87 excess savings from 1984 PESC is as a partial (but relatively very small) offset to the big demand-determined bids on social security. The 150 of additional savings agreed on 22 May is an entirely separate issue (as the 23 May letter from Mr Fowler's Office seemed to recognise).

In addition:

(iv) the Treasury believes that any significant additional net cost now sought on Family Credit (para 11 above) should be brought into the Review arithmetic.

14. There are several smaller issues on the Survey and Review figuring not yet settled. (For example, Mr Fowler seeks to score certain administrative savings, emerging from some individual Review measures, towards the 800 and 1000. But this is not acceptable when substantial bids for temporary additions to administrative costs are expected.)

15. Overall, the Treasury view is that the main adjustments necessary to remove overstatements from Mr Fowler's Review arithmetic are:

	1986-87	1987-88	1988-89
savings from changing uprating timing wrongly scored		285	305
1984 PESC measures already in Survey baseline		184	190
1986-87 excess savings to be set against demand determined bids	118		
measures needed to offset cost of Family Credit		55	39
totals	118	524	534

16. On this basis, and taking account of some other adjustments, the Treasury assesses the true savings which Mr Fowler is offering under the Reviews as:

(savings = -)	1986-87	1987-88	1988-89
public spending	-32	+135	+29
PSBR	-32	-290	-411
compared with agreed targets for PSBR savings of:	-150 ("at least")	-800	-1000

So, in round terms, the PSBR savings fall short of those due by over 100 in 1986-87, 500 in 1987-88 and nearly 600 in 1988-89.

19. The reasons for not delivering the full Review savings seem to lie largely in higher rates of benefit envisaged for income support (particularly for the elderly) and more generous arrangements for Family Credit.

Survey position

20. The total bids for extra social security spending are currently estimated at:

1986-87	1987-88	1988-89
1525	1740	2060

These figures are net of expected benefit savings (rising to 30 a year) from deployment of extra anti-fraud staff. They allow for certain additional running costs bids, agreed by the Treasury.

21. Additional demand-determined estimating increases could emerge before the Autumn Statement. And substantial further bids on running costs, for a temporary increase to secure successful implementation of the Reviews from 1987, are expected.

22. On the basis of Mr Fowler's present position on Review and other savings, the net over-runs on the social security programme would be:

excess over baseline, £ billions

1986-87	1987-88	1988-89
1.2	1.6	1.8

23. Even after securing the Review and other agreed prior savings in full the over-runs would be:

1.085	1.094	1.192

These figures assume that the full public expenditure savings from the Reviews would amount to:

.150	.300	.500

24. The Chief Secretary is seeking option cuts rising from .15 in 1986-87, to .35 in 1987-88, and to .55 in 1988-89.

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H M TREASURY

28 September 1985

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PRIME MINISTER 27 September 1985

SOCIAL SECURITY EXPENDITURE

Worried by the losers from his benefit reforms, Norman Fowler is claiming that separate agreed savings count towards his Review target of £800 million in 1987-88 and £1,000 million in 1988-89. He is trying to escape the tough cuts in Housing Benefit and Supplementary Benefit agreed in the summer.

You could tell Norman Fowler that you recognise there will be losers from the benefit reforms. But:

- It would be wrong to turn back now.

- We didn't just want structural changes in the benefit system for their own sake; he gets his reforms if the taxpayer saves some money.

- The changes in Housing Benefit will be controversial, but better a row over more than £0.5 billion of useful savings than the same row for smaller savings.

- If he wishes to change the way the cuts fall on different groups, he should do so within the agreed expenditure savings.

David Willetts

DAVID WILLETTS

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B. cc/NO

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PRIME MINISTER

JOINT DEPARTMENT OF EMPLOYMENT AND DHSS STUDY OF LOCAL OFFICE NETWORKS

I have just seen Norman Fowler's minute of 19 September. The possibility of developing a system whereby the unemployed need only go to one government office for the whole range of their state benefits is very important. It could produce savings in administration (which a Rayner scrutiny put at £7-11 million a year in 1980 though these estimates are bound to be a bit shaky); and the better service to claimants would be attractive. But to bring the change about successfully will require a determination to contemplate a shake up in the two departments and to go hard for improvements.

I am concerned about Norman's minute because it indicates that although the review is primarily about value for money he is going ahead without using the scrutiny technique and without seeking my help or that of the Efficiency Unit. This is all the more astonishing since the 1980 scrutiny was so successful. Here is a subject which is ideally suited for scrutiny, instead of which we seem to have the tired old bureaucratic response of an interdepartmental committee.

More particular concerns about the terms of reference are:

- though they refer to value for money they do not show the priority and determination necessary if improvements are to be achieved and if we are to bring about the possible simplifications and savings;

- they do not put somebody in charge - which bodes ill for significant improvement. Our experience is that interdepartmental committees are badly suited for radical questioning and that you need to pin responsibility fair and square on an individual if you are stand much of a chance of securing positive action to make improvements;

I suggest you ask Norman Fowler to put a designated official in charge of the study, which should be made a scrutiny, to make that man or woman personally responsible for recommending how the system can be made to give a better service to the claimant at a lower cost to the taxpayer, and to appoint an action manager now who will be held responsible for making a go of the project once the recommendations are accepted.

RI

ROBIN IBBS
25 September 1985

MISC 111 - SOCIAL SERVICES
P43

CC/OW

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

David Norgrove Esq
Private Secretary
10 Downing Street

25 September 1985

Dear David

JOINT DE/DHSS STUDY OF LOCAL OFFICE NETWORKS: PREVIOUS STUDIES INTO A "ONE-OFFICE" NETWORK FOR UNEMPLOYMENT AND OTHER SOCIAL SECURITY BENEFITS

As the Prime Minister rightly remembered, the 1980 Rayner report ("The Payment of Benefits to Unemployed People") included consideration of a single network of local offices for unemployed people.

The Rayner report looked at some proposals for integration, but in the time available to scrutineers were unable to look at all the options in detail. A follow-up report (the One-Office Concept) examined only the Rayner recommendation for work to be transferred from DHSS to DE local offices. This concluded that integration in Unemployment Benefit Offices should not proceed at the time because of the rapidly rising claims to Unemployment Benefit and of high transitional costs (mainly over accommodation).

Progress in some areas means that it is now worth looking again at the relationships between the two networks; to identify ways of providing a better quality and more efficient service - whether by integration or by other changes:

3.1 Computerisation of benefits. With the move towards further computerisation of work in both Departments, there is now a better prospect of creating improved arrangements for dealing with all benefit enquiries.

3.2 Staffing and accommodation. DHSS Local Office premises have been improved to combat overcrowding over the past few years and as DHSS staffing levels have reduced because of efficiencies in administration (such as postal claiming, Statutory Sick Pay, Housing Benefit etc), it could be easier to run an integrated network of offices without incurring large transitional costs and

E.R.

inconvenience. Further reductions in staffing levels when full computerisation is introduced to both sets of local offices offer an opportunity to increase value for money from the service while, at the same time, improving service to the public.

3.3 The Social Security Review. Replacing supplementary benefit with a simple Income Support scheme may make it feasible to improve efficiency, possibly by running this and unemployment benefit from the same office.

The Government's Green Paper (para 6.43 of Vol 2) has also announced the intention to launch a study into the two networks. The Public Accounts Committee meeting on 12 June 1985 discussed the Unemployment Benefit Service and criticised the failure to examine all the options for reshaping the administration of DE and DHSS and urged that further study "should be undertaken quickly and a decision reached without delay". The two Secretaries of State have agreed that the time is now right to re-examine all the existing options and future plans and that these would be addressed by the study team.

I am copying this letter to Chris Snell in Lord Young's office.

Yours

Giles Denham

Giles Denham
Private Secretary

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 John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

24 September 1985

Dear John.

PES 1985: SAVINGS FROM THE REVIEW

I attach, as background for our discussion this afternoon, a table showing how I envisage finding savings of £800 million in 1987/88 and £1 billion in 1988/89 from the structural changes in social security which will be brought about by my review. I must emphasise that the figures are in broad terms and that most of them are likely to vary somewhat, up or down, as the details of the various measures are worked out and the eventual benefit rates are set. I cannot be committed by them to deliver the savings in exactly this form. But together you will see that they yield sums of the order to which I am committed

Also attached is a table showing the numbers of gainers and losers from the changes which I am preparing in the income-related schemes (supplementary and housing benefit and family credit/FIS). These demonstrate that there will be substantial numbers of people out of pocket as a result of this restructuring with many of them, including pensioners, losing quite large sums. Indeed, the overall picture will be somewhat worse than is shown here because we have notyet added in the effects of either the uprating changes or of any further reduction in the real value of child benefit below this year's £7 level.

In preparing these figures I have taken as my starting point the Cabinet decision that £800 million and £1 billion were the maximum amounts by which it was reasonable to depress the purchasing power of poor people in the first two years of our new scheme. Those figures have therefore to be measured against the position when that decision was taken, in the spring of this year. Changes decided upon since then in order to modify the structure of social security in the directions required for the Review - the withholding of a full

E.R.

uprating in the £6.85 child benefit, the raising of the rates taper from 9 per cent to 13 per cent, the cessation of awards of central heating addition - are all steps towards the achievement of those cash targets and should therefore be counted towards them. The same will be true in due course of the lessening of the value of the uprating which we shall achieve by changing its date in 1986 and again in 1987. I really cannot accept the suggestion in your letter of 23 September that these changes, and the holding down of universal child benefit in order to free resources for income-related help, are in some way not "structural". I actually used that word to describe the uprating shift in my minute to the Prime Minister of 15 May, and I would have thought it was self-evident that these parts of the design were just as "structural" and integral parts of the Review as, for example, the replacement of FIS by family credit or of single payments by the Social Fund.

The tables therefore show what I can offer towards public expenditure savings (together with a healthy non-PE contribution on the rates side) in 1987/88 and 1988/89. As regards 1986/87, the first year in the cycle, the measures which I took towards meeting the current year's PES targets have overshot those targets by £118 million. This has resulted from the holding down of child benefit which, in later years, will go towards meeting the cost of family credit. It accordingly represents a useful pre-Review saving in 1986/87, such as will go a long way towards delivering the £150 million of such savings to which I am committed for that year; I should be grateful if you would leave it in my hands, at this stage, where the remaining £32 million is to come from. In 1986/87 I shall also be delivering a further £164 million from the change in the uprating cycle.

I am sorry not to have got these detailed figures to you more quickly, but hope they will nonetheless form a useful basis for our discussion in a few hours' time.

Yours ever

Norman Fowler

NORMAN FOWLER

		£m cash		
		1987/88	1988/89	
A. Savings				
Housing benefit (PE/non-PE)		430 (5/425)	445 (5/440)	
Single payments		240	240	350
Mortgage relief		30	30	
Maternity and death grants		50	50	
Students measures		25	25	
Child benefit - excess on 1984 PES		150	175	
- further savings		was 55 50	50	
No new awards of CHAs	PES 1984: review savings 'on account' effective in 1985	72	was 70 75	
Single payment restrictions		55 } 184	55	190
Increasing HB rates taper		57	60	
Ending old awards of CHAs		40	30	
Uprating savings		285 - 390	305	380
Total savings		1,484	1,540	
B. Costs				
Income support		190	195	
Family credit		205	$\boxed{210}$	
Social Fund (including maternity and death provision)		125	125	390
Widowhood		25	- 5	
Transitional protection		150 +490	75	10 net cost of Rev
Total costs		695	600	
C. Total net savings		789	940	

-540
-35
-19

GAINS AND LOSSES FROM CHANGES IN ALL INCOME RELATED BENEFITS (000)

Client Group	Gainers £5+	£3-5	£1-3	<£1	No Change	Losers <£1	£1-3	£3-5	£5+	Total Gainers	Total Losers
Pensioners	100	140	625	800	0	1240	1215	225	170	1665	2860
Sick or Disabled	75	60	50	20	0	25	20	10	5	205	55
Lone parents	220	20	20	65	0	100	205	85	80	320	470
Couples with children	375	195	285	110	0	90	100	45	135	965	370
Others	55	180	25	115	375	225	320	290	305	370	1145
Total	825	595	1000	1105	375	1680	1865	660	690	3525	4895

Notes:

1. Due to rounding totals may not tally.
2. November 1985 benefit rates, and all November 1985 changes assumed to have been made.
3. Child benefit assumed to be £7 in real terms.
4. No account taken of effect of switching to April uprating.
5. Housing benefit assumed to be on separate assessment: 55% rent taper; 25% rates taper.

Original in: Local Authority; Relations

CONFIDENTIAL

CC Social Services Review Pt 5.

CC OL Unwin

10 DOWNING STREET

From the Private Secretary

24 September 1985

SOCIAL SECURITY AND LOCAL AUTHORITY FINANCE

The Prime Minister at E(LF) yesterday pointed to the need to consider the proposals on social security alongside those for local authority finance.

Could the Treasury please set in hand quickly a study of the inter-actions between the sets of proposals? Clearly there are substantial uncertainties . But the Prime Minister will look to the Chancellor to warn her of any major contradictions and difficulties.

The next meeting of MISC 111 is scheduled for 15 October. The Prime Minister will no doubt wish to see the best analysis that can be done before that meeting.

I should be grateful to know quickly if you think it will not be possible to produce a worthwhile analysis in the time available. The Prime Minister will in that case wish to consider how else the work might be done.

The analysis will need later to be extended to include the proposals on personal taxation, before decisions on the reform of local authority finance are taken. But the immediate need is for a study of social security and local authority finance together.

DAVID NORGROVE

Mrs Rachel Lomax
HM Treasury.

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CABINET OFFICE

With the compliments of

J B UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

59/1

CONFIDENTIAL

Copy to Mr Norgrove (No 10) For information (à propos our conversation earlier today) 20/IX

K01206

MR ~~UNWIN~~

cc Mr Wiggins
Mr Roberts
Mr Eland

TIME TABLE FOR SOCIAL SECURITY LEGISLATION

You asked about the room for manoeuvre in the time table for the Social Security legislation, in view of the need to assess the inter-action between this programme, the Local Government Finance Studies and the Green Paper on personal taxation.

DHSS's current thinking works back from the target start date of April 1987. That date is politically significant because of the stress that the Green Paper put on April upratings. It also, of course, underlies the calculations for future financial provision, and will read across to the autumn statement.

If the April 1987 target is to be met, then various affirmative resolution regulations will need to be made before the summer recess in 1986 so that DHSS can not only train their own staff on the pensions and family credit aspects but also get out detailed guidance to employers, who will need to set up their own training programmes etc. Identical considerations apply to the instructions that would need to be got out to local authorities on the housing benefit aspects of the legislation.

What that implies is that Royal Assent would have to be achieved by end June 1986 at the latest, and that means getting second reading before Christmas and introducing the legislation at the very beginning of December 1985.

There genuinely seems to be very little compressability in this, and even a proposal to cut out some sizeable chunk of the legislation (eg. on SERPS) would not much affect the time table in so far as it was dictated by an April 1987 start date. If that date were allowed to slip then it would theoretically be possible to contemplate making the regulaions in the spillover in September/ October 1986. But even that disruption would not enable you to introduce the Bill much later than described above, since second reading much after Christmas would lead to severe problems with the rest of the legislative programme quite apart from this Bill.

I am sorry that it is not possible to be more precise than this at the moment. We are having a meeting with the Business Managers at the beginning of October and the pressures of the rest of the programme will be rather clearer then. But I don't think that anything that we learn then will change the assessment that there will be severe problems with the Social Security Bill (however trunkated) if we do not introduce it in December and preferably very early in that month.

AJL

A J LANGDON

20 September 1985

Prime Minister

Agree to note the proposal for a study in Mr Fowler's minute?

DRN 20/9

BF

CF

To await further letter from DHSS.

DRN 23/9

PRIME MINISTER 20 September 1985

UNEMPLOYMENT BENEFIT OFFICES

Unemployment Benefit Offices (UBOs) are run by 26,000 Department of Employment civil servants as agents for the DHSS. There is a lot of to-ing and fro-ing between UBOs and DHSS Benefit Offices. For example, all unemployed claimants sign on at UBOs, but many are entitled to Supplementary Benefit, which is assessed at DHSS Benefit Offices.

These arrangements are obviously clumsy, and have recently been criticised by the PAC. Norman Fowler and David Young want to set up a study on how to rationalise them. We support this proposal.

David Willetts

DAVID WILLETTS

I thought we had done this before - [illegible] there a Rayner Scrutiny?

I seem to remember that we discussed the matter in the appropriate Committee and came to the conclusion that the capital cost of new buildings to amalgamate the 2 functions would be prohibitive and of low priority. May we look at back papers before embarking on any further decisions now

CC ~~DO~~
& return
w/M Stark

PRIME MINISTER

JOINT DEPARTMENT OF EMPLOYMENT AND DHSS STUDY OF LOCAL OFFICE NETWORKS

In my Green Paper on the Reform of Social Security, I announced the Government's intention to launch a study into the relationships between the DE and DHSS networks of local offices. The aim is to identify the scope for developing these networks following the social security review and the planned further computerisation of work in both Departments.

The need to review the present arrangements for delivering social security benefits to the public has been reinforced by the National Audit Office report on the "Unemployment Benefit Service" recently discussed by the Public Accounts Committee which concluded that "all the options for reshaping the administration (of DE and DHSS) should be evaluated as soon as possible".

The main issue to be examined is what networks of local offices with their associated computer links are required for the late 1980s and beyond. David Young and I have agreed to the setting up of a study team - the Network Examination Team - comprising DE and DHSS officials who will report to the Social Security Management Board via a jointly-chaired Steering Committee. Their terms of reference will be:

> "To study and report to the Social Security Management Board on the relationship between the DHSS and DE networks of offices, to identify the scope for developing the networks in the light of the social security reviews and computerisation of work in both Departments. The study should have regard to efficiency and value for money in ensuring effective administration and a good service to the public, including proper safeguards for the use of public funds. The implications and consequences for

E.R.

both Departments and their staff should be identified and commented on. The study team should produce a report with recommendations."

The study might conceivably have implications for the machinery of Government. I will, of course, keep you informed as the study progresses. The proposed timetable is for outline proposals to be available by the end of March 1986, with a final report by early summer 1986.

I am copying this letter for information to David Young, Nigel Lawson and Kenneth Baker (in view of his responsibility for PSA) and to Richard Luce.

19 September 1985

N F

P 01655

CONFIDENTIAL

From: J B UNWIN
9 September 1985

MR LANGDON

cc MR Wiggins
Mr Eland
Mr Norgrove - No 10 (for info

COPY FOR

REFORM OF SOCIAL SECURITY

I took the opportunity of a conversation with Anne Bowtell at DHSS this morning to find out more about their plans for reporting back to Ministers on the outcome of consultation on the Social Security Green Paper. The period of consultation formally finishes on 16 September and a number of major interested parties (eg the CBI) have still to submit their final views.

2. As expected, the areas of greatest difficulty are pensions and housing benefit. On pensions, as you may have seen in press reports, the CBI are likely to come out formally against the proposed aboliton of SERPS. There is also opposition to abolition from important pensions industry interests (eg Legal and General), largely on the grounds that abolition will break the pensions "consensus" established over the last decade and more. Ministers are likely, therefore, to be faced with the basic question of whether, in the face of this opposition, they are prepared to stick to the Green Paper proposals Abandonment or major modification of them would not, I think, have any significant public expenditure implications in the short term; the massive savings accrue after a period of years.

