PREM 19/2519

REVIEW OF SOCIAL SECURITY BENEFITS

MISC 111

SOCIAL SERVICES

PART 1: FEB 1985

PART 5: OCT 1986

PREM 19/2519

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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| ~~OCT 1986~~ | | ~~23.7.87.~~ | | | | | |
| ~~14.10.86~~ | | ~~28.1.87~~ | | | | | |
| ~~15.10.86~~ | | ~~29.1.87~~. | | | | | |
| ~~16.10.86~~ | | ~~30.7.87~~ | | | | | |
| ~~20.10.86~~ | | ~~31.7.87~~ | | | | | |
| ~~6/11/86~~ | | ~~15.9.87~~ | | | | | |
| ~~18.11.86~~ | | ~~17.9.87~~ | | | | | |
| ~~28.11.86~~ | | ~~18.9.87~~ | | | | | |
| ~~4.12.86.~~ | | ~~21.9.87~~ | | | | | |
| ~~9.12.86~~ | | ~~25.9.87~~ | | | | | |
| ~~10.12.86~~ | | 29.9.87 | | | | | |
| ~~15.1.87~~ | | | | | | | |
| ~~20.1.87.~~ | | PART ENDS | | | | | |
| ~~22.1.87~~ | | | | | | | |
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| ~~16.3.87~~ | | | | | | | |
| ~~23.4.87~~ | | | | | | | |
| ~~22.7.87~~ | | | | | | | |

PART 5 ends:-

CST to SS.DHSS 29.9.87

PART 6 begins:-

MS.DTI to SS.DHSS

**TO BE RETAINED AS TOP ENCLOSURE**

# Cabinet / Cabinet Committee Documents

| Reference | Date |
|---|---|
| CC(86) 33rd Meeting Item 2 | 16/10/1986 |
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The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. P [illegible] Date 7.3.2016

**PREM Records Team**

002/3294

SECRET

30

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP PC
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

NBPM.

29 September 1987

Dear John,

**PROPOSALS FOR SOCIAL SECURITY BILL**

Thank you for sending me a copy of your letter of 17 September to Willie Whitelaw.

Subject to the two points below, I am broadly content with your latest proposals for the Bill, and agree that the two new clauses you propose are essential on expenditure grounds. I also note that further legislation would be needed in 1988-89 to extend mobility allowance to the over 75's. Another short bill could well be necessary anyway to achieve further public expenditure savings on the social security programme.

I would be grateful if your officials could let mine know how the savings shortfall arising from the postponement of the measure on liable relatives will be met and how it is envisaged that the severe weather payments would be managed within the Social Fund.

I am copying this letter to the Prime Minister, to members of H Committee, to Norman Fowler and to Sir Robert Armstrong.

Yours Ever, John

JOHN MAJOR

SOCIAL SERVICES - PRS
review

CONFIDENTIAL

CCB

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SWIH 9AT

28 September 1987

WBM.

Dear John.

**PROPOSALS FOR SOCIAL SECURITY BILL**

I have seen a copy of your letter of 17 September to the Lord President about your proposals for the forthcoming Social Security Bill.

As you know, I am content with the general thrust of these proposals, subject to the discussions our officials are having on changes to the Industrial Injuries Scheme and the impact on young offenders and ex-offenders of the withdrawal of income support from 16-18 year olds.

I am copying this letter to the Prime Minister, the Lord President, to Norman Fowler, to Members of H Committee and to Sir Robert Armstrong.

Yours,
Douglas.

The Rt Hon John Moore, MP

CONFIDENTIAL

SOCIAL SERVICES

REVIEW

PT 5

DTW
To see
Then pa.
DCW

10 DOWNING STREET

Prime Minister [2]

An unacceptable
speech, grossly distorted
by The Times.

Both No 10 and DHSS
briefed this morning against
the article and it has
so far received little
attention.

DCW
28/9.

KP/2300p

THE RT HON JOHN MOORE MP: THE FUTURE OF THE WELFARE STATE CPC CONFERENCE LONDON; 26 SEPTEMBER 1987

There is a widely believed myth that the 'welfare state', as it is called, sprang new and fully-formed from the brow of the post-war Labour Government. Nothing could be further from the truth: the British have a tradition of caring that goes back at least 400 years. In 1547 the City of London imposed a compulsory tax on the rich in order to help the poor. By 1553 a comprehensive scheme for aiding the poor was in existence in the City. Through more than four centuries the tradition of caring for the weak, the sick, the old, the poor, the distressed has grown and adapted and changed, responding to the changing needs and circumstances of the British people. Voluntary hospitals, poor relief, almshouses, the great charities - Dr Barnardo's, the Red Cross, the Salvation Army; legislation on child labour, on public health, on workmen's compensation all in the 19th century, then legislation on old age pensions in 1908, compulsory health insurance in 1912, unemployment insurance in 1920, widows and orphans' insurance in 1926.... the list is pages long and reveals a people who since the earliest beginnings of the modern world have been committed - sometimes grudgingly and sometimes generously - but continuously committed to the idea of relieving distress and helping those in need.

The measures enacted by the Labour Government after 1945 therefore were part of a long evolutionary process, building upon an almost infinite number of individual, charitable, religious, and political initiatives. William Beveridge himself, the man often given credit as "author" of the British welfare state, had as the brief for his famous Report simply to "survey existing national schemes of social insurance and allied services ... and make recommendations." And when he made his recommendations - to Churchill's wartime Government - there was a broad measure of bi-partisan support for the integration and extension of welfare which the Report put forward.

There is no way that this proud tradition of caring, stretching back four centuries and more, will be ended. For most of that time the Labour party did not even exist, and it is partisan rhetoric of the silliest sort for them to accuse the Conservatives, who were involved in a majority of the most important measures, of plotting to destroy the social safety net that has been created.

But partisan rhetoric continually distorts this debate and confuses people's perception of what is really happening. One of the most damaging aspects of the myth that the welfare state was created whole by Labour after 1945, is that it was also created perfect: the ultimate, total, flawless Welfare State. So that ever afterwards suggested change of even the most necessary and obvious sort has been greeted with howls of outrage about "dismantling and destroying."

This is a ridiculous state of affairs. 1987 is very different from 1947. Britain has changed almost beyond recognition from those austere, rationed days when no one had a television and the average man owned only one pair of trousers. Today virtually no one is without a telly and according to the Market Research Society, the average man owns seven pairs of trousers and 25 shirts.

unfortunate.

Life has changed, needs have changed, people's expectations have changed, and it is necessary for what we call our 'welfare state' to change as well.

To try to get a little clarity into the debate about what is happening and what should happen to the 'welfare state', it is necessary to first decide what we mean by this label. An encyclopedia definition is that a 'welfare state' is a "System of laws and institutions through which a Government attempts to protect and promote the economic and social welfare of its citizens."

In the 1940s and even the 50s and 60s the dominant thinkers and politicians had a vision, revealed by the laws and institutions they set up, of a huge, benevolent, all-embracing, all-providing state, which saw its duty of 'protecting and promoting the welfare of its citizens', as requiring it to take ever greater control over their individual lives. "We will take care of you," was their theme, and they seemed to be either unaware or not to care how sinister this can sound.

The shape and pattern therefore of the welfare measures enacted in those years too often had the effect of increasing people's dependence on the state and its attendant bureaucrats, and reducing the power and control they might have hoped to gain over their own lives.

We have a different vision of what it means to "protect and promote economic and social welfare" in this country. We believe that dependence in the long run decreases human happiness and reduces human freedom. We believe the well being of individuals is best protected and promoted when they are helped to be independent, to use their talents to take care of themselves and their families, and to achieve things on their own, which is one of the greatest satisfactions life can offer.

Of course we believe real distress must be alleviated and help given those who cannot help themselves. But as in medicine where the aim is, so far as possible, to <u>cure</u> someone who is sick, not just contain the illness, so welfare measures, if they are to <u>really</u> promote economic and social welfare, must be aimed ultimately at encouraging independence, not dependence.

As one of the 19th century social reformers (this debate is hardly new) argued, "If a man breaks his leg do you carry him forever or do you set it so he can walk again?"

Therefore the next step forward in the long evolutionary march of the welfare state in Britain is away from dependence toward independence.

In contemplating this next move in welfare policy, we have a most useful model in the recent history of disabled people. In the 1940s and 50s, as I remember clearly, disabled people were "taken care of" - either well or badly, but in either case little was expected of them, and precious few opportunities were offered.

The title of the current BBC radio programme for disabled people - "Does He Take Sugar?" - exactly captures the patronising and even offensive attitude society used to take.

But things have changed, and Maxwell Caplin, the Chairman of the Greater London Association for Disabled People, has given an interesting description of the evolution in attitudes. In the first stage of his Association, he says, it was concerned with the welfare of the disabled; in its second stage they talked of improving the quality of life and integration in the community. Now, in its third stage, he sees their function as <u>empowering</u> disabled people to achieve their rightful place in our society.

I have also been most interested in reading about the Access Committee for disabled people, to learn their Director has said that "for too long disabled people have been seen largely as passive recipients of services, 'special' people with 'special' needs." They are now demanding, quite legitimately, a change of emphasis, one which concentrates on giving them <u>access</u> to the same opportunities able-bodied people have so that they can develop their own potential in their own way.

This objective for disabled people - away from dependency and toward opportunity - is precisely the objective we should have for everyone It is, I submit, the principle which should guide the formation of social policy into the next century.

In doing this we are not embarking on any radical or untried path. On the contrary, we are following the oldest pattern of behaviour known to man: the way parents raise their children. The aim of all parents is to help their child become an independent, self-reliant adult, able to participate in life and gain satisfaction from it. This should be society's aim for all its citizens too.

So, how is this to be accomplished?

Two things need to be done. The first is the most important, and is where you are most crucially involved. It is to change the climate of opinion.

For more than a quarter century after the last war public opinion in Britain, encouraged by politicians, travelled down the aberrant path toward ever more dependence on an ever more powerful state. Under the guise of compassion people were encouraged to see themselves as 'victims of circumstance', mere putty in the grip of giant forces beyond their control. Rather than being seen as individuals, people were categorised into groups and given labels that enshrined their dependent status: 'unemployed', 'single-parent', 'handicapped'. Thus their confidence and will to help themselves was subtly undermined, and they were taught to think only Government action could affect their lives. Talk of 'rights' came to dominate public debate, but 'rights' in this context too often simply meant welfare benefits handed out by bureaucrats. Even many voluntary organisations shifted their emphasis and changed from service groups who actually gave help to pressure groups who simply pushed the Government to give help.

Slowly the idea gained ground that the only action that could affect events was Government action; individuals or even groups were powerless to help themselves or adequately support one another.

This kind of climate can in time corrupt the human spirit. Everyone knows the sullen apathy of dependence and can compare it with the sheer delight of personal achievement. To deliberately set up a system that creates the former instead of the latter is to act directly against the best interests and indeed the welfare of individuals and of society.

The Job therefore has been to change this depressing climate of dependence and revitalise the belief which has been such a powerful force throughout British history: that individuals can take action to change their lives; can do things to control what happens to them.

One of the great 19th century educational reformers, John Lancaster Spalding, said, "Those who believe in our ability do more than stimulate us. They create for us an atmosphere in which it becomes easier to succeed."

This is exactly what we need to do: create an atmosphere where people have faith in their own ability, and with that faith take action.

Good progress has been made toward this objective since 1979. A re-invigorated spirit of self-help has been a major factor in our dramatically improved economy and the improving employment figures. We now need to extend this spirit further into the areas called the 'welfare state.' There are optimistic signs that this is happening already. The change in attitudes among and toward the disabled mentioned before is one good example. Another is how the former mushroom growth of 'pressure groups' has given way to an encouraging burst of 'self-help' groups. Yet another is the strong growth in voluntary giving to independent charities. The Charities Aid Foundation says it is up from around £7 billion in 1981 to around £12 billion this year.

The reason that 'changing the climate of opinion' is put forward as the most important Job facing welfare reformers is because social policy does not happen in isolation: it grows out of and in turn affects the ethos of the society itself. A spirit of dependency saps the vitality of a society; if individuals are made to believe they are powerless they tend to give up trying and actually become powerless. Initiative and enterprise do not thrive in such an atmosphere, but without initiative and enterprise an economy will not thrive either.

It cannot be said too often - although it is actually astonishing that it has to be said at all - that only a successful economy can afford to provide adequate welfare, whether through Government or otherwise. Wealth is a necessary precondition for welfare; and certainly the caring of politicians is of little use without the material resources to back it up. This is such an obvious statement that I am a little embarrassed to put it before a sophisticated audience. However for rather a long time in Britain too many people thought otherwise. For at least thirty years after the war wealth creation took a back seat to wealth distribution, and for a while looked in danger of being thrown out of the vehicle altogether.

We have made great strides toward changing this since 1979, but there is still a way to go, especially in the world of welfare. So, while the first and most important Job is to change the climate of opinion, the second is to change the policies which have done so much to create the attitudes.

This is what the major reform of social security, which comes into effect next year, sets out to do.

It has been suggested that when history comes to consider this review it may decide the most important fact about it was that it happened at all. As I said earlier, the myth that the post-war welfare state was perfect and untouchable has been a powerful force and for a long time has inhibited even the most necessary change. But needs change constantly, and provision must as well. With the passing of the Social Security Act 1986, it at last has been accepted that change is possible, and indeed that in a fast-moving modern society social policies should probably remain under continuous review. This is no small achievement and I think we owe a great debt to my predecessor as Secretary of State and his Ministers for gaining this acceptance in the face of some very determined resistence.

Having said that, I think the review itself and the Act implementing it do four important things that move us forward in the area of welfare and social security.

The first is that it simplifies what had become a frighteningly complicated system. Few people can feel independent and in control of events if they do not understand what is happening, and in recent years almost no one among claimants and potential claimants understood what was going on in the benefit system. There were something like 30 different benefits available, each with separate and frequently conflicting rules of entitlement. Thousands of staff were required to deal with Supplementary Benefit alone. It had become a nightmare of bureaucratic red tape, full of pitfalls and snares, like the notorious "poverty trap" where a person could find himself actually worse off if his income increased because his welfare benefits would decrease.

The reform of social security begins to change all this. Benefits are simplified, eligibility rules are standardised, red tape reduced and the worst effects of the 'traps' have been tackled.

The second important step the reform makes is to encourage independence, especially in the area of pensions. Under the new Social Security Act it will be possible, for the first time in Britain, for an individual to have his own personal pension, which he owns himself and can transfer from one job to another. This does two very desirable things: it increases individual freedom - too often before someone could find himself "tied" to a job by an untransferable pension, and it also substantially increases individual capital ownership, which in itself increases independence.

With the opportunities provided by the Act we confidently expect a major expansion in both the provision and take up of private pension schemes.

The Act also takes a step towards increasing independence by reducing the disincentives to work that the poverty and unemployment "traps" set up, and by increasing the help available to working families on low incomes. In addition, the Act tries to lessen the dependent status of people who do receive benefit by providing a steady, regular weekly income which they have to plan and organise as do people in work. Previously too many benefits have had to be taken in kind, or applied for as one-off lump sums for single items.

The third important reform the Act makes is to focus help more sharply on people in greatest need. This is crucial as part of the long term effort to change the climate of opinion on welfare. The indiscriminate handing out of benefits not only spreads limited resources too thinly, it can also undermine the will to self-help, and build up pools of resentment among the taxpayers who are footing the bill, often from incomes barely larger than the money benefit recipients receive. By targeting our welfare resources we will be able to provide more real help where need is greatest.

The fourth important reform which is implicit in the new Social Security Act is, I think, to inject some long overdue modesty into the Government's attitude towards its own role in welfare. The overwhelming majority of social care in this country, whether caring for the sick and disabled, support for the elderly, the care of children, even the rehabilitation of offenders, is not and never has been done by the Government. It is done primarily by families, but also by friends, neighbours and the thousands of individuals who help one another because that is to them the way a reasonable human being behaves. The State's role should not be to try and replace or suppress this vast and indispensable network of social caring, but to find ways to help, encourage and support it. We would like to maximise the range and kind of providers of welfare and so increase the flexibility and effectiveness of the care available.

This, then, is the way forward for the welfare state: to build on the tradition that has been created over centuries in Britain of caring for people in genuine need, but to make provisions that fit the country we have now become. It is nonsense to pretend our ancient tradition of social care started in 1945, and it is equally nonsense to say it will be ended by the changes of the 1980s. A 'welfare state' worthy of the name aims at the <u>real</u> welfare of its citizens. This means that while accepting its obligation to care for the distressed and needy it also works to encourage the resourcefulness and enterprise that are the true foundation of both personal and national success. It works to widen the understanding that dependence can be debilitating and that the best kind of help is that which gives people the will and ability to help themselves.

This is, I believe, the way forward; but the future of the welfare state in Britain depends in the end, as do all other aspects of our national life, on our readiness and skill in adapting to a changing world. Only by developing and using properly all our resources, human and material, can we hope to offer a better life for all our people.

MR BLACKWELL

ROLLING BACK WELFARE DEPENDENCY

I have consulted the Prime Minister further about the handling of your minute of 6 August about rolling back welfare dependency.

The Prime Minister has agreed that it would be as well for the proposals to be worked up in greater detail before a discussion is held with Cabinet colleagues. I suggest that you or other members of the Policy Unit as appropriate should put the ideas to the relevant Cabinet Ministers and make sure that they are properly studied. They can then come back for discussions either through Cabinet committees or in ad hoc meetings with the Prime Minister.

Clearly there is a risk that splitting up areas in this way will cause them to get lost in the machine. If this seems to be happening we can either move the Prime Minister to enquire after them or I can from here chase them up through Private Offices.

David Norgrove

21 September 1987

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PRIME MINISTER

ROLLING BACK WELFARE DEPENDENCY

I have now seen this excellent paper by Norman Blackwell which you saw in August. You commented that it must be discussed with Norman Fowler, John Moore, David Young and John Major in the first instance.

Could I suggest that the Policy Unit should be invited to pursue the ideas with the relevant Secretaries of State and officials to begin with. There is not enough material in the note for you to be able to take decisions: the proposals need to be worked up further. A meeting without supporting analysis would inevitably be rather inchoate. Those proposals which are suitable for the Cabinet Committee system can come back for discussion in that way and others can be brought to an ad hoc meeting with you later.

Agree?

David Norgrove
18 September 1987

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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*

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

17 September 1987

Dear Willie,

NBAM.

PROPOSALS FOR SOCIAL SECURITY BILL

Introduction

I am writing to let you know how we now stand with our proposals for the forthcoming Social Security Bill.

In my letter of 16 July I said that the Bill would probably contain about 15 clauses. However the draft Bill turned out to be a little longer than that, partly because of the complexity of one or two items but also because there turned out to be more "general and supplementary" clauses than we had expected. We also find that we need additional clauses following a decision of the Social Security Commissioners affecting the treatment of occupational pension as earnings, and in the light of our recent PES decision to offset occupational pension against unemployment benefit for 55-60 year olds.

In view of the tight timetable for the Bill, and the controversial nature of a number of its proposals, we have taken a critical look at its contents with a view to cutting out some of the less essential items. As a result we propose to postpone 5 of the items which I mentioned to you in my letter of 16 July, though we should need to include them in a subsequent Bill.

Items to be postponed

The first and most important of these items is the extension of mobility allowance to the over 75s, which has been the subject of recent discussion in PES. If agreed, the change will be required for November 1989 and it would be essential to include it in a 1988/89 Bill.

**E.R.**

Secondly we propose to postpone the clause which would protect the position of local authority councillors whose entitlement to allowances for attending council meetings affects their right to invalidity benefits. We are publicly committed to legislate in due course, but the numbers involved are very small indeed (about 40 currently) and we are protecting them on an extra-statutory basis.

We also think that we should postpone the extension of the liability of relatives to maintain children aged 16 to 19 who are at school. Whilst this is a highly desirable change, recommended by an efficiency study, and carrying a modest public expenditure saving (£0.6 million in the first year) we feel it can wait until a later legislative opportunity arises. We shall write to Sir Robin Ibbs about this; in the meantime I propose to make up the savings foregone by other means, and hope that John Major will be content.

The two final items we propose to defer are the minor technical amendments to the 1986 Act relating to the uprating of benefits and to statutory maternity pay. I should also mention that the proposed PES measure to abolish the 25p age addition for pensioners is not going ahead.

The items which remain in the Bill are therefore those relating to attendance allowance; income support for the under 18s; the tightening of the contribution conditions for sickness and unemployment benefits; the corrections of defects in the 1986 Act relating to the social fund, industrial injuries benefit and family credit; putting the welfare foods scheme on to a sound statutory base and technical amendments relating to the calculation of guaranteed minimum pensions in occupational pension schemes. There are also the two minor amendments to which I referred in paragraph 12 of my letter of 16 July. One relates to the remission of NHS charges for which we wish to provide a sounder statutory base; the other is to provide a statutory basis for local authorities to make emergency payments of benefit on behalf of my Department.

<u>New clauses</u>

As I noted above, we need two additional clauses. The first is to make essential amendments following a decision of the Social Security Commissioners. The clause will restore the original intention that, for the purposes of entitlement to a benefit increase for an adult dependant, any occupational pension received by the dependant is to be treated as earnings. Failure to legislate would cost in the region of £50 million a year. Additionally, as noted above, we need a new clause for the proposal to offset occupational pension against unemployment benefit for 55 to 60 year olds which has been the subject of recent discussions in PES.

<u>Other proposals not requiring new clauses</u>

In addition to the new clauses described above we have certain additional proposals which should be included in the Bill but can be accommodated within existing clauses. First we wish to amend the provisions in the 1986 Act relating to the abolition of industrial death benefit. Lawyers have now advised that the amendments are necessary to enable us to achieve our intended policy of ensuring that existing industrial widows continue to enjoy certain privileges

**E.R.**

in relation to their entitlement to other benefits. Failure to make these amendments would mean some widows losing up to £40 a week. The amendments would form part of the industrial injuries clause and schedule.

We also need to make a minor but essential technical amendment in relation to the transfer of occupational pension rights where a person leaves his pension scheme after April 1988. We envisage that this can be linked with the item relating to guaranteed minimum pensions and that it too will not add to the number of clauses.

We also wish to include in the provisions relating to the social fund a power to provide for regulated payments for exceptionally cold weather.

Summary and decision required

In all we expect that this will give us a Bill of 12 substantive clauses plus 5 or 6 general and supplementary clauses, (we are asking Parliamentary Counsel if it is possible to minimise the latter). I therefore envisage that the Bill will finally run to about 17 or 18 clauses in total (although one or two additional clauses might result from the remainder of the PES round).

I confirm that discussions are taking place at official level with the Home Office on the implications of the industrial injuries changes for Home Office expenditure, and between officials of the Department of Employment and the Home Office on the impact on young offenders and ex-offenders of the proposals for withdrawal of income support. I can also confirm that we have a suitable clause to enable corresponding legislation to be made for Northern Ireland. Tom King will know that we did not go ahead with our alternative proposals for the social fund; the proposed essential amendments are now necessary to allow the scheme to operate from April 1988 as originally intended.

I should be grateful for colleagues' agreement to the shape of the Bill as now planned.

I am copying this letter to the Prime Minister, to members of H Committee, to Norman Fowler and to Sir Robert Armstrong.

JOHN MOORE

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PRIME MINISTER

SOCIAL SECURITY: OUTSTANDING COMMITMENTS

John Moore has come back following your decision that the Government should not seek to introduce an earnings rule for widows. He now proposes to bring forward the date of implementation of the proposal to offset occupational pensions against unemployment benefit for people aged 55-60. He also plans to reduce the provision for uprating child benefit in April 1989.

A decision already in the plans is that there should be no uprating of child benefit in April 1988. The savings now offered by John Moore would amount to a reduction in the increase in child benefit of about 1% which would otherwise have been paid in April 1989.

You will want to consider this in the context of other proposals for savings, with the Chancellor, the Chief Secretary and the Lord President. But I believe there are a number of other more difficult proposals to be discussed then.

(D.R. NORGROVE)

15 September 1987

DCACET

10 DOWNING STREET

M. Norgrove

Here for your reference is a copy of the note on welfare dependency. I'd value your thoughts on which areas might be most productive to pursue.

NRB

Mark - This paper Prime Minister
must be discussed with MEA 7/8
Norman Fowler, John Moore, Nick Ridley
David Young - John Major - in the first instance.
Suggest somewhere in September.

PRIME MINISTER 6 August 1987

ROLLING BACK WELFARE DEPENDENCY

A major objective of the third term must be to make significant progress in rolling back the rising tide of welfare dependency before it corrodes the supporting pillars of our economic and social fabric.

During the first two terms, Thatcherism has redressed the economic balance between the corporate state and the wealth creator, freeing up enterprise and restoring a strong, competitive economy. We must now do more to redress the balance between the State and the family/individual, restoring the emphasis on individual responsibilities rather than emphasising individual entitlements to State provision.

In many areas we have already instituted policy changes to limit the growth of entitlements - the whole review of Social Security benefits in particular. There are still some areas to tackle. However for these reforms to be effective, we now need to turn our attention to winning the war of attitudes and culture; the marketing of our moral viewpoint alongside the policy structure that reflect it.

This paper makes some suggestions for how to carry that forward.

Reasserting traditional attitudes and values

The pernicious effects of State welfarism now permeate many aspects of many individual's lives. The altruistic introduction of "safety net" support for high motives has - with hindsight - often resulted in unintended and undesirable changes in individual behaviour in order to take advantage of the benefits available, weakening family and individual responsibility in the process.

These changes in behavour are a rational economic response to the financial incentives provided. They do not necessarily imply that there has been a wholesale change in attitudes and values (yet); it is perhaps more a question of pushing values to one side when economic pressures become too strong and values are no longer reinforced. (Indeed the language of entitlement has served to debase many traditional values).

Given the importance of financial incentives, we are unlikely to reverse the dependency culture unless we tackle the worst areas of economic distortion in the welfare system directly, through changes in policy rules and entitlements. However we believe that these changes can be strongly reinforced if we take the opportunity to reassert the traditional attitudes and values which we - and most of the population - still uphold. Indeed such a restatement of common sense values would almost certainly be enormously popular; there are many people who find it difficult to understand why those values which are shared in private conversations are rarely stated publically.

Government administration of welfare has been deliberately stripped of any moral framework to avoid having to make a judgement between the 'deserving' and 'undeserving'; we need to put back a moral framework that accords with the behaviour that ordinary people expect. Our review of welfare policies through the Governmental and civil service machine therefore needs to be accompanied by an explicit political statement of moral values to win public support for a return to stronger individual and family responsibilities. Only by such a populist approach can we avoid being put on the defensive by the welfare lobbyist groups who will portray any restrictions on benefit entitlements as an attack on the weak and the poor.

In particular we should focus on the following areas:

1. Unemployment and the work ethic

2. Support for single mothers

3. Homelessness and the family

4. Provision for the elderly

## 1. Unemployment and the work ethic

The evidence of welfare dependency amongst many long term unemployed is one of the greatest areas of concern. Although we now have an emerging policy structure to tackle this problem (through Restart etc) we have not as yet begun the task of changing national attitudes.

The latest labour force survey found almost one million (859,000) claimants of unemployment benefit who had not looked for work in the 4 weeks prior to the survey. From the recent report by officials on the Unemployment Trap, reinforced by the vivid evidence of the Gallup survey on council estates, we now know that many of these individuals feel that they have very little incentive to move back into work - ie they have adjusted living on "the social" in conditions where well paid jobs paying a premium over benefit have not been immediately available.

The Unemployment Trap report estimated that over one quarter of all unemployed would gain less than £20 per week for moving into work at a wage level corresponding to their previous skill category. Almost one third would gain less than £10 a week if they were prepared to take more readily available low paid job paying below £110 a week. These incentives are further weakened by the fact that a significant proportion of the long term unemployed - perhaps

one half or more on some estates according to the Gallup estimates - are earning at least £10-£20 a week through occasional jobs in the black economy.

People in this position are therefore perfectly rational in stating, as they did to Gallup, that they were not prepared to consider jobs that paid less than - say - £180 per week; and if such jobs are not available they would rather stay on the dole. Society has provided an entitlement, without laying stress on the obligation to make every effort to support one's family through one's own efforts before falling back on State support. The value system now accepts the lack of shame in remaining permanently on the dole while working in the black economy.

The package of measures agreed in the manifesto will go a long way towards tackling the worst offenders - cycling individuals through Restart interviews, the new JTS and the benefit-plus Community Programme, with those who refuse to take advantage of the programmes ultimately facing the loss of their benefit entitlement. Similarly, the elimination of benefit entitlement for able bodied 16-18 year olds will help prevent many school leavers getting sucked into the benefit culture.

We now need to consider ways of reinforcing an accompanying shift in attitudes:

1 **We should be more explicit about our underlying value system - that everyone has an obligation to take work when available, and those who are not interested in taking jobs, or taking advantage of training in work experience programmes to get back into employment, are not entitled to continue living off their neigbours.**

At the moment, the possibility of losing benefit from refusing a place on the Community Programme is not often

admitted, let alone publicised. To overcome this, we need a positive sounding umbrella label for our portfolio of training and work experience programmes - eg "Preparation for Work Programmes" - coupled with a clear statement about the obligation of those who receive unemployment benefit to be willing to go through these programmes - as a step back to permanent employment - in return for continued State support. (The "Workfare" banner is probably not appropriate, since it carries with it the false connotation of compulsory make work schemes, with the State as the employer of last resort.) Only when we are explicit about our values can we start tackling the culture head on.

2 **We should tackle the justification of many long term unemployed that "they would be worse off going back to work" by publicising the fact that from next April, (with the introduction of Family Credit) almost everybody will in fact be better off in work than they would be on income support.**

The best way to do this might be to publicise a "Better off in Work" guarantee, running a temporary top up scheme of £5 or £10 a week for those who can demonstrate they would actually lose by taking a job on offer. Like the Curry's guarantee of a refund "if you can find the same item priced lower elsewhere", the take up would be very low, but the publication of a guarantee would have a wide impact in changing what are often false perceptions about how much benefit the individual would lose - and remove the excuse for those who justify not taking jobs on offer because of the money they would lose. We could then be crystal clear about the moral obligation to work.

3 **We also need to use policy statements and employment service advertising to overcome the aversion to low paid jobs as an entry route into employment.**

The traditional attitude has recognised that "starting at the bottom" provided an opportunity for those with initiative to prove their worth and progress up the ladder into higher paid positions. The union dogma of the last few decades has poured scorn on these gateway jobs and raised the expectation that everyone is entitled to go into a well paid job immediately. The compression of differentials in the UK (partly through pay policies) has created a situation where less than 5% of full time male jobs are below half the median wage - as against 15% in the US. More detailed analysis shows that many opportunities for low paid service jobs in the US have simply not developed in the UK, denying valuable employment and work experience opportunities to those at the bottom of the employment ladder.

As well as tackling work incentives, we therefore need to recreate the ethos of "starting at the bottom" and working your way up - helping people to feel greater pride and self respect in low paid jobs than their neighbours who continue to live off the State.

4 **To reinforce the individual's obligation to take work in order to support himself and his family, we need Restart interviewers and benefit adjudicators to be more demanding on the amount of travelling individuals should be prepared to undertake in order to find an acceptable job.**

Areas of high unemployment are often very localised, with areas of low unemployment only a mile or two across the city - or in the adjacent town. Millions of working communities clearly believe it is acceptable to spend ½-1 hour travelling time in both directions in order to reach their place of work - often changing trains or buses several times en route. Yet coal miners are reported to have accepted redundancy rather than travel on an NCB bus to a nearby pit. Similarly, I have personally observed

members of the long term unemployed - including fit teenagers - who have turned up their nose at a job vacancy or Community Programme place 2 or 3 miles away from their home because of "poor public transport". Obviously many of the long term unemployed do not have the advantage of owning their own car, but if serious about wanting the opportunity to get back into work they would surely find a way to cover such distances - even if it involved an hour's walk or bicycle ride. Yet in the current climate we have become almost afraid to say such things for fear of ridicule. They need saying.

If the costs of transport to a potential job are a real barrier, this could be overcome - at least initially - by a temporary travel subsidy under the proposed "Better off in Work" guarantee.

5 **We need to bring the Department of Employment programmes for training, employment and enterprise programmes right into the heart of depressed council estates - rather than operating them through remote job centres.**

A Restart team and satellite jobcentre based in the middle of a council estate would have a significant and visible impact, and could work with residents groups to funnel people into locally based community programmes and training programmes. A few houses, garages or other buildings could be converted to provide managed workshops for those wanting to start up a small business under the Enterprise Allowance Scheme. Such a visible local presence would provide strong positive motivation, while also making it more difficult for the remaining hard core unemployed to opt out.

6 **We also need to expand the Enterprise Allowance Scheme to provide an easier gateway from the black economy into the**

**white economy - combined with stronger enforcement measures against those who continue to operate illegally.**

Despite high rates of unemployment, the existence of a healthy black economy in many areas shows that a wide range of individuals do have latent seeds of entrepreneurialism within them. So long as it is regarded as legitimate to combine this with continued drawing of unemployment benefits, the potential for growth is limited and the individual's energy diverted to exploiting the system. We need to convert welfare-preneurship into legitimate entrepreneurship.

The Enterprise Allowance Scheme is almost universally well regarded as a mechanism to help those on benefit phase into self employment. Despite increases in the number of places, it continues to be over-subscribed. We should expand the scheme further and actively market it on council estates to those who might see it as a vehicle to move out of the black economy and establish a legitimate business.

To assist with this we might consider:

- changing the payment from a straight £40 a week to an amount related to benefit, to make it more attractive to those with dependents. (At present over 70% of entrants are young/single people who receive an increase over their benefit by going on the scheme, so such a change could actually reduce the cost.)

- Overcoming the barrier presented by the requirement for £1,000 working capital by arranging loans to be paid back out of the subsequent allowance.

Signing up for this scheme automatically registers individuals for tax and insurance contributions, and we

could provide an additional incentive to cross from the black to the white economy by providing a (limited) amnesty for past tax liabilities on undeclared earnings for those who sign up for the scheme within a specified period.

2. Support for single mothers

A second, and more difficult, area of welfare dependency is the growing pool of single mothers - looking to the State for income support for themselves and their children, and often housing accommodation as well.

By 1984 there were 940,000 single parent families in Great Britain - up almost 50% from 1971 and comprising nearly 1 in 8 of all families with dependent children by the mid-1980's. The majority of single parent families - roughly two-thirds - result from divorce and separations, which accelerated in the 1970's. However, in recent years the fastest growing group has been single, 'never-married' mothers, of which there were 197,000 in 1984 - up 54% in just five years from 1979 to reach 20% of all single parents. By contrast, the number of widows has been declining, and was only 14% of the total in 1984.

These figures underline growing worries that early motherhood for unmarried girls is becoming accepted - and even sought after - status, particularly in depressed inner city areas where it provides a passport to individual status, housing and welfare support independent of the parents.

A recent CBS document shown in the US illustrated the ultimate consequence of inadvertent "encouragement" for single motherhood by chronicling the breakdown of the black family in urban America - with four out of five births in some areas now to young, single mothers. They now have third generation single parents who believe that young women

bringing up their children alone on State benefits is the normal model for "family" life. Interviews with some of the young mothers showed clearly that they viewed having a baby as a desirable outcome for themselves - giving them an object to love and bringing with it the Benefit Passport. Many had little concern or interest in who the father might be. Equally the young men in the district expressed almost total incredulity at the suggestion they might have any family or financial responsibility for looking after any children they might have fathered - 'the welfare system provides money to pay for children'.

Although this seems an unlikely nightmare to most people, anacdotal evidence suggests it is already not far from the street culture developing in some of our cities. State benefits are the main source of income for about 65% of lone parents, but not surprisingly it is the 'never-married' mothers who tend to be most dependent - 86% of this group receive supplementary benefit as against 50% of divorcees and 8% of widows. While DHSS are putting increasing efforts into taking action to force absent fathers into making some financial contribution - and are successful in about 50% of cases (including separations) - the amounts recovered are often relatively small when the fathers themselves are on low incomes or benefits.

Given current trends towards increasing work participation by women, one might look towards single mothers themselves to take more responsibility for providing their income. In fact, however, participation rates for single mothers have been falling during the 1980's and are actually lower than for married mothers - a total of 39% were in employment in 1984 (22% part-time, 17% full-time) as against 49% of married mothers. Once again, 'never married' mothers have the worst record - with less than two-thirds as many working compared to divorcee mothers.

To tackle this problem before it gets out of hand we need to take steps to change the climate of opinion and prevent the availability of welfare support taking away individual's responsibilities. Specifically:

1. **Reassert parental responsibilities**

While we obviously need to provide generous support for those who are widowed or left to support their family through no fault of their own, we must take steps - through schools as well as government statements - to re-emphasise the traditional values that children are a responsibility which individuals should only enter into within a strong relationship where the partners can look forward to sufficient income to support the children without State intervention. The new procedures to increase claims against absent fathers are an important part of this.

2. **Investigate workfare programmes for single mothers**

In the US, the developing Workfare programme is in fact almost entirely aimed at single mothers - who are the largest recipients of benefits from the US AFDC welfare programme. It is based on the premise that all mothers - except those with very young babies - can be found suitable part time or home based work, and should be expected to undertake such work rather than for asking the State for continued support. Trial programmes along these lines appear to have been remarkably successful in the US - with 70% or more of supported mothers participating, and subsequent employment rates rising by about one third.

While any such initiatives for single mothers must take second place in the UK to the implementation of our training and work experience programmes for the

unemployed, it would be worth developing ideas and preparing the ground for the development of similar programmes aimed at young mothers in the UK. You might ask Norman Fowler and John Moore to consider developing plans for a few limited - and initially voluntary - trials (while ensuring that any changes did not result in adding a large number of single mothers to the unemployment count).

3. **Reasess housing priority**

It seems wrong that single teenage mothers should have automatic claim on the State for housing provision, moving to the top of council housing lists. In most cases it would surely be better if the girl and her baby remained with the girl's parents. We should change the priority system so that independent accommodation is only provided and paid for in exceptional circumstances.

To provide a better standard of care and supervision for such young mothers who do live away from home, it might then be worth considering greater use of public or voluntary sector hostels as the accommodation that would normally be on offer - a solution which could be defended as reasonable, yet one which would undoubtedly be a less attractive outcome to most teenage girls than the possibility of being set up on their own in independent lodgings.

However, while there are good grounds for concern, in reality we do not yet have an accurate picture of how severe the young mother problem really is.

**As a first step we recommend asking DHSS to research further some of the attitudes and behaviour patterns of young single mothers in the worst inner city areas, using an independent opinion research company.**

3. Homelessness and the family

Homelessness in general is another area where we have become accustomed to claims that those without a "roof over their head" have an entitlement to be provided with housing by the State. Yet most of those typically counted on the homeless list publicised by pressure groups are simply individuals who have been accepted as priority housing cases by local authorities under the 1977 Homeless Persons Act.

Under the provisions of this Act, the Council must secure housing for priority groups who are unintentionally homeless or threatened with homelessness. However, the interpretation of this provision varies widely between councils, with 40% of those accepted falling into the category of 'parents/ friends no longer able to accommodate' and another 20% claiming homelessness through 'marriage disputes'.

The reality is that with - for example - 52% of all new secure local authority tenancies in London going to the 'homeless' (up from 21% in 1978), convincing the council that you can no longer remain in your existing accommodation is a vital mechanism in getting ahead in the council housing queue. It is also necessary to fit a priority category: of those accepted in this way, (roughly 100,000 per year in England), 61% are families with dependent children and 13% are pregnant girls/women. We therefore also have the perverse situation of individuals accelerating their family development to raise their priority, rather than delaying their family until they can afford proper accommodation.

Another group - who are perhaps more clearly "homeless" - are those who have typically been temporarily housed by DHSS or the local authority in board and lodging accommodation. In December 1984 this group numbered 163,000, but had been growing rapidly - roughly doubling in 2 years - and cost the

taxpayer £503 million. The vast majority are single, and many have simply chosen an itinerant lifestyle.

Changes made in April 1985 imposed stricter financial limits on this benefit, and restricted claims from those under 26 - over a third or more of claimants - to a fixed number of weeks in any area (the duration depending upon the location). As a result, numbers dropped to 127,000 in the year to December 1985. Further changes in April 1989 will replace the current situation where DHSS picks up all the board and lodging costs with a simpler system which puts them on the same basis as other claimants of income support - receiving a standard allowance for food and incidental expenses, and eligibility for housing benefit to cover the accommodation part of their rent. Nevertheless, the state will still be picking up the housing costs of many who simply choose to live away from their family.

While the development of new forms of rented accommodation should ease the pressure on the "council waiting list", we need to confront the attitudes and expectations created by the homeless lobby head on rather than responding defensively to its claims. We should declare the following principles:

1 Young people should expect to have to wait until they have found or can afford accommodation of their own before starting a family.

2 The role of families in providing accommodation for children or relatives who have nowhere of their own to live is a normal and healthy family obligation, not an anomaly requiring State intervention.

3 State provision should be a fallback of last resort, not an entitlement.

Detailed proposals on tackling homelessness were contained in an earlier note by Peter Stredder, and a wider review of this whole area would be desirable. In particular, however, in line with the principles above we suggest you ask Mr Ridley to consider:

1 **Tightening up the definition of 'intentionally homeless' under the 1977 Homeless Persons Act to include as intentionally homeless all those (of any age) whose close relatives could house them without severe overcrowding or physical threat.** (They may nevertheless remain high priority cases, but would no longer be able to precipitate action by creating homelessness).

2. **Removing entitlement to housing benefit from all under the age of 21 (or at least those who are unemployed) unless they can prove that no relatives could house them, or they have a specific need to be away from home.**

It is strange that although most people would not dream of seeing their own son or brother sleeping rough on the streets of London, in the abstract they are all too ready to accept that the State should fulfill this function when other families default on their obligations. We need to re-assert the moral high ground on family responsibilities.

4. Savings for old age

Over half of all pensioner households now receive occupational pensions and the recent encouragement to personal and occupational pensions should help increase this further. Nevertheless state benefit of all kinds still account for 60% of all pensioner income.

Unfortunately those drawing State benefit before retirement have a significant incentive not to save for their old age - to avoid accumulating the level of capital that would

disqualify them from benefit. These rules inevitably encourage an attitude of spend it as soon as you get it.

**To overcome this, we should consider making provision for simple pension fund savings accounts (eg in building societies) where money deposited could not be withdrawn before pensionable age, and where the savings themselves did not therefore affect entitlement to income support or housing benefit before retirement.**

Even those on low incomes could then be encouraged to make some personal provision for old age.

There is also room to encourage the development of private insurance to cover the need for residential/nursing care in old age. Residential care of the elderly is a significant and growing part of the Health Service budget, yet it is one area where the encouragement of private provision is unlikely to have any negative political connotations.

Conclusion

Many of the changes in Benefit conditions introduced during the last term, together with the employment measures currently in process, have produced a much tighter framework for welfare entitlement. This note suggests a number of areas for further development, some of which you may wish to ask relevant ministers to consider. However, we now need to win the moral war, changing attitudes towards welfare entitlement and reasserting traditional values of individual and family responsibility.

This may be partly accomplished by asking John Moore and other senior Ministers to suggest these themes in speeches and statements. We can also do more to go on the attack in response to reports and charges from the welfare lobby, instead of being forced on the defensive.

However, it would also be useful to ask some of the independent right wing pressure groups to take up this theme in a concerted way. David Willetts at the CPS has already made a significant contribution through a recent seminar on Workfare, and could be encouraged to extend these themes. In addition, it would be helpful to encourage the formation of some new pressure group specifically focussed on promoting and defending the economic role and responsibilities of the family. If you think this is appropriate, we could try to develop a short list of potential activists and sponsors.

Norman Blackwell

NORMAN BLACKWELL

CONFIDENTIAL

NORTHERN IRELAND OFFICE
WHITEHALL
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SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon John Moore MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

31 July 1987

**SOCIAL SECURITY BILL 1987/88**

I have seen a copy of your letter of 16 July to Willie Whitelaw seeking H Committee's approval to your proposals for this Bill.

From my letter of 6 July, you will be aware of my reservations on the Social Fund and I will obviously be keen to know the relevant provisions to be included in this Bill once you have reached agreement with Treasury. Having said this, I am happy to support your present legislative proposals and seek your agreement to the inclusion in the Bill of the usual Clause enabling Northern Ireland to make corresponding legislation by means of an Order in Council subject to negative resolution. I understand that officials have already been in touch on this.

I am copying this letter to the Prime Minister, Members of H Committee and to Sir Robert Armstrong.

TK

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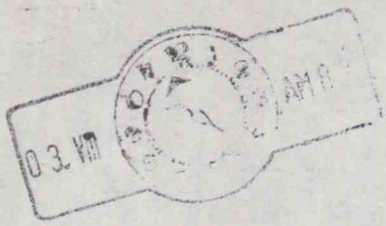

SOCIAL SKRIFTER

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file DG

MTG RECORD

10 DOWNING STREET

LONDON SW1A 2AA

30 July 1987

*From the Private Secretary*

Dear Bruce,

SOCIAL FUND

The Prime Minister this morning held a meeting to discuss the Social Fund on the basis of your Secretary of State's letter to the Chief Secretary of 21 July and letters from you to me of 27 July and 29 July and the Chief Secretary's minute to the Prime Minister of 28 July. There were present the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Employment and Social Services, the Chief Secretary, the Lord Privy Seal, the Chief Whip, Mr. Nicholas Scott (PUSS, Department of Health and Social Security), Mr. Unwin, Mr. Langdon and Mr. Mundy (Cabinet Office).

It was agreed that the Social Fund should not be changed in the way proposed by your Secretary of State, but should retain the structure already enacted. Your Secretary of State would be discussing with the Chief Secretary the public expenditure provision for the Social Fund in the context of the Public Expenditure Survey, and he might wish also to discuss the operational guidance given to local offices.

I am copying this letter only to Jill Rutter (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

Yours,

David.

David Norgrove

Bruce Calderwood, Esq.,
Department of Health and Social Security.

EL3CDH

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SUBJECT

CC MASTER

NOTE FOR THE RECORD

SOCIAL FUND

The Prime Minister held a meeting to discuss the Social Fund this morning. The people present and the papers are listed in my letter of today to Eamonn Kelly.

The Secretary of State for Social Services said he was conscious of the difficulty of changing course at this stage. However later analysis had shown that community care grants were likely to cost £70 million, much more than expected, and some 1500 more staff were likely to be needed. Quite junior staff in local offices would be expected to perform incompatible tasks: to maintain a cash limited budget through a year but at the same time to follow guidance which would make it impossible to maintain that cash limit. His proposal to drop the proposed budgeting loans would reduce the number of claimants substantially, though at the cost of losing the possibility of cash limiting the expenditure.

The Chief Secretary accepted that the Social Fund would have a turbulent beginning and that there were bound to be operational difficulties. But these had always been expected. The change proposed by Mr. Moore would be seen by the welfare lobbies as a retreat and as an invitation to seek to break the system. Experience of a system based regulation had shown soaring costs and this would happen again. A cost of £30 million for community care grant had always been seen as preliminary, and there would be a need to look at it again. He was sceptical about the need for 1500 more staff since the Social Fund would mean fewer payments and less money paid out. The need to recover loans would be a new element, but the clientele would be narrower. Many of the problems predicted by Mr. Moore were already faced by local office staff. Extension of the present system for two months would lead to a closing down sale of single payments. It was essential not to give up a cash limited discretionary system.