3. On housing benefit, there seem to be some difficult problems with local authorities and on the more technical aspects of the proposed changes. Not surprisingl local authorities are objecting to the proposed changes in the subsidy arrangements and difficulties have emerged too in the proposal to assess rent and rates together as one sum. Mrs Bowtell said, however, that she did not think that modifications to the proposals to meet these problems need involve any net additional public expenditure cost.

4. For the rest, no major issues have arisen so far, although there is the usual pressure from the various lobbies for one concession or another. Mr Fowler will have to judge whether he wishes to propose any concessions and how to meet the cost consistent with his agreement with the Chancellor of the Exchequer on the global savings from the package.

5. One issue to which DHSS themselves appear to be paying little attention is student support. You may recall that the Green Paper passed the buck to the putative separate consultative paper on students' support. Since the latter was scuppered befor the recess, it is not clear who is picking the ball up. Mrs Bowtell said that she thought that DES intended to revive the official group (whatever that is) fairly soon. Somebody will need to make pretty rapid progress on this if the changes in student entitlement to SB and HB are to be introduced quickly, and I should be grateful if you could discover where exactly this stands.

Ministerial consideration and timing

6. Mr Fowler returns from holiday today and is still to consider the major issues arising from consultation. Mrs Bowtell does not expect that he will be ready to report to colleagues until the middle of October (ie after the Party Conference). The aim will then be to publish a White Paper and Bill round about the middle of November. I told her (as I had previously indicated to DHSS) that we would expect a paper from Mr Fowler to MISC 111, with the subsequent White Paper to be cleared with the Cabinet before publication. However, two tricky issues of timing arise.

7. First, how the above timing will relate to this year's PESC. It looks as if both the Treasury and Mr Fowler will have to reserve their positions during the impending bilaterals - the Chief Secretary presumably sticking to the savings numbers that have already been pencilled in, and Mr Fowler reserving the right to seek changes in MISC 111. We may, therefore, be faced with a difficult juggling act between MISC 111 and the Star Chamber in the second half of October. It might help if we can press DHSS to come forward with the outcome of their consultations a little earlier, with a view to a MISC 111 discussion before the Party Conference.

8. Second, there is the related question of the timing of the publication of the Social Security White Paper in relation to the Autumn Statement. I am not sure how much it would matter, if at all, if the White Paper preceded the Autumn Statement, if the latter were, for example, delayed from the putative date of 12 November until towards the end of the month. This presumably depends on how many numbers the White Paper will contain. We must obviously discuss this with the Treasury and DHSS nearer the time.

9. We must continue to keep in close touch with DHSS, the Treasury and DOE on all this. There is also the question of how the social security review relates to the proposed Treasury Green Paper on personal taxation and the consideration of local authority finance in E(LF). There are no arrangements as yet for any collective consideration of the former and we shall need to discuss this with No 10 when the Chancellor begins to show his hand (the present position is that the Revenue and Treasury are now doing extensive redrafting in the light of the Chancellor's holiday comments on the first draft).

J B UNWIN

cc DW

NBPM
DRW 11/9

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
London SW1

- 6 SEP 1985

Dear Douglas,

GREEN PAPER PROPOSALS FOR NEW PENSION ARRANGEMENTS

Norman Fowler undertook to consult you about our proposals for penalties for failure to comply with requirements under the new pensions arrangements proposed in the Green Paper "Reform of Social Security". Under these arrangements, an employer will be required to pay at least a minimum pension contribution related to his employee's earnings to an occupational or personal pension scheme, and will be permitted to deduct up to half of this minimum from the employee's wages.

We propose that compliance action in relation to this requirement should build on the existing powers for ensuring that employers discharge their national insurance contribution (NIC) liabilities. This is possible because the two liabilities will be closely related and recorded together. To this end, we propose that the appointment of DHSS inspectors under section 144 of the Social Security Act 1975 should be for the purposes of the new pension provisions as well as of that Act; and that for these purposes their powers should be extended to give access to the premises of pension scheme providers as well as those of employers, and to require the trustees or managers of pension schemes to supply an inspector with the information he may reasonably require to ensure that the minimum pension contributions have been properly paid.

We believe it is appropriate that equivalent criminal sanctions should be available for dealing with employers' non-compliance with these requirements as for dealing with employers' non-compliance with their NIC liabilities, although - as with the NIC powers - they would be invoked very sparingly. I am writing to the Lord Chancellor and the Lord Advocate about the powers we propose for the civil courts. Only where there was serious persistent or wilful offence would criminal rather than civil action be considered, resulting perhaps in fewer than 10 cases a year.

Some existing offences and penalties would extend automatically to the new arrangements, for example the offence of wilfully obstructing an inspector. But in other cases, new parallel provision would be needed. The new offences we propose are as

E.R.

follows, with maximum penalties (in brackets) in line with those for corresponding NIC offences:

* failure to pay MPCs within the prescribed time to a proper scheme (Level 3 - £400)

* deduction of the employer's share of the MPC from the employee's wages (Level 3)

* failure to comply with regulations about deduction of MPCs from wages, record-keeping, etc (Level 3)

* knowing provision of false statements or information (Level 5 - £2,000 or three months imprisonment or both.) (As with NIC, proceedings for serious fraud could be instituted under the Theft Act.)

I would be grateful for your confirmation that, subject to consultation between our officials about the detail of the provisions I have outlined, you are content that they should be included in the Bill which introduces the new pension arrangements. I would welcome an early reply in view of our timetable. We aim to publish firm proposals in a White Paper in October, with the Bill following early in the new Session.

In relation to pension schemes, we propose that the main responsibility for ensuring their compliance with the new requirements should fall to the pensions industry itself, within the constraints imposed by the need for a scheme to obtain tax approval and to comply with the requirements of investor protection legislation. As back up to that, we will have powers of intervention to safeguard the position of the minimum pension contributions in the few cases where self-regulation proves ineffective.

I am copying this letter to other colleagues who were members of MISC 111, and to Leon Brittan, the Lord Chancellor, the Lord Advocate, George Younger and Robert Armstrong.

Yours
Tony

TONY NEWTON

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

The Rt Hon The Lord Hailsham of
St Marylebone CH FRS DL
Lord Chancellor
House of Lords
London SW1

- 6 SEP 1985

Dear Quintin.

GREEN PAPER PROPOSALS FOR NEW PENSION ARRANGEMENTS

We have been considering what legislative provision will be needed to ensure compliance with requirements under the new pensions arrangements proposed in the Green Paper "Reform of Social Security". Under these arrangements, an employer will be required to pay at least a minimum pension contribution related to his employee's earnings to an occupational or personal pension scheme, and will be permitted to deduct up to half of this minimum from the employee's wages.

Pension schemes and employees will act as the first and most important check on employers' compliance with these requirements. As a matter of normal business practice, schemes will ask employers to correct or explain defaults in agreed payments. Similarly, employees may press an employer who takes no action to make the minimum statutory pension provision for them. However there will be cases where action by the DHSS will be necessary to ensure compliance. There would be a request to the employer from one of our local office national insurance (NI) contributions inspectors that he put his house in order; and, if he contested the Department's view that there was an undischarged liability to pay minimum pension contributions, there would be a formal determination of the question(s) at issue by the Secretary of State, subject to referral or appeal to the High Court as provided by section 94 of the Social Security Act 1975. In the cases where these measures were ineffective, Court action would need to be considered. We want to reserve criminal proceedings for the very few cases of serious, persistent or wilful offence, and so see the need to give the civil courts powers of enforcement for use in cases of less gravity.

At present, where employers fail to pay NIC, this is pursued either by Inland Revenue along with outstanding Pay-As-You-Earn income tax or, where necessary, by this Department as a civil debt to the National Insurance Fund. Under the new pension arrangements however, because the employer will be required to pay the minimum pension contributions to a private pension scheme and may not have arranged to do so, action for simple debt would not be appropriate.

Where it has not been established to which scheme the MPCs should be paid, we propose that the County (or in Scotland the Sheriff) Court should have power to issue a coercive order requiring the employer to make an appropriate occupational pension arrangement. A question whether an employer had made the necessary arrangement would be for the Secretary of State and his determination would be binding on the Court.

Where a debt to a particular scheme has been established, we propose that the Secretary of State should be empowered (though not obliged) to sue for debt on behalf of that scheme. This method of proceeding would have the advantage of being relatively straightforward. It would also enable action in some cases to be combined with that brought by this Department against the same employer for unpaid NI contributions.

Non-compliance by employers with the new pension arrangements can be expected to occur on a scale similar to non-compliance with their liabilities to pay NI contributions. However, because of the differences in the parties involved, and in the powers and procedures proposed, it is not possible to estimate with any certainty what work load will result for the civil courts. Civil proceedings by the DHSS for non-payment of Class 1 contributions are currently running at about 1,300 a year; and Inland Revenue proceed against about 20,000 employers a year for non-payment of Class 1 contributions (in two-thirds of cases by way of distraint action by the local Collector). However, because of the involvement of schemes and employees in identifying and pursuing non-compliance by employers with their liabilities, the likelihood that Inland Revenue will not be involved in routine checks of this compliance, and the scope mentioned above for combining action with that for unpaid NI contributions, the number of additional cases generated for the civil courts should be considerably less than these figures might suggest.

We would be grateful for your confirmation that, subject to consultation between our officials about its form, you are content that provision along the lines proposed should be included in the Bill which introduces the new pension arrangements. I am copying this letter to the Lord Advocate and George Younger and would be grateful for their consent to the similar provisions proposed in relation to Scotland. I would welcome an early reply in view of our timetable. We aim to publish firm proposals in a White Paper in October, with the Bill following early inthe new Session.

I should mention that we propose that the main responsibility for ensuring the compliance of pension schemes with the new requirements on them should fall to the pensions industry itself, within the constraints imposed by the need for a scheme to obtain tax approval and to comply with the requirements of investor protection legislation. As back up to that, we will have powers of intervention to safeguard the position of the minimum pension contributions in the few cases where self-regulation proves ineffective.

In addition to the Lord Advocate and George Younger, I am copying this letter to colleagues who were members of MISC 111, and to Leon Brittan and Robert Armstrong.

Yours ever,
Tony

TONY NEWTON

cc [illegible]

PRIME MINISTER

Prime Minister
To note
[initials] 9/8

REFORM OF SOCIAL SECURITY

I held a two-day meeting with DHSS Ministers and officials this week to discuss progress and next steps following the social security Green Paper.

Interest in our proposals has been sustained. The Green Paper has sold well: two volumes and the Housing Benefit Review Report have been reprinted. We expect the bulk of responses nearer the end of the consultation period, but we have already received a thousand. As you know, we are advertising the leaflet summarising the Green Paper this week; and I expect this to generate fresh interest.

Preparations for the White Paper and for the Bill to implement the changes that we have put forward are well in hand. I expect to have the White Paper ready by the middle of October and the Bill for presentation at the start of the new Session in November. Parliamentary Counsel has already drafted clauses to give effect to the majority of our proposals and instructions on all but one part of the rest are with him. There are no obvious obstacles to impede our progress or to delay this timetable.

Nor have reactions to the Green Paper proposals thrown up any new problems which are likely to prove overwhelming. We shall, obviously, have to consider substantive points raised during the consultations by the major representative bodies, but I hope that the informal discussions which we are having with a number of them will enable us to iron out differences which might otherwise have arisen between us. The two areas which I have identified as needing special attention are:

- the opposition which may come from the CBI about the pension proposals. It will be important to keep

E.R.

closely in touch with the CBI and other employer organisations;

- the attitude of the local authorities towards the changes in housing benefit. We shall have to rely heavily on their cooperation in getting those changes implemented on time.

I can certainly see no reason for our being deflected from our aim of introducing the social security changes in April 1987. Progress to date and in prospect suggests that this remains a realistic deadline.

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

9 August 1985

N F

HMG/AUD26

Prime Minister 4

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6460
Switchboard 01-213 3000

Parliamentary Under Secretary of State

Robin Butler Esq
Private Secretary
10 Downing Street
LONDON SW1

30 July 1985

Dear Robin,

... I attach a note by officials on Sir Hector Laing's ideas.

My Secretary of State met Sir Hector Laing recently and although he agrees that his proposals are very expensive, he has been considering whether the combination of large surpluses in pension funds and proposals in the Social Security Green Paper for flexible early retirement might not provide an opportunity for doing something in this field without incurring extra costs.

The Secretary of State will be considering such matters further and we will let you know if anything emerges.

Yours sincerely,

Iain Mackinnon

IAIN MACKINNON
Private Secretary

TWO-TIER BARGAINING AND EARLY RETIREMENT : NOTE ON SIR HECTOR LAING'S LETTER

Two-tier bargaining

1 The main feature of two-tier bargaining is that new employees (often young workers, but not exclusively) are taken on at lower pay rates than existing employees. These arrangements may be permanent or temporary, where workers can achieve the full rate after a transitional period.

2 In America two-tier bargaining is still of relatively minor importance but is spreading, especially in non-manufacturing where the unions are weak. As yet there appears to be no instances of companies introducing two-tier bargaining in Great Britain. (The nearest thing to it is the new pay arrangements in the Electrical Contracting Industry establishing separate pay rates for new entrant trainees which are below the rates for existing apprentices.)

3 Two-tier wage bargaining offers the possibility of achieving more realistic pay levels which will promote the growth of jobs, especially, but not exclusively, for young people. Its attraction over alternative ways of achieving more realistic pay levels is that it does not require existing workers to make the sacrifice of accepting lower pay levels or settlements.

4 Sir Hector Laing argues that the Government has a role in developing two-tier bargining through introducing it for its own employees. In each of the last 3 years cash increases in the pay of 16 and 17 year olds in the Civil Service have been deliberately held a little below those for adults (whose pay awards in recent years have been below inflation). It should be possible to go further in cutting pay in real terms while

recruiting the quality of staff required and increasing the number of young recruits and their opportunities.

Early retirement for men over 60 years of age

5 Sir Hector Laing has long advocated an early retirement scheme for men over 60 years of age who are members of an occupational pension scheme. The income of people retiring early would consist of the normal basic state pension paid early plus occupational pension. The jobs vacated, Sir Hector argues, would be filled by the unemployed (the work for the pensions inquiry suggests that 75% of the vacancies would be filled by the registered unemployed). The Treasury and the Department of Employment believe that Sir Hector's scheme would incur high public expenditure costs, and would be less effective in reducing unemployment than he believes.

6 To reach Sir Hector's eventual target of removing one million men from work would take at least six years. There are about 500,000 men over the age of 60 who are currently working and members of an occupational pension scheme. Depending upon the level of earnings cut off for this scheme, around 400,000 men may be eligible immediately. Over the next six years an additional 100,000 men may become eligible each year. The Treasury estimate that the net public expenditure cost of initially removing 400,000 men from employment could be between £2 and £3 billions in the first year (compared with Sir Hector's estimate of £1.5-£2 bn).

7 The payment of occupational pensions early would require additional funding for pension schemes or slower improvements of benefits. This could require an increase in employer and employee contributions and would be an additional burden on companies.

8 There is also room for doubt whether an early retirement scheme would lead to a proportionate increase in the demand for new workers. A study by the Institute of Manpower Studies indicates that employers who have used early retirement on any scale since 1979 have done so as a less contentious method of shedding labour than declaring redundancies: the average rate of replacement was only one in ten. French experience bears this out. There the retirement age was lowered from 65 to 63, with very little effect on unemployment.

9 Sir Hector Laing's proposals are very expensive because they provide for full payment of pension. The recent proposal in the Green Paper will be less attractive to individuals but also less expensive to the state.

10 Linking early retirement with the development of two-tier bargaining may, in some circumstances, increase the proportion of retired workers replaced because new entrants will be cheaper to employ. But it is by no means clear that firms which would make use of an early retirement scheme would also take advantage of the opportunities of two-tier bagaining.

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AT 31/7

~~CE NO.~~

PRIVY COUNCIL OFFICE

WHITEHALL. LONDON SW1A 2AT

30 July 1985

Dear Tony,

SOCIAL SECURITY REVIEW

The Secretary of State for Social Services came yesterday to discuss with the Lord President the arrangements for consulting on the social security review. Also present were the Secretary of State for the Environment, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Minister of State for Social Security, and Bernard Ingham.

The discussion followed an earlier approach to the Lord President by Mr Fowler about whether it would be possible to take paid advertising in the press; the advertisements would, in a manifestly factual way, explain the nature of the proposals and invite comment on them. The conventions governing the use of paid publicity were set out in Sir Robert Armstrong's minute of 18 July (A085/1941) which had earlier been circulated under cover of Mr Fowler's note expanding on the scheme.

In discussion, Mr Fowler emphasised that the sole purpose of the scheme was to widen the coverage of the consultations. The evidence submitted by the Management and Personnel Office to the Widdicombe inquiry into local authorities' use of rate revenue for political advertising had not expressly covered the use of paid advertising for this purpose; and common sense suggested there could be no objection to it in principle. As against this, however, the scheme was thought to be unprecedented. Conventionally, a distinction had been drawn between unsolicited and solicited material. It would be highly undesirable even to appear to be stretching the conventions just at present, when the report of the Widdicombe inquiry was imminent. This might add to the undoubted difficulties of any legislation to implement recommendations from Widdicombe.

Tony Laurance Esq

CONFIDENTIAL

It was suggested that one way of achieving the Social Services Secretary's objective while avoiding such difficulties would be to advertise the availability of the leaflet in such a way as to give more people the opportunity to comment, but without publicising the proposals themselves. After discussion it was agreed that Mr Fowler should, with advice from Mr Ingham, prepare a draft advertisement for which the Prime Minister's approval would be sought.

I am sending copies of this letter to the Private Secretaries of the Ministers present at the meeting, to Tim Flesher, Bernard Ingham and Richard Hatfield.

Yours sincerely

Joan.

JOAN MACNAUGHTON
Private Secretary

CONFIDENTIAL

NBPM
AT
25/7

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

R/PSO/10751/85

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

25 July 1985

Dear Norman

DHSS LOCAL OFFICE PROJECT

with AT

Thank you for sending me a copy of your minute of 19 July to the Prime Minister.

While I am always reluctant to see the principle of competitive tendering overturned, I agree that there are good reasons for ensuring that the mainframe computers for your Local Office Project are compatible with those for existing benefit systems. Given that there is no scope for achieving this other than through single tendering from ICL (and on the advice that EC and GATT rules are not therefore contravened) I have no objection to your proposal for a single-tender approach to ICL. This is of course with the proviso that the remainder of the system, other than the mainframes themselves, are open to competitive tender as your paper indicates they will be.

I am copying this to the Prime Minister and other members of E(A), to Geoffrey Howe, Michael Havers and Patrick Mayhew, and to Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

SOCIAL SERVICES L-T
9/80

Supplementary benefit

SUPPLEMENTARY BENEFIT BOARD AND LODGING

Background Note

Following the changes to the Supplementary Benefit board and lodging rules there have been a number of individual cases in which particularly young people have been made homeless and some in which it is claimed that suicide or attempted suicide was the result. Several of these cases were highlighted in "That's Life" on Sunday. Tony Newton is making a statement either tomorrow or Wednesday extending the exemptions from the requirement that benefit should cease after a maximum of eight weeks.

General Line to Take

There was considerable evidence of waste and abuse in the system of Supplementary Benefit board and lodging payments. The expenditure had risen from under £100 million in 1980 to nearly £600 million in 1984. The number of claimants aged between 16 and 25 increased by 60 per cent in one year alone. The Government's proposals to cut out unacceptable waste and abuse were modified in the light of advice from the Social Security Advisory Committee and will be further modified in the light of experience.

Exemptions

Some of the cases to which reference has been made already came within the existing system of exemptions. These included those who had been in local authority care and could not return to the family home; those with a dependent child and disabled people. My hon. Friend the Minister of State has indicated that the Government intends to extend the system of exemptions to cover the particular problems of young people in the 19-26 age group and people living with their families in board and lodging accommodation. Special arrangements will be introduced to deal with such cases in the interim.

Line to Take

File

Were SERPS to be left unchanged, expenditure on pensions would treble, in constant prices, over the 50 years from 1984/85 to 2033/34, and this assumes that the basic retirement pension is uprated only in line with prices. Were it to be uprated in line with earnings, expenditure would increase more than fourfold.

Some of this projected growth in retirement pension expenditure would be offset by a fall in expenditure on supplementary pensions and housing benefit paid to pensioners, but these reductions would be only minor by comparison.

Under the Green Paper proposals, the new common national insurance contribution rate will after a phasing in period amount to around 16.5% (taking employers' and employees contributions together), compared with the current standard rate of 19.45% for those not contracted-out, and this reduction will largely offset the minimum occupational or personal contribution required under the new proposals.

COMPARISON OF PENSION AND CONTRIBUTION COSTS LEAVING SERPS UNCHANGED AND UNDER GREEN PAPER PROPOSALS

CONTRIBUTIONS - (employer and employee joint rates)

At present

Standard (ie covered by SERPS) - 19.45%

Contracted-out - 13.2%, plus occupational pension premiums

Proposed

Common rate - 16.5% plus at least 4% occupational pension premiums. Total minimum therefore 20.5%

Phasing in period 1987/88 and 1988/89

PROJECTED PENSION COSTS IF SCHEME LEFT UNCHANGED

Today	1993	2003	2013	2023	2033
if uprated in line with prices					(£b)
15.4	17.9	21	27.7	35.7	45
if uprated in line with earnings					
15.4	20	25.9	36.4	49.8	66.5

CONTRIBUTIONS NECESSARY IN 2033/34 TO SUPPORT EXPENDITURE IF SCHEME LEFT UNCHANGED

	If Uprated in line with prices		If Uprated in line with earnings	
	All NI	Pensions only	All NI	Pensions only
Assuming 6% Unemplt	18.25%	15.75%	26.5%	22.5%
Assuming 13% Unemplt	20.5%	17%	30%	24.25%

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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

F E R Butler Esq
Principal Private Secretary
10 Downing Street

17 June 1985

Dear Robin

SOCIAL SECURITY UPRATING

As the basis for this afternoon's meeting, I enclose a draft of the uprating statement my Secretary of State will be making tomorrow.

The main points are:

- increases of 7 per cent for all the main benefits (except child and supplementary benefit) in line with the May RPI figure. This means about £4 a week on the basic pension for a married couple;

- increases of 5.1 per cent for supplementary benefit. Again this is full price-protection but, because supplementary benefit does not cover housing, it is the RPI excluding housing costs which is used as the measure;

- child benefit will be increased from £6.85 to £7.00 - not £7.35 as would have been required for full price-protection. This will yield savings of about £60 million this year. The impact of the abatement will be offset by extra help being given to those on low incomes by improving Family Income Supplement and the Housing Benefit allowances for children.

Two other significant savings measures will also be included. First, we will announce the phasing out of central heating additions which are at present given to anybody on supplementary benefit if they have central heating. They were originally introduced when central heating was more expensive than other forms of heating but are no longer justified. The change will not affect the position of those who receive heating additions on grounds of ill-health or age. The change will mean that central heating additions will no longer be given to new claimants after the beginning of August.

E.R.

Second, we intend to announce a steepening of the housing benefit rates taper from 9 per cent to 13 per cent. This will save up to £57 million in a full year. It will be controversial but it is consistent with the direction of change which will be required when the new simplified housing benefit scheme is introduced and it will reduce the transitional problems at that time. It will also mean that savings are being made in the area where the Government has already said that it intends to make them.

I am sending copies of this letter and enclosures to Joan MacNaughton (Lord President's office), Murdo MacLean (Chief Whip's office), Rachel Lomax (HM Treasury), David Morris (Lord Privy Seal's office) and Richard Broadbent (Chief Secretary's office).

Yours
Steve

S A Godber
Private Secretary

JEJ

SECRET

With permission, Mr Speaker, I would like to make a statement about the annual uprating of social security benefits which is due in November of this year.

The retail prices index published last Friday showed a rise of 7.0 per cent between May 1984 and May 1985. (This will mean a substantial increase in retirement pension and other long term benefits.) The retirement pension for a single person will rise from £35.80 to £38.30, an increase of £2.50 a week. The pension for a married couple will rise from £57.30 to £61.30, an increase of £4.00 a week. The standard rates of widows benefits will rise in line with the rate of the single person's pension and the rate of widows allowance will go up from £50.10 to £53.60, an increase of £3.50 a week.

Between November 1978 and November 1985 pensions will have gone up by over 96 per cent while over the same period prices are forecast to rise by only 86 per cent. This means that pensioners will have had a real increase of over £2 a week for a single person or £3 for a married couple more than fulfilling our pledge to protect the retirement pension against rising prices. [Those Labour members who voted against the use of the historic method of determining the uprating will doubtless be aware that if we had remained with the inaccurate forecasting method which they favoured pensioners would now be getting an increase of only 5 per cent - a loss of more than £1 per week for a married couple.]

We shall also furthere ase the earnings rule: - the amount which a pensioner can earn without a reduction of his pension will be increased ~~in line with inflation~~ from £70 to £75 a week.

The basic rate of unemployment benefit will be increased by 7 per cent from £28.45 to £30.45 a week for a single person and from £46 to £49.25 for a couple, cash increases of £2 and £3.25 a week respectively.

As the House will know, Supplementary benefit is increased in line with the retail prices index excluding housing costs. This is because people on supplementary benefit have their housing costs met through housing benefit. The RPI minus housing for May is 5.1 per cent and all the main supplementary benefit rates will be increased by this amount. The long term scale rate for a couple will go up by £2.90 to £60 a week. The ordinary rate for short-term and unemployed claimants will go up from £45.55 to £47.85 a week for a couple. The scale rates for children will go up to £18.20 for a child aged 16-17, £15.10 for a child of 11-15 and £10.10 for a child under 11.

The extra weekly payments to cover items such as heating and special diets will be increased in the usual way in line with the appropriate element of the retail prices index. For example heating additions will be increased by 4.4 per cent in line with the rise in fuel prices, while the additions for special diets will go up by 3 per cent in line with the rise in food prices.

I also intend to make a change to the additions which are given to householders on supplementary benefit with central heating systems. These were introduced in the early 1960's because the few claimants with central heating at that time spent more than other claimants on fuel. Now more than half of claimants have central heating; central heating has become more efficient; and claimants with gas and electric systems in fact spend less on average on fuel than people without central heating. The scheme needs to recognise such changes. Claimants already receiving central heating additions will continue to receive them while they remain on benefit. However, I propose that no further awards of such additions should be made to people claiming on or after the 5 August. At the same time, there will be no new authorisations for estate rate heating additions. Other heating additions will continue to be available for those who qualify on grounds of age or ill health.

Mr Speaker, the Government have made clear that we believe it right to maintain child benefit for all children, but to consider its level both in relation to overall priorities within social security and, in particular, with regard to the need to do more for families with children on low incomes.

Child benefit will be increased in November from £6.85 to £7.00 per week, an increase of 2.2 per cent. Restraining the increase in this way will help us to sustain the increased benefits I have announced for pensioners and those on supplementary benefit. It will also enable us to make two valuable improvements, over and above the normal uprating increases, for less well-off families with children.

First, in addition to increasing by the full 7 per cent the prescribed amounts for children in the Family Income Supplement scheme, we shall make a special increase in the prescribed amounts for families with children aged 11 and over. This will mean, for example, an increase of 11 per cent for a Family Income Supplement family with two children aged 11 to 15.

Second, we shall increase the child's needs allowance in housing benefit to £14.50 per week - £1 a week more than would otherwise have been indicated. For tenant families, this will mean gains in housing benefit of up to 40p per week per child.

Taken together with the reduction in national insurance contributions for lower paid workers we have already proposed to Parliament, these two measures are significant further steps towards reducing the unemployment trap and directing help more effectively to the families most in need.

One-parent benefit will be increased by the full 7 per cent, from £4.25 to £4.55 per week.

However, we have decided to offer extra help to working families through the housing benefit scheme by boosting the child's addition to the needs allowance by more than the amount implied by the uprating formula.

Turning to housing benefit, the needs allowances, which are increased according to a formula which takes account of increases in average local authority rents and rates as well as the supplementary benefit rates, will go up by 5.8 per cent to £47.70 for a single person and (£70.20) for a married couple. The needs allowance for children will go up to (£13.55).

The uprating of the Housing Benefit Needs Allowances will further increase expenditure on a benefit which is paid already to well over 7 million households. As I have made clear, however, the proposals in the Green Paper on housing benefit are directed towards reducing expenditure and caseload as well as making the scheme much simpler and more equitable. We have decided, therefore, to take an immediate step to restrain further growth in housing benefit expenditure by reducing the help available with rates as household income rises. We propose to do this by increasing the rates taper above the needs allowance from its current level of 9 per cent to 13 per cent.

This change is consistent with the findings of the independent Review Team. They recommended that in a reformed scheme the rates taper should no longer allow help with rates to go further up the income scale on average than help with rents. The Social Security Advisory Committee had drawn attention to this imbalance in their evidence to the review team.

The steeper rates taper will not affect households most in need. For example, a single pensioner would have to have an income of about £12.75 a week above the basic retirement pension before losing as much as 10p a week as a result of this change. Overall we estimate that about two million households will be affected by this change and will lose on average less than 60p a week.

~~We have set in train a review of the board and lodging limits as we promised when they were introduced and I expect to be able to announce the outcome early in the New Year.~~

Benefits for disabled people, war pensioners and war widows will all be increased by seven per cent. This will mean that the war pension for a 100% disabled private soldier will go up to £62.50 a week, the pension for a widow under the industrial death benefit scheme will go up to £38,85, attendance allowance will increase to £30.60 a week and mobility allowance will go up to £21.40.

For invaldity benefit the 7 per cent uprating would have given a new rate of £36.65 a week. However as the House is aware a proposal to remove the 5 per cent abatement is contained in the Social Security Bill which is in another place. This represents an increase from £34.25 to £38.30 for a single person and from £54.80 to £61.30 for a married couple bringing it in line with retirement pension once more and giving an increase of £4.10 a week for a single person and £6.50 for a married couple.

Although it is not a social security benefit, it is opportune to announce our intention in the next session to take powers to increase the £10,000 vaccine damage payment which has remained at that level since 1979.

Mr Speaker, the measures announced in this statement will add over £2 billion to the social security budget - a budget that will stand at £42½ billion, almost a third of all government spending. ~~The extra cost of this uprating alone will amount to [1/10th] of the defence budget.~~ I shall be laying a schedule giving the increases in the main benefit rates before the House.

Mr Speaker, in this uprating we have again protected the major income maintenance benefits, and fulfilled our pledges on pensions and linked long-term benefits. We have also fulfilled our aim of targetting resources on those in greatest need.

3.10

File

Prime Minister (2)

I relayed your views on this subject to Lord Young.

AT 17/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 June 1985

The Rt. Hon. Lord Young of Graffham
Minister without Portfolio

Dear David

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

Thank you for your letter of 6 June.

I am glad you agree that my Green Paper should say something about what you describe as "the broader options". As you will remember, I emphasised the need for this in my Budget Statement and again in my speech last month to the Equipment Leasing Association, of which you have already been sent a copy. I also very much agree with you about the need not to arouse false expectations. For example, you will remember what the 1972 Tax Credit Green Paper said about a form of income guarantee scheme (page 22 of Cmnd 5116); and we shall have to consider very carefully whether there has since been all that much change in the harsh practical constraints of money and motivation. We shall also have to consider whether the paying of cash benefits and the deduction of tax from an individual's income really are, as some argue, just "two sides of the same coin". They are not

The important thing is that the Green Paper should, in due course, provide an objective analysis of the costs and benefits of the various options for reform. This is something on which I should, of course, be very happy to have your comments when we have been able to put together a draft as a basis for this consultation.

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

Yours ever
Nigel

NIGEL LAWSON

C.F. TPMS

Papers removed from file

Date 11/6

SIR GEOFFREY OTTON

(PUSS, DHSS)

Letter from Social Sec.

Review team with PM

10 DOWNING STREET

Prime Minister

Mr Fowler will be making his uprating statement on Tuesday, following the announcement of a 7 per cent RPI on Friday. He has agreed the details of the uprating with the Chancellor and will send a draft of the statement on Friday.

He is anxious that Cabinet should not get into discussion of the uprating. If it does it is likely that details will leak, in particular the decision to raise Child Benefit by only 15p to £7-00

AT

12/6

soc. sanitary
uprating

CONFIDENTIAL

cc DW

SECRETARY OF STATE THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBPM
AT 11/6

My ref:

Your ref:

11 June 1985

Dear Nigel,

SOCIAL SECURITY REVIEW: PUBLIC SERVICE PENSIONS - PART-TIMERS

See PR.

I have seen a copy of Norman Fowler's letter to you of 20 May.

Whilst I accept that it would not be politically practicable to deal differently with public and private sector schemes, I am concerned that the proposal to bring part-timers earning above a lower earnings limit within a pension scheme could add significantly to local authority current expenditure through employer contributions. I understand that in any event implementation would not take place before April 1987, so I hope we can agree now that the costs to local government should be taken into account in settling PES provisions for local authority current expenditure for 1987/88 and future years.

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

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon Nigel Lawson MP

SOCIAL SERVICES
Review Pt 3

File

D85

10 DOWNING STREET

From the Principal Private Secretary

11 June 1985

Just a note to thank you for your letter of 7 June covering one to the Prime Minister, which I have shown to her. The Prime Minister was very pleased that the members of the social security review team who attended the party enjoyed it, and she is very grateful to you for having written as you did.

FERB

Sir Geoffrey Otton, K.C.B.

BM

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6618
From the Second Permanent Secretary
SIR GEOFFREY OTTON KEB

F E R Butler Esq
10 Downing Street
LONDON SW1

7 June 1985

Dear Robin,

I did say to you at the party on Wednesday how much we all appreciated the occasion, and asked you to convey this to the Prime Minister. Subsequently I was so impressed by the reaction of the staff concerned that I thought I should write the Prime Minister a personal letter of thanks on their behalf. I enclose this, and would be grateful if you could let the Prime Minister see it - unless for any reason you think this inappropriate.

Yours ever,

Geoffrey

010

SECRET

Prime Minister (2) To note Lord Young clearly did not go through the tax/credit debate. There is also the danger of making receipt of benefit automatic.
AT 7/6

CABINET OFFICE

70 Whitehall London SWIA 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

The Rt. Hon. Nigel Lawson Q.C., M.P.,
Chancellor of the Exchequer,
H M Treasury,
Parliament Street,
London, S.W.1.

6th June, 1985

File

Note Relayed these by phone to Lord Young and Chancellor. AT 10/6

The sooner we put an end to this idea the better. It is a Shrimpers charter not

Dear Nigel,

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

I was interested to see the recent correspondence on this subject between you and Norman Fowler. I am pleased that the social security Green Paper published earlier this week says that the Government will bring forward ideas for establishing closer links between the PAYE and social security systems in the Green Paper on the reform of personal income tax and I welcome the intention to explore opportunities for securing greater co-ordination and simpler administration of the two systems. MISC 114 will be discussing later this month some specific options in this area put forward in the framework of the recent deregulation exercise in the Inland Revenue.

I think we should recognise, however, that the scope for integration goes wider than administration and that computerisation opens up options for more radical changes in the whole system of income redistribution. Some form of combined tax/benefit system, or income guarantee, would afford a basis for dealing with the disincentive effects of our existing tax and social security structures in a much more comprehensive way than has so far been possible. While I recognise the need not to arouse public expectations, I do hope that you will consider putting something about the broader options in your Green Paper later this year and that your officials will keep mine in touch with their thinking on the longer term options.

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

Yours ever,
David

SECRET

10 DOWNING STREET

Prime Minister

You might want to discuss how the momentum on social security reviews and airports can be sustained through Ministerial speeches, media engagements over the weekend.

AT 5/6

4 June 1985

PRIME MINISTER (2)

CABINET: SELLING THE BENEFIT REVIEWS

Norman Fowler's Statement went well yesterday. Press comment today is pretty favourable. The Standard's leader is headed "Back on Course". But the Daily Express rightly quotes Sir Francis Drake:

> "There must be a beginning to any great matter, but the continuing unto the end, until it be fairly finished, yields the true glory."

So after congratulating Norman Fowler on his achievements so far, you might want to take the opportunity at Thursday's Cabinet of reminding colleagues of the need to keep the initiative. In particular, Cabinet colleagues should now make speeches bringing out the main themes of the welfare reviews:

- It will always pay to be at work.

- Getting rid of SERPS ends the two nations of wealth provision. It brings real property-owning democracy.

- This is a responsible Government facing up to long-term public expenditure problems.

- Simplification, computerisation and better management cut red tape and bureaucracy.

You could allocate these between Ministers. The Policy Unit and the Research Department are already working on material - a note by John Redwood on wider wealth ownership is attached.

Conservative back-benchers will now be getting enquiries from constituents worried about rate rebates and retirement pensions. They will need continuous support and encouragement from us as horror stories about losers start appearing. You could ask the Chairman of the Party to arrange a series of sessions bringing together the Research Department, DHSS Ministers, and small groups of MPs over the coming months. These would also provide us with useful feedback on the package.

David Willetts

DAVID WILLETTS

4 June 1985

PENSIONS

~~Our~~ Pensions policy has hitherto divided the nation. The better off have their own pension fund or belong to an employer's scheme. They enjoy the security which comes from having your own saving and investment, something put aside for the future. Those who are less well off, by and large belong to the state scheme. Their contributions pay for today's basic pensions for other people. Their future rests on some future Chancellor of the Exchequer, and some future Parliament, making major tax increases to pay for promises.

Most people would rather have their own savings for their old age to top up the basic state pension. For they know that will give them greater security. If they wish, they can be involved in saving and investing. They come to participate more fully as savers and owners in the wealth-creating process.

The Government believes in individual and family responsibility, in widening ownership and encouraging provision for the future. And so do most of the British people. That's the point of our Pensions Green Paper. It makes people more secure by helping them to save. It unites a divided pensions nation, and will provide more money for industrial and commercial investment.

SOCIAL SERVICES:

Misc 111 Review: Pt3.

CABINET

CSAF 2

Q.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

Prime Minister:
This is the note which DHSS are circulating to all members of the Cabinet

Miss Janet Lewis-Jones
Private Secretary to
The Rt Hon the Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

3 June 1985

4/6

Dear Janet,

PRESENTATION OF ECONOMIC AND SOCIAL POLICY: SOCIAL SECURITY REVIEW

I attach a general speaking note on the social security review. In view of the widespread interest, I am sending copies to Private Secretaries to all members of the Cabinet.

Yours sincerely
Stephen

S H F Hickey
Private Secretary

REFORM OF SOCIAL SECURITY: SPEAKING NOTE

No-one disputes the need for review or reform of the social security system. Not the 120,000 or so administrators handling the system. Not the taxpayer who has seen costs rise five-fold in real terms since national insurance came in - up to over £40 billion in the current year. Certainly not the beneficiaries. The present pattern of provision is so complex that many people are confused about where they stand. Many people in need do not even take up the benefits to which they are entitled.

A simpler system, a more coherent system, a better targeted system must be in everyone's interests. Even the Labour Party ought to be able to agree on this. Michael Meacher, their spokesman, has called the structure of the system "defective". He has condemned supplementary benefit, for example, as a "mess". There must surely be general agreement that the real question about reform is not "whether?" but "how?".