All other Ministers present supported the Chief Secretary and the Lord President pointed in particular to the credibility which he and others had invested in securing passage of the legislation.

The Prime Minister, concluding the discussion, said that the scheme had to be retained as enacted. Mr. Moore might consult with the Chief Secretary about the financial arrangements for the scheme and the guidance given to local offices.

DAVID NORGROVE
30 July 1987

MC/Conf 48

**CONFIDENTIAL**

CCBG

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The Rt Hon John Moore MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON
SE1

NRBM

29 July 1987

Dear John.

**PROPOSALS FOR SOCIAL SECURITY BILL 1987/88**

You sent me a copy of your letter of 16 July to the Lord President about your proposed Social Security Bill.

I welcome the inclusion of provisions in your Bill to give effect to the Manifesto commitment to withdraw income support from unemployed 16 and 17 year olds (other than those, such as single parents and the chronically disabled, who are not required to be available for work). We are in correspondence about the regime which might replace income support for those who are waiting to take up a YTS place but I can confirm that my Trade Union and Employment Bill will provide for any elements in that regime which fall outside the field of income support or child benefit.

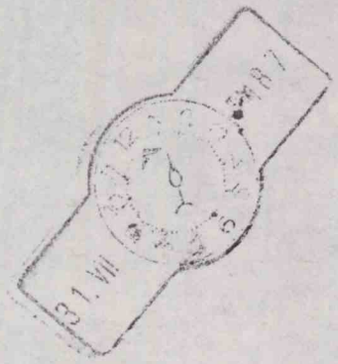
Turning to the other issues you plan to cover in your Bill, I am content with the changes you propose to make to the contribution conditions which determine entitlement to sickness and unemployment benefit, although I was not consulted about them in advance. The changes for unemployment benefit will impact on the work priorities for the computers of the National Unemployment Benefit Service which will require re-programming. This will probably mean that some other desirable changes will have to slip but I accept the imperative of making this change to achieve the necessary PES savings.

I am sending copies of this letter to the Prime Minister, members of H Committee, and to Sir Robert Armstrong.

Yours ever

NORMAN FOWLER

**CONFIDENTIAL**



SOCIAL SERVICES

RELIGION

PT 5

SECRET AND CMO (UNTIL 31 JANUARY 1988)
SC0275t

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25

**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*

David Norgrove

29 July

Dear David

SOCIAL FUND

I attach a note on the losers from the social fund proposals as you requested.

I am copying this to Jill Rutter (Chief Secretary's Office), Mike Eland (Lord President's Office), Tony Kuczys (HM Treasury), John Turner (Department of Employment), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Brian Unwin (Cabinet Office).

Yours ever
Bruce Calderwood

BRUCE CALDERWOOD
Private Secreary

E.R.

SECRET AND CMO

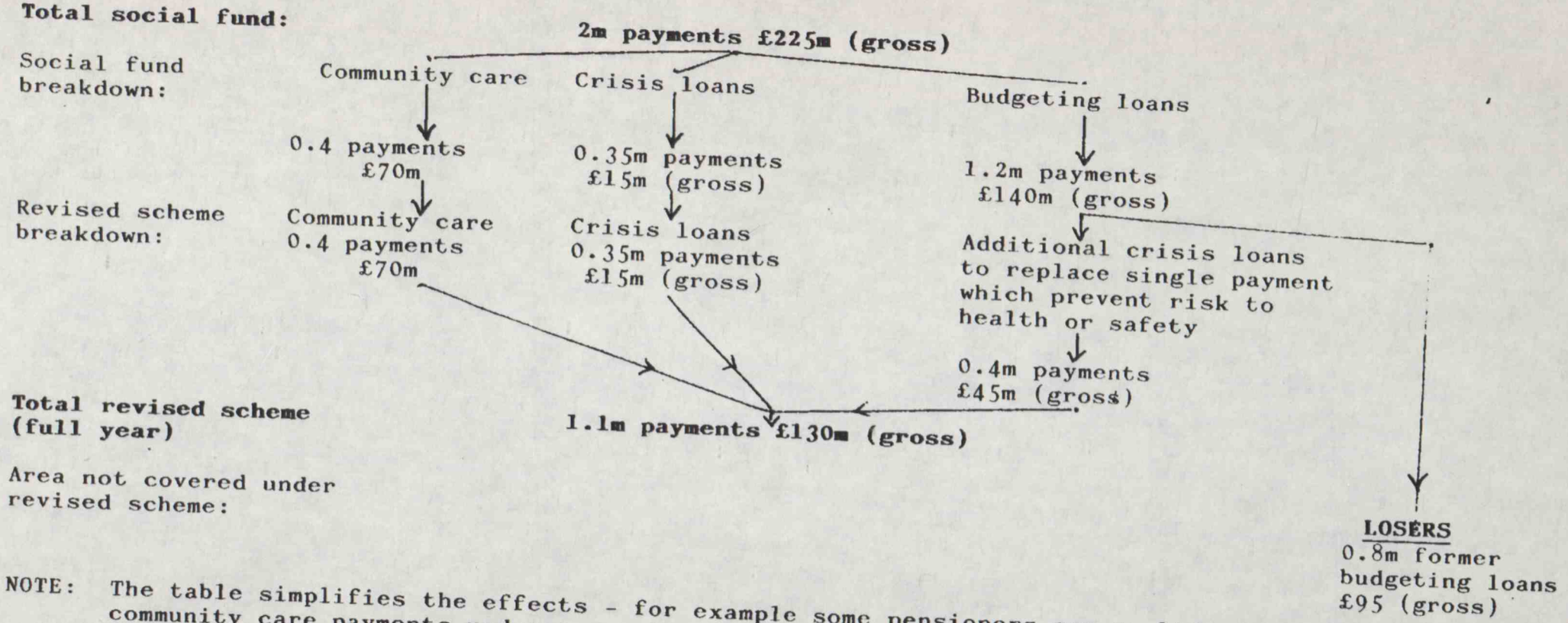
**EFFECT OF REVISED SCHEME IN COMPARISON WITH SOCIAL FUND PROPOSALS**

Table one presents in schematic form the differences between the social fund proposals and the revised scheme.

2 The principal effect of the change will be to cut out some 0.8m budgeting loans. Our best estimate by extrapolation of the present single payments which are likely to be replaced by budgeting loans is that these would have gone largely to unemployed people and to lone parents (83 per cent) and predominantly for furniture and bedding (82%)(see tables 2 and 3)

E.R.

TABLE 1: EFFECT OF REVISED PROPOSALS




NOTE: The table simplifies the effects - for example some pensioners may qualify for community care payments under a regulated scheme whose application would not have been awarded by a social fund officer; and payments for some items which may have been given under the social fund (notably to"families under stress") will not be included in the regulated package.

PROFILES OF LOSERS AND LOSSES

**TABLE 2**

**Assumed Distribution of Budgeting loan expenditure between client groups**

| | |
|---|---|
| Unemployed | 50% |
| Lone Parents | 33% |
| Pensioners* | 10% |
| Sick* | 6% |
| Others | 1% |

**TABLE 3**

**Assumed Distribution of Budgeting loan expenditure between major items**

| | |
|---|---|
| Miscellaneous and essential furniture and bedding | 82% |
| Clothing and footwear | 15% |
| Redecoration | 2% |
| House repair | 1% |

*The effect of the revised community care scheme will be to include some of these as grants

SECRET

cc SL/P

PRIME MINISTER

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SOCIAL FUND

You and colleagues will rightly take a great deal of convincing that the Social Fund should be abandoned. But two points in the event that you do agree to a change:

(i) the term 'social fund' should not be abandoned; it should be applied to the new scheme and the changes should be represented as evolution rather than revolution;

(ii) you will want to question whether £600 would be right for the start-up grant for people leaving institutional care; but the cost is likely to be some hundreds of pounds when furniture, kitchen equipment, clothing, possible deposits on electricity and gas and so on are taken into account; it is perhaps also worth bearing in mind that people moving out of institutional care are not likely to be well equipped to find bargains and if they are put under too great a financial pressure their belief in their ability to cope in the community may be undermined - a little generosity earlier on might prevent a return to more expensive care in an institution.

DAVID NORGROVE

28 July 1987

SL3AWS

SECRET

004/4214

SECRET AND CMO (31.1.88)

FROM: CHIEF SECRETARY
DATE: 28 July 1987

23

PRIME MINISTER

SOCIAL FUND

You invited my comments on John Moore's letter of 22 July. I have now seen his detailed memorandum of 27 July and will comment on the arguments raised there. I am afraid that I have not had a chance to discuss these points with him.

My general comment is that his proposal, if adopted, would be a major retreat from a policy we have espoused for over two years and turned into law in the face of strong opposition. There is no reason to retreat except that the welfare lobbies oppose the Fund and will try to make it inoperable. This we have always known. I make my specific comments against that background.

John argues that his proposals are more in line with the objectives of the social security reforms. This is not so. During the Social Security Review we decided that those on supplementary benefit should no longer be able to obtain single payments (grants) for major household items. Since those on low incomes in work have to budget for such items, the present system is grossly unfair. We therefore decided that those in receipt of supplementary benefit should also have to budget. Hence the decision to make available loans, repayable from regular weekly benefit and awarded on the basis of discretion rather than regulations. This is entirely in keeping with our objectives of targetting help on those who need it and increasing personal responsibility in claimants.

John believes that things are different now to before the Election. I cannot see any valid new reasons to support this contention. It is entirely correct to say that the Social Fund will have a turbulent birth. But we have always known that. We knew that before it ran into sustained opposition, which we resisted successfully, during the passage of the Social Security Bill. Moreover, from the outset, we knew that welfare rights organisations and local authorities would dislike the Fund and attempt to break it.

We knew too, that operationally we would need to plan on this basis. As John acknowledges, the draft guidance on the Fund has been designed to assist Social Fund officers' discretion. The budgetary arrangements, which include contingency reserves at national level, have been designed to avoid local offices running out of money. The threat of judicial review has always been there, as it is throughout the whole field of social security legislation. Finally, we were always aware that the Social Security Advisory Committee would produce a hostile report.

John also mentions the results of a local office survey suggesting that £70 million would be needed for community care grants, leaving less available for loans. My officials have had no opportunity to scrutinise this survey in detail, but John's basic point is that this would result in a storm of protest if claimants are refused loans. But there would still be 2 million payments made under the Social Fund compared to the 1.3 million claimed under his revised proposals.

John argues that his proposals would provide more effective financial control than the Social Fund. I do not agree. He proposes to abandon the key element of the Fund. This is the change to a discretionary system backed by a cash limited budget. This imposes directly - at the level of the individual DHSS local office for the first time - the discipline of ensuring that expenditure on benefits is properly directed to those most in need. If we move to regulations there is no basis for

introducing a cash limit on the Fund next year as we intended. John believes that the idea of a cash limit is a delusion. I do not agree.

He proposes to put in its place a diminished system of payments to be made according to regulations. If regulations are introduced which attempt to limit expenditure to £85 million after 1988-89, we would face an even greater outburst of wrath from the very critics we face over the Social Fund.

Moreover the expenditure limit would not be contained. All our experience suggests that a regulation based system would not produce control over one-off payments. It was manipulation of the single payments regulations by the welfare groups that led us to opt for a discretionary system in the first place. The same pressure would be there in the future. John is right to suggest that the welfare groups would attempt to break the Fund by whipping up demand, but they would also break his attempt to draw up regulations tightly and in a regulation based system we cannot impose a cash limit. The chances of limiting expenditure under such a system to £85 million a year are negligible.

A glance at the annexes shows why. All he can offer if expenditure increases significantly under his proposals, as it certainly will, is action to contain it as soon as possible. I would like to know what action he proposes other than tightening the regulations further, which will provoke a renewed bout of criticism for the Government.

I should mention that the savings from moving from single payments of £240 million a year at present to a Social Fund of £125 million (excluding funeral and maternity expenses), as John proposes, have of course already been scored. John is not offering any new savings. His case rests on a claimed £15 million of benefit savings, which I regard as illusory, and claimed staff savings of 2000, 1500 of which represents a bid which I have had no opportunity to examine.

I should also mention that if John were to announce in the Autumn that he is proposing a two month extension of single payments, and that he is also removing the prospect of loans except for crisis situations, there will be a closing-down-sale for single payments lasting about 9 months as claimants pile in to take advantage of the old system. Incidentally, there is nothing new in the abolition of the single payments mentioned in the Annex of the letter of 22 July. The Social Security Act already achieves this.

John attaches great weight to the recosting of the social security reforms. He is not asking for any new money, apart from the agreed addition to Income Support to provide average compensation for the 20 per cent contribution to rates. He is also not proposing to redistribute the existing resources. The £150 million of support for lone parents and families with children therefore represents no more than the £50 million included in the Technical Annex rates for this group, for which credit has already been taken, and £100 million for this group's share of the compensation for 20 per cent of rates, again for which credit was taken before the Election. There is simply no new story to tell here. And I should also mention that in view of the very large increases sought for the social security programme, I shall be looking in the Survey at the scope for savings by introducing Income Support at lower than the revalued Illustrative Rates.

Put quite simply, this proposal would constitute a reversal of agreed policy which is unjustified by any new material fact. We will be back to an entirely demand led system of social security expenditure and will have been forced to abandon our one attempt to achieve proper financial discipline in the payment of benefits in the face of entirely predictable criticisms from the welfare lobby.

I am copying this minute to John Moore, Willie Whitelaw, John Wakeham, David Waddington and Sir Robert Armstrong.

John M

JOHN MAJOR

CC(87)P

22

SECRET

P 02806

PRIME MINISTER

SOCIAL FUND

Meeting of Ministers: 30 July 1987

DECISIONS TO BE REACHED

You will wish the meeting to reach a firm view whether at this late stage the Social Fund should be replaced by a new scheme on the lines proposed by the Social Services Secretary. If this proposal is rejected, you will wish to invite the Social Services Secretary to consult further with the Chief Secretary about the staffing and start-up costs of the Social Fund.

BACKGROUND

2. The Social Security Act 1980 replaced the previous discretionary system with a regulatory structure both for weekly payments and for single payments. This has worked reasonably well for entitlement to basic weekly income, but single payments have mushroomed alarmingly, as the "claimant society" has developed in sophistication. At the same time, access to single payments has been very uneven (in 1983 more than 80 per cent of payments went to 9 per cent of claimants) and the regulatory scheme has proved inflexible and insensitive to individual needs (under the appeals scheme even miniscule amounts can go through several tiers of formal adjudication).

3. A cardinal and controversial feature of the reforms in the Social Security Act 1986 (following exposure in the Green and White Papers) was therefore a cash limited Social Fund to replace the single payments system.

4. The main features of the Social Fund are that (save for maternity and funeral payments) it would be administered on a discretionary basis by locally-based social fund officers, subject to cash limits. A proportion of the fund would be held back at national and regional levels to ensure that individual offices did not run out of money. In the main, payments would be by means of interest-free loans rather than grants with repayments deducted from weekly benefits. Loans would be available for intermittent payments; for people facing a financial crisis (eg because their money had been lost or stolen); or to support community care (to help people re-establish themselves in the community, to avoid institutional care, or to ease particular exceptional pressures on families). In short loans would be given to meet real needs, rather than in pursuance of inflexible statutory entitlements. There would be no formal appeal mechanism but instead a system of review involving in the first instance local management and in the second inspectors appointed by a Commissioner (appointed by the Secretary of State).

**MAIN ISSUES**

5. The key issues are:-

(i) Is it true that the Social Fund as proposed is not workable?

(ii) If so, is the suggested replacement scheme acceptable in financial , political and social terms?

**Viability of Social Fund**

6. Mr Moore claims that the re-appraisal associated with the recent consultation exercise demonstrates that the Social Fund could not be made to work effectively. The main problems are said to be:

(i) Resisting pressure to meet reasonable requests when the cash has run out;

(ii) the likelihood of public criticism relating, in particular, to inconsistency in decision-making;

(iii) personal hostility to staff, perhaps including violence;

(iv) judicial review, on a variety of grounds.

7. Mr Moore also says that 5500 staff would be required on the Social Fund, compared with an original estimate of 3500. Moreover, while within the annual budget of £100 million for the Fund (£125 million in the first year) £30 million was thought to be adequate for community care grants (leaving £70 million for loans for budgeting and crisis purposes), he now believes that some £70 million would be required for community care grants leaving only £30 million (£55 million in the first year) for loans.

**Proposed New Scheme**

8. The proposal is for a regulated scheme of community care grants and financial crisis loans. Community care grants would be available to priority groups of vulnerable people on income support to help them set up home upon leaving institutional or residential care or to improve their living conditions where there is a risk of being taken into residential or institutional care. All other groups would be eligible only for crisis loans, but only in cases of serious risk to health and safety.

Chief Secretary's Views

9. The proposals have not been discussed with the Treasury, who heard of them only when they saw Mr Moore's minute at the end of last week. I understand that the Chief Secretary (who was, of course, closely involved in the Social Fund at DHSS in his former capacity) will minute to you shortly strongly opposing Mr Moore's proposals on the following main grounds:-

- the Social Fund is not unworkable;

- the welfare group criticisms have been known about for a long time and it would be wrong to give way to them now;

- though there are risks of judicial review (to which the proposed new scheme would be equally vulnerable) the Social Fund has been drafted to minimise them;

- the proposed new Scheme may well itself mushroom, leading to increased expenditure rather than savings;

- the staff savings figures are also dubious.

- the necessary two months extension of the present single payments scheme to June 1988 could lead to a claims bonanza.

10. Rather than accept the new scheme, the Chief Secretary is also prepared to be flexible (within reason) on the start-up funding for the Social Fund next year.

**COMMENT**

11. The Government have always recognised that the introduction of the Social Fund would be far from easy. Virtually all the difficulties to which Mr Moore now draws attention were known about and taken into account when the decision was taken to bring it in. The Government faced a great deal of opposition in the 1985/86 Session in introducing the scheme in the Social Security Bill. If the Department are absolutely convinced that it is not operationally workable (and the difficulties with DHSS staff should not be underestimated) then changes (which could be modifications rather than a completely new scheme) may be unavoidable. But abandonment of the scheme now would require a lot of words to be swallowed and, because it would need to be presented as tougher than the Social Fund, it could well provoke even greater opposition than that did.

12. From a public expenditure point of view Mr Moore's claim that a there might be small savings in the initial years at best seems doubtful. The cash limited Social Fund has been seen as a mechanism for introducing for the first time financial discipline at local office level. The proposed new scheme would again rely on regulatory payments, which all previous experience suggests is likely to lead to spiralling costs in future years.

**PRESENTATION AND TIMING OF ANNOUNCEMENT**

13. If Mr Moore's proposals were accepted, it would be necessary for DHSS to stop work on the Social Fund and to work up the detailed proposals for the new scheme as soon as possible. An early announcement would be needed, as the proposals would be bound to leak. There would inevitably be a major row about making such an announcement during the Recess. Mr Moore's view that the statement could be kept low-key seems exceedingly optimistic; and presentation as other than a volte face under pressure would be very difficult indeed.

**LEGISLATION**

14. If the proposed new scheme were agreed, the necessary legis-altive provisions (including a two month's extension of the existing single payments scheme) could be included in the Social Security Bill for which there is a place in the programme for the current Session. The Social Services Secretary says that these provisions would be no longer than those which would otherwise be required to patch up defects in the 1986 Act.

**HANDLING**

15. You will wish to invite **THE SOCIAL SERVICES SECRETARY** to introduce his Memorandum. You may then wish to invite the **CHIEF SECRETARY, TREASURY** to respond. You may then wish to invite the **EMPLOYMENT SECRETARY** (who, along with Mr Major and Mr Newton was, of course, responsible for introducing the Social Fund) to add his

comments. Other Ministers - not least the **LORD PRESIDENT** on the presentational and Parliamentary aspects - will wish to add their views.

J B UNWIN

Cabinet Office
28 July 1987

CONFIDENTIAL

CC 36

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

28 July 1987

Dear Willie, NBM

PROPOSALS FOR A SOCIAL SECURITY BILL 1987/88

I have seen a copy of John Moore's letter of 16 July about his proposals for a Social Security Bill to be introduced urgently after the summer recess.

While I support the general thrust of the Bill it will have some implications for areas for which I am responsible, and there will certainly be vociferous criticism of it from a number of organisations in the criminal justice system.

INCOME SUPPORT FOR 16 AND 17 YEAR OLDS

The proposals for withdrawing entitlement to income support from 16 and 17 year olds who deliberately chose to remain unemployed was a manifesto commitment. I welcome the intention to make provision for an allowance to be paid to those who are waiting for a YTS place or job. I hope that it will be administered in a way sufficiently flexible to ensure that the particular needs of those young people for whom I have a specific responsibility, such as offenders and ex-offenders, are not prejudiced. There is already concern that the move away from the use of the community programme to the YTS will adversely affect the prospects of offenders. It will be important, therefore, to ensure that these young people, who are likely to be fairly unattractive to providers of Youth Training, will not suffer the additional hardship, and be given the additional incentive of returning to crime, by losing their income support. I hope that our respective officials can resolve any difficulties which might arise in the preparation of the legislation.

INDUSTRIAL INJURIES BENEFIT EARNINGS ALLOWANCE

The proposed further change to the Industrial Injuries Scheme is likely to increase payments by the Home Office under the Criminal Injuries Compensation Scheme, as the awards made have benefits deducted from them. This may affect the net savings you quote, and I would suggest that officials should quantify the extra Home Office expenditure so that this can be taken into account in PES.

I am copying this letter to the Prime Minister, John Major, other members of H Committee and to Sir Robert Armstrong.

Yours ever,

Douglas

The Rt Hon The Viscount Whitelaw, CH., MC.

SOCIAL SERVICES : REVIEW PTS

FLE
21 DA

CC SKP

SECRET AND CMO (until 31 January 1988)

10 DOWNING STREET
LONDON SW1A 2AA

*From the Private Secretary*

28 July 1987

Dear Bruce,

**SOCIAL FUND**

The Prime Minister has seen the paper attached to your letter to me of 27 July, which described your Secretary of State's proposals for replacing the social fund. This is to be discussed at a meeting on Thursday morning, and the Prime Minister would find it helpful to have before that meeting an assessment of who is likely to lose by the revised proposals, how many and how much.

The Prime Minister has commented that the proposed £600 start up grant seems excessive.

I am copying this letter to Jill Rutter (Chief Secretary's Office), Mike Eland (Lord President's Office), Tony Kuczys (HM Treasury), John Turner (Department of Employment), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Brian Unwin (Cabinet Office).

John,

David

(D. R. NORGROVE)

Bruce Calderwood, Esq.,
Department of Health and Social Security.

SECRET AND CMO (until 31 January 1988)

10 DOWNING STREET

Prime Minister!

You may like to see now.

Agree:

(i) to ask who will lose by this proposal (there is a projected saving in public expenditure);

(ii) invite Mr Fowler to the meeting?

Yes – he knows nothing about this. I spoke to him this evening and it does not look as if he has any real interest in keeping the Board going

JRW 27/7.

js/0208p

SECRET AND CMO (until 31 January 1988)

20

CC 81/48

**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*

David Norgrove
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

27 July

Dear David

SOCIAL FUND

Your letter of 23 July asked for a more detailed paper on our proposals for replacing the social fund. I enclose such a memorandum by my Secretary of State for discussion at the meeting on Thursday 30 July.

I am copying this letter to Jill Rutter (Chief Secretary's Office), Mike Eland (Lord President's Office), Tony Kuczys (Treasury), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), and Brian Unwin (Cabinet Office).