No responsible Government could avoid taking a critical look at a system which uses enough administrators to populate the City of York and which consumes some 30p in every pound the Government spends. That look is even more essential when such a massive undertaking - for all its undoubted successes and for all the commitment of most of its staff - is failing to give the best possible service to beneficiaries.

Yet there has been no major review of social security since Churchill's war-time coalition called in Lord Beveridge. Beveridge put forward a coherent plan - a plan based on insurance, one that sought to cut administrative costs and to promote personal involvement.

Many of the principles of the Beveridge proposals remain sound. But Beveridge's plan was never put into operation as he intended. It was crucially changed at the outset - and has been changed further since. "Preserving Beveridge" is not an option. What we have today is a system that has grown up piecemeal in a manner and on a scale that Beveridge never imagined. And since the 1940s there have been many major social changes which the present social security system fails to reflect.

What the Government therefore set out to do was to examine the way the system was working in the 1980s, to look at the real problems of today and at the challenges of the future, and to devise a modern and simpler social security system, using modern methods, geared to the needs of today and tomorrow.

Norman Fowler began this major review process in November 1983. Four review teams examined in detail the main areas of social security. David Owen has claimed that this review was "neither independent nor comprehensive". In fact, it broke new ground, involving independent and outside advice to an unprecedented degree. Over 40,000 consultation documents were issued. Evidence was invited from the public. And evidence flooded in - 4,500 pieces of written evidence, 19 major public hearings involving oral evidence from almost 70 organisations and individuals. From inception to publication the review covered eighteen months. It provides a fuller and more comprehensive basis for reform than anything since the War.

What did the review uncover? It found that social security had achieved a great deal. It found that living standards had risen and that main benefit rates had increased substantially in real terms since 1948 (up to two and a half times for pensioners). But it also found clear difficulties.

First, it found that benefits were badly targeted in many cases; the system had failed to respond to changing patterns of need. Today, for example, there is little doubt that a higher proportion of those in greatest need are low income families with children. Almost half the people now living on the lowest incomes are in families with children while, by contrast, over the last thirty-five years the relative living standards of pensioners has increased. The average disposable income of pensioners is now some 70 per cent of the average of non-pensioners. So, clearly, while protecting the position of pensioners in need, any reform would need to attend to the problems of families with children.

Second, the review found a major rising trend in spending which threatened to run ahead of what the country can afford.

In the next century pensions commitments in particular could double the total bill. With an increase in the numbers of pensioners of getting on for 4 million, and because of the growth of commitments under the State Earnings Related Pension Scheme, the pensions bill is projected to treble from £15 billion today to £27 3/4 billion by 2013 and £45 billio by 2033. If Labour's extravagant promise to uprate in line with earnings were ever put into effect costs could rise to £66½ billion - well over four times present spending in real terms.

Thirdly, the review found that the incentive for private individuals to work, to improve their salary and to save was frequently stifled. The effects of the poverty and unemployment traps are felt heavily by many low income families. Higher wages and even finding a job in too many cases simply do not pay. The possession of limited quantities of savings disqualifies the thrifty from entitlement to some benefits. And the growth of occupational pension schemes, so marked up to the period of the late sixties, has come to a halt.

Fourth, the review found a system of staggering complexity. There is little coherence and consistency between the structure and rules of many of the 30 different main benefits. One benefit alone - supplementary benefit - needs an instruction book 16,000 paragraphs long. A tenth of payments are, in fact, wrongly calculated.

That was the background uncovered by the review. Hard evidence confirmed what everyone with any experience of social security knew to be true - fundamental reform was overdue.

On the basis of its findings the Government has put forward a new structure for social security. That structure is founded on clear principles with which there should be widespread agreement:

- first, a new partnership - the "twin pillars" of provision - between state and individual;

- second, help to be more effectively directed to those in need;

- third, simpler, more coherent benefit structures and rules;

- fourth, a soundly based system which the country can afford;

- fifth, a modern, computerised service delivering help with accuracy and efficiency and respecting the dignity of the benificiary.

Those principles are commonsense ones. They address real problems and offer a real basis for reform. Not for this Government is Labour's pretence that every problem can be solved by taking more money from the taxpayer. But equally not for this Government are the ideas of those who believe all benefits, including pensions, should be means-tested. We believe in preserving the contributory principle for retirement, invalidity and unemployment benefits. That principle ensures a strong link in the contributor's mind between what must be paid in contributions and what is received in benefits.

So what are our main proposals for change?

Let us look first at pensions.

Nothing we propose affects the basic state pension. Since 1979 this Government has fully protected pensioners against price rises. We stand by that pledge for the future. But what we also want for the future is that everyone should have their own pension with their job in addition to the basic state pension.

The costly State Earnings Related Pension Scheme will be phased out. Future taxpayers simply cannot be expected to finance the full £23 billion extra it would cost. Yet it is on the doubtful expectation that they would finance it that pension security under SERPS alone would rest. We believe we need a securer foundation for the pensions of the future.

The changes we propose will not be made suddenly. Existing pension rights will be protected so that employees have time to build up new pensions. No existing pensioner, nor anyone retiring this century, will be affected.

The new arrangements will only involve men under 50 and women under
at the time of change
45. At present only about half the workforce have occupational pensions. There are, in fact, two pensions nations - those with their own pension and those dependent on the State. For the future, our aim is a system in which <u>everybody</u> is able to contribute to his <u>own</u> pension - either through an occupational scheme or by the personal pension, topped up by his employer, which every worker will be given the right to choose. The phasing of the changes will mean that everyone affected has the time to save through his job for a better retirement. But where there will be least time, for men in their forties and women five years younger, we will provide as a special bonus, alongside their new personal provision, enhanced value pension rights on top of what they have already earned through the state scheme.

Turning now to income-related benefits, where we plan a coherent new system to replace family income supplement, supplementary benefit and the present tangled housing benefit scheme. The benefits for all low-income families will have the same basis of assessment and similar structures. That will ensure consistent treatment for those in and out of work. These benefits will be simpler, easier to understand and easier to administer.

For the low-income working family with children, so many of whom are among the poorest in modern society, we will bring in a new Family Credit. This will replace Family Income Supplement which has been neither popular nor successful. The new scheme will tackle the poverty and unemployment traps. People will no longer be made worse-off by earning more; we aim to do away with the absurdity of marginal tax rates of over 100 per cent. At the same time our aim is to ensure that no-one in work should be worse-off than he would be on benefit. The fact that a common basis of assessment will be used for all income-related benefits will mean that it should always pay to take a job.

The new Family Credit is a major reform designed to tackle the problems of some of our most disadvantaged families. But the Government believe that the special responsibilities for all families should be recognised. Child benefit will continue to be paid to all mothers as a contribution to the cost of bringing up children.

Alongside these proposals for the pensioner and for the family we shall be replacing the present system of supplementary benefit. The new, simpler structure called Income Support will avoid the complexities and the intrusive questioning that are so wasteful in administration and so disturbing to so many beneficiaries. The central concept of this income support scheme is that the regular extra payments now made on the basis of detailed individual assessment should be absorbe into the main rates of benefit. Those rates will provide a special higher level of benefit for pensioners, the long term sick and disabled and lone parents. Families with children will not only receive assistanc for each child but also a premium to reflect the extra pressures they hav to cope with.

The present supplementary benefit rules are simply too complex. They also excessively discriminate against those who have saved and those who seek part-time work. We propose more generous rules for both capital and earnings. At the same time, we recognise that alongside the new Income Support scheme it will still be necessary to provide for the exceptional problems faced by a minority of those in need. So we plan a new Social Fund, with an annual budget, to help people with special difficulties over budgeting and other financial emergencies. The Fund will also help to carry forward the Government's policy of care in the community, for example, by giving elderly people more cash help so that they can stay in their own homes.

Housing benefit, which presently goes to one household in three, some with income up to average earnings, will be greatly simplified. It will be provided on an equal basis to those in and out of work. Benefit will be reduced through a single taper as income rises - a system far easier to understand and to administer than the six separate tapers we have now.

Help with rents will be based on 100 per cent for all those on the lowest incomes. The future of help with rates depends on other studies the Government has in hand. But the review proposes that all households should expect to pay some contribution, say perhaps 20 per cent, through the rates towards the cost of financing local government services. Such a change would increase every individual's personal involvement with the decisions made on his behalf by his local authority.

Taken as a whole, the reforms to income-related benefits create not only a more coherent and comprehensible system. They will mean greater fairness of treatment between those in and out of work. They promise an end to the worst aspects of the poverty trap. They will reduce detailed inquiries into individual circumstances. They will be targeted on the needs of today and will offer greater incentive to individual effort, to savings and self-help.

Certain other benefits will be reformed to provide better help at times of special need - for the least well-off with the expense of births and of funerals and for widows at the time of bereavement. Death and maternity grants will be replaced by help from the Social Fund for low-income families. A new lump sum of £1,000 will be paid to widows instead of the present temporary widows' allowance. Maternity allowance will be based more understandably on recent employment. Expectant mothers will be given more choice about when to give up work.

No changes are proposed to unemployment benefit, which has been the subject of so many scare stories. The Christmas bonus will continue to be paid. The Review did not consider the structure of benefits for the sick and disabled. But the Government have set in hand a major survey into the present extent and effects of disablement on which any future improvements can be based.

The review also proposes changes on the timing of benefit upratings in a way which will mean bringing forward the next upratings. At present upratings come in November. Pensioners/and others often complain of the time spent "waiting" for upratings because most other major changes affecting personal incomes - on taxation, on contributions, on rent and rates come in April. From 1987 we want to uprate benefits in April as well. That will be a significant step towards aligning the tax and benefit systems. It will produce savings to local authorities who now have to change housing benefit twice a year. But it will be particularly good news for all beneficiaries personally. The 1986 uprating will be brought forward by four months and paid early-in July. The 1987 uprating will com forward seven months from November to April. Thereafter all significant changes on personal incomes will be made together.

Better alignment of the tax and benefit systems also depends on reformed administration. Administering social security presently costs some £1.7 billion a year. We intend to transform its management by what will be the biggest computerisation programme in Western Europe. A new social security management board is being established; it will include members from outside Government with experience in running large business operations. Taken together with the simpler benefit structure the reforms in management will radically improve service to the public.

Better service, greater simplicity and fairness are central elements in the Government's proposals. It would be absurd to perpetuate a system so complex that it requires a whole industry of specialists to interpret it to the world. For the first time for forty years we have now put forward - in a Green Paper for public discussion - a plan for social security based on clear principles and coherent objectives. It is a programme involving a new partnership between the State and the individual which will rebuild personal incentive and personal involvement. . It is a programme which will for the first time give every person a right to his <u>own</u> pension through his job. It is a programme which will tackle the real needs of today using up-to-date analysis and up-to-date methods to set about the job. It is a modern programme. But it is above all a caring programme directing the immense resources involved in a far more effective way than ever before for the benefit of those in need of support.

SP.

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

REFORM OF SOCIAL SECURITY

Norman Fowler, Secretary of State for Social Services, has today (Monday 3 June) published "Reform of Social Security" (Cmnd Nos 9517 - 9519) and "Housing Benefit Review" (Cmnd 9520).*
A summary of the Green Paper is attached.

* These are to be found in the folder at the back of - SOCIAL SERVICES: Reviews of Benefits Pt 3

REFORM OF SOCIAL SECURITY: SUMMARY

1. The Green Paper sets out the Government's proposals for a modern and simpler social security system which is better adapted to changing needs. The Green Paper follows on the work of four review teams which have been examining the main areas of social security over the last 18 months. The key principles of the reforms are:

- a new partnership - the "twin pillars" of provision - between state and individual through occupational and personal provision;
- help to be more effectively directed to those in need;
- simpler, more coherent benefit structures and rules;
- a soundly based social security system which the country can afford;
- a modern, computerised service.

Main proposals

(a) Pensions

2. Everyone will have their own pension with their job in addition to the basic state pension the value of which the Government will maintain.

3. The State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of the reform. For those below these ages it will be phased out, so that younger employees have time to build-up new pension rights. No existing pensioners, nor anyone retiring this century, will be affected by these changes.

4. All existing rights under SERPS will be honoured.

5. There will in addition be a special enhancement of existing SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a bonus in addition to any occupational pension they are building up. The table below shows the effect:

Effect of bonus years for men over 40 and women over 35

Age in 1987 Men	Women	Number of added years	Addition to SERPS rights %
40	35	1	10
41	36	2	20
42	37	3	30
43	38	4	40
44	39	5	50
45	40	5½	55
46	41	6	60
47	42	6½	65
48	43	7	70
49	44	7½	75

6. Employees will be able as of right to take out personal pensions with a contribution from their employer, if they so wish. This change will carry forward the Government's programme of occupational pensions reform, and adds to current measures to provide:

- better protection against inflation for the pension rights of those who leave a scheme before retirement;
- a right on leaving a scheme to a transfer value representing the value of their deferred pension rights;
- access to better information about their pensions.

7. No change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70, within which the timing of retirement would be a matter of individual choice.

(b) Income-related benefits

8. A new, coherent system of income-related benefits will replace family income supplement, supplementary benefit and the present complex housing benefit scheme. The benefits for all low-income families will have the same basis of assessment and similar structures to ensure consistency of treatment for those in and out of work. They will be simpler and easier to understand and to administer.

9. A new Family Credit for low-income working families with children will replace family income supplement. The new scheme will tackle the poverty and unemployment traps. People will no longer be made worse of by earning more because benefit will be based on net pay instead of gross. There will no longer be marginal tax rates of over 100 per cent. The aim is to ensure that no-one in work should be worse off than on benefit. Because the same benefit structure is to be used it will pay to take a job. Family credit will be paid in the wage packet as an offset to tax and national insurance.

10. Child benefit will continue to be paid for all children in recognition of the costs all parents bear.

11. The supplementary benefit scheme is being replaced by a simpler structure of Income Support which will avoid present complexities and intrusive questioning. Families with children, including lone parents, will have a new family premium. Other premiums will be paid to pensioners, long-term sick and disabled people and lone parents.

12. There will be more generous rules for capital and earnings. One effect will be to help remove the penalty on savings.

13. A new Social Fund will be set up, with an annual budget, to help people with special difficulties over budgetting and other financial emergencies. It will also help to carry forward the Government's policy of care in the community, for example by giving elderly people more cash help so that they can stay in their own homes.

14. Housing Benefit will be greatly simplified and provided on an equal basis for people in and out of work. Benefit will be reduced through a single taper as income rises instead of the six separate tapers we have now.

15. Help with rents will be based on a maximum of 100% for those on the lowest incomes whether in or out of work. The future of help with rates depends on other studies the Government has in hand: but it is proposed that all households should pay at least a minimum contribution, possibly of 20%, towards their domestic rates

(c) Other benefits

16. Better help will be provided at times of special need - to help the least well-off with the expenses of births and deaths and to help widows at the time of bereavement. The death and maternity grants will be replaced by help from the new social fund for low-income families whether in work or out of work. The maternity allowance will be concentrated on working expectant mothers who will have some choice over the period it can be drawn. A new lump sum payment of £1,000 will be paid to widows instead of the present weekly widows' allowance paid for six months. Weekly benefit will be focussed on widows with children and older widows without children.

17. No changes are proposed to unemployment benefit, to the structure of benefits specifically for sick and disabled people, to the entitlement of young people to benefit or to the Christmas bonus.

(d) Aligning tax and benefit years

18. Benefits will be uprated in April, at the same time as changes in taxes, contributions and rent and rates. The first April uprating will be 1987. The November 1986 uprating will be brought forward to July 1986. This change will be a significant move towards aligning the tax and benefit systems.

(e) Management of social security

19. The management of social security is being transformed by the biggest computerisation programme in Europe. A new social security management board is being established and will include some members from outside Government with expertise in running large businesses. These changes plus the simpler benefit structure proposed in the Green Paper will radically improve service to the public.

REFORM OF SOCIAL SECURITY: MAIN POINTS

1. The Green Paper is in three volumes:

Green Paper references

* **Volume 1** (Cmnd 9517) sets out the background to the review, the case for reform, the Government's approach to reform, including the objectives of social security, and the proposed changes.

* **Volume 2** (Cmnd 9518) contains a more detailed account of the main benefits covered by the review; these are examined area by area and the fuller programme for change is described.

* **Volume 3** (Cmnd 9519) publishes five background papers which have informed the review and gives an account of the review process, including consultations.

The report of the Housing Benefit Review Team - "Housing Benefit Review" -is published separately (Cmnd 9520).

2. The **background** to the review includes:

Changing needs

Vol 1, Chapters 2,3 and 4

Vol 3, Papers 1, 2, 3 and 5

* living standards have improved substantially - average gross earnings have doubled in real terms; housing conditions and the nation's health have improved markedly; ownership of household goods (televisions, refrigerators, washing machines) is almost universal; central heating, cars and telephones are much more widely owned.

* main benefit rates have increased substantially in real value since 1948 (up to 2½ times for pensions).

* the pattern of need has been changing. A special analysis for the review of the Family Expenditure Survey has shown that families with children now account for over half the people living on low incomes, as measured by those in the bottom fifth of income distribution.

* although many pensioners still have low incomes, their position as a group has improved substantially since the 1950s. Their average disposable income per head is now 69 per cent of the average for non-pensioners compared to 41 per cent in 1951.

* in seeking to respond to new and changing needs, social security has been developed in piecemeal, incremental ways, resulting in growing complexity and difficulties for administration by staff and understanding by claimants.

* there are now over 30 main benefits and allowances (with 2 volumes and 16,000 paragraphs of guidance on supplementary benefit alone).

* around two thirds of all families receive benefits at any one time.

3. **Resources consumed by social security:**

* social security spending is estimated to exceed £40 billion in 1985-86, about 30 per cent of all Government spending. — Vol 1, Ch 3; Vol 3, Papers 2 and 5

* spending has increased over five fold in real terms since 1948.

* spending is estimated to be about £8½ billion (28 per cent) in real terms higher in 1984/5 than in 1979/80. Most benefits have gone up by more than inflation since then; more than half the real increase is due to this and the higher numbers of pensioners, lone parents and sick and disabled people claiming benefits.

* some 81,000 DHSS staff are engaged on social security work including 38,000 on supplementary benefit; in all nearly 120,000 civil servants and local authority officials are involved.

4. **Public opinion.** A special public opinion survey conducted for the review found that: — Vol 3, Paper 4

* most people said they saw their national insurance contributions, which they recognised as paying for certain benefits, as different from tax deductions.

* a large majority of people would prefer a simpler system than the present system which was widely recognised as complex.

* at the time of the survey half of all respondents had not heard of SERPS. Asked about the importance of having an occupational or additional pension besides the state pension, nearly 90 per cent of those who were or had been scheme members and two thirds of those not in schemes said it was important or very important.

* there was strong support for universal child benefit and for giving more help to low-income families with children.

* the main criticisms people had of social security were that: help goes to people who do not need it; that not enough goes to those who need it most; that administration is poor and staff unhelpful; and that the system is too complicated.

5. The **main emphasis** of the Green Paper is on modernising the benefit system through **structural** reform based on the following **key principles:** Vol 1, Ch 6

* a new partnership - the "twin-pillars" of provision - between state and individual through occupational and personal provision;

* help to be more effectively directed to those in need;

* simpler, more coherent benefit structures and rules;

* a soundly based social security system which the country can afford;

* a modern, computerised service.