Yours ever
Bruce Calderwood

A B CALDERWOOD
Private Secretary

ENC

SECRET AND CMO (UNTIL 31 JANUARY)

MG0148p

COPY NO 1

# THE SOCIAL FUND

## MEMORANDUM BY THE SECRETARY OF STATE FOR SOCIAL SERVICES

1. Further to my letter of 21 July to the Chief Secretary this brief paper sets out the arguments which have led me to favour replacing the social fund with a more limited scheme of grants and loans based on entitlement not discretion. Attached to the note are four annexes:

1. Why are things different now from when the social fund was agreed to?

2. The financing of single payments, the social fund and my proposal.

3. More details of the proposed regulation-based community care grants and crisis loans.

4. Handling the presentation.

My objectives

2. I wish to establish a scheme which will:

a. be seen as right in the context of the wider social security reforms; and

b. be at least as effectively controlled financially as the social fund might have been.

There are no easy options here and I do not pretend that what I am proposing is ideal. It is tough and will be attacked but I believe it provides us with firmer ground to defend than the social fund.

3. On a., our objective is to minimise the dependence of individuals on the "benefit culture". A major plank in this policy is to provide a regular weekly income, on which income support recipients have to plan their spending like people in work. I have concluded that making loans available for intermittent expenses to help with budgeting runs counter to this policy. However it is consistent with our wider policy to give grants to assist in the achievement of social objectives (getting vulnerable groups out of institutions and keeping them out) and to make loans to deal with serious crises.

4. On b. when first devised, the social fund appeared to offer an opportunity to try to cash limit an element - if a minor one - of social security expenditure. I am now convinced, however, that it will not work and would be a political disaster if we tried to operate it.

5. The budget cannot be held at a predetermined level. It is not practical to operate a cash-limited scheme which will require genuine needs of high priority, to be turned down simply on the ground that there is no money to meet them. The direct impact would fall upon junior civil servants exposed to pressures from claimants and their welfare rights advisers (which may include verbal abuse and violence) and not upon me and my Ministerial colleagues. The welfare rights groups' hostility to the social fund is such that they will be determined to break it. Past experience shows that they are capable of whipping up demand so as to apply enormous pressure both on staff and on the budget. The social fund would be very staff-intensive (because of its discretionary nature and the need to operate the loan recovery arrangements). Any enforced expansion would be even more so, and would indicate that we were not in control of our policy. I propose to draw the rules of

entitlement more stringently. Many fewer staff will be needed to operate a regulated system. Such a system should also commend itself to the Lords, who were seriously troubled last year because there was no independent appeal system against decisions made under the social fund.

6. The risk is that the social fund would become a running sore. My alternative proposal will be fiercely denounced when it becomes clear what it involves. But a regulated system is much more likely to settle down, and the controversy about it to subside, than in a discretionary system where real needs are denied not because of rules, but because the money has run out.

7. There is no reason to view my proposal as a climbdown:

Whatever else, the title "social fund" must surely be retained.

a. It is true that it abandons the idea of a cash limit, but that limit is in my view a delusion.

b. Now that the general election is behind us, we have the chance to devise something tougher than the social fund, in that it is likely to be cheaper, and it excludes a whole category of assistance proposed in the social fund viz help with budgeting.

c. As a result, the number of payments under my proposal is likely to be little more than half the number which would be made under the social fund.

Financial and manpower implications

7. The social fund needed a bid in this year's PES round of £25 million for 1988/89 on top of the £100 million in the baseline, and also a bid for 1,500 extra staff. Under my new proposals, the £25 million is still needed to cover the brief extension of the current

single payments system and to start up the crisis loans scheme. But the 1,500 staff will no longer be required; there is the prospect of a reduction in annual benefit expenditure below the baseline (by about £15 million) in later years, and there may also be scope for further staff savings of about 500.

Action required

8. The earliest date by which I can expect to get the new scheme up and running is early June 1988, and continuation of the existing single payments and urgent needs systems is required until then. Accordingly, I would need to drop those clauses in the Social Security Bill dealing with the social fund and replace them with clauses giving effect to these proposals. The Bill can still be introduced in the Commons immediately after the summer recess so as to receive Royal Assent not later than the end of February 1988, so long as we decide quickly to replace the social fund with my proposed new scheme. I attach at Annex 4 my proposals for handling a short explanatory statement.

JM

Department of Health and Social Security
July 1987

SC0149p

Annex 1

WHY ARE THINGS DIFFERENT NOW?

i. Taking stock

1. The fact that the General Election is behind us gives us the opportunity to consider whether the social fund is the scheme:

a. most consistent with our social security reforms;

b. most likely to contain expenditure;

c. best capable of defence against long drawn-out attack by welfare groups.

ii. Results of consultation on social fund guidance

2. The main principles of the social fund:

- loans rather than grants;

- subject to a limited budget;

- administered at the discretion of local officers rather than by entitlement;

- subject to review (as to reasonableness of decisions) rather than appeal -

have always been controversial but were accepted by Parliament, subject on the last point to the creation of a Commissioner with limited powers, to meet objections in the Lords.

3. Consultation in April 1987 on the draft social fund manual was undertaken with the limited purpose of testing the workability in practice of the arrangements for running the fund. But in response the opposition to the fund's principles became much more vociferous and critical.

a. The three major local authority associations (ACC, AMA and COSLA) all continue to oppose the fund on principle, the AMA to the point of refusing to co-operate with DHSS offices in any way.

b. The Social Security Advisory Committee believed that the fund was unfair and unworkable, and thought that meeting need was incompatible with a fixed budget. They wished to retain a core of statutory entitlement to single payments, with rights to loans for minor expenses only, and to community care grants, with scope for discretionary payments as well.

c. None of the other 102 bodies who responded had a good word to say for the social fund.

iii. Operational problems

4. The draft guidance on the fund provided an opportunity to re-appraise the operational implications. The guidance was designed to assist social fund officers' discretion and, at managerial level in setting priorities for payments from the fund within local office budgets. The re-appraisal led us to conclude that we could not make the fund work effectively. The most difficult issues are:

- resisting pressure to pay when the request was reasonable in itself but funds in the budget were insufficient;

- the likelihood of harsh public criticism both locally and nationally from MPs, welfare rights organisations and the press; some of this would relate to inconsistency in decision-making which could not be avoided;

- personal hostility to staff, sometimes including violence, fuelled by active welfare rights groups working on the known limits of local budgets (which would inevitably become public), and on the absence of truly independent appeals;

- judicial review, on grounds eg of unreasonable constraint of the social fund officer's discretion by the budget, inconsistency between the practice of different local offices, and the lack of a properly independent appeal structure.

5. Detailed examination of the staffing requirements of the scheme showed that the level of discretionary decision-making and the expected number of individual payments (both grants and loans) meant a much higher staffing requirement than had originally been assumed. The original formulation of the policy assumed some 3500 staff, the number then estimated to be engaged in single payments work (now known to be 4000). The final estimated requirement was however for a total of 5500 staff, and more would be required if the scheme were to expand further.

iv. The balance of grants and loans: results of local office survey

6. It was originally planned that within the annual budget of £100 million for the fund (£125 million in the first year), £30 million would be sufficient to maintain an adequate level of community care grants, leaving some £70 million (£95 million in the first year) to sustain a substantial level (£107 million) of loans for budgeting and crisis purposes. This assumed an average loan of £150-£175 and an average recovery period per loan of 9-12 months at a rate of £4 per week or about 8 per cent of the average rate of benefit. A survey of local offices' current experience with single payments, undertaken to inform final decisions about the balance of grants and loans in the fund, suggested that some £70 million would be needed just to meet high priority claims for community care grants within the terms of the agreed guidance for the scheme, leaving only

£30 million (£55 million in the first year) to meet requirements for loans. This sum could sustain, in principle, £155 million of loans in a year, assuming an average budgetting loan of £115, repaid on average in 4 months at £7.20 per week (representing 15 per cent of the claimant's weekly benefit). This would leave little room for social fund officers to reschedule debts in case of need, or to set lower rates of repayment, as provided for under the scheme, in consequence of claimants' other commitments. The result would be a high degree of risk to the planned level of loans if such circumstances were accommodated, or a storm of protest if claimants were refused loans.

v. The effect of recosting the social security reforms

7. Some two-thirds of current expenditure on single payments goes to families with children. It has been a constant objective of the reforms to improve support for such families, and preliminary results of recosting imply a total increase in social security support for families with children of some £150 million compared to their 1986 entitlement. More details are set out in Annex 2. This improvement can be presented as complementary to the Department's revised proposals, and in justification of the severe reduction in expenditure now envisaged, as compared with the present single payments scheme.

vi. Conclusions

8. The conclusions which Ministers drew from a re-examination of the social fund were:

- the national budget could not be maintained - yet if it were breached, staff costs would be very high (recovery of loans is staff intensive). Even more pressure for more discretionary payments would develop, and the position of local office managers as budget holders would be progressively undermined;

- we should be imposing an unworkable system on relatively junior local office staff, who would be faced with very great pressures and have great difficulty in refusing payments;

- applications for judicial review would be costly and time-consuming to deal with, even though they might often be successfully resisted;

- a move to an entitlement-based scheme, offering grants for community care and loans in crises and linked with improved benefit rates for families with children, would offer better financial control in practice, be better targeted and require fewer staff.

js/0150p

**ANNEX 2**

**SOCIAL FUND: FINANCIAL BACKGROUND**

Single payments have risen steeply in numbers and costs.

| Year | Cost £m (rounded) |
|---|---|
| 1979/80 | 40 |
| 1980/81 | 50 |
| 1981/82 | 60 |
| 1982/83 | 100 |
| 1983/84 | 170 |
| 1984/85 | 240 |
| 1985/86 | 330 |

In mid 1986/87 restrictions in the scope of the regulations reined in this growth.

| | |
|---|---|
| 1986/87 | 330 (provisional) |
| 1987/88 | 230 (estimate) |

The previous social fund proposals (subject to PES negotiations) were to have cut expenditure still further by reducing the numbers of payments overall and by recovering the majority of them. They carried a considerable staff cost.

| | Expenditure £m (Grants | Loans (gross) | PES | Payments m | Staff |
|---|---|---|---|---|---|
| 1987/88 Single payments/urgent needs payments. | 240 | - | 240 | 2.7 | 4000 |
| 1988/89 social fund. | 70 | 155 | 125 | 2 | 5500 |
| 1989/90 social fund. | 70 | 155 | 100 | 2 | 5500 |

1500 staff for £140 m seems a good return. (£93,000 a head)

The revised proposals yield some PE savings (£15 million in 1989/90) and a significant reduction in the number of staff.

| | Expenditure £ million | | | Payments | Staff |
|---|---|---|---|---|---|
| | Grants | Loans (gross) | PES | m | |
| 1987/88 Single payments/urgent needs payments. | 240 | - | 240 | 2.7 | 4,000 |
| 1988/89 Revised scheme. | 100* | 50 | 125 | 1.3 | 3,600 (av) |
| 1989/90 Revised scheme. | 70 | 60 | 85 | 1.1 | 3,500 |

* Of which £40 million represents the cost of continuing single payments for eight weeks.

All estimates exclude additional payments to cover hardship arising from payment of income support in arrears.

Effects of Recosting the Social Security Reforms

Much of the expenditure on single payments - about two thirds - currently goes to families with children. Their position needs to be looked at in the context of changes in their weekly income under income support.

One of the objectives of the reforms was to improve support for families with children - now shown by our analysis of need, to face particular difficulties. This will be done by an expanded family credit scheme for those in work; by the family and lone parent premiums for those out of work.

The Technical Annex published with the White Paper implies a total increase in state support of over £50 million for all families with children with nearly four fifths gaining or unaffected. The average gain shown in the Technical Annex was £1.70 for lone parents and £1.40 for unemployed couples with children.

The Department is currently starting to recost the effect of the reforms. This will be the subject of further discussions with the Treasury in the current public expenditure round and the results are subject to that process. Preliminary results from uprating the Technical Annex rates and, crucially, adding in compensation for the 20 per cent of rates that claimants will have to meet next April (agreed shortly before the election) improves the position.

Preliminary results now imply an increase of some £150 million in total state support for families with children compared to their 1986 entitlement. Nine-tenths of couples with children and two-thirds of lone parents would gain in real terms. Average increases per week would be around £3 for both lone parents and all couples with children (slightly lower at about £2.50 a week for those within the latter group who are unemployed).

js/0150p/2

ANNEX 3

REGULATED COMMUNITY CARE GRANTS AND FINANCIAL CRISIS LOANS

1. This note sets out what could be included in a regulated scheme of grants with the broad aim of promoting community care, while containing expenditure within £70m; and the principles of a regulated scheme for financial crisis loans. Although the community care grant scheme under the social fund was also estimated to cost £70 million, the regulated scheme proposed here is more tightly drawn, to take account of substituting entitlement for discretion.

SCOPE OF THE NEW COMMUNITY CARE SCHEME

2. It is proposed that regulated community care grants should be available to priority groups of vulnerable people on income support with no more than £500 capital to help them:

i. set up home upon leaving institutional or residential care
- help targeted upon individual circumstances; or

ii. improve their living conditions where there is a risk of being taken into residential or institutional care.
- help targeted upon particular groups and particular items.

All other groups within the community would have to look to crisis loans provided there is serious risk to health and safety.

3. The proposals have been costed using data from the local office survey into single payments expenditure, prepared by SPRU of University of York, and the costings are attached at Appendix 1.

PEOPLE LEAVING INSTITUTIONAL OR RESIDENTIAL CARE

4. Grants would be provided to help individuals (or couples) rehabilitate themselves in the community after a stay in institutional or residential care. Grants would only be available to those setting up home independently, and not to those in 'half way houses', whose managing agencies can look to other sources of funding.

5. Institutional or residential care would have to be defined, probably as follows:

- hospital and other NHS establishments;
- nursing homes;
- residential care homes;
- resettlement units;
- hostels for homeless;
- hostels for ex-offenders;
- hostels for alcohol and drug misusers.

6. We will probably need to specify a qualifying period in institutional/residential care - a period of about 3 months is suggested.

7. Once someone has satisfied the criteria a flat rate start up grant of £600 which claimants can spend as they choose should be paid. (Regulations covering a host of major items that might be needed would have knock-on staff costs). This could be extended to cover essential items of furniture and bedding, miscellaneous furnishings, clothing, fares to get to the new home, reconnection charges for appliances or removal costs (if required eg where applicant already possessed some furniture) and represents a modest increase on what has been available in total, for those items under current single payment regulations, since August 1986.

8. There would have to be some provision to pay a repeat start up grant to the same individual since a proportion of people undergoing rehabilitation will 'break down' and need readmission to institutional or residential care. A suitable bar on repeat applications, perhaps for 12 months, can be devised.

PEOPLE AT RISK OF BEING TAKEN INTO RESIDENTIAL OR INSTITUTIONAL CARE

9. Grants would have been available to people in the following groups to help them to move to more suitable accommodation or to improve their living conditions in tightly defined ways:

- elderly ie all pensioners;
- chronically sick (including the terminally ill);
- mentally ill;
- mentally handicapped;
- physically handicapped;

These terms would have to be defined.

PEOPLE MOVING TO MORE SUITABLE ACCOMMODATION

10. Where there are good reasons for a move grants will be available for removal expenses. The good reasons will include:

- present accommodation not suited to claimant's need because his or her health or mobility is affected by the living conditions;

- housing benefit is restricted;

- claimant is moving nearer to relatives/close friends who will provide support;

- claimant is setting up home for the first time eg adult mentally handicapped person who has been living with parents and attending a day centre and is now ready to move to independent living.

11. Grants will be primarily for removal expenses, but provision will be made to pay grants for furniture and bedding, as required. Flat rate payments would not be appropriate (and could not be afforded within £70m) and furniture will have to be itemised in regulations, and paid for according to need.

IMPROVEMENTS WITHIN THE HOME

12. For priority groups grants could be made for:

- furniture (repair and purchase);
- bedding;
- minor structural repair up to a limit of £400;
- redecoration;
- fuel meters and reconnection charges.

Clothing and heating, and any other costs, would have to be met from weekly income support or, where there was a serious risk to health or safety, the claimant could apply for a crisis loan. However, this regulated package would ensure those in the priority groups will always receive assistance for the items listed above.

SCOPE OF THE NEW FINANCIAL CRISIS SCHEME

13. For crisis loans, regulations would provide that a loan should be made to anyone whether on income support or not, to meet an exceptional need provided that it is the only means by which serious damage or serious risk to the health and safety of any member of the family may be prevented. Maximum periods of recovery would be defined in regulations and the rules for those not on income support would probably need to be defined more tightly than for those who are.

14. The cost of this would be £25m PES in 1988/89 supporting some £50m of loans (see annex II) and £15m PES in 1989/90 supporting some £60m of loans.

MONITORING

15. Monitoring of the new scheme would be instituted, and if expenditure began to increase significantly, action would be sought to contain it as quickly and effectively as possible.

**ANNEX 3**
**APPENDIX 1**

**REGULATED COMMUNITY CARE GRANT SCHEME: FULL YEAR COSTS GB**

I. Start up grants for people leaving institutions to set up home (£600 for some 35,000 claims) c £21m.

II. Other payments for pensioners or chronically sick or disabled (assumed to be c 75% those not required to be eligible for work).

| | |
|---|---|
| - Essential furniture: | c £26m |
| - Miscellaneous furniture (as defined in current SP regs): | c £ 6m |
| - Bedding | c £ 6m |
| - Removal expenses (due to nature of current accommodation of relating to member of the family in care, sick or disabled) | c £ 3m |
| - House repair: | c £ 3m |
| - Fuel or meter reconnection: | c £ 1m |
| - Redecoration materials: | c £ 1m |
| TOTAL | c £70m |

MG0148p/5

Annex 4

HANDLING OF A SHORT EXPLANATORY STATEMENT

If my proposals are accepted, it will be necessary to stop work on the social fund and to take forward the detailed planning of the new scheme as soon as possible. Inevitably at this point the decision will become public. I therefore propose to handle this by issuing a low-key statement. This might say:

"We have now considered the response to our consultation on the social fund and are clear that it would not be right to proceed with the proposal for discretionary loans to assist with ordinary living expenses. We think however that there is a strong case for help with grants for community care needs and loans to meet financial crises, and that these forms of help should be on the basis of regulated entitlement. We shall be considering urgently what changes we need to make in the light of our policy objectives and the responses we have received."

Far too blunt and crude.

CONFIDENTIAL

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon John Moore MP
Social Services Secretary
Alexander Fleming House
Elephant & Castle
London SE1

24 July 1987

**PROPOSALS FOR THE SOCIAL SECURITY BILL 1987/88**

Thank you for sending me a copy of your letter of 16 July to Willie Whitelaw on the content of the Social Security Bill 1987/88.

My main concern is with the arrangements for withdrawing entitlement to income support from 16 and 17 year olds who choose to remain unemployed. I am prepared to go along with the proposals set out in Norman Fowler's letter of 15 July as you will have seen from my reply which was copied to you. The details will have to be settled by our officials but I cannot see any obstacles to putting the arrangements into effect. I accept that as a consequence of the withdrawal of income support for this age group, 16 and 17 year olds will no longer be able to study under the "21 hour rule". But I do so on the clear understanding that those aged 18 and over will still be able to study as now under this "rule".

I am concerned also about the proposals dealing with the tightening of contribution conditions for sickness and unemployment benefits. I would not wish to see anything arising out of this which would discriminate against those who had remained in education rather than entering employment or training schemes. I am not clear on the issues here, but if you can reassure me that the proposals would not provide any financial disincentive to those in further education I am content for the details to be settled by our officials.

I am copying this letter to the Prime Minister, Willie Whitelaw, Members of H Committee and to Sir Robert Armstrong.

CONFIDENTIAL

017/4208

010

CCBS

**CONFIDENTIAL**

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

NBPM

Dear John,

24th July 1987

**PROPOSALS FOR SOCIAL SECURITY BILL**

WILL REQUEST IF REQUIRED

You sent me a copy of your letter of 16 July to Willie Whitelaw outlining your proposals for this Bill.

Although your letter does not say so, I am sure you will have it in mind that the Bill may need to contain further measures in order to meet the balance of the savings commitments from last year's Survey. Futher measures may also be necessary depending on the outcome of our discussions in the current Survey. The Bill might also need to deal with the outcome of certain court cases affecting entitlement to benefit, notably the Woolrich case which I understand is being heard on 29 July and on which I hope to hear from you soon on your plans for coping with an adverse judgment.

Among your proposals is the extension of mobility allowance to the over-75s, a matter which was referred to H Committee following last year's Survey discussions. I understand that our officials have been assessing the likely cost. Given the time that has elapsed, I think it now makes sense to consider it in the usual way as part of this year's Survey round, along with your other bids, rather than at H. Without prejudice to the outcome of our discussions in the Survey, I am content for the appropriate provision to be drafted.

CONFIDENTIAL

Subject to these points, I am happy to agree that you should now instruct Parliamentary Counsel so that preparation of the Bill can proceed.

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

Yours Ever,
John

JOHN MAJOR

PMM

19

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

23 July 1987

Dear Bruce,

SOCIAL FUND

The Prime Minister has seen your Secretary of State's letter of 22 July to the Chief Secretary about the Social Fund.

The Prime Minister believes that to abandon the Social Fund now would be seen as a major climb-down by the Government, and a decision on this cannot be taken lightly. She wishes to hold a meeting to discuss the proposal before the end of next week. She would be grateful if your Secretary of State could circulate a more detailed paper about how the system would operate, together with a discussion of its financing, staffing and other implications. She would also be grateful to know the Chief Secretary's views on the proposal.

I am copying this letter to Jill Rutter (Chief Secretary's Office), Mike Eland (Lord President's Office), Tony Kuczys (Treasury), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), and Trevor Woolley (Cabinet Office).

Yours,

David.

D. R. Norgrove

Bruce Calderwood, Esq.,
Department of Health and Social Security

003/4209

SECRET

18

FROM: JILL RUTTER
DATE: 22 July 1987

MR McINTRYE

NBPM.

cc:
Chancellor
Sir Peter Middleton
Mr F E R Butler
Miss Peirson
Mr Gibson

SOCIAL FUND

The Chief Secretary has seen Mr Moore's Secret and CMO letter of 21 July (copy available in our office).

2 The Chief Secretary is surprised that Mr Moore should be suggesting such a major reversal of one of the key planks of the Social Security Act. He would wish to discuss with you how we should proceed.

3 The Chief Secretary had the following points on the letter.

4 The Chief Secretary notes that Mr Moore points to "expenditure falling " from a single payments total of £275 million to £125 million net. The Chief Secretary notes that these savings are already scored in the PES baseline. Moreover Mr Moore does not make it clear how much he envisages for community care grants nor does he make it clear how much he envisages for spending on crisis loans.

5 There is an implicit theme running throughout Mr Moore's letter that part of the compensation will come through higher income support for families with children. This will of course increase the net cost of the new scheme above existing PES provision for the Social Fund.

6 On the specific points in Mr Moore's letter the Chief Secretary has commented that the local authorities and

SSAC do not know how the cash limit system will work. The Chief Secretary thinks that the way in which the discretion has been defined in the legislation will make the discretionary system judical review proof. It is however far from clear that the regulation based crisis loans proposed in 6 (ii) of Mr Moore's draft will be similarly judical review proof. Mr Moore does not say how many staff he will require to administer the crisis loans and the community care grants. Nor does he appear to be proposing to cash limit these which would be a major step back from the Social Fund proposals.

7 The Chief Secretary does not accept either that the new system would have to wait until June 1988. This too has a cost which Mr Moore fails to bring out in his letter, because it would mean operating the existing single payment system for a further 2 months. The Chief Secretary would be grateful if you could remind him whether the Social Security Act abolished the powers to make single payments.

8 The Chief Secretary would not wish you to come with detailed advice. He would be graeful however if you could try to attach some numbers to the proposals in Mr Moore's letter.

9 The Chief Secretary regards this as volte-face which would represent a major climb down by the Government. There are no new material facts to justify this change of policy direction. The Chief Secretary thinks that the Secretary of State has been frightened by the SSAC report in to re-thinking the Social Fund. The Chief Secretary thinks it highly unlikely that the SSAC would produce a positive report on the proposals for restricting single payments that he is now bringing forward. The Chief Secretary does not think that Mr Moore has adequately thought through the implications of his proposals.