6. A fuller account of the proposals is given in the attached notes, but the main features of the benefit reforms proposed are as follows:

Pensions
(Note 1)

* everyone will have their **own** pension with their job **in addition to the basic state pension** the value of which the Government will maintain; Vol 1, Ch 7 Vol 2, Ch 1

* the State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of the reform. For those below these ages it will be phased out, so that younger employees have time to build up new pension rights;

* no existing pensioners, nor anyone retiring this century, will be affected by these changes;

* **all** existing rights under SERPS will be honoured;

* there will in addition be a special enhancement of existing SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a **bonus** in addition to any occupational pension they are building up;

* Employees will be able to take out **personal pensions** as of right with a contribution from the employer, if they so wish. This change will carry forward the Government's programme of occupational pensions' reform;

* no change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70, within which the timing of retirement would be a matter of individual choice.

Family Support:
(Note 2)

* **child benefit** will continue to be paid for all children; Vol 1, Ch 8 Vol 2, Ch 4

* there will be a new **family credit** for low-paid working families with children; replacing the present unsatisfactory family income supplement;

* family credit will be based on the same strucure as the new income support scheme;

* the aim of this is to ensure that no-one in work should be worse off than out of work;

* families receiving family credit will receive extra cash instead of free school meals or free welfare foods;

* family credit will be calculated by the DHSS but paid by employers in the pay packets. It will be offset against tax and national insurance deductions or paid in cash.

Supplementary benefit: will be replaced
(Note 3)

* new scheme of **Income Support** will be simpler, avoiding present complexities and intrusive personal questions; Vol 1, 9.1-9.11

* instead of the present tangle of benefit rates and additional payments, often poorly-targetted, there will be a clear structure of weekly income support rates; Vol 2, Ch 2

* this new structure will reflect the special needs of different groups by paying premiums for:

- families with children (on top of the additional payment for each child)
- lone parents
- pensioners
- long-term sick and disabled, and the over 80s

* a new **Social Fund** will be set up, with an annual budget, to help people with special difficulties. It will also help to carry forward the Government's policy of care in the community, for example, by giving elderly people more cash help so that they can stay in their own homes;

* there will be more generous rules for savings and earnings from part-time work.

Housing benefit: will be greatly simplified: Vol 1, 9.12 - 9.24
(Note 4)

* the income test will be aligned with the income support scheme. This will enable housing benefit supplement to be abolished; Vol 2, Ch 3

* a single combined taper for rent and rates instead of six different tapers will be used to withdraw benefit as income rises;

* help with rents will be based on 100% for those on the lowest incomes whether in or out of work;

* the future of help with rates depends on the outcome of the current study of local government financing. But it is proposed that all households should pay a contribution - possibly of 20 per cent - towards domestic rates.

Other benefits

Maternity allowance: two changes are proposed: Vol 1, 10.5
(Note 5)

Vol 2, Ch 5

* the allowance will be better targetted on expectant mothers with a recent work record

* mothers will have some choice about when they wish to draw the allowance

Widows' benefits: changes focus mainly on widows under 60: Vol 1, 10.8-10.13
(Note 5)

* a new lump sum of £1000 to be paid instead of the present 26 weeks' widow's allowance; Vol 2, Ch 5

* widows with children will, in addition to the lump sum, receive widowed mother's allowance straightaway;

* widows without children will, in addition to the lump sum, receive a widow's pension straightaway if they are over 45. This will be paid at the full rate at 55, and at lower rates between 45 and 54 (instead of between 40 and 49 as now);

* the benefit currently being received by existing widows will not be affected.

Death grant: will be replaced by help from the Social Fund: Vol 1, 10.6-10.7
(Note 6)

*help will be available on a discretionary basis, and not at a fixed sum, to **any** low-income family unable to meet funeral costs - not, like the present supplementary benefit single payments, only to those on supplementary benefit. Vol 2, Ch 5

Christmas bonus: will continue to be paid.

Maternity grant: will be replaced by a higher payment from the Social Fund for low-income families: Vol 1, 10.6-10.7
(Note 6)

* payment - likely to be about £75 - will be available to these families whether they are in or out of work; Vol 2, Ch 5

* the payment will be made automatically to expectant mothers for whom family credit or income support is being paid.

Unemployment Benefit: no changes are proposed. Vol 1, 10.2-10.3

Benefits for sick and disabled people were not included in the review, but in parallel with it the Government set in hand a major new survey of the extent of disablement and its effects: Vol 1, 10.14-10.15

* this will provide the evidence needed to enable these benefits to be reviewed in their turn;

* the aim here, as elsewhere, will be to move towards a more coherent system. Progress towards this has clearly been made by such measures as the ending of the "invalidity trap" and the introduction of severe disablement allowance;

* the income support proposals, incorporating a premium for the long-term sick and disabled, are a further important step.

Young people and students:

* no changes are proposed to the eligibility of **young unemployed people** to benefit; Vol 1, 9.27

* major expansion of Youth Training Scheme will offer all 16 and 17 year old school leavers training opportunities, thus avoiding unemployment and need to rely on benefit;

* aim to restore position where **students** are helped by grants, by their families and by their own vacation earnings; present situation where many students claim supplementary benefit and housing benefit to be reexamined following Government's consultative paper on students' support. Vol 1, 9.28

7. The timing of the **uprating of benefits** is to be changed: Vol 1, 13.14-13.15

* from 1987 onwards annual upratings will be moved from November to April;

* the uprating due in November 1986 will be advanced to July 1986;

* upratings will therefore take place in November 1985, July 1986 and April 1987;

* April upratings will coincide with other changes affecting people's incomes - tax rates and allowances, contribution rates, rents and rates;

* each uprating will follow the current practice of basing increases in benefits on the movement of prices over a previous period

8. **Management of Social Security: major computer strategy** Vol 1, Ch 12
(Note 7) to be carried forward alongside the structural reforms and alignment of tax/benefit changes: Vol 2, Ch 6

* opportunities for closer links and cooperation between tax and benefit systems to be discussed in forthcoming Green Paper on reform of personal taxation;

* opportunities to be studied for drawing closer together the two networks of offices run by the DHSS and the Department of Employment;

* new Social Security Management Board to be set up with outside members;

* full consultation with staff and DHSS unions over implementation.

9. The emphasis of the proposals is on the structure of social security for the future. The precise **financial effects** cannot be assessed until final decisions are taken on the main structure itself and until the benefit rates to be applied are also determined. Until that time, it would be misleading to attempt to provide a detailed analysis of the cost and impact of the changes. The proposals are expected to: lead to major long-term reductions in public spending on SERPS; produce economies in administration; reduce expenditure on housing benefit; and increase expenditure on support for low-paid working families. The changes in the main structure of supplementary benefit are not intended to reduce the overall help provided. Ch 1, Vol 13.2

10. **Consultation:** the review proposals have been formulated against the background of extensive public consultation: Vol 1, Ch 13.13 and 13.17

* the four review teams included outside members to assist and advise Ministers in analysing evidence, issues and options; Vol 3, Paper 6

* extensive consultations were held during 1984 - over 40,000 consultation notes sent out identifying main issues on which evidence invited;

* some 4,500 items of written evidence received;

* 19 public sessions held, attended by Ministers and other review team members, to hear oral evidence from 62 organisations and individuals;

* a public opinion survey was commissioned to inform the review.

11. **The next steps:** the Green Paper continues the consultation process: Vol 1, Ch 13.13

* comments to be sent by 16 September 1985;

* a White Paper setting out final conclusions will be published later in the year;

* legislation will be brought forward with the aim of bringing in the new structure in April 1987.

12. Comments should be sent to:

Central Review Unit
Department of Health and Social Security
Room D406
Alexander Fleming House
Elephant and Castle
London SE1 6BY.

NOTE 1

STATE EARNINGS-RELATED PENSION SCHEME (SERPS) AND NEW PENSIONS FRAMEWORK

Proposals for Reform

1. The main reforms are:

* Everyone will have their own pension with their job in addition to the basic state pension the value of which the Government will maintain.

* The State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of reform. For those below these ages it will be phased out, so that employees have time to build up new pensions. No existing pensioners nor anyone retiring this century will be affected by this change.

* All existing rights under SERPS will be honoured.

* There will be a special enhancement in SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a bonus in addition to any occupational pension they are building up. The table below shows the effect:

Effect of bonus years for men over 40 and women over 35

Age in 1987 Men	Women	Number of added years	Addition to SERPS rights %
40	35	1	10
41	36	2	20
42	37	3	30
43	38	4	40
44	39	5	50
45	40	5½	55
46	41	6	60
47	42	6½	65
48	43	7	70
49	44	7½	75

New partnership

* There will be a new partnership between state, occupational and personal provision.

* There will be a new framework for occupational and personal pensions under which everyone in work (except those still in SERPS, 16 to 18 years olds and low earners) will have occupational or personal pensions. The minimum contribution to this additional pension will be 4 per cent of earnings, with the employer meeting at least half.

* As an alternative to membership of an occupational scheme, employees will be able to take out personal pensions as of right with a contribution from the employer, if they so wish. This change will carry forward the Government's programme of occupational pension reform, and adds to current measures to provide:

  - better protection against inflation for the pension rights of those who leave a scheme before retirement:

  - a right on leaving a scheme to a transfer value representing the value of their deferred pension rights;

  - access to better information about their pensions.

* The new framework will not apply to self-employed people who are not covered by SERPS and for whom other arrangements already exist.

Age of retirement

* No change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70 in which the timing of retirement would be a matter of individual choice.

Case for reform

2. Demography. The Government Actuary has estimated that the number of pensioners will rise from 9.3 million in 1985 to 13.2 million in 2035. At the same time, the number of contributors paying for the state part of the pension cost will hardly change, so the ratio of contributors to pensioners will worsen. The Government Actuary estimates that the ratio of 2.3 contributors to each pensioner in 1985 will become 1.6 contributors to each pensioner in 2035.

3. Cost. The future cost of pensions would be unacceptably high. If basic pensions are uprated in line with prices, spending on pensions which is £15.4 billion today will have reached £45 billion in 2033. If basic pensions were uprated by earnings, the spending in 2033 would have reached £64.5 billion. What this means is that the additional cost of SERPS itself would pre-empt state social security resources to this form of pension provision for forty years to come.

4. Two nations in retirement. The effect of present arrangements is that occupational pension cover is static, so that only half of the people in work have the change of being in an occupational scheme. SERPS has done nothing to encourage the spread of occupational schemes. The complexity of the state scheme's provisions on contracting-out and the open-ended commitment that employers have to take on has meant that there has been little increase in occupational pension coverage in industries like agriculture, construction and distribution.

Objectives and Effects of Reform

5. To encourage the spread of occupational pensions, particularly in sectors with poor coverage.

6. To give employees the right to take out personal pensions, instead of being members of occupational schemes, if they so wish.

7. <u>To give more choice to future governments</u> about how resources should be used. It will enable governments to concentrate on providing as good a basic pension as possible and on assisting those who need extra help in retirement. At the same time, others can be encouraged to concentrate on providing additional pensions.

8. <u>To give more choice to the employee</u> by enabling him to have more say in what form of additional pension he should have and in what happens to his pension savings that are building up.

FAMILY BENEFITS

Proposals for reform

1. A new Family Credit for low-income working families to replace Family Income Supplement. This will be part of a new and more coherent system of income-related benefits. The credit will:

* have a similar structure to the new Income Support scheme (Note 3) with higher rates for older children and a premium for all families;

* be based on a similar net income test to the simplified housing benefit and income support schemes;

* be paid by employers as an offset to tax and national insurance;

* provide higher rates of cash support instead of benefits in kind such as free school meals and milk.

2. Child benefit will continue to be paid to all children as at present and one-parent benefit will be unchanged.

Case for reform

3. Many working families with children are among the poorest in this country. Family Income Supplement has not been successful in meeting their needs:

- it is based on gross earnings. This means that some families can face a reduction in total income if their gross earnings rise over significant ranges of earnings;

- it gives relatively less help to larger families and those with older children who can find themselves worse off in work than unemployed.

Objectives and effects of reform

4. To lessen the effect of the poverty trap: because family credit is based on net income (and is taken into account for housing benefit), it will be impossible for families to face marginal tax rates of over 100 per cent. They will always be sure of getting an increase in total family income when their earnings increase.

5. To give equivalent help for those in and out of work: family credit will act as an offset to tax and national insurance; and, if it exceeds deductions from pay, will provide a boost to gross earnings. It will bring closer together the impact of the tax and benefit systems on the income of working families.

SUPPLEMENTARY BENEFIT

Proposals for Reform

1. To replace supplementary benefit by:

   * a new income support scheme, giving a guaranteed weekly income with higher rates for pensioners, disabled people and those with children; and with more generous earnings and capital rules to encourage people to save and to take part-time work.

   * a new social fund to help those in special need, operated on a discretionary basis by specially trained staff within an annual budget.

Case for Reform

2. Complexity: The present scheme is far too complicated to be workable. One third of claimants have no idea how their weekly payments are calculated, and most have never heard of the extra payments they might be entitled to. Staff have to cope with 16,000 paragraphs of instructions and a 42 page index.

3. Poor targetting: Despite all the detailed provisions the present scheme does not meet need effectively. It is inflexible, undignified and poorly targetted. There is also evidence that families with children have greater difficulty in managing on supplementary benefit levels than other claimants.

4. Incentives: The present earnings and capital rules discourage people from helping themselves.

Objectives and Effects of Reform

5. Simplification: The new income support scheme will end the present distinctions between householders and non-householders, and between long- and short-term rates; it will also end the complicated system of additional payments related to individual circumstances. These resources will be built into the basic rates which people will be free to manage as they choose.

6. Flexibility and Sensitivity of Response: The new social fund will provide a more flexible and sensitive way of responding to claimants' inescapable special difficulties. It will also help promote the Government's wider community care objectives.

7. Better Targetting: The new arrangements will give most help to those facing the greatest needs, through special premiums paid to families, disabled people, pensioners etc. And there will be a more effective safety net for the minority of claimants with exceptional needs who cannot cope.

8. To encourage incentives: The new capital and earnings rules will give more encouragement for people to save and to take part-time work.

9. Wider reform: The new arrangements underpin the housing benefit and family credit reforms, thus paving the way for the abolition of the housing benefit supplement and for fairer treatment between poor people in and out of work.

HOUSING BENEFIT

Proposals for Reform

1. The main proposals are:

* housing benefit will be aligned with the new income support scheme, using the same rules to assess resources and levels of need;

* households on income support and equivalent levels of net income will receive 100 per cent help with rent and around 80 per cent help with rates;

* housholds above income support levels will have their benefit withdrawn by means of a single taper related soley to income and applied to rent and rates combined;

* local authorities will be reimbursed directly for 80 per cent of benefit costs. The remainder, including administration costs, will be included in Rate Support Grant.

Case for Reform

2. Inequity: Under the current scheme, those receiving supplementary benefit are treated differently from those not; help with rates goes further up the income scale than help with rents; different groups (eg. pensioners) are treated differently.

3. Complexity: The scheme is widely criticised as being hard to understand and administer. Housing benefit supplement is particularly complex.

4. Cost and Caseload: One in three households now get housing benefit (7½ million in 1984/85); costs have risen from £1.24 billion 1979/80 to £4.16 billion in 1984/85.

5. Administration: Existing subsidy arrangements for both benefit and administration costs do not give local authorities sufficient incentive to monitor and control costs. The Public Accounts Committee have drawn attention to the inadequacy of existing monitoring arrangements.

Objectives and Effects of Reform

6. To create a simple, unified structure which is easy to understand and administer. The proposals will enable housing benefit supplement and high rent schems to be abolished.

7. To improve incentives: Households paying rent and rates will be treated in the same way, whether in work or not. This will remove a disincentive to take work.

8. To target help on those most in need: Help will be concentrated more on those at or near income support levels, and families with unavoidably high rents.

9. To provide tighter controls: Revised subsidy arrangements will give local authorities a greater responsibility and incentive to ensure that the scheme is run efficiently and does not encourage unjustified increases in housing costs.

10. To improve local accountability: The future of help with rates depends on other studies the Government has in mind; but it is proposed that all households should pay a contribution, possibly of 20 per cent towards their domestic rates.

NOTE 5

WIDOWS BENEFITS

1. Proposals for reform. The main proposals (mainly affecting widows under 60) are:

* to provide a £1,000 lump sum at the time of bereavement instead of the weekly widow's allowance which now runs for six months;

* to provide the weekly widowed mother's allowance from the start (rather than after six months) to all widows with children in addition to the lump sum;

* to concentrate widow's pension (also to be payable from the time of bereavement) on older widows, aged over 45 rather than 40 as at present, in addition to the lump sum.

2. Case for reform. The basic structure of the benefits as entitlements within the national insurance system is still valid. But the pattern of need has changed since the benefits were brought in. Many more women now have jobs; and many more widows receive occupational pensions. The main areas of need are immediate, flexible help at the time of bereavement; and continuing help for those with children or older widows who are less likely to be able to return to work.

3. Objectives and effects of reform. To give greater help when it is most needed, at the time of bereavement, and in a form - a lump sum - which gives greatest flexibility. Continuing help will be focussed on those older widows and widows with children who need it most.

MATERNITY ALLOWANCE

4. Proposals for reform. To base eligibility more on regular recent employment; and to increase flexibility about the period over which the allowance can be paid.

5. Case for reform. The purpose of the allowance is to help replace earnings when women give up work to have a baby. But the contribution test can relate to periods up to two years before the birth. Some women who have not worked for some time receive the allowance while others who give up work to have a baby do not qualify for the allowance. The rigid period over which the allowance can be paid - 11 weeks before and 6 weeks after confinement - is also an unnecessary restriction on women's freedom.

6. Objectives and effects of reform. To provide greater flexibility and freedom for women to choose when to give up work before having a baby; and to make the allowance more effective as a means of replacing income for those who give up work.

NOTE 6

MATERNITY GRANT

1. Proposal for reform. To replace the £25 grant with a higher lump sum payment (about £75) available under the social fund to low-income families, whether in or out of work.

2. Case for reform. £25 is a small contribution. Maternity grant has not been increased for over 15 years. It makes an inadequate contribution to maternity costs. Most people can plan for and meet the cost of having a baby. Those who cannot need more help than £25 provides. The present system is also unfair in that only expectant mothers on supplementary benefit can receive extra help.

3. Objectives and effects of reform. To provide adequate help to those who need it most; and to give extra help to more people on low incomes not just those on supplementary benefit.

DEATH GRANT

1. Proposal for reform. To replace the £30 death grant with help, available from the new social fund, to anyone responsible for paying for a funeral who is unable to meet its cost.

2. Case for reform. £30 makes a tiny contribution: even a simple funeral costs £350 and the cost often exceeds £600. The grant contributes only £17 million to total costs of over £250 million a year. Unfairness: only people on supplementary benefit can get extra help on top of the £30 grant. Low-income families in work may also need help. The grant is not cost-effective: 700 staff are employed in administering it. Each £30 grant costs £20 to administer.

3. Objectives and effects of reform. To give adequate help to those who need it; the proposals will provide a genuine safety-net for the minority of people who need financial assistance with funeral costs. They will also be more flexible. Anybody in need can apply and access to the Social Fund will be available quickly and with the minimum of fuss to meet genuine need.

NOTE 7

MANAGEMENT OF SOCIAL SECURITY

1. There will be a programme of change aimed at a more modern and radically improved service to the public. The main elements in this programme are:

* to transform the administration of social security by the biggest computerisation programme in Europe.

* to establish a new social security management board, including members from outside government.

* to use the simplification of the social security structure to streamline the delivery of benefits.

* to move towards better links between tax and benefits.