10 Would you let me know as soon as you have the necessary numbers so that we can arrange a discussion.

Jill Rutter

JILL RUTTER
Private Secretary

17

SECRET

P 02800 NBPM.

From: J B UNWIN
22 July 1987

MR NORGROVE - No 10

**SOCIAL FUND**

Mr Moore's letter of 21 July to the Chief Secretary proposes a very radical change in the new social security arrangements to be introduced next year. This is that the plan for a cash limited Social Fund should be abandoned in favour of a non cash limited system of "regulated grants" and "crisis loans".

2. Few details of the proposed new system are given in the letter, but the claim is that the substitute scheme would offer a better prospect of maintaining effective expenditure control, and would require significantly fewer additional staff.

Comment

3. It goes without saying that this would be represented by the Government's critics as a major climb down in the face of protracted lobbying. In the absence of more details, it is difficult to comment on the merits of the proposals. I suspect that the new system would in practice be as demand led as the present one, and that expenditure control would still prove very difficult. But against that DHSS are convinced that the Social Fund is simply inoperable. They believe that, in face of all the pressures likely to be mounted against them, DHSS officials in local offices would find it impossible to operate the Social Fund on the discretionary basis proposed.

Timing

4. If there is to be such a major change, a decision is urgent. The DHSS machine is churning out the arrangements for the Social Fund, at considerable cost. But this cannot be stopped unless a

decision has been taken to replace it. There is also little time to be lost if, as Mr Moore proposes, a substitute system is to operate from June 1988. As made clear, this would require principal legislation; as also would the necessary continuation of the present single payments scheme between April and June 1988.

Next Steps

5. Since this is such an important issue, I imagine the Prime Minister will wish to hold a discussion about it herself. This could either be done on an ad hoc basis, or a meeting of MISC 111 (the Group on Social Security policy) could be convened for the purpose. This ought to take place within the next few days - certainly before the end of next week. If a decision were taken not to go ahead with the Social Fund, the Social Services Secretary would want to announce this very quickly. He would then aim to announce in October the alternative arrangements to replace it.

6. Subject, therefore, to the Prime Minister's views, I suggest that a meeting should be convened as quickly as possible, and that DHSS should be asked to produce a fuller paper for this. This should among other things spell out very much more fully the scope and nature of the new proposals, which are only sketchily described in Mr Moore's letter. I understand from Mr France that DHSS could produce such a paper very quickly.

J B UNWIN

Cabinet Office

16B

PRIME MINISTER

SOCIAL FUND

Mr. Moore has concluded that the Social Fund cannot work, and he proposes an alternative system. His minute mounts a strong attack on the Social Fund, but it is much less clear about how the alternative would work. It is particularly surprising that he has found a new system which appears not to add to expenditure, to produce better targeting and uses two thousand fewer staff! It all sounds too good to be true.

There are of course very substantial risks in a change of this kind. On the one hand the Opposition will claim it to be a major retreat by the Government and on the other they and the pressure groups may be able to start another campaign arguing that the new system is "even meaner" than the Social Fund. (Under the new system it appears that families with children would be unable to receive money for furniture and bedclothes unless this was needed to avoid "serious risk to health or safety".)

John Major will be very well equipped to examine the new proposal in detail.

I suggest you say that you are very concerned that the abandonment of the Social Fund would be seen as a major climb down, that you would wish to see the alternative system described in greater detail when the Chief Secretary has had an opportunity to consider it, and that you will wish to hold a meeting to discuss the proposal on the basis of a more detailed paper before the end of next week.

Agree?

David Norgrove
21 July 1987
DG2CBO

SECRET AND CMO (Until January 1988)

16A

2

**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 Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

21st July, 1987

SOCIAL FUND

I am writing to say that I have concluded that it is neither politically desirable, operationally sensible nor financially prudent to continue with the Social Fund, and to seek your approval and that of colleagues to whom this letter is copied to an alternative system. In framing this system, my objectives are essentially three. We should:

(i) keep within the existing PES bid for expenditure on the Social Fund;

(ii) move closer to the spirit of the rest of our reforms by ensuring that most income support beneficiaries can exercise the fullest responsibility for managing their finances; and

(iii) target available money on those in greatest need by means of community care grants and crisis loans.

2 The social fund was to replace the spiralling single payments system. It offered instead a discretionary system of community care grants, with loans for financial crises and to help with money management. It would be subject to a cash limited budget. We thought the fund would control expenditure in this much abused area and be manageable by our benefit offices.

E.R.

3 We have recently published draft guidance for the operation of such a system. It is now clear that it will not work:

- opposition to the concept and the way it would operate is virtually universal. The local authority associations and the Social Security Advisory Committee, as well as the welfare rights organisations, dislike the cash-limited budget, its administration at the discretion of Social Fund officers, the fact that loans will take the place of grants for the most part, and that there will be a review system rather than an appeals system.

- authorities and welfare rights groups will be looking to break the fund. In the face of this it seems certain that it could not be run within any budget acceptable to us.

- money limits, combined with the inevitable inconsistency discretion brings, suggest the strong possibility of judicial review.

4 It is now clear that pressure generated by a discretionary system will in practice be incompatible with an acceptable budget. But I believe my alternative proposals give us the opportunity to move nearer the fundamental principles underlying the reforms.

5 We should put more weight on income support and less on a detailed benefit dispensing system. Our re-examination of income support shows that we shall be able to target more than we had thought on our priority group - families with children. This is also the group who receive most single payments. We can now consider the radical proposal of having no fund, and instead a system tailored only to community care and a strictly limited, non-discretionary system of crisis loans.

6 This is what I propose:

(1) For community care, regulated grants should be available to certain people on income support to help them do such things as set up home on leaving institutional or residential care. When I have Roy Griffiths report, I shall want to consider whether help in this area should continue to be provided by central Government. But that is for the medium term.

(2) For crisis loans, regulations would provide that loans should be available to meet exceptional need provided it is the only means by which serious damage or serious risk to the health and safety of any member of the family may be prevented.

E.R.

7 This would mean:

(a) Expenditure would fall from a single payments total of £275m to £125m net in 1988/9 and £85m net thereafter.

(b) Some help currently provided by single payments would be no longer available at all - see Annex.

(c) I can withdraw my bid for 1500 additional staff for the fund, and provisionally offer a reduction of 500 staff of the 4000 engaged in single payments, maternity and funeral payment work.

(d) The change can be presented as complementary to the higher levels of income support expenditure on families with children.

8 As you know, there is a place in the legislative programme for a Social Security Bill, to include clauses on the social fund. The new system requires about the same number of clauses. They will include the continuation of the existing single payments and urgent needs payments arrangements until I can introduce the new system in June 1988.

9 As the Social Fund has developed it has become clear that it will be neither effective nor efficient in public expenditure terms. So I believe that a tightly defined regulated system offers a better prospect of maintaining effective control. I prefer to rely on regulations rather than the discretion of very junior officers under siege from claimants and their supporters. Moving to a system such as I now propose will be more consistent with our principal objectives in social security and better operationally. I have no doubt that since we have the opportunity to make the change we should take it. I do not underestimate the political difficulty of the course which I am proposing. But I am clear that it is right to make this change.

10 I am copying this to the Prime Minister, the Lord President, the Chancellor of the Exchequer, Lord Privy Seal, Chief Whip and Sir Robert Armstrong.

JOHN MOORE

ANNEX

**CURRENT SINGLE PAYMENTS NOT COVERED BY PROPOSED COMMUNITY CARE GRANTS**

1. Nobody will be able to get single payments for:

- clothing and footwear;
- fuel costs;
- travelling expenses;
- expenses on starting work;
- draughtproofing (responsibility of DOE);
- legal fees for renewing leases;
- deposits for accommodation (good policy reasons for stopping anyway);
- rent in advance;
- irregular housing costs (eg emptying septic tank);
- debts accrued during absence abroad;
- voluntary repatriation;
- subsistence for prisoners on leave.

2. Fit people under pension age and families with children will be unable to get single payments for:

- furniture;
- bedclothes;
- repairs to property;
- redecoration;
- removals;
- fuel meters and reconnection.

Note: In some circumstances a financial crisis loan will be available if it is the only means of avoiding serious risk to health or safety. However. this stringent condition means that some claimants who would have got a grant under the current single payments scheme will fail even to get a loan under the new arrangement.

CONFIDENTIAL

CCBG

**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 the Viscount Whitelaw CH, MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1

16 July 1987

Dear [illegible]

PROPOSALS FOR SOCIAL SECURITY BILL 1987/88

Introduction

1. Before the Election my predecessor secured a place in the legislative programme for a Social Security Bill immediately afterwards to give effect to PES savings measures from April 1988. You also agreed informally with him that the Bill could be used to rectify certain defects in the Social Security Act 1986 in time for April.

2. I now seek policy agreement to the content of the Bill which we intend will also include the manifesto commitment to withdraw entitlement to income support from 16 and 17 year olds who choose to remain unemployed. We would also wish to include a number of other urgent or desirable items which are needed for April 1988.

3. Accordingly I propose to instruct Parliamentary Counsel at once to draft a Bill for introduction immediately after the summer recess for accelerated passage through Parliament with the aim of Royal Assent by the end of February. This is essential in order to bring the new provisions into effect by April 1988.

4. The Bill will probably contain about 15 clauses some of which will be highly controversial. I set out in greater detail below the proposed content of the Bill.

C.R.

## Principal features of the Bill

5. First, the Bill will give effect to the manifesto commitment to withdraw income support entitlement from 16 and 17 year olds who deliberately choose to remain unemployed, whilst protecting special groups, for example young disabled people. Legislation - either this Bill or a DE Bill, depending on the chosen approach - will provide for a time-limited allowance to be paid to those who are waiting for a YTS place or a job, or to their families. This proposal will come as no surprise and is likely to be generally well received in the country. But considerable Parliamentary resistance can be expected. I am still discussing with Norman Fowler and others the precise form of the steps to be taken but intend to be in a position to instruct the draftsman by the end of the month.

6. Under the heading of PES savings. I propose to tighten the contribution conditions for sickness and unemployment benefits so that a record of NI contributions or credits is required in the 2 preceding years instead of in the preceding year only. Certain special arrangements for giving credit to people with inadequate contribution records to enable them to qualify for benefit would also be withdrawn. These measures will save a net £8m in 1988/89 rising to £61.5m in 1990/91. To some extent these changes will complement the manifesto commitment on the under 18s because they will remove contributory benefit entitlement from practically everybody in this age group - though the bulk of the savings come from older claimants. Considerable resistance can be expected as the measures will be attacked as an arbitrary toughening of the National Insurance rules, so driving people on to means tested benefit and hitting the young particularly hard. But I am confident that the change can be presented as a justifiable strengthening of the insurance principle.

7. A number of amendments are required to the Social Security Act 1986 to correct defects in the legislation before the various provisions flowing from the reforms of Social Security come into effect in April. Of these the most controversial will relate, as you know, to the social fund; I am still considering the necessary measures with Treasury but, again, intend to keep to the timetable for instructing Parliamentary Counsel.

8. Another correction to the 1986 legislation is needed to adjust the industrial injuries scheme to phase out the anomaly whereby reduced earnings allowance continues to be paid after retirement. We propose withdrawing this allowance on retirement but leaving a residual 25 per cent of its pre-retirement value in payment under a different name. Existing retired beneficiaries would keep their allowance at a frozen rate. This will produce net savings of about £1.8m in 1988/89 rising to £9.75m in 1990/91. There are also a number of errors and omissions in relation to reduced earnings allowance which need to be corrected. Some controversy can be expected, though reserved rights for existing beneficiaries may blunt its edge.

9. We also need to make some technical changes in the law relating to uprating of benefits, and to put the welfare food scheme on to a sounder statutory basis. These items should not

E.R.

be controversial in themselves, although the subject of uprating always arouses Parliamentary interest, and the absence of primary legislation to sustain the welfare foods scheme at least since 1964 needs to be corrected now because restrictions in the provision of welfare foods flowing from the 1986 Act would otherwise be likely to generate legal challenge on grounds of vires. Minor and uncontroversial amendments are also required to remedy errors and omissions in the 1986 Act in relation to statutory maternity pay and family credit.

Other items

10. We also propose to include in the Bill essential provisions to extend mobility allowance to people aged over 75 who would otherwise lose entitlement in November 1989 (I am preparing a paper for H Committee about this); to protect the position of local authority councillors who currently lose all entitlement to incapacity benefits whether or not they claim allowances for their attendance at council meetings; to extend the liability of parents to maintain children aged 16 to 19 who are at school (this follows an Efficiency Scrutiny recommendation and carries a saving of £3m a year after 3 years) and to make technical amendments to the rules for calculating guaranteed minimum pensions in contracted-out occupational pension schemes. None of these items is particularly contentious.

11. It is also necessary to make essential amendments to the provisions relating to attendance allowance, following the Appeal Court Judgement in the Moran case, to tighten the definition of "continual supervision" in order to make it more secure against legal challenge. Norman Fowler gave you informal warning that we might need to legislate urgently on this. This tightening of the provisions is likely to create some controversy.

12. Finally there are two minor but desirable items which we wish to include. Mindful of the need not to overload the Parliamentary timetable we are keeping these to the minimum necessary.

Decision required

13. I should be grateful for colleagues' agreement by 24th July to my proposals so that we can instruct Parliamentary Counsel to proceed at once with drafting the Bill with a view to having it ready for presentation immediately after the summer recess.

14. I am copying this letter to the Prime Minister, members of H Committee, and to Sir Robert Armstrong.

JOHN MOORE

MR 9/98

**SECRET and STRICTLY PERSONAL**

16

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

David Norgrove Esq
10 Downing Street
LONDON
SW1

pp

23 April 1987

Dear David

**PLEDGES ON HEALTH AND SOCIAL SECURITY**

You asked me (for your own personal use) for views on potential Manifesto commitments on health and social security.

**Social Security**

It seems counter-productive to try any tinkering with the pledge that "we shall continue to protect retirement pensions and other linked long-term benefits against rising prices". Indeed, the main thing is to watch out for any attempt to hint at extending it wider (eg by taking some account of earnings). In principle, there would be some attractions in taking out the references to "other linked long-term benefits", but the savings do not seem worth the trouble.

We certainly want to get rid of the comitment to "abolish [the pensioners'] earnings rule as soon as we can". Nothing has been done since the 1979 commitment!

We probably cannot avoid a commitment to pay the Christmas Bonus every year, but would want as far as possible to avoid any comitment to the amount and (preferably) the coverage; the reference to "in accordance with the law we passed in 1979" is not helpful on that.

There was no commitment on child benefit in the last Manifesto, but there are other commitments that "child benefit will remain a universal benefit, untaxed and paid to mothers". The best thing would be to keep any reference out of a new Manifesto, and very definitely to avoid any commitment to maintaining its level in real terms.

There is a danger that DHSS may try to slip in a commitment on disablement benefits which could be very expensive. We could probably live with a passing reference to the DHSS's major statistical survey, but no more.

SECRET and STRICTLY PERSONAL

**Health Service**

We can probably live with the pledge "to maintain spending on the National Health Service" along the lines of the last manifesto. Equally, something about making "extra provision for those parts of the country in the North and Midlands which have always been comparatively short of resources" would be ok.

The area to watch is prescription charges, where we would not want to see any commitment on the level of charges or the range of expemtions. Nor, more generally, would we want to see other commitments which limited the scope for using charges or other means of raising finance.

Yours

Alex

**A C S ALLAN**
**Principal Private Secretary**

MC/A16

CCB6

Caxton House Tothill Street London SW1H 9NF

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John Major Esq MP
Minister of State for Social Security
and the Disabled
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

N BPM

20 March 1987

Dear Minister of State

PENSIONER PRICE INDICES

You wrote to me on 16 March to express concern abut the Retail Price Index Advisory Committee's recommendation that the pensioner price indices should be renamed the low-income pensioner price indices. I have also seen Nigel Lawson's letter of today which reinforces your concern.

Of course I accept that we should do what we can to avoid the potential embarrassment of seeming to designate more than half of pensioners as low-income.

The Advisory Committee's recommendations have, of course, been published. It is clear from its report that the Committee's strong intent was to reaffirm the supremacy of the general RPI. In these circumstances, I am satisfied that we will not be departing from the Committee's report if we retain the traditional description of the pensioner price indices (that is, omitting the words "low-income"), while making it clear in a suitably worded footnote that the households covered are those which depend upon state benefits as their major source of income. It follows that in the material which we propose

to release this Friday, the reference to "low-income" will be omitted and a reference to dependency on state benefits included.

I do not expect that there will be much interest in the pensioner indices on Friday when the General Index incorporating the Advisory Committee changes is released. I hope this allays your concern.

I am copying this letter, as yours, to the Prime Minister and to the Chancellor.

Yours sincerely

Nick Baxter

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

SOCIAL SCIENCES
REVIEW
PT 5

ps2/23R

DID

CCBG

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 March 1987

The Rt Hon The Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

will request Paid

I have seen a copy of John Major's letter of 17 March to you.

I agree with John that adding the description "low income" to the PPI, which will now cover 60 per cent of all pensioner households, is singularly unhelpful and inappropriate. Analysis of the latest Family Expenditure Survey shows that the growth in pensioners' incomes compares favourably with those of the rest of the population since 1979, and also with Labour's period of office; it seems perverse to say the least, for us to choose this point in time to designate the majority of pensioner households as "low income".

I hope that you can therefore go along with John's suggestion that we drop this term.

I am copying this letter to the Prime Minister and John Major.

NIGEL LAWSON

MG455lp

cc BG
cc BY

**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 Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

Prime Minister 2

16 MAR 1987

DCV
16/3

Dear David,

PENSIONER' PRICE INDICES

I am extremely concerned to hear that as a result of the changes in treatment of income recommended by the Retail Price Index Advisory Committee in their July 1986 report, it now appears that the number of pensioner households covered by the pensioner price indices from the start of 1987 will rise from 40 per cent to 60 per cent, and the number covered by the Retail Price Index will correspondingly drop to 40 per cent. As you know, we use the Retail Price Index to uprate pensions and other benefits, and although we come under regular pressure to use specialised indices such as the PPI, we have always resisted this on the grounds that the RPI is more representative. There are general policy grounds for wishing to stick to one index for all statutorily-uprated social security benefits, and it is unfortunate that this change in the coverage of the PPI will undermine our defence of this position for pensioners.

We do not wish to oppose the Advisory Committee's recommendation which led to this situation, and indeed it would be very difficult to do so now their report has been accepted by the Government. But the change leads us into a highly embarrassing position over the Committee's other recommendation - with which we were content last July - that the Pensioner Price Indices should be renamed the low-income pensioner price indices. Designating 60 per cent of pensioner households as low-income appears to flatly contradict the message we have been trying to put across about increases in pensioner incomes and does so at precisely the moment that we can use the evidence of the Family Expenditure Survey to promote a positive case.

E.R.

In the circumstances, I hope you will be willing to modify your acceptance of the Advisory Committee's recommendation for a name change, and that you will be willing to continue calling the indices simply the Pensioner Price Indices, qualified as necessary with "for pensioners mainly reliant on State benefits" or some similar description. This would be in the spirit of what the Advisory Committee intended. My officials have been in touch with yours about this possibility. It is clearly important also that any explanatory material published with the new RPI and PPI handles this issue sensitively, and indeed that it is given as little prominence as possible.

I understand that although the new PPI will cover 60 per cent of pensioner households, it is likely to cover less than half of individual pensioners. It would be helpful if your publicity and explanatory material could stress this point.

Because of the sensitive nature of your proposed change in the light of our current pressures on pensioners, I am copying this letter to the Prime Minister and the Chancellor.

Yours Ever,
John

JOHN MAJOR

009/2770

CC66

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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 6BY

13th March 1987

Dear Norman,

**ALIGNMENT OF PAY PERIODS**

Thank you for sending me a copy of your letter of 27 February to David Young on this subject. I have also seen Kenneth Clarke's letter to you of 11 March.

I strongly support your proposals and agree with you that we should be able to manage the presentation of a change which will produce a simpler and more coherent benefit structure for claimants, DHSS staff and employers alike. The savings it produces are certainly welcome in view of the constant pressures on the social security programme.

I am copying this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, Kenneth Clarke and John Wakeham.

Yours ever,

JOHN MacGREGOR

SOCIAL SECURITY

RETIRED

PTS

DLO

SK/A19

DCBG

Department of Employment
Caxton House Tothill Street London SW1H 9NF
5949
Telephone Direct Line 01-213.....
Switchboard 01-213 3000

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

11 March 1987

Dear Norman.

will request if required

In David's absence abroad I am replying to your letter of 2 March outlining proposals for the alignment of pay periods for social security benefits.

As you would expect I welcome your proposals for the simplification of the current system which various studies, including that by our two Departments as far back as 1980, have shown to be one which both claimants and staff find confusing. Like you, I believe that the advantages of the package you propose outweigh the drawbacks to which you refer.

At the same time I agree that presentation will be important and needs, as you suggest, careful handling. In addition to the points you raise we need to be prepared to rebut accusations that there will be any effect on the unemployment count. I have asked my officials to liaise with yours on this aspect.

I am copying this response to the Prime Minister, the Lord President, the Chief Secretary, the Chancellor of the Duchy of Lancaster and the Chief Whip.

Yours ever,

KENNETH CLARKE

MS0112t

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

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

Telephone 01-407 5522

*From the Secretary of State for Social Services*

Prime Minister 2

DHS

2/3

The Rt Hon the Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

Dear David.

ALIGNMENT OF PAY PERIODS

For some time we have been considering the way in which social security benefits are paid to see if we can produce a more comprehensible system. Your officials concerned with the payment of benefit to the unemployed have been involved in this consideration.

There is currently a considerable mismatch between the periods for which benefits are paid. Contributory benefits such as unemployment and invalidity benefit are paid in arrears. Supplementary benefit is paid in advance. Someone receiving a combination of benefits can therefore receive a payment covering two quite separate periods. To take the clearest example, an unemployed man paid on 16 March would be receiving at the same time unemployment benefit for 1-14 March, topped up by supplementary benefit for 16-29 March. The system is further complicated by the rules on the treatment of last earnings at the beginning of the claim, and on payments on return to work. The result is a confusing system for claimants, a large number of enquiries to employers, and delays and errors in payments.

We have concluded we ought to produce a more aligned system for income support. Under this we would pay income support in arrears to all claimants below pension age - fortnightly for unemployed claimants and weekly for all others. We would practically end the effect of the last earnings rule. There would be no changes to the treatment of pensioners who would continue to be paid in advance.

The package has a number of important advantages. Clearly it makes sense for benefits paid together to cover the same periods. Claimants will find it easier to understand and staff in both our

E R.

departments to operate. Paying income support in arrears means we can reduce the number of enquiries to employers at the beginning and end of the claim - by nearly 2 million enquiries. This is a considerable reduction in the burden on businesses. Finally, the change would give us a useful saving of at least £18 million (and further non-public expenditure savings) in the first year of operation in 1988-89. There would then be a continuing long-term saving of about £4 million each year.

Existing claimants will not in practice notice the change. There are however implications for the financial position of new claimants that we will need to handle carefully. When claimants first come onto benefit they will be expected to wait longer before their first payment and then may get a smaller amount before they get on to their regular cycle. Some of these will need a loan from the social fund to tide them over. Some 70,000 claimants seek similar assistance under the current provisions. Our estimate is that payment in arrears could mean 130,000 more claimants might need a social fund loan at the start of benefit. We have taken account of this in our benefit and staff costings. We will be able to point to two large-scale structural improvements in defence of the new system. The abolition of the last earnings rule means that more than 1 million claimants could be entitled to benefit earlier than now. And our earlier decision to pay the relevant premiums from day one, means that lone parents (the other group likely to be affected) will generally be much better off in the first year on benefit than they are now. Nonetheless, we have to accept we will be accused of increasing the difficulties of some claimants at the start of benefit.