Computerisation

2. Computerisation will be introduced flexibly and in stages. There will be safeguards to protect privacy and security. Planning is well advanced:

* the first phase, a local office microcomputer project, has already begun. Microcomputers will be introduced to all local offices this year to help with calculating benefit, finding claimants' files, and other special tasks.

* Unemployment benefit offices are to get visual display units and keyboards linked to central computer records of claims of unemployed people. The changeover will be completed by 1987. Claimants will receive a quicker, more efficient service.

* the central offices in Newcastle and North Fylde are to have new computer equipment and computerised records starting this year.

* the local office project is the most important and ambitious. It will begin in 1988 and will be completed by the mid-1990's. It will create a national computer network, linking each local office to one of a number of mainframe computers. Authorised staff will be able to access and update information within a few seconds.

Social Security Management Board

3. A new Social Security Management Board will be set up under the policy direction of the Secretary of State for Social Services. It will be strengthened by the appointment of experienced managers from outside Government. Its first major responsibility will be to see that the computerisation of social security and the changes outlined in the Green Paper are carried through effectively and to time.

Streamline delivery of benefits

4. The simpler, more rational benefit structure proposed in the Green Paper and the Government's plans to computerise social security offer the prospect of a complete transformation of the benefit service.

5. Social security offices in the 1990's will look quite different from now:

* the endless rows of filing cabinets with their bulky manilla files will largely disappear.

* in their place will be visual display units linked to central computers, allowing staff to deal quickly and accurately with claims and enquiries.

6. Taken together, these changes should enable benefits to be delivered quicker and more accurately.

Better links between tax and benefits

7. Benefit and tax years will be the same when, as is proposed in the Green Paper, benefits are uprated in April. This change will be a significant move towards aligning the tax and benefit systems.

8. The further possibilities for closer links between the tax and social security systems will be explored in the Government's forthcoming Green Paper on personal taxation.

9. Computerisation and simplification also hold out the prospect of better links between other areas of Government administration. In particular, the relationship between the office networks of the DHSS and the Department of Employment, which jointly employ over 100,000 staff in some 1,500 offices, will also be looked at. The aim will be to see whether the networks can be used to give the public a better and more efficient service in the light of the benefit reforms proposed and the computerisation of both networks.

books, papers and papers, and courses and courses upon it. They have not found the answer and they never will. I do not intend to ask for yet another inquiry.

Social Security Review

4.20 pm

The Secretary of State for Social Services (Mr. Norman Fowler: I will with permission, Mr. Speaker, make a statement on the review of social security.

During the last 18 months the Government have been examining the major areas of social security provision. In that time more than 40,000 consultation documents were issued, 4,500 pieces of evidence were received, and 62 organisations and individuals gave oral evidence at public sessions. The Government are today publishing a Green Paper which sets out their proposals. We will now be seeking comments on the proposals from interested organisations and will be providing an opportunity for the House to debate them.

The social security system in the United Kingdom owes a great deal to the report of Sir William Beveridge in 1942. Although much of what he proposed was changed when it came to implementation, and more has been changed since, many of the principles on which his proposals were founded remain sound. The Government remain committed to the concept of a national insurance system, under which entitlement to the major benefits is earned by the payment of contributions during a working life. The Government also believe that our tradition of state support for those in need is one which should be maintained and developed. However, social security is not a function of the state alone. It should be a partnership between the individual and the state—a system built on twin pillars.

Any review of social security must recognise its considerable achievements, but the review has shown that there are several major causes for concern. By common consent the social security system is too complex. That is to the disadvantage of both the public and the staff. In particular, the research evidence shows that substantial numbers of supplementary benefit claimants do not understand how their entitlement is worked out, in spite of the fact that 38,000 staff are now working exclusively on supplementary benefit. With the pressures now being faced there is a danger that some parts of the system will break down. It is, therefore, a matter of urgency that we devise a simpler and more coherent system.

The social security system also needs to be modernised. It is not properly co-ordinated with the tax system and operates with outdated equipment. We now need a major computerisation strategy for social security, which can link effectively with other Government systems, including that of the Inland Revenue.

In terms of spending, the cost of the social security system has increased fivefold in real terms since the war and now totals some £40 billion a year. That is over 30 per cent. of all public spending and represents over 11 per cent. of gross domestic product compared with only 4·7 per cent. after the war. Nor has the pressure for growth in spending ended. In the first part of the next century we need to provide for an extra 4 million pensioners. That, taken together with the state earnings-related pension scheme, means that spending on pensions will at least treble. We must ensure now that we have a soundly based social security system which the country can afford.

Above all, perhaps, the social security system does not always help those most in need. More than half of those living on the lowest incomes are in families with children. This affects not only the unemployed, but families where

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the head is working met, under the present system, low income working families can face both the difficulty of escaping the poverty trap, where then may get no increase in total income when their earnings rise, and the unacceptable position that they can be better off out of work. That position must be changed.

To make better provision to meet the needs of poor working families with children has been a major priority of the review. We therefore propose to introduce a new benefit, to be called family credit, to provide better help for such families. Family income supplement will be abolished. Family credit will have three main features. First, it will be paid on the same basis as help to unemployed families, in that help will be related to the age of children. That means that families with children cannot generally be better off out of work than in work.

Secondly, family credit will be related to take-home pay, not to gross earnings, as is family income supplement. The worst effects of the poverty trap will be eliminated by making it impossible for people to face a marginal tax rate of more than 100 per cent. Thirdly, it will be paid by employers through the pay packet. Families will see their benefit as part of their income from work, whether as an offset to tax and national insurance, or, in the case of the lowest paid, as an addition to gross pay.

Family credit will be paid in addition to child benefit. The Government believe that the extra responsibilities carried by all those bringing up children should be recognised. Child benefit will, therefore, continue to be paid for all children, irrespective of the means of the family.

Family credit will be part of a coherent system of income-related benefits. That system, covering basic income support, assistance with housing costs and help for low income families, will be based on a common income test and a common structure. It will be simpler, fairer and easier to administer, and it will provide the same level of help at the same level of income for those in and out of work.

We propose to replace supplementary benefit with a new income support system. The central concept of the income support scheme is that the regular extra payments, now made on the basis of detailed individual assessment, should be absorbed into the main rates of benefit. Those rates will provide a special higher level of benefit for pensioners, the long-term sick and disabled and lone parents. Families with children will not only receive assistance for each child, but a premium to reflect the extra pressures that they must cope with. At the same time, the capital rule will be eased by introducing a taper between £3,000 and £6,000, instead of the present inflexible £3,000 cut-off. We shall also ease the earnings rule for the long-term unemployed and the disabled.

The income support scheme should provide for the needs of almost all claimants, but we recognise that the system must be ready to cope flexibly and quickly with particular problems. Instead of the present single payments system, we propose to set up a social fund which will be operated on a discretionary basis by specially trained staff at Department of Health and Social Security local offices. It will provide emergency help where needed, and help those who face particular difficulties. We also expect that the social fund will, in time, provide a better basis for contributing cash help to enable people to be cared for in the community rather than in institutions.

Today I am also publishing the report of the housing benefit review team, and have accepted most of its recommendations. The review team found that housing benefit was excessively complicated, involving six different tapers applied to different groups at different income levels. It is also expensive and poorly targeted, with more than one third of all households, some with incomes up to average earnings, receiving benefit.

We intend to move to a simpler and clearer system. It will be based on the same net income assessment basis as the income support and family credit systems. It will also provide help on the basis of rent and rates together rather than separately, as at present.

For the poorest families, housing benefit will meet 100 per cent. of rent. At present 100 per cent. help goes only to those on supplementary benefit. In future, it will apply equally to those in and out of work.

We believe, however, that the basis on which help is provided with rates needs to be changed. At present some 7 million householders receive help with some or all of their rate bills and over 3 million householders pay no rates. As a result, a large proportion of people live in households in which no rates are paid. This means that there is no effective link between payment for and use of local services. The whole structure of rates is currently under review, but the Government believe that, so long as domestic rates remain, all householders should be directly responsible for making some payment towards them. The Government have in mind a figure of the order of 20 per cent.

The review also examined the contributory national insurance benefits for unemployment, maternity and widowhood. As I have already made clear, the Government remain committed to the principle of basic provision for these contingencies organised by the state through the national insurance system. We propose no change in unemployment benefit, which will continue to be paid for 12 months.

For widows under 60, we propose to replace the widow's allowance currently payable for the first six months after bereavement by a single lump sum payment of £1,000 to give them more help when it is most needed. In addition, widowed mother's allowance will now be paid from the time of bereavement rather than after six months as at present. Widow's pension will also be paid from the time of bereavement, but the rules of eligibility will be modified to concentrate help more on older widows who are least likely to be able to resume work. The changes will not affect the benefit paid to any existing widows.

In maternity, we propose to adjust the rules governing materinity allowance so that the mother can have greater freedom in choosing when, around the time of her confinement, she wishes to be paid the allowance. We also intend to change the qualification period so that the benefit is more likely to be paid to women who have had to give up work in order to have their babies.

The maternity grant and the death grant have been left at their present level—£25 and £30 respectively—for many years and are now quite inadequate for their purpose. The average cost of a funeral is now over 10 times as much as the death grant, and it costs £20 in administration to pay out each £30 grant. We propose instead a new maternity grant of £75—three times the level of the present grant available to all low income families. Help with the full cost of funerals will also be made available more widely than at present to anybody who has responsibility for a funeral and lacks the resources to pay for it. Help will be provided through the social fund to ensure that it can be given quickly and flexibly and with the minimum of detailed inquiry. These changes will concentrate help where and when it is most needed instead of providing a token contribution to everybody when it may be of little practical use.

The largest single area of social security spending is on pensions. The basis pension alone accounts for over £15 billion a year and is paid to 9 million people. That pension accounts, on average, for half the income of pensioners and has been a major factor in raising pensioners' living standards since the war. It is, and must remain, the basis on which individuals can build additional pension provision. The question is how that extra provision should be made.

At present only about half the working population belong to occupational pension schemes. The development of occupational pension schemes has been an important factor in improving living standards since the war, but the coverage of schemes has not increased since the mid-1960s. The development which it was hoped would follow the Social Security Pensions Act 1975 has not taken place. Nor has the forecast of cost on which the 1975 scheme was based proved sound. The analysis undertaken during the review has shown that the number of pensioners for whom he will eventually need to provide is 3 million greater than was recognised in 1974 and 4 million higher than it is today. It is clear, therefore, that the long-term costs of state pensions are set to rise steeply in the first 30 years of the next century. If the basic pension was uprated in line with prices, its cost would increase in real terms by half to £22 billion. If it kept pace with earnings, the cost would treble to nearly £45 billion. On top of that, the cost of the state earnings-related scheme will add another £23 billion. Thus, the total pensions bill will at least treble and could increase by over four times. At the same time the ratio of contributors to pensioners will worsen, and it is estimated that there will be only 1·6 contributors for each pensioner compared with 2·3 now.

As a country we cannot ignore these emerging costs. If the best estimates available to us lead us to question whether we will be able to afford the promises we are making, we have a duty to re-examine the position. It would be an abdication of responsibility to hand down obligations to our children which we believe they cannot fulfil.

The real question is not whether action should be taken on the state earnings-related scheme, but what action. There are those who argue that we should restrict the emerging cost of the state scheme by changing its provisions. The difficulty of that course is that contributions would remain the same while benefits would be reduced. There is no reason to believe that there would be any increase in occupational pensions to fill that gap. The Government have concluded that it would be better to adopt a different approach. This would be based on the aim of ensuring that in addition to the basic pension everyone has his own pension with his job—whether it be an occupational pension, membership of an industry-wide scheme or a personal pension. In all cases every employee would have the right to a contribution from his employer.

We recognise, however, that relatively older workers would have difficulty in building up adequate occupational pension cover. We have decided, therefore, not to make any changes for those within 15 years of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation, the existing state earnings related arrangements will continue. This means that no one retiring during the rest of this century will be affected by the change and neither will any existing pensioner.

All rights built up in the state scheme at the time of the change will be honoured. In addition, we also intend to give a special enhancement of rights for men aged between 40 and 49 and women aged 35 to 44. They will be given a bonus of added years of entitlement, which will give them higher pensions when they eventually retire.

For those to be covered by the new arrangements the Government will lay down a minimum contribution level of 4 per cent. of earnings, at least half of which must be provided by the employer. The new arrangements will be phased in over three years. These changes will mean that in due course all employees will be contributing to their own additional pension through their jobs. This will represent the biggest ever extension of occupational pension coverage in this country and will add to the reforms of occupational pensions, involving improved rights for early leavers and transfer of pensions, currently in legislation before Parliament.

The Government must also ensure that the social security system is managed as effectively as possible to provide the best possible service to the public. The Government's benefit proposals will in themselves make the system simpler, but we are now to embark on the largest programme of computerisation ever undertaken in this country to modernise and improve its operation.

The benefit changes and the computerisation both of my Department and the Inland Revenue will provide opportunities to achieve better co-operation and closer working between the tax and benefit systems. The Government intend to take advantage of those opportunities and will be considering this further in the context of the Green Paper on personal taxation.

Meanwhile, we have decided to take a major step towards better harmonisation by aligning the tax and benefit years. Instead of benefits being uprated in November each year, the uprating date will be moved to April. This means that all tax and benefit changes will be implemented at the same time. It will also be of considerable assistance to local authorities which at present have to reassess housing benefit cases twice a year.

The change in the benefit year will be brought in at the time of implementation of the major structural reforms. We expect this to be in April 1987. After the uprating of benefits due at the end of November 1985, there will, therefore, be a 16-month period before the change in April 1987. It would clearly be wrong to allow such a gap between upratings, but it would not be practicable to have upratings both in November 1986 and April 1987. Accordingly, the Government have decided that, following the November 1985 uprating, there will be two upratings at eight-month intervals, the first in July 1986 and the second in April 1987.

The programme of reform that I have announced will provide a system which is easier to understand and simpler to administer. It will mean the most substantial changes in income-related support for 50 years, and for the first time give equal support for those in and out of work. It will

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provide more help for low income families with children. It will establish a better partnership between state and individual provision, especially in pensions; giving everyone the right to his own pension with his job. Above all, the reforms will provide a modern social security system to take us into the next century.

Mr. Michael Meacher (Oldham, West): Is the Secretary of State aware that, behind all the rhetoric about restructuring, this statement represents the erosion of the fundamental principle of a welfare state for all citizens? *[Interruption.]*

Mr. Speaker: Order. The Secretary of State was given a fair hearing.

Mr. Meacher: Is the Secretary of State further aware that the statement represents the reintroduction, for the first time this century of Victorian values, in an invidious distinction between deserving and undeserving poor? Is he also aware that this package as a whole will bring about a net loss in the next few years to pensioners and the unemployed of at least £1,000 million a year even before the huge losses from the abolition of SERPS begin, and that the main beneficiaries, whom he did not mention, will be the rich, who will receive even bigger tax handouts in future Tory budgets?

We welcome the Government's limited reprieve on SERPS, in response to our demand. *[Interruption.]*

Mr. Speaker: Order. We have a full day ahead of us.

Mr. Meacher: It is patently clear that the Government lost their nerve after their original intention had been made clear in repeated leaks. Is the Secretary of State aware that the Government's longer-term abolition of SERPS, which is the central arch of the welfare state, is still a betrayal of an unequivocal pledge by the Prime Minister three weeks before the last general election, when she said:

"nor are there any plans to change the earnings-related component of the State pension."

Is the Secretary of State aware that if SERPS were to continue it would roughly double the pension in the next 13 years, and that if it is abolished millions who would have enjoyed dignity and security without a means test in retirement will be forced into poverty? How does the Secretary of State justify the fact that women, low-paid workers, and the longer-term sick and disabled and the milions of carers who look after then will be shifted compulsorily into private schemes to which they will be forced to make higher contributions for less benefit?

Is the Secretary of State aware that there can be no justification for claiming that SERPS cannot be afforded in the next century, when the Government's own Social Security Advisory Committee said explicitly less than two years ago:

"At this distance of time we do not think there can be solid grounds for altering the scheme now for fear of all the worst outcomes occurring steadily for 40 years."

Is the Secretary of State aware that any allegations that SERPS cannot be afforded reflect not adverse demographic trends but an admission that the Government's policies will lead to longer-term economic stagnation?

Secondly, is the Secretary of State aware that the huge cuts in the housing benefit package will bring a loss to tenants of about £750 million a year, forcing up rents for tens of thousands by £7 to £12 a week? Is he aware that the poverty trap will be enormously intensified by his decision to increase the loss of housing benefit as wages rise from 38p in the pound to 70p in the pound? Is it not harshly unjust that the 7 million people receiving housing benefit of whom 4 million are pensioners, will for the first time have to pay 20 per cent. of their rates and all of their water rates? Is he aware that nearly 2 million households now receiving housing benefit, of which the great majority are owner-occupier pensioners, especially widows with small occupational pensions, will lose it altogether?

Thirdly, this statement virtually makes the unemployed into the outcasts of society—the new undeserving poor in the Prime Minister's vision of this new Victorian poor law. Not content with clawing back £650 million a year from the unemployed by taxing unemployment benefit for the first time over the past three years, and not content with ending, three years ago, the earnings-related suppkement to unemployment benefit, worth £16 a week to an average paid worker, the Government are now proposing to force the unemployed on to the lowest rate of the new income support scheme. Is the Secretary of State aware that that will take about £5 a week from those who are 25 or younger, will deprive them of all help with heating bills and of single payments for clothing and furniture, will force them, for the first time, to pay 20 per cent. of their rates and all of their water rates, and will replace the present basic benefit safety net by a discretionary and recoverable loan? The Government have trebled unemployment. With these cuts, they are now gratuitously twisting the knife into their victims.

Fourthly, families across the nation will be hit. Will the Secretary of State confirm that child benefit will be frozen or uprated by less than inflation, so that the benefit for 7 million mothers and 12 million children will begin to decline in real value? Will he confirm, too, that the new, vaunted family credit will begin to be phased out when earnings exceed £40 a week, which is lower than for the family income supplement, and that the rate of withdrawal will be 60p in the pound, which is higher than the 50p in the pound under FIS, so that the poverty trap will be worsened? Will he also confirm that benefit will be transferred from the woman to the man, which is not publicly supported, and that entitlement to free school meals and school milk will be ended?

The Prime Minister has not only become the pensions snatcher—she remains the milk snatcher that she always was. Changes such as this will not strengthen family life, but will undermine it.

Fifthly, will the Secretary of State confirm that the death grant will be abolished and that the discretionary help will be available to the deceased's relatives only on the basis of a means test? Is he aware that this means bringing back for hundreds of thousands of our poor elderly the shame and indignity of a pauper's funeral, which no civilised society should inflict on its citizens?

This is a black day for the people of Britain — a monument to six harsh years of Thatcherite rule. The themes of this statement are more means testing, bigger cuts, penalising pensioners, the unemployed and low-paid in order to enrich still further the already rich, and the privatisation of the welfare state on the American model, which the people of this country want no more than they want the Prime Minister's fancy for the Americanising of our hospital management. There is no shred of political mandate for the proposals, since they derive from partisan committees hand-picked by a partisan Government for pre-determined ends. Today's statement opens up the central issue which will dominate the next general election and, because the Government have profoundly misunderstood the commitment of the British people to the welfare state, it will pave the way for the election of the next Labour Government.

Mr. Fowler: Not on anything that we have heard from the hon. Gentleman today will it pave the way for the election of any Labour Government. We have had from the hon. Gentleman a typically hysterical response. He cannot even get his shadow Cabinet to back his own proposals, and it was clear from the response of his Back Benchers that he could get very few of them to back what he was saying.