We consider the advantages of the package outweigh the drawbacks. The potential criticism does, however, mean we need to consider carefully the timing and handling of the announcement of the change. We are now preparing the regulations for the new scheme. We have a commitment to local authorities to produce the new rules for housing benefit (which include contentious matters such as the 20 per cent contribution to rates) in April. Many of these rules will also apply to income support. We also need to formalise decisions on other income support matters to prepare for the new system. The changes on pay periods themselves would be included in regulations mainly covering administrative matters. Attention may well therefore focus, initially at least, more on other contentious reform matters. Provided we handle this carefully, I therefore think the presentation of this particular proposal should be manageable.

This is exactly the sort of measure we ought to be introducing if we are to produce a more comprehensible system, as we have stressed is an objective of the reforms. April 1988 is the ideal time operationally and politically to do so. I have instructed my officials to prepare for 1988 on the basis of the arrangements I have described. But, if you or colleagues to whom I am copying this letter see particular difficulties in what we are proposing, I shall need to know urgently.

E.R.

I am copying this letter to the Prime Minister, the Lord President, the Chief Secretary, the Chancellor of the Duchy of Lancaster, and the Chief Whip.

NORMAN FOWLER

010

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

*Secretary of State for Trade and Industry*

**CONFIDENTIAL**

26 February 1987

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 6BY

Dear Norman.

NBPM

**PERSONAL PENSIONS**

Thank you for your letter of 11 February about the timing of the launch for personal pensions.

I am glad that you agree that the new investor protection framework should be in place before personal pensions are launched. I also welcome your proposal to announce sooon our intention to allow marketing of personal pensions from January 1988.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Tebbit, David Young and Sir Robert Armstrong.

Yours,

PAUL CHANNON

DW3BTJ

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C1/2

CONFIDENTIAL

CUBG

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

23 February 1987

Rt Hon Norman Fowler MP
Secretary of State for Social Services
Alexander Fleming House
Elephant & Castle

LONDON SE1 6BY

**THE CONTRACTED OUT REBATE FROM 1988, AND THE LAUNCH DATE FOR PERSONAL PENSIONS**

You wrote to me on 12 February seeking my agreement to set the contracted out rebate at 5.8 per cent from April 1988, split 3.8 per cent to employers and 2 per cent to employees. The proposal has been discussed in detail by our officials, and I am content.

I understand you wish to announce this at the same time as the launch date for personal pensions, on which you wrote to Paul Channon on 12 February. As you are aware, some difficult technical problems have arisen in connection with deposit based personal pensions. Our officials are in touch about these, but they may take a little time to sort out. Providing you do not regard them as critical, I have no objection to your announcing January 1988 as the launch date, as you propose.

I am copying this letter to the Prime Minister, Paul Channon, Norman Tebbit, David Young, and Sir Robert Armstrong.

NIGEL LAWSON

002/2982

15

SECRET AND PERSONAL

**NOTE OF A MEETING**
**ON THURSDAY, 12 FEBRUARY 1987**
**AT 3.00PM IN No. 11 DOWNING STREET**

Copy for personal use of D Norgrove only

**Present:**
Chancellor of the Exchequer
Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Miss Peirson
Miss Noble
Mr Gibson

**SOCIAL SECURITY: MEDIUM TERM OPTIONS**

Papers:

Miss Noble of 16 December
Miss Rutter of 22 and 28 January
Miss Noble of 11 February

The meeting worked through the Agenda attached to Miss Noble's minute of 11 February

**The Pledge**

2 The Chancellor said not only would it be impossible to abandon the pledge on the retirement pension, but to do so would be counter productive. There was likely to be increasing pressure to give pensioners a share in the benefit of economic growth. Insofar as the pledge had any effect it established a presumption against that. It could not guarantee that the pressure would remain resistible but he thought it was a useful safeguard. He was less sure however of the position on linked benefits. Miss Noble explained that the major linked benefit was supplementary pension and it would be extremely

difficult to disentangle that from the retirement pension. Other linked benefits were the widows pension, the invalidity pension, the attendance allowance and the invalid care allowance. The Chancellor did not think that the savings to be gained from removing those from the pledge would be worth the political trouble.

3 The Chief Secretary said a more attractive option was moving towards biennial upratings. That might be easier to introduce if there was a more general move away from annuality. The Chancellor said that on reflection people now recognised that he had been right to argue against frequent small upratings which had proved extremely unpopular. This might be an option if inflation remained at low levels, but the savings were not great. Nonetheless he though it was an option worth keeping on the table.

Earnings rule

4 The Chief Secretary said that the commitment to abolish the earnings rule was postponed in each Survey. He thought it would be sensible to drop that commitment. The Chancellor noted that the Prime Minister had been persuaded by persons unknown that the abolition of the earnings rule would be costless in net exchequer terms. Miss Noble pointed out it had a public expenditure cost of £100 million. The Chancellor agreed that the commitment should be kept out of the Manifesto. The Government would look foolish if it appeared given they had done nothing to implement this commitment in the past 7 years. But he believed that there was scope for acting by increasing the amount pensioners could earn in small stages. He asked Miss Noble to prepare an urgent paper on this subject. The Chief Secretary subsequently asked for an estimate of the cost of increasing the earnings rule by £5 then £10 etc.

5 It was acknowledged there was a very good case on merits to act on widows' pensions and introduce an earnings rule.

but the widows' lobby was simply too strong to make this a feasible option.

**Retirement age**

6 The Chancellor said he believed that this was the major area for action, consistent with the pledge. He believed that there should be a move towards more flexible retirement so that both men and women could retire between the ages of 60 and 70. The younger someone retired the lower would be their pension. This system was already operating in the United States. Miss Noble said that the proposal for a "decade of retirement" had been made in the Green Paper but the financing difficulties had proved an insuperable objection The Chancellor acknowledged that in order to produce savings there would have to be a severe abatement of pension at age 60. It might be worth looking at schemes that applied differently to men and women giving women the option between 60 and 70 and leaving men to choose their retirement age between 65 and 70. This could be tied in with concessions on the earnings rule. He believed that this was politically feasible at a time when unemployment was falling. Mr F E R Butler pointed out that voluntary retirement ages made it easier to contemplate offsetting occupational pensions against the state pension. The Chancellor thought that this policy would be saleable on the basis of producing flexibility and sex equality. The Chief Secretary agreed that the pressure to sort out the current anomalous state of affairs would grow. The Chancellor requested a paper on this subject.

**Christmas bonus**

7 The Chancellor noted that all the political pressure at present from colleagues was to increase rather than abolish the Christmas bonus. He did not think excluding recipients of attendance allowance, invalid care allowance etc was a realistic option. A better possibility, suggested by Miss Peirson, was that it should be restricted to pensioners

receiving supplementary pension. It could therefore be presented as targetted on the poorest.

**Unemployment benefit**

8 The Chancellor agreed that this was an area where there was scope for tightening up. That work should be considered with other items for more immediate action in Annex A.

**Child benefit**

9 This is an area where options would have to be kept open. As long as there were no commitment to maintain the real value of child benefit decisions could be taken in each Survey not to uprate child benefit. Help for families in need could be concentrated through family credit. Miss Peirson saw attraction in means-testing. The Chancellor said that he thought taxing was more consistent with general Government policy on benefits. Miss Noble pointed out that the problem was the large number of recipients, and the fact that the benefit was paid to mothers as of right. The Chancellor asked about the possibility of an age cut-off. Miss Noble pointed out that that would lead to pressure for other alternative support for 16 to 18 year olds staying on in full-time education. The Chancellor noted that the present structure of child benefit provided an equal amount per child; he saw a strong case for tapering. The big change in family circumstances came with the birth of the first child. The marginal cost of subsequent children was much less great. He therefore asked Miss Noble to prepare a paper on tapering child benefit. The question of taxing child benefit should be looked at in the context of any move toward independent taxation.

**Offsetting occupational pensions against state benefit**

10 It was agreed that offsetting against retirement pension (i) was not a runner. Offsetting against unemployment benefit

(ii) was likely to provoke an outcry from those who retired early and could still claim unemployment benefit, but there was a strong case for doing this. This option should remain on the table. Mr F E R Butler suggested that the case for offsetting against invalidity benefit (ii) was not as unacceptable as that for offsetting against retirement pension. Invalidity benefit provided for misfortune. Individuals did not regard themselves as providing against that opportunity in the same way as they saw their contributions linked to the retirement pension which they would expect to receive. Sir Peter Middleton thought these areas would become feasible if the contributory principle were abandoned. The Chancellor said that he would be perfectly happy to do that if he were convinced that that would lead to net public expenditure savings. He had not yet been so convinced. Mr F E R Butler suggested that there could be a greater case for taking into account occupational pensions for non-contributory non-means tested benefits. These were the attendance allowances for severe disablement allowance. The Chancellor thought that any such move would be very difficult indeed.

**New benefit rates**

11 The Chancellor agreed that it was worth reopening the issue of making major savings on the transition to the new structure. The Chief Secretary said he thought this would have to be handled very sensitively. He would not wish the Treasury to be reported to be pressing DHSS to come up with large savings packages. Nonetheless Miss Noble should discretely explore the options.

**Housing benefit**

12 This was being looked at in another context. It was important that both DOE and DHSS were involved in work on both housing policy and the future development of the housing benefit regime.

**Annex A**

13 It was agreed that work should be pursued on the options identified in Annex A. The Chancellor expressed concern about

the possible Green Paper on the Disabled. He saw that [redacted] an engine driving inexorably towards higher spending on the disabled. He asked whether it would be possible to head-off that Green Paper. Miss Noble explained that DHSS saw this as a pre-emptive strike against the way in which the disablement lobby would undoubtedly exploit the results of the Survey of the disabled. The Chancellor expressed surprise that DHSS should be thinking of preparing a Green Paper as a defensive mechanism against the Survey which they themselves had put in hand. It was pointed out that the overall health of the economy would add to pressure for higher spending on disabled groups.

14 Mr F E R Butler said he was concerned that penalties for fraud should be increased. The Chancellor agreed. The Chancellor noted that the move to a net income regime for benefits would change the balance of advantage for the Treasury from reductions in tax rates toward increases in tax thresholds.

Jill Rutter

JILL RUTTER 16.2.87
Private Secretary

**Distribution:**

Those present.

PERSONAL AND CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

*From the Private Secretary*

16 February 1987

**SOCIAL SECURITY LOCAL OFFICES MANPOWER**

The Prime Minister has seen your Secretary of State's minute of 12 February proposing an increase in staff at social security local offices. The Prime Minister is - albeit reluctantly - prepared to agree to this. She also agrees that the increase might be mentioned at MISC 66 tomorrow.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

**DAVID NORGROVE**

Geoffrey Podger, Esq.,
Department of Health and Social Security

**PERSONAL AND CONFIDENTIAL**

NRBN.

CONFIDENTIAL

MR NORGROVE

13 February 1987

SOCIAL SECURITY LOCAL OFFICES MANPOWER

There appears to be little alternative but to accept Norman Fowler's proposals. These have the support of the Treasury. attached

We know that manpower should start to decline once the social security reforms are implemented next year. With computerisation, there should subsequently be a real opportunity to slash staff numbers dramatically. In the meantime, however, we have to get through a crucial year where - operating the current inefficient paper-based systems - there is a recognised shortage of staff. This will be made worse by introducing the reforms, which we obviously cannot put at risk through industrial unrest. This is one of those situations where things have to get worse before they get better.

Given the very high turnover rates in local office staff, there should be no problem in reducing manpower again if DHSS delivers on productivity improvements. This is obviously the key.

N.B

NORMAN BLACKWELL

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

Prime Minister!
Content to proceed as proposed here? Reluctantly - Yes
(The Chief Secretary mentioned this # in his minute on the handling of the 1987 Survey.)
DHSS 13/2

SOCIAL SECURITY LOCAL OFFICES MANPOWER

As you are aware, we have recently carried out a review of the staffing requirements of our local offices. In anticipation of the results of that review, an increase of 5,000 staff "on account" by 1 April 1987 was agreed a year ago. The review has now been completed and has shown that a serious staffing deficiency still persists.

I have discussed the outcome of the review with John MacGregor and he has accepted that a further increase of 5,050 staff is necessary; but at his request I have agreed to find offsetting efficiency savings of 1,000 in 1987/88 and a further 1,000 in 1988/89 (ie a net 4,050 in the first year reducing by 1,000 in the second). We expect that from then on DHSS staff numbers will reduce, partly as a result of the social security reforms and partly as major computer projects come on stream.

John pressed me to consider also whether we could phase in the net increase of 4,050 initially over two years, but we have concluded, for the reasons discussed below, that this risks the sort of trouble that we incurred in the Newcastle dispute (which cost £170 million).

I should emphasise that we have taken a strict view of the findings of the review; the unions will undoubtedly claim that a higher figure is necessary.

Our key concern is that the unions are already looking for trouble over the social security reforms, which are obviously most important to us and which are due to be implemented by 1 April 1988. We must be careful not to provide them with an issue such as staffing on which the militants might get the support of the moderates. Our



PERSONAL AND CONFIDENTIAL

E.R.

judgement is that 4,050 is the minimum net figure which gives the best chance of avoiding industrial action, and that any attempt to delay recruitment would precipitate trouble.

I accept that this is a very difficult decision. John has pointed out that it involves a breach of published civil service manpower targets for 1 April 1988 and an increase in running costs in 1987/88 of £43 million or 0.3 per cent of the total. We have explored the possibility of reducing the running cost consequences, but have reluctantly concluded that we must accept them as the concomitant of this increase in staff numbers.

If you agree, we think it would be right to draw it to the attention of those of our other colleagues who have the major share of civil service manpower, since they will need to understand that this is an exceptional increase justified by the particular problems we face. As it breaches the manpower targets it involves the presumption that other requests for manpower increases in 1987/88 will be resisted. I therefore propose that either Nigel Lawson or I should mention it orally at MISC 66 next Tuesday.

It is essential that the decision should be kept strictly confidential and limited to as few people as possible until publication in Main Estimate on 17 March, both because of the need to avoid giving the wrong signals on running costs at this difficult stage in the civil service pay round and also because we shall have delicate negotiations with our unions between now and then which would be seriously affected by any circulation of our figure.

I am copying this letter to John MacGregor with whom it has been agreed.

N F

2 February 1987

CONFIDENTIAL

CJBG.

**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 Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
LONDON
SW1H 0ET

11 February 1987

Dear Paul.

NBPM.

PERSONAL PENSIONS

at Hap PT4

We were in correspondence last Summer about the timing of an early launch for personal pensions. You last wrote to me on this subject on 27 August, and Norman Tebbit wrote commenting on your letter on 9 September.

I fully share your view that people taking personal pensions should have very good investor protection. This is a point we have stressed throughout the development of our proposals, and we have always made it clear that we would rely as far as possible on the Financial Services Act framework to provide the protection. Since your view is that there is no prospect of the framework being fully in place by the Autumn, I accept that we cannot launch personal pensions then.

In the circumstances, I agree with your suggestion that we should launch personal pensions in January 1988. In doing so, I am very conscious of the force of Norman Tebbit's point that competitive pressures and media coverage will ensure growing awareness during this year of the changes that we are making. I shall myself be taking initiatives to stimulate interest among financial journalists.

Like you, I hope that pension providers will gear themselves to promoting schemes well before January 1988, so keeping our pension reforms in people's minds. As a further way of getting the new arrangements in place as early as possible, I intend to propose that anybody taking a personal pension up to the end of 1988/89 should be able to back-date its contracting-out of the State earnings related scheme to April 1987.

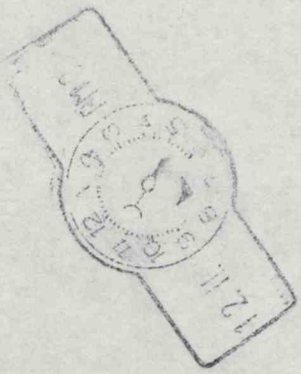
**E.R.**

I propose to announce the January 1988 launch when Nigel Lawson and I have agreed on the size of the reduction in national insurance contributions for people who are contracted-out. Since this will determine the level of minimum contributions to contracted-out personal and money purchase occupational pensions, there are clear presentational advantages in making both announcements together.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Tebbit, David Young and Sir Robert Armstrong.

Yours ever,

NORMAN FOWLER



CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

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

2 February 1987

Dear Norman

**TRADES UNION OPPOSITION TO REFORM OF THE SOCIAL SECURITY SCHEME**

In your minute of 28 January to the Prime Minister, you proposed to issue a writ and apply for an injunction against the CPSA to prevent industrial action aimed at foiling the implementation of our social security legislation. I have seen her reply of 29 January.

I agree entirely that we cannot allow Civil Service unions to take politically motivated industrial action in order to frustrate Government policy. I strongly support your proposal to take legal action, although I hope that the moderate leadership of the CPSA will see sense and back down. It is possible, I suppose, that unofficial action may still be orchestrated by some of the more politically motivated activists: I would be grateful if your officials would continue to keep mine in touch with developments.

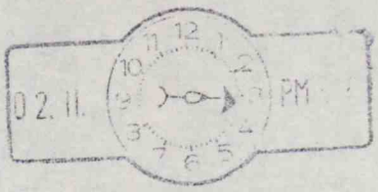
I am sending copies of this letter to the Prime Minister, David Young, Kenneth Clarke, Michael Havers, Richard Luce and to Sir Robert Armstrong.

Yours ever

Peter

PETER BROOKE

SOCIAL SERVICES REVIEW PTS



DM/44

**CONFIDENTIAL** NB 2 papers.

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

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

NBPM

30 January 1987

Dear Norman,

attached

**TRADE UNION OPPOSITION TO REFORM OF THE SOCIAL SECURITY SCHEME**

You copied to me your minute of 28 January to the Prime Minister.

When industrial action was taken recently in our benefit offices for political reasons we took the view that it was right to issue a writ against the CPSA. As you will know, the union withdrew its call. If Treasury Counsel has judged that the action now envisaged would amount to breach of contract, and has confirmed that it is not being taken in contemplation or furtherance of a trade dispute, I am sure that you are right to proceed against the union.

I am copying this to recipients of your minute.

Yours ever,

KENNETH CLARKE

**CONFIDENTIAL**

CC/35

SOLICITOR GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

~~01 X406X X641X Ext~~
01-936-6407

PRIME MINISTER

NRM

TRADES UNION OPPOSITION TO REFORM OF THE SOCIAL SECURITY SCHEME

I have seen Norman Fowler's minute to you of 28 January and have also considered the advice of Treasury Counsel which has been tendered to Norman's Department in this case. In the event that a satisfactory assurance is not forthcoming from the CPSA, I agree to the issue of the writ drafted by Treasury Counsel and the making of an application for an injunction.

I am copying this to Norman Fowler, Nigel Lawson, David Young and Kenneth Clarke, Richard Luce and Sir Robert Armstrong.

Patrick Mayhew

30 January 1987

CONFIDENTIAL

FILE
DA
BG

10 DOWNING STREET
LONDON SW1A 2AA

*From the Private Secretary*

29 January 1987

Dear Tony,

**TRADES UNION OPPOSITION TO REFORM OF THE SOCIAL SECURITY SCHEME**

The Prime Minister has seen your Secretary of State's minute of 28 January about possible legal action against the CPSA. She agrees most strongly that action should if possible be taken to prevent the CPSA inducing its members to refuse to co-operate on political grounds in the implementation of Government policy. Her agreement is of course subject to the views of colleagues and in particular those of the Law Officers.

I am copying this to Alex Allan (HM Treasury), John Turner (Department of Employment), Chris Capella (Paymaster General's Office), Michael Saunders (Law Officers' Department), Michael Stark (Mr. Luce's Office) and to Trevor Woolley (Cabinet Office).

Yours,
David.

(DAVID NORGROVE)

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

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CCBG

Prime Minister

Content for Mr Fowler to proceed as he proposes, subject to the views of colleagues and in particular the Law Officers?

Yes no

DLS 29/1

CONFIDENTIAL

PRIME MINISTER

TRADES UNION OPPOSITION TO REFORM OF THE SOCIAL SECURITY SCHEME

Through all the work of legislating for and planning the implementation of the reform of the social security scheme there has, as you will be aware, been a continuing barrage of criticism from the DHSS sections of the two main civil service unions.

2. General criticism of policy is inevitable and I accept that concern about the effect of the reforms on terms and conditions of the Department's staff has to be dealt with in the normal way. I am sure, however, that I should not put up with the Unions' inciting my Department's staff to industrial action on political grounds. The attached circular of the DHSS Section of the Civil and Public Service Association (CPSA) - Annex A - says: "All that now stands between the cuts and the claimants is the staff who administer the service". More seriously, it goes on to "urge all members to refuse to co-operate in training for implementation of the Social Fund". I am advised that by using this language the Union is knowingly seeking to procure breaches of contract by civil servants for political reasons not associated with a trade dispute, and that in so doing it is exposed to legal remedies.

3. There is an important principle involved here. I do not believe that we can acquiesce in union action which advances the doctrine that civil servants are entitled to condition their obligations of service by reference to their political opinions - or to the opinions of Union activists. I want to nip this in the bud.

4. Following advice from Treasury Counsel, it seems clear that the CPSA have laid themselves open to legal action under the Trade Union and Labour Relations Act 1974. The Trades Union and Labour Relations Act does not admit political opposition as within the definition of a Trade dispute, ballot or no.

5. My Second Permanent Secretary has written as attached at Annex B to Mr Ellis, the General Secretary of the CPSA. Meanwhile I seek the agreement of my colleagues to the issue, if necessary, of the attached (Annex C) writ, which would be accompanied by an application for an injunction. The matter is plainly urgent since we need to act quickly in the Courts if Mr Ellis does not respond satisfactorily. I should, therefore, be grateful for a reply within 48 hours.

6. This is a strictly limited operation which we are planning, and is of course closely akin to that taken by David Young in relation to his Department's programme of ethnic monitoring. Given the important principle involved here we need to hoist a clear signal which will encourage the moderates in the CPSA and weaken their militant opponents - particularly bearing in mind the huge task my Department faces in implementing the reform of the Social Security system.

7. Copies of this minute go to Nigel Lawson, David Young, Kenneth Clarke, Michael Havers, Richard Luce and to Sir Robert Armstrong.

N F

28 January 1987

ANNEX A

DHSS SECTION

# CAMPAIGN FOR A BETTER SOCIAL SECURITY SYSTEM

## FOWLER REVIEWS

# Stop their implementation

Normal Fowler's proposals for reform of the Social Security Service have met with almost universal condemnation from all sections of society, yet in spite of extensive campaigning and lobbying by groups such as Action for Benefits, Child Poverty Action Group, National Campaign Against Social Security Cuts, and the Trade Union Movement, the Government has not been deterred from legislating for their implementation.

The Social Security Act, which incorporates Fowler's proposals, received royal assent in August 1986. *All that now stands between the cuts and the claimants is the staff who administer the service.*

## OUR POLICY

At DHSS Section Conference in May '86, delegates recognised that lobbying and campaigning might not be enough to stop Fowler. The following motion was carried by that Conference with overwhelming support:—

> "Conference recognises that despite good publicity, overwhelming support from the Labour Party, Welfare organisations and the public in general against the "Fowler Reviews", that this may be insufficient to stop their implementation.
>
> "The Fowler Reviews will mean great hardship for the poorest section of society, job losses in the DHSS and an anti-social welfare system which we will have to administer.
>
> "We call upon the NEC to start a campaign of non-cooperation with any studies on the Fowler proposals, and to start a campaign to win support amongst CPSA members for blacking of the implementation."

A similar motion was carried by the National and Local Government Officers Association (NALGO) Annual Conference which spelt out their policy of non-cooperation with the legislation which involved their members, i.e. changes in housing benefit, aspects of the new social fund.