However, I am grateful for what I took to be the endorsement of my proposals on the state earnings-related pension scheme for the rest of this century. I am grateful to the hon. Gentleman for the generous way in which he endorsed them.

The hon. Gentleman asked about the overall cost of pensions. The 1975 Act was based on the assumptions, which the then Labour Government were making, of 3 per cent. growth and 2·5 per cent. unemployment and, above all, that there would not be an appreciable increase in the number of pensioners. It is now clear that between 2010 and 2035 we shall see an increase of about 3 million in the number of pensioners, and that over the period to 2035 there will be an increase of about 4 million pensioners. In 1975 the Labour Government did not have that information, or, if they had it, they ignored it. The question before the House is whether to ignore the best advice and the best estimates that can be made today of the emerging costs of pensions.

As for the case for change, it is clear that the cost of the state earnings-related pension will increase very substantially.

In terms of income support, the new system gives a guaranteed weekly income, with higher rates for disabled people, pensioners and children. The hon. Gentleman is wrong about families, because, in addition, there will be a family premium, which families with children do not get at the moment.

At present, one in three households receives housing benefit—7·5 million households altogether. Costs have risen from £1·2 billion in 1979 to £4·2 billion today. I have made it clear, and I do so again, that we shall be looking to housing benefits to make significant reductions in the social security budget.

The hon. Gentleman asked about the social fund. I am sure that in his calmer moments he will agree that the present system of supplementary benefit is not serving well those who need special help and special care. One of the ways in which I hope that the social fund will be able to develop is to give special grants to people coming from institutions into the community, but also to pay to keep people at home and to support them, rather than their going into institutions.

The hon. Gentleman's comments on the death grant were a total travesty of our proposals. The death grant was last increased in 1967. It has remained a £30 since then. Surely no one will claim that that is adequate. The choice that has to be made is whether the country is prepared to go on with a token gesture of that kind or whether it makes more sense to give help directly to those who need it—to give full help and better help. That is what the Government want to do.

Mrs. Jill Knight (Birmingham, Edgbaston): Bearing in mind that this is the most far-reaching and fundamental statement on social security benefits for many years and that its soundness and sense will be apparent to everyone once it is properly explained, will my right hon. Friend assure the House that he will make a similar statement to every sector of the media which makes itself available and even consider the production of leaflets for the separate groups of people involved? Will my right hon. Friend also shoot down the myth put forward once again by the hon. and boringly predictable Member for Oldham, West (Mr. Meacher) that means tests should not be employed, because unless we employ means tests we cannot be sure that the maximum benefit will go where the maximum need exists?

Mr. Fowler: We are not means testing, but seeking to test incomees. In addition, we are making help available to people on the basis of their incom, and not according to whether they are in or out of work. That is a very significant change in approach. It means that the 100 per cent. marginal tax rates, which at the moment are a scandal, can come to an end. That is one of the most significant changes in the review.

Mr. Michael Foot (Blaenau, Gwent)): In view of the far-reaching nature of the proposals, and in view also of the cuts and additional means tests which they impose on some of our poorest people, will the right hon. Gentleman say, first, when the proposals were forecast and explained by the Prime Minister at the time of the last general election, and, secondly, exactly what is the saving on the social security budget which he aims to secure by these measures?

Mr. Fowler: When the inquiry into social security was set up we made it absolutely clear that the Government intended to have a fundamental review of the social security system. That has been the position throughout.

The right hon. Gentleman asks about the savings. The emphasis in the Green Paper is on the new structure. Until that is settled it is impossible to provide a detailed analysis, because clearly it depends on the benefit rates set in April 1987. However, the main direction of savings is clear. The major savings will be the long-term savings in the next century resulting from the phasing out of the state earnings-related pension scheme.

Changes in supplementary benefit structure are not intended to reduce the overall help provided. As a result of the structural changes in supplementary benefit, we shall ensure that as far as possible there are no cash losers. Support for low-income families will be increased by family credit. The Green Paper makes it clear that we expect spending on housing benefit to be reduced considerably. This will not be at once. We expect spending to be reduced eventually by about £500 million.

Several Hon. Members *rose*——

Mr. Speaker: Order. I know that this is a statement of great interest to the House, but I have to bear in mind that there is another statement to follow it and that we are to have further debates in what will be a long day. The Secretary of State said that there would be a debate on this matter later. I shall allow questions to go on until 25

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minutes past five before we move to the next statement. If those who are called put short questions to the Secretary of State, I hope that I shall be able to include most hon. Members who are seeking to catch my eye.

Mr. David Howell (Guildford): Does my right hon. Friend agree that his proposals are skilfully targeted at the changing and future shape of society and that he should ignore the ridiculous cries from the past from the Opposition? Does he further agree that, whether we like it or not, there is an increasing trend towards part-time work, which inevitably means part-time incomes, and that his proposals, by concentrating on improved social provision as part of income for the low-paid, is in line with that trend and reinforces those who are most dispossessed by the trend towards part-time work? Does he agree that the change will make a major contribution to the expansion of occupation and employment?

Mr. Fowler: I am most grateful to my right hon. Friend. He is right. Family credit will bring direct help to low-paid families with children. It will prove a substantial base on which to build even further.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): Does the Secretary of State agree that it is difficult to form a detailed judgement without the figures? My colleagues and I cannot support his proposals on pensions, because they do not tackle the present problems. The pension is too low, and we would not countenance any change unless there was some recognition of that. As for supplementary benefit, we are worried that we are drifting away from the Beveridge system, which applies to all, to a service exclusively for the poor. That would be wholly wrong. We are worried that if the Green Paper is fully implemented it will fracture the all-party consensus. We must consider the detail before making final decisions.

Mr. Fowler: I accept that my documents are long and detailed, and also what the hon. Gentleman says about his party's view. Lord Banks, the Liberal spokesman on social security in the other place, has said that the Liberal party consistently opposed the introduction of an earnings-related state pension scheme. It is not clear from what the hon. Gentleman said whether that remains Liberal policy.

Sir David Price (Eastleigh): In view of my right hon. Friend's declared intention to modernise our social security system and to make it more responsive to changing social needs, will he introduce flexibility of retirement age and equality between men and women in eligibility? He will recall that that was proposed by the Select Committee and by me in a private Member's Bill in the previous Session of Parliament.

Mr. Fowler: My hon. Friend will find that in the Green Paper we deal with flexibility in retirement. I do not pretend that there are easy answers to that matter, but, like him, I should like there to be more flexibility. We invite comments on what we have set out in the Green Paper as a decade of retirement.

Mr. Frank Field (Birkenhead): As the Secretary of State has boasted that the four reviews will result in nothing less than a new Beveridge, will he give two pieces of information so that we can see to what extent the reviews live up to that self-imposed objective? If the Government enact all of these proposals, how many people will cease to be poor? Secondly, as the hon. Gentleman acted as co-ordinator for all four reviews, can he say how many people will gain and how many people will lose? Will he give a commitment that those who bear unemployment will not have their benefits cut further?

Mr. Fowler: For various reasons, I cannot give the figures for which the hon. Gentleman asks. As I explained to the right hon. Member for Blaenau Gwent (Mr. Foot), no detailed analysis of cost can be made until benefit rates have been set in April 1987. [HON. MEMBERS: "How much will it cost?"] My answer is entirely frank and reasonable. As for help to the poor, family credit and other proposals in the review will reduce poverty. The social security system must be capable of coping with changes in the pattern of poverty. We have proposed family credit because we have considered the pattern of poverty in detail and it is clear that, in the past 15 years, families with children have been most in need.

Mr. Robert McCrindle (Brentwood and Ongar): Will my right hon. Friend accept from one who has expressed reservations that there is a great deal to commend in these proposals and much that is long overdue? Will he confirm that those who are most likely to be affected by changes in housing benefit include widows and occupational pensioners? Is my right hon. Friend open to some suggestions on that matter, because the changes in housing benefit seem to lie strangely with his commendation of occupational pension schemes? My right hon. Friend said that on the phasing out of the state earnings-related pension people would have a right to opt for a private pension scheme. What happens if people choose not to exercise that right and reach retirement age with nothing but the basic pension?

Mr. Fowler: I am grateful for my hon. Friend's comments about the review. I hope that the Green Paper will go some way to meet the issues that he has in mind. Housing benefit goes further up the income scale than any other benefit. On that basis, it is more reasonable to look for economies there, bearing in mind the scale of the increase in expenditure on housing benefit in the past six years. There will be minimum requirements for individual pensions. Employees and employers will be required to make provision. There is no question of people in work reaching pension age without having an additional occupational, personal or industry-wide pension.

Mr. Jack Ashley (Stoke-on-Trent, South): Is the right hon. Gentleman aware that the Government are making social security a scapegoat for the failure of their economic policies and that, instead of caring more for the growing number of casualties of their incompetence, they are planning to care less? That means that the Government are incompetent and insensitive to the poverty, degradation and suffering caused by the unemployment that they have created.

Mr. Fowler: I do not accept that for one moment. We all respect the right hon. Gentleman's knowledge and experience in these matters, and I hope to dissuade him from that view. Few people in the country or the House believe that the present social security system is capable of continuing without major change. This is the first Government to tackle that problem for 40 years. The Government and the country have a responsibility to

[cha]nge the social security system to provide a modern system which can be sustained by present contributors and our children.

Mr. Andrew Bowden (Brighton, Kemptown): I am delighted to support much in my right hon. Friend's statement, but will he confirm that the Green Paper is not a White Paper in disguise and that no decisions have been made? How will the income support system affect pensioners who do not claim a supplementary pension? As to housing benefit, may I stress the grave anxiety for pensioners, the value of whose savings has been destroyed and whose financial circumstances have been undermined by their not having inflation-proof pensions? They must not be worse off as a result of these proposals.

Mr. Fowler: This is a Green Paper. The purpose of the review has been to consult the public. We shall continue to consult the public and to listen to issues that are raised with us. The simplicity of the income support scheme will bring immeasurable benefit to all. I remind my hon. Friend of what we are doing to preserve the interests of people approaching pension age. Nobody who retires this century will be affected by the changes in the state earnings-related scheme. It goes without saying that rights which have accrued and which are in payment will be honoured fully. That includes inflation-proofing.

Mr. Gordon Brown (Dunfermline, East): Will the Secretary of State confirm that today he has praised the Beveridge report only to bury it, and that he is ratting on promises made not only about the state earnings-related pension scheme but about child benefit and help for the unemployed? Will he confirm that under these new poor laws 7 million people will receive less in housing benefit, and that 1·8 million people — 3,000 in every constituency—will lose help with rent and rates? Will the Secretary of State tell us by how much the basic pension and the supplementary pension will have to rise to compensate for the loss of heating, dietary and clothing additions and the death grant, and for his demand that the poor should pay 20 per cent. of the rates? Why is it that the poorest, the weakest and the most frail in our community have to pay the price for his Government's economic failure?

Mr. Fowler: That is not the case, and the hon. Gentleman is too intelligent to believe that it is. I have made it clear that there will be reductions in housing benefit, but I have to point out to the hon. Gentleman a fact which he probably knows well enough in any event —that housing benefit expenditure has increased from £1·2 billion in 1979 to £4·2 billion in 1985-86.

The hon. Gentleman also knows that housing benefit expenditure goes further up the income scale than any other benefit. We are spending £40 billion a year on social security. Furthermore, spending on social security by this Government has increased by about 30 per cent. The majority of that increase is spent not on unemployment benefit but on making improvements in real benefits. It helps absolutely nobody to believe that expenditure of this kind can continue in a totally uncontrolled manner. I believe that our proposals are fair to the public and will help to bring about the recovery of the economy that we all want.

Mr. Roy Galley (Halifax): My right hon. Friend will be aware of the wide welcome that there will be for the better targeting of benefits, for the concentration of help on families in need and for basing benefit on take-home pay and reducing the poverty and unemployment traps. Does my right hon. Friend agree that one aspect of the poverty trap has been the way in which supplementary benefit has been the gateway to a plethora of other benefits? Will he elaborate upon how far these various additions will be consolidated into the income support system and upon how free school meals will be related to the family credit system?

Mr. Fowler: As a general aim, the Government are trying to make benefits available equally on the basis of income. In other words, rather than having the distinctions that exist now between those on supplementary benefit and those in work—as my hon. Friend points out, having passports which take one to particular benefits — we shall make the same benefits available on the basis of equality of income, whether people are in work or out of work. I should make it clear that we intend to include some of the extra benefits in family credits and to pay those benefits in cash rather than in kind.

Mr. Donald Stewart (Western Isles): Is the Secretary of State aware that the United Kingdom is lagging behind a number of other European countries in providing this type of benefit and that these proposals will push us further down the league? Is he also aware that some of the poorest people in our society will experience the rigours of the Victorian workhouse? As maternity and death grants will be means tested and paid for out of a so-called discretionary fund, does the Secretary of State not realise that people will be means tested literally from the cradle to the grave?

Mr. Fowler: There is a profound misunderstanding of the Government's proposals. They are based upon a test of net income. If one believes in trying to target help on those who need it most, it is impossible to devise any other way in which to bring that about. Therefore, I ask the right hon. Gentleman to study with greater care the proposals in the Green Paper. As for the social fund, I do not think that anybody would defend the present position under which additional payments are made. It does not work. It has not worked for some time. The social fund will enable us to provide a more sensitive and better targeted way of providing help for those in need.

Dr. Brian Mawhinney (Peterborough): Does my right hon. Friend accept that his concentration of help on families with children and the testing of incomes is very welcome and will be widely supported in the country? Can he confirm that the contributions to SERPS of those who will not be retiring this century will, nevertheless, be inflation-proofed against price rises, to cover the time when they will receive the benefit of the contributions that they have made?

Mr. Fowler: The position of any man over the age of 50 and of any woman over the age of 45 is preserved. The accrued rights of people generally are also preserved in the same way.

Mr. Derek Foster (Bishop Auckland): Is it not outrageous that the Secretary of State should come to the House this afternoon and claim to be proposing a new Beveridge and yet be quite unable or unwilling to tell us how many will gain and how many will lose under these proposals? Out of the many thousands of poor people who

[Mr. Derek Foster]

will lose under these proposals, will the right hon. Gentleman tell us how many pensioners with small occupational pensions will have their heating and dietary additions removed?

Mr. Fowler: I dealt with that question in some detail when I answered the right hon. Member for Blaenau Gwent. The purpose of the social security review is to put forward a new structure and to seek the views of the House and the public on that structure. It is impossible to provide a detailed analysis of the cost until the benefit rates have been set. I have been entirely frank in saying that we expect there to be significant savings in housing benefit. I gave that figure to the right hon. Gentleman.

Mrs. Edwina Currie (Derbyshire, South): Given the huge size of the social security budget—£40 billion a year — and given also the growth of that budget, its complexity and the muddle and confusion which appear to be rife within it, does my right hon. Friend agree that it would be a thoroughly irresponsible Government who did not undertake these long overdue reforms? Does he accept that we shall all benefit — taxpayers, recipients and particularly the less well-off — and that the people of this country will have cause to give thanks to my right hon. Friend, particularly after several upratings in 1987?

Mr. Fowler: There is no question but that a re-examination of the social security system was long overdue. There is also no question but that the majority of the public share that view. I believe that many Opposition Members secretly share that view, too. This Government have had the courage to undertake that review. The hon. Member for Derby, South (Mrs. Beckett) laughs, but the only thing that the last Labour Government did was to ask a team of officials to look at the supplementary benefit scheme. That is not the way to reform social security, and that is not the way in which this Government propose to reform it.

Mr. D. N. Campbell-Savours (Workington): Is it not clear that the Secretary of State is refusing to give these figures for singularly party political advantage? Has he forgotten what was contained in the Conservative party's manifesto at the last general election? The Conservative party gave a solemn undertaking to the British people that it would protect pensions and other linked long-term benefits against rising prices. Has not that solemn undertaking been broken today? Is it not clear that the Government do not have a mandate for pursuing this policy? Their only reason for pursuing it is that they cannot make their economic strategy work. They cannot make the nation pay the bill. They have failed.

Mr. Fowler: The hon. Gentleman has not understood a single word of what has been said today. We stand entirely by the words to which he referred. We have kept pensions up with prices, and we have also tackled inflation. Under the Labour Government inflation increased by 110 per cent., which was a cruel blow to pensioners.

Sir Brandon Rhys Williams (Kensington): Will my right hon. Friend accept my warmest congratulations on his decision that occupational pensions should be based on real funding, and on his courage in slaying the Hydra of the state earnings-related scheme, which is not even an honest system of repartition? With regard to benefits which will still be based on a redistribution of the national income, would it not have been more logical and practical to integrate the income tax wholly with the contributory system, so that the residual welfare state, which is still concealed inside the income tax system, could be integrated into a logical new system of benefits?

Mr. Fowler: I have much sympathy with what my hon. Friend says, but we are still some distance from that position. First, we must computerise the DHSS system. We are taking several steps in a direction which my hon. Friend would support. The alignment of the tax and benefit years is a major improvement. Family credit will prove a natural system for bringing together social security and tax affairs, and computerisation will undoubtedly help. Some of the further points put forward by my hon. Friend can be examined in the Green Paper which my right hon. Friend the Chancellor of the Exchequer will introduce later this year.

Mr. Robert N. Wareing (Liverpool, West Derby): Is the Secretary of State aware that his statement is a kick in the teeth for all disabled people, especially for the non-industrial disabled, who do not receive disablement benefit? They depend for 20 per cent. of their incomes on the additional allowances, such as the heating allowance, which, at a stroke, he is abolishing. Have the Government considered compulsory euthanasia as a way of solving their monetary problems? It seems to me and to millions of disabled people that they are being sacrificed on the altar of Conservative monetarism.

Mr. Fowler: That is a very silly intervention. The hon. Gentleman must understand — if he does not, he had better read the document — that the income support scheme will include a special premium for the disabled. I advise the hon. Gentleman to look at that.

Dr. John G. Blackburn (Dudley, West): As someone who represents 70,000 pensioners, may I ask my right hon. Friend to accept that they will welcome his proposal for a review of the housing benefit scheme, which will be to their advantage? Does he further accept that the widow's grant of £1,000 will be widely welcomed? Will he, as he said earlier, accept further representations?

Mr. Fowler: Yes, indeed. On any of the proposals made in the Green Paper, the Government will wish to hear representations from interested organisations outside the House and from hon. Members. The widows' arrangements are more flexible and better targeted than the present ones, but I am open to suggestions on how to improve them.

Mr. Hugh Brown (Glasgow, Provan): Does the right hon. Gentleman accept that almost everyone in the House accepts the need for some reform — *[Interruption.]* I shall put my question in my own way. From so many proposals, there must be one or two that can be accepted by us all. Is not the real indictment that the Government seem to be incapable of creating a society without 4 million unemployed? In those circumstances, there is no possibility of obtaining a consensus on the broad approach to social reform. Will the right hon. Gentleman confirm that the poorest section of the community — those in receipt of supplementary benefit — will not be cash losers? He used the phrase. Can he explain what he means by it?

[Mr. Meacher]

this Treasury-dominated cuts exercise still has a long way to run and that given pressure from the Treasury, the overall cuts may turn out to be £2 billion or more?

Mr. Fowler: The hon. Gentleman is getting carried away again. I have already given the figure and, like everyone else, the hon. Gentleman listened to it. Since 1979 the majority of increased spending has gone on extra benefits and beneficiaries.

Mr. Meacher: Ah!