## WHAT WE MUST DO

To implement our policy, we must be prepared to refuse to co-operate with Management's plans to implement the Act. The section Executive recognises that blanket non-cooperation is not feasible. For example, certain aspects of the legislation do not involve our grades. *But we are in a position to stop some of the more pernicious elements of the legislation.*

The Act is to be implemented on a stage by stage basis. The first stage which we can effect is the training for implementation of the social fund.

**The Section urges all members to refuse to cooperate with the training for implementation of the Social Fund, which will commence in January 1987.**

## WHAT NON-COOPERATION WILL MEAN

- **STRIKE ACTION** Refusal to cooperate with training is likely to lead to suspension. Members will be balloted at their work place for strike action as soon as suspension is considered.

- **THE LAW** The Government's Act was achieved by deceit . . . A bogus consultation period, where all responses (except for the Institute of Directors) were hostile was ignored. The Act itself was passed on the day of the Royal Wedding at a time when figures about the actual level of poverty were suppressed. *All claimants, whether sick, unemployed, young, or old could be adversely affected by this Act.*

Trade Unions exist to fight evil laws. The Government is dedicated to further cuts in the benefit service, whatever the social consequences. We cannot stand aside and allow this to happen.

**Support the Campaign against the Act and fight for a better fairer benefits service.**

# WHAT THE SOCIAL SECURITY ACT THREATENS

## Social Fund

- single payments, will be stopped and replaced by a *cash limited* fund from which local management can award *Loans* or *Discretionary Payments*. Claimants will have no independent right of appeal should claims be refused.

- maternity and funeral expenses will be paid from the social fund in the form of grants. Some concessions have been won on appeal procedures but they come out of the total cash limit available for the social fund.

## Income Support

- to replace supplementary benefit with a new rate of calculation which divides claimants into groups of deserving or undeserving poor. The young unemployed will be hit most severely, presumably as a "punishment" for an economic crisis not of their making.

## Pension cuts

SERPS will be based on lifetime earnings, instead the best 20 years and will include periods of unemployment in the assessment except in specific cases of exemption. This leaves many long term unemployed unprotected.

*Money Purchase Schemes*—even with a 2% bribe to encourage investment in Money Purchase Schemes most people will get a smaller pension from these schemes than under the present SERPS scheme.

- *Basic State Pension*—there is no provision to raise the paltry level of basic state pension to anything approaching a realistic rate.

- *Family Credit*—will replace FIS and is supposed to compensate for the loss of free milk and school meals *but*—it will be worth little to the poorest families as 80% of the compensation element will be clawed back from any housing benefit claimed.

## Our jobs

These changes in benefit regulations go hand in glove with Management's proposals for introducing new technology into local offices. Both are designed to *cut* jobs, and both pay scant regard to the level of need in society. *If we do not fight for a better, fairer system, those of us left in employment will face an ever escalating level of desperation from claimants.*

# CAMPAIGN CHARTER

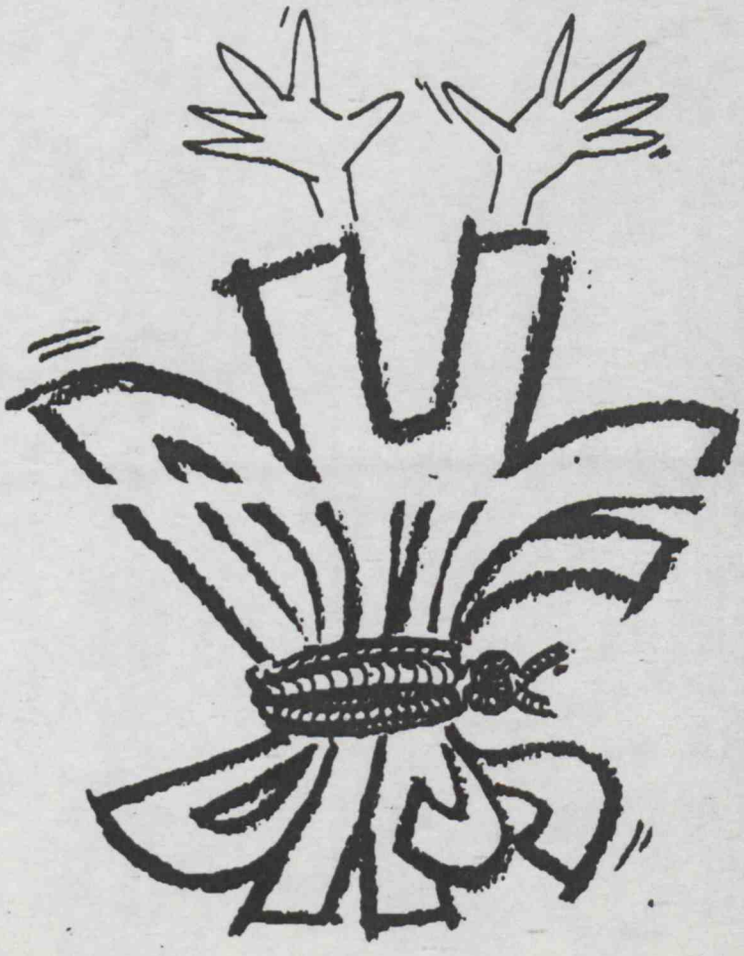
**CPSA joins with all sympathetic organisations to call for:**

1. **Genuine, radical reform of the benefits system so that it ensures a decent income for all citizens and does not discriminate against or stigmatise any individual or group.**

2. **A system that is simple to understand and administered by sufficient staff to give a comprehensive advice and information service and to provide prompt and courteous attention for all claims.**

3. **The introduction of microtechnology as an aid to staff and a means of enhancing the range of services available to the public.**

**We will actively and resolutely campaign by whatever means available until this programme has been won.**



ANNEX B

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

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

Telephone 01-407 5522 ext 6618

*From the Second Permanent Secretary*

J Ellis Esq
General Secretary
The Civil & Public Services Association
215 Balham High Road
London
SW17 7BN

28 January 1987

Dear Mr. Ellis,

I enclose a copy of a circular issued by the DHSS Section of your Union to members in DHSS local offices which came to my attention on 23 January.

The Department is about to begin the training of staff so that they will be able to operate the new Social Fund which is to be created under the Social Security Act 1986. The circular "urges all members to refuse to co-operate with the training for implementation of the Social Fund" asserting, inter alia, that "all that now stands between the cuts and the claimants is the staff who administer the service". It is wholly unacceptable that political opposition to the provisions of the Social Security Act should be advanced as a reason for industrial action. The members of the Department's staff have a contractual duty to carry out instructions which are intended to secure the implementation of the law, yet the circular encourages them to break their contracts for political reasons. I am advised by Counsel that this has the effect of putting the CPSA outside the protection of the Trade Union and Labour Relations Act 1974.

The Secretary of State has asked me to emphasise that he will not tolerate such action by the CPSA. I ask therefore that you should arrange for the offending circular to be withdrawn at once; that you should take all reasonable steps to inform your members of its withdrawal and cancellation; and that you should secure that no further material of a similar kind is issued. I await your assurance, by noon on 30 January, that the CPSA will act accordingly. Otherwise the Department will seek a legal remedy.

Yours sincerely,

C W FRANCE

ANNEX C

IN THE HIGH COURT OF JUSTICE CH 1987 H. No.

CHANCERY DIVISION

BETWEEN:-

DEPARTMENT OF HEALTH AND SOCIAL SECURITY Plaintiff

- and -

CIVIL AND PUBLIC SERVICES ASSOCIATION Defendant

---

The Plaintiff, an authorised government department for the purposes of the Crown Proceedings Act 1947, claims the following relief:-

1. An injunction restraining the Defendant whether acting by itself or its servants or agents or otherwise howsoever from inducing or threatening to induce or procuring or threatening to procure breaches of the terms and conditions of employment of the Plaintiff's staff and from otherwise interfering with the performance by the Plaintiff's staff of their duties in accordance with the terms and conditions of their employment by doing the following acts or any of them namely:-

(1) urging such staff to refuse to co-operate

with the training for implementation of the Social Fund (which will commence in January 1987) pursuant to the provisions of the Social Security Act 1986;

(2) giving instructions, directions, advice, requests, encouragement or calls to such staff to refuse to co-operate with training organised by the Plaintiff for the implementation of the Social Fund or with the Plaintiff's other plans to implement the provisions of the Social Security Act 1986;

(3) implementing a resolution passed at the Defendant's conference in May 1986 by campaigning for support amongst its members employed by the Plaintiff for the blacking of the implementation of the Social Security Act 1986;

(4) giving any other instructions, directions, advice, requests encouragement or calls to the Plaintiff's staff to act otherwise than in accordance with the terms and conditions of their service.

2. An order requiring the Defendant

(1) to withdraw all such instructions, directions, advice, requests, encouragement and calls and

(2) to take all reasonable steps to inform the Plaintiff's staff of the said withdrawal and cancellation

of the said instructions, directions, advice, requests, encouragement and calls.

3. A declaration that the actions of the Defendant referred to in paragraph 1 hereof are unlawful.

4. A declaration that none of the actions of the Defendant referred to in paragraph 1 hereof are taken in contemplation or furtherance of a trade dispute.

5. Costs.

6. Further or other relief.

SERVED etc.

Settled,

John Mummery

Lincoln's Inn,
26th January, 1987.

CH 1987 H. No.

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

- and -

CIVIL AND PUBLIC SERVICES ASSOCIATION

---

Draft/

W R I T

J. ST. L. BROCKMAN,
Solicitor to the
Department of Health
and Social Security,
Ray House,
6, St. Andrew Street,
London EC4A 3AD

CCB/JP

Ref. A087/164

PRIME MINISTER

Cabinet: Social Security Act 1986: Social Fund Legislation

As you know, from the minute by the Secretary of State for Social Services of 16 January and Mr Major's minute to the Lord President today, a defect in last session's Social Security Act has suddenly come to light. Unless it is cured, the Act's better targetted arrangements for maternity payments and for specified funeral expenses for those on low incomes cannot be brought into effect on 6 April as intended. The present arrangements for maternity and death grants, however, have naturally not been included in the up-rating order that has already been approved, and they will lapse on 6 April. Doing nothing is, therefore, not an option. The Lord President is clear that the best course is to take forward, as quickly as posssible, an amending Bill that restores the law to the condition that the Department hitherto believed it to be in, and you are content with that course. There has not been time to put this to L Committee and, in order to secure proper agreement for a Government Bill before introduction, the matter will be raised under Parliamentary Affairs at Cabinet tomorrow. The Lord President will be ready to speak to the point, with Mr Major attending to answer whatever technical questions there may be.

2. Subject to the course of discussion, you may not need to give much time to this. Although it is regrettable that we should need yet another Bill to cure flaws in recent



BRIAAG

legislation, the balance of advantage here seems clearly in favour of an amending Bill, and it offers as little scope for amendment by the Opposition as any Bill is likely to do.

RA

ROBERT ARMSTRONG

22 January 1987

CC: BG.

Prime Minister
For information.

Duty Clerk
pp M E Addison
21.1.87

**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*

LORD PRESIDENT OF THE COUNCIL

SOCIAL SECURITY ACT 1986: SOCIAL FUND LEGISLATION

Introduction

1. Before he left for the USA, Norman Fowler consulted you about a defect in the legislation for the social fund which has just come to light. Unless the defect is corrected the new maternity and funeral payments from the social fund to those on low incomes, following abolition with effect from 6 April of the general maternity and death grants, cannot be implemented as intended. A very short, immediate amending Bill, is proposed, of which a draft is attached.

Background

2. Under our policy on help with funeral and maternity expenses, the universal maternity and death grants and the existing special arrangements for recipients of supplementary benefit are being discontinued with effect from 6 April and replaced by a flat-rate maternity payment of £80, and payments for specified funeral expenses, in both cases available only to those on low incomes. Regulations to give effect to the new payments were made on 16 December.

3. The Joint Committee on Statutory Instruments has queried whether S.32(2)(a) of the Social Security Act 1986 does, in fact, provide the power to specify the amounts to be paid. Treasury Counsel has been consulted and has confirmed that it does not. The effect is that while the Act could be implemented in its present form, it would result in no central control on expenditure, which particularly in the case of maternity payments could be expected to be substantially higher than envisaged in the policy. The defect arose because of the speed with which the Bill had to be amended during its final stages late last July to ensure its passage through the Lords.

Proposed course of action

4. The option of implementing the Act as it stands is not available since, as noted in paragraph 3, it would lead to a substantial and uncontrolled increase in expenditure. An alternative would be to defer introduction of the new arrangements until April 1988, extending the present universal death and maternity grants and supplementary benefit single payments, and to seek an amending Bill in the 1987/88 session. But this, as well as being a public withdrawal from announced policy, would have a substantial full-year cost in terms of benefit (£27m) and staff (600), and would also require the urgent rerun in both Houses of the Uprating Order (passed by the Lords on 15 January) to ensure the continuance of the death and maternity grants with serious delay to other statutory instruments dependent on it which must also be in force by April.

5. The only sensible route therefore is to seek a very short and limited immediate amending Bill to achieve the intended policy of implementation in April 1987. The Bill (copy attached at Annex A) is confined to a single substantive clause, and drafted as restrictively as possible, to minimise the opportunity for amendment. The Government will be embarrassed at the reopening of a controversial issue so soon; and a major effort will be needed, in view of pressures on the Parliamentary timetable, in order to get the Bill through both Houses in time to lay regulations in the

E.R.

eleven weeks that remain between now and 6 April. To do this we need Royal Assent by 20 March; I propose therefore to introduce the Bill in the Commons on Friday 23 January, with a statement in both Houses on 22 January.

6. With the completion of all Commons stages in the week beginning 2 February, it should be possible to go through all the Parliamentary stages within the timetable, so allowing the JCSI a reasonable period within which to consider the draft regulations. In emergency, if Royal Assent were slightly delayed, this period could no doubt be compressed. In the unlikely event that Royal Assent were seriously delayed, the contingency plan is to make payments on an ex-gratia basis from 6 April as if the regulations were in force. This is not an attractive prospect, but Treasury advice is that it would be defensible within the normal conventions.

Conclusion

7. I seek the agreement of Cabinet to the immediate introduction of the proposed Bill (Annex A), with a view to Royal Assent by 20 March, and to statements in both Houses on Thursday afternoon.

8. Copies of this minute go to the Prime Minister, other members of Cabinet, the Chief Whip and Sir Robert Armstrong.

21 January 1987

J M

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TO

To empower the Secretary of State to prescribe, under section 32(2)(a) of the Social Security Act 1986, amounts in respect of maternity expenses and funeral expenses. A.D. 1987.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:--

Power to prescribe amounts under section 32(2)(a) of Social Security Act 1986.

1. In section 32(2)(a) of the Social Security Act 1986 the words "of prescribed amounts" shall be inserted before the words "to meet".

38/1

Short title and extent.

2.--(1) This Act may be cited as the Social Fund (Maternity and Funeral Expenses) Act 1987.

(2) An Order in Council under paragraph 1(1)(b) of Schedule 1 to the Northern Ireland Act 1974 (legislation for Northern Ireland in the interim period) which states that it is made only for purposes corresponding to those of this Act-

(a) shall not be subject to paragraph 1(4) and (5) of that Schedule (affirmative resolution of both Houses of Parliament); but

(b) shall be subject to annulment in pursuance of a resolution of either House.

(3) Subsections (1) and (2) above extend to Northern Ireland, but this Act does otherwise not so extend. 38/2

SECRET

14 85

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

20 January, 1987.

**SOCIAL SECURITY ACT 1986: SOCIAL FUND LEGISLATION**

The Prime Minister has seen your Secretary of State's minute of 16 January. She has noted his recommendation that he should proceed as set out in his Option B, and she is content that he should do so.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Jill Rutter (Chief Secretary's Office, HM Treasury), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Rhodri Walters (Government Whips' Office, House of Lords), and Trevor Woolley (Cabinet Office).

(M.E. Addison)

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

SECRET

PRIME MINISTER

You already know about the difficulties with the Social Security Act, which are set out in Norman Fowler's minute, attached.

The Secretary of State proposes that the Act should be put right as soon as possible by means of a One Clause Amendment Bill. He aims to get it through so that the new arrangements for maternity and funeral grants can be in place, as the Government originally envisaged, for the new financial year.

The Business Managers have discussed the problem, and considered Mr Fowler's proposals. They, and in particular the Lord President, are convinced that the legislative solution is the only viable one, and agree that the tidying amendment could be got through in time for the payments to be made from April.

The DHSS propose to prepare a paper for Cabinet on Thursday, attaching the draft Bill, which would be introduced by the Lord President. It will have been cleared by the Business Managers and the Treasury beforehand.

Content to proceed in this way?

MEA

Yes

Mark Addison

19 January 1987

MJ2CUV

PRIME MINISTER

SOCIAL SECURITY ACT 1986: SOCIAL FUND LEGISLATION

A defect in the legislation for the social fund has just come to light. In my absence, John Major will be reporting to colleagues at Cabinet on Thursday under Parliamentary Affairs proposing a solution. This minute is to give you advance warning. Unless the defect is corrected we cannot, following abolition from 5 April of maternity and death grants for the public at large, implement the new arrangements to make from the social fund maternity and funeral payments to those on low incomes. My recommendation will be for a very short, immediate amending Bill, a draft of which will be available for Cabinet on Thursday.

The White Paper on Reform of Social Security announced a new policy on help with funeral and maternity expenses. The universal maternity and death grants and the existing special arrangements for recipients of supplementary benefit were to be replaced by a flat-rate maternity payment (announced as £80) and payments for specified funeral expenses only, in both cases available only to those on low incomes. Draft regulations to give effect to this policy were made on 16 December.

The Joint Committee on Statutory Instruments has queried whether Part III of the Social Security Act 1986 does, in fact, give us the power to specify the amounts to be paid. Treasury Counsel has been consulted and has confirmed that it does not.

The problem, I am afraid, arose because of the speed with which we had to amend the Bill last summer to ensure its passage through the Lords. The Bill as originally presented provided that all social fund payments, including those for maternity and funerals, should be excluded from the formal system of regulations, adjudication and

E.R.

appeals governing other social security benefits. That position was overturned at the Lords Committee Stage on 30 June reflecting the Lords' strong opposition to the essentially discretionary nature of the social fund, thus creating a critical situation for the Bill at a very late stage. On 23 July, on Commons consideration of Lords' amendments, the Government offered a compromise position which included making the funeral and maternity payments - though not other social fund payments - subject to the normal adjudication procedure. This amendment went through the Lords the following day. Parliamentary Counsel had been instructed to draft this and other amendments on a provisional basis on 14 July; I alerted colleagues to what we had in mind on 15 July. The final decision to go ahead was not taken until the evening of 21 July. The gap in the new provision was not spotted at the time, and until the JCSI raised a query, we continued to assume that we had the required powers.

POSSIBLE COURSES OF ACTION

I have reviewed the available options. There are only two that, in my judgement, reach the starting line.

Option A

Defer introduction of the new arrangements till April 1988: continue with current arrangements meantime and seek an amending Bill in the 1987/88 session.

This may look attractive and sensible at first sight. But it carries the following major disadvantages.

- Would have a full year cost of savings foregone (on death grants and maternity) of £27 million in benefit payments and 500 staff.

- Would be a public withdrawal from announced policy, (incidentally also widely publicised in leaflets).

- Would require an early decision (by end of January) that the Uprating Order, which completed its passage through Parliament yesterday, should be revoked, replaced, and debated afresh in Commons and Lords to ensure continuance of death grant and maternity grant.

E.R.

Option B

Seeks a very short and limited immediate amending Bill to achieve the intended policy of implementation in April 1987.

I think this course, while difficult, is preferable on balance. Subject to advice from Parliamentary Counsel on Monday, I propose a Bill confined to a single substantive Clause amending the defective provision of the Act and drafted as restrictively as possible, to minimise the opportunity for amendment. I am aware, of course, of the certainty of embarrassment to the Government from reopening a controversial issue so soon, and of the pressures on the Parliamentary timetable. And I should need every cooperation from colleagues to get the Bill through both Houses in time to lay regulations in the eleven weeks that remain between now and 6 April. I have nevertheless concluded that this course is less objectionable than my alternative.

I have discussed this line with the Lord President, Chief Whip and Chief Secretary who concur with me in seeing it as the least objectionable option. Accordingly, this is the approach we shall take in reporting to colleagues.

I am copying this minute to Willie Whitelaw, John MacGregor, John Biffen, John Wakeham, Bertie Denham and to Sir Robert Armstrong.

16 January 1987 N F

PRIME MINISTER

You will wish to have a word about this with the Business Managers on Monday.

I do not think they will see any objection to trying to sort the matter out first with colleagues as appropriate, and simply putting it to Cabinet on Thursday for final approval. What I think they are looking for is a way of avoiding having to go through the full H and L hoops, because of the great pressure of time.

Business Managers and Norman Fowler are meeting on Monday (probably after your meeting) to discuss the problem. Really I think to confirm that the Government has no alternative but to introduce a one clause bill to put the matter right.

Norman Fowler will not in fact be at Cabinet on Thursday (because of his visit to the United States).

Vanessa Cummings

pp MARK ADDISON

16 January 1987

VC4ALY

PRIME MINISTER 15 January 1987

## SOCIAL SECURITY LEGISLATION

A thoroughly irritating problem has emerged today on the Social Security Act passed last Session. The Joint Committee on Statutory Instruments claims that the section of the Act dealing with maternity and death grants is defective. The Guardian will be carrying the story tomorrow.

The provision of the legislation dealing with these grants should have referred to prescribed circumstances when they may be paid, and the prescribed amounts. In fact, it only refers to prescribed circumstances. This apparently means that local Adjudication Officers would have the power to decide what level of grant would be appropriate. The regulations come into effect on 1 April. The extra cost could be £2 million a month. (This section was the result of a Lords amendment which restricted the amount of discretion available to DHSS locally. DHSS argue that the defeat in the Lords meant that everything was done in a rush, and this mistake slipped through.)

The Lord President, Chief Whip and Lord Privy Seal have considered the right way forward. They believe the Act can be corrected by means of a one clause Bill. They do not, however, want to present this as a panic measure - that would play into the Opposition's hands by appearing to suggest that a great deal of money was at stake and that corrective action by Government amounted to a major cut. But they also believe that action needs to be set in hand urgently to put the matter right.

The Lord President, Chief Whip and Lord Privy Seal therefore propose that a paper and draft Bill be submitted to Cabinet next week, seeking Cabinet's agreement for the measure to be introduced as quickly as possible. Even so, they do not believe it is realistic to have the new regulations in force

by 1 April, and there will therefore be one month of slippage, with a possible once and for all cost of £2 million.

This is all highly frustrating coming, as it does, right on top of the Local Government Finance Bill. It looks, however, as if a one clause Bill will have to be introduced urgently, and the only question is the way this should be approached. It seems preferable, rather than putting the matter to the Cabinet as a whole for decision, to clear it in the appropriate way through the usual hoops first (H and L, or some acceptable alternative), and for it then to go to Cabinet as a point to note under Parliamentary Affairs.

You will have an opportunity on Monday to talk to the business managers about this. But agree that I should, in advance of that, reflect your view that the policy and procedure should be cleared up and agreed before the issue is brought to Cabinet next Thursday?

Yes ms

GAScola

pp M E ADDISON
15 January 1987

DASABJ

CONFIDENTIAL

MFJ

SUBJECT cc MASTER

MTG Record file

bc: BG

10 DOWNING STREET

LONDON SW1A 2AA

16 December 1986

*From the Private Secretary*

Dear Alex,

**MORTGAGE LENDING AND MORTGAGE INTEREST RELIEF**

The Chancellor explained to the Prime Minister at their bilateral today his intention to withdraw mortgage lending guidance to banks and building societies. This had been introduced in 1982 out of concern about equity withdrawal from housing to finance other purchases. This guidance was interventionist, ineffective and in any case would be inappropriate once the building societies legislation was in operation: the result would be that the building societies would be able to lend unsecured but not secured. The Prime Minister agreed that it would be sensible now to withdraw the guidance, making it clear that this was being done in the light of the building societies legislation.