Mr. Fowler: I should point out to the hon. Gentleman — just in case he should have other ideas — that additional beneficiaries have to be paid for. I cannot commit my right hon. Friend the Leader of the House to a two-day debate. Certainly, we are committed to a debate. The hon. Gentleman made the classic dud point about the Phillips committee. I ask him to go back to the committee. The one figure that it was able to predict with almost total accuracy was the future number of pensioners. That is the great difference between the situation in 1975 and the situation now. On the best predictions that can be made, we shall need policies for dealing with between 3 million and 4 million more pensioners in the first half of the next century. That is the best estimate, and I advise the hon. Gentleman to accept it.

Sri Lankan Tamils

5.34 pm

The Secretary of State for the Home Department (Mr. Leon Brittan): With permission, Mr. Speaker, I wish to make a statement.

On 20 May, in reply to a question from my hon. Friend the Member for Lewisham, West (Mr. Maples), I announced my future policy towards Sri Lankan Tamils who expressed a fear of return to Sri Lanka. In the week following that statement, more than 500 Tamils arrived here seeking asylum. I decided that further measures were necessary to reduce the influx and, after consultation with my right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs, I announced on 29 May the imposition of a visa requirement for Sri Lankan citizens, to come into effect the following day. The need for such a measure was demonstrated by the fact that 244 Tamils arrived on 29 May.

A further 76 Tamils arrived shortly after the visas requirement came into effect, but there have been no further arrivals over the weekend or so far today.

The imposition of a visa requirement will not prevent the entry of those Sri Lankan citizens who qualify for admission in the normal way—for example, as visitors or students — although they will, of course, have to obtain visas before travelling. It will save the cost and disappointment of wasted journeys for those who would not be allowed to enter because they do not qualify under the immigration rules. If a Tamil not qualifying under the rules and seeking in present circumstances to leave Sri Lanka wishes to come to this country, he will be able to apply for a visa. Such applications will, however, be granted only if the individual can show that he is suffering severe hardship and the circumstances—including, for example, family links with this country — warrant the exercise of discretion in his favour outside the normal immigration rules.

The position of all the Tamils who have recently arrived will continue to be considered individually on the basis set out on 20 May. Where an application for asylum is refused, there will be an opportunity for the United Kingdom Immigrants Advisory Service of the United Nations High Commissioner for Refugees to consider the case and representations from Members of Parliament will continue to be considered.

It was only with great reluctance that I decided that it was necessary to impose a visa requirement on a fellow Commonwealth country. The need for it will be kept under review and I hope that it can be lifted in due course.

Mr. Alfred Dubs (Battersea): Is the Home Secretary aware that his statement represents a major departure from two important traditions? For the first time, Commonwealth citizens — albeit from only one Commonwealth country at the moment—will require a visa to enter this country. Secondly, the British tradition of offering haven and hospitality to those seeking asylum has been breached.

Does the Home Secretary agree that some Tamils who came here were very much in fear for their safety in Sri Lanka and that that was the motive which prompted them to seek asylum in this country, as it prompted many of their fellow countrymen to seek asylum in Germany and other countries in Europe? Is the Home Secretary aware cc DW

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From the Secretary of State for Social Services

PA

Andrew Turnbull
10 Downing St

3 June 1985

Dear Andrew

As discussed, I enclose a near-final draft of the social security review statement. We will take on board the points you gave me in the final version.

Yours

Steve

3.6.85

DRAFT STATEMENT ON SOCIAL SECURITY REVIEW

I will, with permission Mr Speaker, make a statement on the review of social security.

Over the last 18 months the Government has been examining the major areas of social security provision. In that time over 4,000 consultation documents were issued, 4,500 pieces of evidence were received and 62 organisations and individuals gave oral evidence at public sessions. The Government is today publishing a Green Paper which sets out its conclusions on the measures which are necessary if our social security system is to be reformed to meet better the needs of the last part of the twentieth century.

Consistent with the process of public consultation and discussion on which the Review has been based, the Government will be seeking comments on its proposals from interested organisations and will be providing an opportunity for the House to debate them.

Mr Speaker, the social security system in this country owes a great deal to the work undertaken by Sir William Beveridge during the second world war. Although much of what he proposed was changed when it came to implementation and more has been changed since, many of the principles on which his proposals were founded remain sound. The Government remains committed to the concept of a national insurance system under which entitlement to the major benefits is earned by the payment of contributions during a working life. The Government also believe that social security should be based on a partnership between State provision and provision for which individuals themselves take responsibility. In other words, social security is not a function of the State alone. It should be a partnership between the individual and the State - a system built on twin pillars.

Any review of social security in this country must recognise its considerable achievements. For example, the levels of major benefits like pensions and supplementary benefit have more than doubled in real terms since the war. In addition, the range of benefits has been extended to meet needs - particularly in the field of disability - which were not recognised at the outset. Against that, however, the Review has shown that there are several major causes for concern.

By common consent the social security system is too complex. That is to the disadvantage of both the public and the staff. In particular the research evidence shows that substantial numbers of supplementary benefit claimants do not understand how their entitlement is worked out - in spite of the fact that 38,000 staff are now working exclusively on supplementary benefit. With the pressures now being faced there is a danger that some parts of the system will breakdown. It is therefore a matter of urgency that we devise a simpler and more coherent system.

The social security system also needs to be modernised. It is not properly coordinated with the tax system and operates almost entirely with outdated equipment. We now need a major computerisation strategy for social security which can link effectively with other Government systems.

We should also be concerned about the cost of the system. It has increased five-fold in real terms since the War and now totals some £40 billion a year. That is over thirty per cent of all public spending and represents over 11 per cent of gross domestic product compared with only 4.7 per cent after the War. Nor has the pressure for growth in spending ended. In particular we have to provide for an extra 4 million pensioners - 40 per cent more than now - in the first part of the next century. That, taken together with the State earnings-related pension scheme, means that State spending on pensions would at least treble. We must ensure now that we have a soundly based social security system which the country can afford.

The system should also be able to respond to changing need. Almost half those living on the lowest incomes in this country are in families with children. This affects not only the unemployed but also families where the head is working. Low income working families can face both the difficulty of escaping the poverty trap - where they may get no increase in total income when their earnings rise - and also the unacceptable position that they can be better off out of work than remaining in their jobs. That position must be changed.

Mr Speaker, making better provision to meet the needs of poor working families with children has been a major priority of the Review. We therefore propose to introduce a new benefit - to be called Family Credit - to provide better help for such families. The Family Income Supplement will be abolished. The new Family Credit will have three main features;

- First it will be paid on the same basis as help to unemployed families, in that help will be related to the age of children. This will mean that families with children cannot generally be better off out of work than in work.

- Second it will be related to take-home pay not gross earnings, as happens with Family Income Supplement. The worst effects of the poverty trap will be eliminated by making it impossible for people to face a marginal tax rate of over 100 per cent.

- Third it will be paid by employers through the pay packet. Families will see their benefit as part of their income from work - whether as an offset to tax and national insurance or, in the case of the lowest paid, as an addition to gross pay.

The Family Credit will be paid in addition to Child Benefit. The Government believe that the extra responsibilities carried by all those bringing up children should be recognised. Child Benefit will therefore continue to be paid as now for all children irrespective of the means of the family.

We intend the family credit to be part of a coherent system of income-related benefits. That system, covering basic income support, assistance with housing costs and help for low-income families, will be based on a common income test and a common structure. It will be simpler, fairer and easier to administer; and it will provide the same level of help at the same level of income for those in and out of work.

We propose to replace supplementary benefit with a new Income Support system. The central concept of this income support scheme is that the regular extra payments now made on the basis of detailed individual assessment should be absorbed into the main rates of benefit. But pensioners and the long-term sick and disabled will receive a higher level of benefit. And families with children will not only receive assistance for each child but also a premium to reflect the extra pressures they have to cope with.

The income support scheme should provide for the needs of almost all cliamants but we recognise that the system must be ready to cope with particular problems which can arise and to do so flexibly and quickly. We therefore propose to set up a <u>social fund</u> which will be operated on a discretionary basis by specially trained staff at DHSS local offices. It will provide emergency help where needed and help those who face particular difficulties. We also expect that the social fund will, in time, provide a better basis for contributing cash help to enable people to be cared for in the community rather than in institutitions.

The Report of the Housing Benefit Review, which I am also publishing today, recommended that we should move to a uniform basis of assessment and one which is aligned with the income support scheme. I have accepted that and most of their other recommendations. The Review Team found that Housing Benefit was excessively complicated, involving six different tapers applied to different groups at different incomes levels. It is also expensive and poorly targetted, with over one-third of all households - some with income up to average earnings - receiving benefit.

We intend to move to a simpler, clearer system. It will be based on the same net income assessment basis as the income support and family credit systems. It will also provide help on the basis of rent and rates together rather than separately as at present.

For the poorest families, housing benefit will meet 100 per cent of rent. For the first time this will apply equally to those in and out of work.

We believe, however, that the basis on which help is provided with rates needs to be changed. At present some 7 million householders receive help with some or all of their rate bills and over 3 million householders pay no rates at all. As a result, a large proportion - in some areas as much as half - of people live in households in which no rates are paid. This means that there is no effective link between payment for and use of local services and hence a weakening of local accountability. The whole structure of rates is currently under review but the Government believe that, so long as domestic rates remain a significant element of local government finance, all householders should be required to make some contribution, perhaps a minimum of 20 per cent, towards them.

The Review also examined the contributory national insurance benefits for unemployment, maternity and widowhood. As I have already made clear, the Government remains committed to the principle of basic provision for these contingencies organised by the State through the National Insurance system. We therefore propose no change in unemployment benefit. But we do propose some modifications in benefits for widowhood and maternity to relate them better to today's needs.

For widows, we propose to replace the widows allowance currently payable to all widows for the first six months after bereavement by a single lump sum payment. This payment, probably of about £1,000 will give more help when it is most needed - at the time of bereavement - and allow widows greater flexibility in using the help available to them. In addition widowed mothers' allowance will now be paid from the time of bereavement rather than after six months. Widows pension will also be paid from the time of bereavement but the rules of eligibility will be modified to concentrate help more on older widows who are least likely to be able to resume work. The changes will not affect the benefit paid to any existing widows.

In maternity, we propose to adjust the rules governing maternity allowance so that the mother can have greater freedom in choosing when, around the time of her confinement, she wishes to be paid the allowance. We also intend to change the qualification period so that the benefit is more likely to be paid to women who have had to give up work in order to have their baby.

The maternity grant and the death grant have been left at their present level - £25 and £30 respectively - for many years and are now quite inadequate for their purpose. The average cost of a funeral is now over ten times as much as the death grant and it costs £20 in administration to pay out each £30 grant.

We propose to replace both grants by arrangements which will give more realistic help to those who need it. A new maternity grant of £75 - three times the level of the present grant - will be introduced to provide adequate help to all low income families not just those on supplementary benefit as at present. Realistic help with the cost of funerals will also be made available more widely than at present to anybody who has responsibility for a funeral and lacks the resources to pay for it. Help will be provided through the social fund to ensure that it can be given quickly and flexibly and with the minimum of detailed enquiry. These changes will concentrate help where and when it is most needed instead of providing a token contribution to everybody when it may be of little practical use.

Mr Speaker, the largest single area of social security spending is on pensions. The basic pension alone accounts for over £15 billion a year and is paid to 9 million people. That pension accounts, on average, for half the income of pensioners and has been a major factor in raising pensioners living standards since the War. It is, and must remain, the basis on which individuals can build additional pension provision. The question is how that extra provision should be made.

At present only about half the working population belong to occupational pension schemes. The development of occupational pension schemes has been an important factor in improving living standards since the war. But the coverage of schemes has not increased since the mid-1960s. The development which it was hoped would follow the 1975 Social Security Pensions Act has not taken place. About 11 million people are contracted in to the State Earnings-Related Pension scheme. This is funded on a pay-as-you-go basis which basically means that promises made now must be redeemed by future generations of contributors.

It is now clear that the long term costs resulting from the inevitable growth of some 4 million pensioners in the first thirty years of the next century will be considerable. Even if no improvement is made in the value of the basic pension, the cost of providing it will increase by half to £22 billion at today's prices. If it kept pace with earnings the cost would treble to £45 billion. But on top of that the cost of the State earnings-related scheme will add another £23 billion. Thus the total pensions bill will at least treble and could increase by over four times, while at the same time the ratio of contributors to pensioners worsens so that there will be only 1.6 contributors for each pensioner compared with 2.3 now.

That is not a cost we can ignore. If the best estimates available to us lead us to question whether we will be able to afford the promises we are making then we have a duty to re-examine the position. It would be an abdication of responsibility to hand down obligations to our children which we believe they cannot fulfil.

The real question is not whether action should be taken on the State earnings-related scheme, but what action. There are those who argue that we should restrict the emerging cost of the State scheme by changing its provisions. The difficulty of that course is that contributions would remain the same while benefits would be reduced. There is no reason to believe that there would be any increase in occupational pensions to fill that gap.

The Government have concluded that it would be preferable to begin now in building a new system. This would be based on the aim of ensuring that in addition to the basic pension everyone had his <u>own</u> pension with his job - whether it be an occupational pension, membership of an industry wide scheme or a personal pension. In all cases every employee would have the right to a contribution from his employer.

We recognise however that relatively older workers would have difficulty in building up an adequate occupational pension. We have decided therefore not to make any changes for those now within 15 years of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation the existing State earnings-related arrangements will continue. Nobody retiring during the rest of this century will be affected by the change and neither will any existing pensioner.

We also intend to give a special enhancement of rights earned under the earnings-related scheme. Thus men aged between 40 and 49 and women aged 35 to 44 will be given a bonus of added years of entitlement which they will retain when the new arrangements come in. In addition all rights built up in the State scheme at the time of the change will be honoured.

For those to be covered by the new arrangements the Government will lay down a minimum contribution level of 4 per cent of earnings at least half of which must be provided by the employer. The new arrangements will be phased in over three years.

These changes will mean that in due course all employees will be contributing to their own additional pension through their jobs. They will represent the biggest ever extension of occupational pension coverage in this country and will add to the reforms of occupational pensions involving improved rights for early leavers and transfer of pensions currently in legislation before Parliament.

Mr Speaker, defining the right benefit structure is only a part of the Government's responsibility. It must also ensure that the system is administered and managed as effectively as possible to provide a better service to the public. The Government's benefit proposals will in themselves make the system simpler. But we are now to embark on the largest programme of computerisation ever undertaken in this country to modernise and improve its operation.

The benefit changes and the computerisation both of my Department and the Inland Revenue will provide opportunities to achieve better co-operation and closer working between the tax and benefit systems. The Government intend to take advantage of those opportunities and, as my rt hon Friend announced in his Budget speech, the Government will be considering this further in the context of the Green Paper on Personal Taxation.

The Government have however already decided to take a significant step towards better harmonisation by aligning the tax and benefit years. Instead of benefits being uprated in November each year the uprating date will be moved to April. This means that all tax benefit changes will be implemented at the same time. It will also be of considerable assistance to local authorities who at present have to reassess housing benefits cases twice a year.

The change in the benefit year will be brought in at the time of implementation of the major structural reforms. We expect this to be in April 1987. After the uprating of benefits due at the end of November 1985, there will therefore be a 16 month period before the change in April 1987. It would clearly be wrong to allow such a gap between upratings but it would not be practicable to have upratings both in Novmeber 1986 and April 1987. Accordingly the government have decided that, following the 1985 uprating there will be an extra uprating in July 1986 and a further uprating in April 1987.

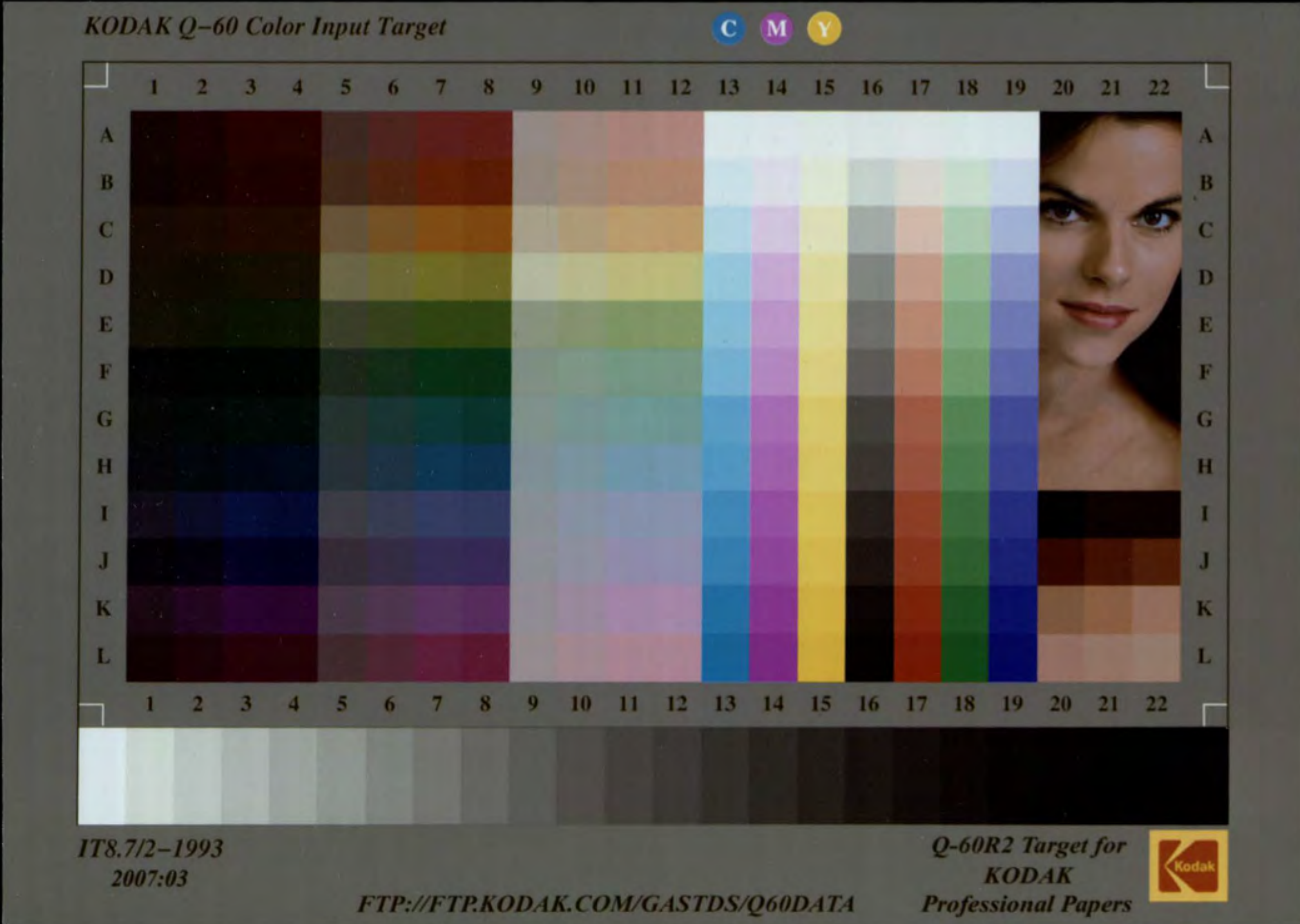
Mr Speaker, the proposals I have announced will amount to a major reform of the main framework of our social security system. They will produce a system of income-related benefits which is simpler to understand and to administer and fairer as between those in and out of work. The proposals will also establish a better partnership between State and individual provision particularly in pensions. A partnership in which the twin pillars of provision are in the right relationship. Above all the reforms are aimed at providing a modern social security system to take us into the next century.

PART 2 ends:-

MS/Wales to Ch/Ex 31/5/85

PART 3 begins:-

Draft Statement 3/6/85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