The Chancellor further explained that the Inland Revenue wished to take stronger action against abuse of mortgage interest relief. Mortgage relief should be confined to borrowing for housing purposes. The Prime Minister agreed, commenting that the Inland Revenue should tread warily.

Yours,

David.

David Norgrove

A.C.S. Allan, Esq.,
HM Treasury.

CONFIDENTIAL

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DHSS

*With the Compliments of*

*the Minister for Social Security*

**Department of Health and Social Security**
**Alexander Fleming House**
**Elephant and Castle**
**London, S.E.1 6BY.**
**Tel. No. 01-407 5522 Ext.**

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Final
Cop 19/12
CCBC

SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST: ORAL STATEMENT

1. With permission, I wish to make a statement on the arrangements for the payment of Mortgage Interest through the Supplementary Benefit system. As the House will know, eighteen months ago, in the Green Paper "Reform of Social Security", the Government declared its intention to examine arrangements for reducing supplementary benefit help with mortgage interest. This was confirmed last December in the White Paper. We said then we would discuss with building societies and others, how we might take this forward.

2. In May, following these discussions we referred proposals to the Social Security Advisory Committee for consultation. The main change was designed to limit the amount of benefit payable during the first six months only of a claim to supplementary benefit.

3. Mr Speaker, we have now considered the report of the Advisory Committee and other comments and laid draft regulations before the House today that embody the Government's decisions. The Committee's report has also been laid together with the Government's response to it.

4. The Government has decided to proceed with the principle of limiting supplementary benefit assistance for mortgage interest but to make two significant modifications to our consultative proposals. First, the period in which only half the mortgage interest payable will count in assessing entitlement to supplementary benefit will be reduced from the 6 months originally proposed to 4 months. The regulations actually refer to 16 weeks. Thereafter the full amount of mortgage interest due will again become eligible for payment. Secondly, we have accepted entirely the SSAC's recommendation that action should be taken to avoid creating a "mortgage interest trap" and the draft regulations have been amended to achieve this. This will help some people to qualify for supplementary benefit payments after sixteen weeks who might otherwise not have been able to qualify at all.

5. The draft regulations also include changes to tighten up the payment of benefit in cases where a home is also used for business purposes, where the mortgage includes a business loan, or where a home is unreasonably expensive. The SSAC have supported all these proposals and we are carrying them through. Our intention is to bring the changes into operation on 26 January 1987.

Final

6. Mr Speaker, there will be an opportunity to debate the regulations shortly but there are several matters I wish to draw to the attention of the House, concerning the main change.

First, it will only affect new cases.

Second, the changes will mainly affect short-term claimants. Fifty per cent of unemployed people leave the register within 3 months. Third, the draft regulations reflect several important safeguards and improvements. No-one over 60 will be affected; those whose claims are longer lasting will get full help after sixteen weeks and extra help with interest on any arrears arising from this restriction. There is also a linking rule between claims to protect people who go on and off benefit and a special disregard of income from mortgage protection policies. Fourth, the reduction in expenditure will be about £23m compared with £30m under the original proposals. Finally, we shall be encouraging and helping claimants to make early contact with their lenders to avoid difficulties.

7. Mr Speaker, I should like to stress to the House that the SSAC have acknowledged in their report that the changes should not bring significant financial hardship to the majority of claimants affected. They were of course commenting in the context of the 6 months restriction and not the 16 weeks now proposed. Moreover, the Building Societies Association have indicated that they will respond to changes sympathetically and responsibly. These are welcome and important assurances. I hope, therefore, that, with the safeguards and concessions I have described, the House will recognise that the Government has struck a fair and reasonable balance between the borrower, the lender and the tax-payer.

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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*

David Norgrove Esq
Private Secretary
10 Downing Street
London SW1

10 December 1986

Dear David,

I attach a copy of the statement on Mortgage Interest which my Minister will be making this afternoon in the House.

Copies go to Murdo Maclean (Chief Whip's Office), Alison Smith (Lord Privy Seal's Office), Chris Capella (Paymaster General's Office), and Bernard Ingham.

Yours ever,

C A H PHILLIPS
Private Secretary

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Preliminary Draft

SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST: DRAFT ORAL STATEMENT

1. With permission, I wish to make a statement on the arrangements for the payment of Mortgage Interest through the Supplementary Benefit system. As the House will know, eighteen months ago, in the Green Paper "Reform of Social Security", the Government declared its intention to examine arrangements for reducing help with mortgage interest through the supplementary benefit scheme. This was confirmed last December in the White Paper when we said we would discuss with building societies and others, the possibility of limiting the proportion of mortgage interest which would be met during an initial period in receipt of benefit.

2. In May, proposals for change were referred for consultation to the Social Security Advisory Committee. The main proposal was designed to limit the amount of benefit payable during the first six months only of a claim to supplementary benefit.

3. Mr Speaker, we have now considered the report of the Advisory Committee and other comments and laid draft regulations before the House today that embody the Government's decisions. The Committee's report has also been laid together with the Government's response to it.

4. The Government has decided to proceed with the principle of limiting supplementary benefit assistance for mortgage interest but to make two significant modifications to our consultative proposals. First, the period in which only half the mortgage interest payable will be taken into account in assessing entitlement to supplementary benefit will be reduced from the 6 months originally proposed to 4 months. The regulations actually refer to 16 weeks. Secondly, we have accepted entirely the SSAC's recommendation that action should be taken to avoid creating a "mortgage interest trap" and the draft regulations have been amended to achieve this. As a result about 1,000 people may be able to qualify for supplementary benefit payments after sixteen weeks on benefit who might otherwise have not been able to qualify at all.

5. The draft regulations also include changes to tighten up the payment of benefit in cases where a home is also used for business purposes, where the mortgage includes a business loan, or where a home is unnecessarily large or expensive. The SSAC have supported all these proposals and we are carrying them through. Our intention is to bring the changes into operation on 26 January 1987.

6. Mr Speaker, there will be an opportunity to debate the regulations shortly but there are several matters I wish to draw to the attention of the House.

First, we have probably the most generous arrangements for mortgage interest in the world. The changes do not significantly alter that. Second, the reduction in expenditure will be about £23m compared with £30m under the original proposals. Third, the changes will mainly affect short-term claimants. Fifty per cent of unemployed people leave the register within 3 months. Fourth, the draft regulations reflect several important safeguards and improvements. No-one over 60 will be affected; those whose claims are longer lasting will get full help after sixteen weeks, including help with extra interest if arrears arising from the restriction have been capitalised as part of their outstanding loan. There is a protective linking rule between claims and a special disregard of income from mortgage protection policies. Finally, we shall be encouraging and helping claimants to make early contact with their lenders to avoid difficulties.

7. Mr Speaker, I should like to stress to the House that, although the SSAC did not welcome these proposals, they have acknowledged that the changes should not bring significant financial hardship to the majority of claimants affected. Moreover, the Building Societies Association have given assurances that they will respond to changes sympathetically [and will continue to help as many people into home ownership as possible]. These are welcome and and important factors. I hope, therefore, that, with the safeguards and concessions I have described, the House will recognise that, the Government has struck a fair and reasonable balance between tax-payer and beneficiary.

CCBG

**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*

CONFIDENTIAL

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

9 December 1986

Dear Willie,

SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST

Thank you for your letter of 4 December. We will bring forward the date of the announcement to Wednesday, 10 December, and are liaising with the business managers to bring forward the debates on the regulations as soon as possible.

Copies as before to the Prime Minister, members of H Committee and Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

Prime Minister 2

To note that this announcement is now to be made tomorrow, Wednesday.

JM
9/12

SOCIAL SERVICES: Review : PES

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PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

4 December 1986

Dear John

NBPT.

SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST

You wrote to me on 25 November seeking H Committee's agreement to your proposals for handling the announcement of the changes to restrict help under the supplementary benefit scheme for mortgate interest payments, and to a minor amendment which would avoid the creation of a "mortgage interest trap". You will have seen John MacGregor's letter supporting the minor amendment but arguing that it would be tactically and politically preferable to make the announcement before the Christmas recess. You will also have seen the Prime Minister's Private Secretary's letter recording the Prime Minister's agreement with the Chief Secretary's view.

No other member of the Committee has commented and you may take it that you have H Committee's agreement to proceed as proposed but subject to the points on timing made by the Chief Secretary and the Prime Minister.

I am sending a copy of this letter to the Prime Minister, the members of H Committee and Sir Robert Armstrong.

John Major Esq MP

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SOCIAL SERVICES REVIEW PTS

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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

3 December 1986

Dear Private Secretary,

**DE/DHSS LOCAL OFFICE NETWORKS**

The Prime Minister this afternoon held a meeting to discuss your Secretary of State's minute of 20 October and a minute from the Secretary of State for Employment (undated) about possible changes in the functions of Department of Employment and DHSS local office networks. There were present your Secretary of State, the Secretary of State for Employment, the Paymaster General, the Chief Secretary and Mr. John Major, Parliamentary Under-Secretary of State for Health and Social Security. Mr. Brian Unwin (Cabinet Office) and Mr. Norman Blackwell (No.10 Policy Unit) were also present.

Your Secretary of State described the advantages of a transfer of the operations of the unemployment benefit service to the DHSS, option C. The result would be that all people in receipt of social security would deal with one department, the DHSS. It was declared policy to try to meet all the needs of any individual within one system; and the change would be welcomed by many of the Government's supporters. The proposal to split responsibilities for social security, as under option B, would be seen as a U-turn and would be strongly opposed. The result would be a need for people to shuttle between two departments as their position changed and there would be a particular problem of liaison with local authorities who would then have to deal with 1400 local offices rather than 500 as at present.

The Secretary of State for Employment suggested that the two options would tend to give different weight to the various objectives. There had been a serious erosion of incentives in the UK and it was important to try to reverse the movement towards a claimant society. The operation of the unemployment benefit service as a responsibility of the Department of Employment had enabled a whole series of tests of unemployment to be brought in. The DHSS would tend to give a lower priority to employment objectives than would the Department of Employment. Schemes such as Restart might well not have been introduced had option C been in operation.

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In discussion it was noted that considerable progress had already been made in reducing boundary problems between the DHSS and the Department of Employment, for example through the transfer to the Department of Employment of unemployment review officers and adjudication officers. Under option C, the responsibility for administering availability tests and the like to the unemployed would remain with the MSC, and the necessary computer technology would be available to enable individual unemployed people to be followed effectively. However, the MSC would have no responsibility for making payments to unemployed people, and it was argued that this would reduce its feel for the labour market and its ability to administer unemployment tests to the best advantage. Payment of benefits also had the advantage of giving unemployment benefit offices a beneficial role as well as a scrutiny role. It was agreed that the transfer to local authorities of responsibility for paying housing benefit had caused considerable difficulties and extra expense, though the change to a unified scheme had removed earlier anomalies. Local authority responsibility for paying housing benefit meant that payment of all social security benefits under one roof could not be achieved. Abuse of housing benefit was a considerable problem, and local authorities were not proving co-operative in developing ways to tackle it.

Bringing the discussion to a close, the Prime Minister said no conclusion on the relative merits of the options could be reached at present. Changes in departmental responsibilities could only be undertaken after the most thorough study and when the benefits of change were beyond doubt. The immediate task should be to concentrate on ensuring the success of availability for work tests and on close co-operation between the Department of Employment and the Department of Health and Social Security. The administration of housing benefit would need to be further considered, particularly in the light of the Government's proposals for reform of local authority finance.

I am copying this letter to John Turner (Department of Employment), Jill Rutter (Chief Secretary's Office), Trevor Woolley (Cabinet Office), and Sir Robin Ibbs.

Yours sincerely,
Martin Sawer (Duty clerk)

pp. (David Norgrove)

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

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PRIME MINISTER

## PAYMENTS TO THE UNEMPLOYED

The papers in the folder are:

A. Policy Unit brief.

B. Cabinet Office brief and minutes by Lord Young and Mr. Fowler.

C. MPO brief and papers on possible wider reforms of the MSC.

Lord Young wishes to keep to an absolute minimum discussion of the possible reforms of the MSC (Flag C above). DHSS know about this because Lord Young mentions them in his minute at Flag B, but he regrets having done so.

All three Departments attending tomorrow's meeting know that it will not lead to an immediate decision, and indeed they know of the probability that a decision will not be made until after the election. This should help to keep the temperature down.

Lord Young, as you know, has ideas which go even well beyond reform of the MSC. You are to discuss these with him at Chequers. I shall arrange for a brief to discuss this as far as possible. Clearly, the ideas will need to be thrashed out carefully in the coming months.

S. Mais

pp. DN

2 December, 1986.

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PRIME MINISTER

**DHSS/DE Local Office Networks**

(Meeting at 3 pm on 3 December)

DECISIONS

The key papers for the meeting are Lord Young's minute of early October (undated) recommending the transfer to DOE of Supplementary Benefits (SB) for unemployed people, thereby serving the unemployed as a single client group (Option B); and Mr Fowler's minute of 20 October recommending transfer of the work of Unemployment Benefit Offices (UBOs) from DE to DHSS (Option C).

2. You will therefore want to use this meeting to judge:-

(i) whether an early decision can be taken either way;

or (ii) whether a decision should be postponed either until further work has been done (eg on Lord Young's new proposal for combining UBOs and Job Centres) or until a good deal later in the future (eg until after the next election).

BACKGROUND

3. The essence of this long standing problem is as follows. DHSS are responsible for the policy on all benefits. But DE administer unemployment benefit (UB) in their UBOs (ie they process claims and make assessments in addition to paying out the cash). DE also pay supplementary benefit (SB) to the unemployed as agents of DHSS; but DHSS remain responsible for the assessment and administration of SB and will from April 1988 retain responsibility for the new income support scheme (including the Social Fund), which will replace SB.



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4. It is common ground that these arrangements are unsatisfactory. They give many clients a poor service (they often have to switch between offices some distance apart) and involve unnecessary bureaucratic duplication. High unemployment has exacerbated this as more unemployed people are entitled to SB. There is no doubt that rationalisation is overdue; and the Social Security Green Paper promised that a joint study would be undertaken.

Joint DHSS/DE Study

5. A joint study by DHSS and DE officials completed in April identified the two main options referred to above (the key points are summarised in the note attached.) It did not, however, lead to agreement between the two Departments. For the reasons summarised in their minutes, the two Secretaries of State still both argue very strongly for unification of the responsibilities in their own Department. In addition, Lord Young has now proposed putting the MSC's Job Centres and the UBOs in a single management structure within DE so as better to control together all the labour market and benefit payment activities relating to the unemployed.

COMMENT

6. There is no significant difference between the two basic Options on direct costs, and neither the Treasury nor the two Departments wish to rest a case on this. Under each option the study estimates that there would be a transitional cost of between £50 and £80 million, followed by recurrent savings of £30 to £40 million. These estimates do not, however, take into account the costs and benefits and other implications of combining UBOs and Job Centres, which could be substantial.

7. For the rest, there are numerous arguments either way. The key argument for Option B (transfer to DE) is that, by giving labour market considerations priority, it would represent a major initiative not only to assess and meet the financial needs of the unemployed,

but to test the genuineness of their claim and to get them back into work as quickly as possible. In this sense it could be seen as a major extension of the Restart scheme. In its favour also is that it would involve a smaller staff transfer than Option C (13,500 compared with over 22,000); and (as Sir Robert Armstrong pointed out to you in his minute of 18 August) it could be argued that DHSS have problems enough without taking on an extra burden relating to the unemployed.

8. On the other hand, there are some powerful considerations in favour of Option C. The cash needs of the unemployed are no different from those of any other benefit group; and to detach the unemployed would conflict with the thrust of the social security reform under which (with the aid of computerisation) every DHSS office will be able to deal with all benefits for any individual through access to central computer records (the "whole person" approach). Moreover, location of responsibility with DE would still involve considerable shuttling between DHSS and DE (eg in respect of claims for income support, or on the Social Fund, or as claimants moved between unemployment and sickness benefit); and it would cause unwelcome complications with local authorities on housing benefit at a time when the Government will need their cooperation on other major reforms (local authorities would have to establish new links with about 1,000 DE UBOs in addition to the 500 DHSS local offices with whom they already have contact).

9. It is very much a matter of judgement as to what weight to attach to these considerations. My own view, which both Sir Robert Armstrong and Sir Robin Ibbs endorsed, is that on straight grounds of efficiency and good administration the arguments favour Option C (transfer to DHSS) provided DHSS improve their links with the job placement service. But you will first want to judge whether it is prudent to reach an early decision at all. On this, in addition to any personal and political considerations, you will no doubt also want to set the issue in a wider machinery of Government context. There are also some more specific considerations which suggest it might be prudent to postpone a decision now:-

(i) all experience of this kind of change suggests that the frictional problems are likely to be greater than expected. Although both Ministers agree that no major changes are feasible until 1989 at the earliest, followed by a 3 to 5 implementation period, they would affect local authorities at the sametime as they are also having to cope with the consequences of other major reforms;

(ii) it would be surprising if either option did not prove controversial with the civil service unions who would see a threat to prospects and jobs (staff savings of between 1,500 and 2,000 from the options have been identified);

(iii) Lord Young's proposal for unifying UBOs and Job Centres is a significant new factor which could substantially affect the relative costs and benefits of the options and really merits detailed study in its own right before a sensible overall decision can be taken.

10. None of these consideration is itself decisive. But you may want to keep them in mind in considering whether the present moment is the right one to settle a major machinery of Government change of the kind proposed.

DHSS Computerisation

11. An argument against delay is the impact it could have on DHSS's computerisation strategy. Technically the present plan could accommodate either option. But if a decision is delayed beyond early next year, there will be a risk of abortive expenditure and loss of staff savings. But this is not a decisive factor and the Treasury do not regard it as such.

OPTIONS

12. In the light of the above analysis, the main possible courses of action seem to me to be:-

(i) an early decision now in favour of one option or the other (though before reaching a final decision you would no doubt wish to test it in a wider Group; Mr Ridley, for example, will be concerned with any implications for local authorities);

(ii) further rapid work on certain aspects not so far thoroughly examined (eg the proposed merger of UBOs and Job Centres, and the improvement of links between DHSS and the placement service), with a view to a decision early next year;

(iii) further work on a longer timescale, on the basis that no substantive decision will be taken this side of the next election.

HANDLING

13. You will want to give the Secretary of State for Employment and the Secretary of State for Social Services an opportunity to advance their arguments in full, and the Chief Secretary, Treasury to comment on the financial and manpower aspects.

J B UNWIN

Cabinet Office
2 December 1986

ANNEX 1

## THE MAIN OPTIONS - A COMPARISON

The two main options compared below are:

OPTION B - the transfer to DE of supplementary benefits for unemployed people, thereby serving the unemployed as a single client group.

OPTION C - the transfer to DHSS of Unemployment Benefit to create a single network of offices to handle all Social Security Benefits.

There are two variants of this option:

C1 - Fully Integrated Benefit Offices, handling all aspects of benefit work; and

C2 - District Offices, processing claims, with Local Enquiry Offices as public contact points

DE/DHSS LOCAL OFFICE NETWORK REVIEW: COMPARISON OF THE OPTIONS

Agreed Quantitative Features

| | Option B | Option C | |
|---|---|---|---|
| | | C1 | C2 |
| Number of offices | | | |
| DHSS | 415 | 590 (fully integrated benefit offices) | 430 (district offices) 760 (local enquiry offices) |
| DE | 1000 | 0 | 0 |
| Average number of staff per office | | | |
| DHSS | 90 | 125 | 140 (DO) 20 (LEO) |
| DE | 37 | 0 | 0 |
| Size of networks | | | |
| DHSS | 37,500 | Range 75,100 - 75,600 | |
| DE | 37,500 | 0 | |
| Staff to be transferred | | | |
| DHSS to DE | 13,500 | 0 | |
| DE to DHSS | 0 | Range 22,100 - 22,600 | |
| Transition Costs | £65m | £50 - £80m | |
| Recurrent savings | £41m | £34m - £40m | |
| Net present value (savings) | £165m | £140 - £155m | |

The difference in savings between the two options lies within the margin of error.

Further work, involving detailed and lengthy studies of a number of issues (such as property, personnel and operational matters) would be needed to firm up transition costs and savings.

AGR[redacted] QUALITATIVE FEATURES OF OPTIONS B AND C

| OPTION B | OPTION C |
|---|---|
| **Underlying concept**<br>Treats the unemployed as a specific client group. Puts payment of benefits (through UBOs) and placement work (MSC) under operational responsibility of one department, with the aim of strengthening controls through links between benefit payment and work placement. | Creates single network of offices managed by one dept. (DHSS) to cover all claims and enquiries on all social security benefits. This accords with "whole person" concept and with the reforms agreed in the Government's review of social security and with its computer strategy. |
| **Departmental responsibilities**<br>DE would have responsibility for administering income support, but not Social Fund, for the unemployed. DHSS remains responsible for policy. | One set of Ministers and one dept. responsible for policy and administration of all social security benefits. |
| **Impact on Operational (computer) Strategy**<br>Minimal | Minimal. |
| **Timing**<br>No major change possible at local office level for either option before 1989 when the social security reforms are fully operational. But strategic decision needed by September 1986 for computer planning purposes. | |
| **Service to the public**<br>Unemployed deal with one office (UBO) generally; but will have to go to DHSS local office in cases of special need (Social Fund). More dispersed and accessible network of offices for unemployed, with readier access to Job Centres (certainly better than Option C1, and possibly C2, though marginally) Fewer outlets for other claimants. Speed and accuracy of payments improved. | Both unemployed and all other claimants would deal with only one office for all benefits. Equal number of outlets for all claimants and more for the majority. But fewer for the unemployed. Speed and accuracy of payments improved. |
| **Links with outside organisations**<br>Employers would have to deal with only one network for unemployed. Other bodies eg housing authorities, social services, fuel boards, have to make new links with DE, and keep existing links with DHSS. | Employers would deal with only one network for all social security benefits and for contributions collection. This overall reduction in links would also apply to other organisations, such as Inland Revenue. |
| **Control**<br>Specialist fraud force dealing exclusively with all types of fraud amongst the unemployed would be developed. Reduced DHSS force would remain. Greatly reduced need for communication between DE and DHSS. | Single, unified fraud force would handle all social security fraud, virtually eliminating duplication and communication between the departments. No risk of inconsistency between departments, eg in prosecution policy. |

UNSCORED QUALITATIVE FEATURES

| | OPTION B | OPTION C |
|---|---|---|
| Manageability | Creates an organisation of manageable size (37,000 staff in 1,000 offices - ie average office has 37 staff). Retains existing short lines of communication in UBOs and management chain. DE has fewer major changes in proposed transition period. | DHSS find that offices with less than 100 staff inhibit flexibility to deploy staff effectively. Option C gives average office size of 125/140, so maintains flexibility. In past this flexibility has enabled DHSS to keep down numbers of staff despite rising workload. |
| Efficiency | DE has coped effectively with change in past; eg has installed major computer system. In last 6 years, whilst workload has increased by 151%, productivity rose by 30% and errors fell by 48%. | DHSS administers 28 different benefits; the most staff intensive is Supp. Ben.(SB). Over the past 6 years, the overall SB load has increased by 70% (the unemployed part by 230%); SB staff rose by only 22%. Over the same period DHSS has introduced major new benefits and put microcomputers for SB into 90% of offices. |
| Industrial Relations | DE loses 0.05% man days per year; DHSS loses 0.17% (ie DE record is three times better than DHSS, but both figures are very small in relation to total available man days). | |
| | DE takes on further responsibilities and staff from DHSS. However, short lines of command will ensure that industrial relations are more effectively managed. | Most disputes in DHSS occur with staff working on means-tested benefits rather than contributory benefits. Option C would import a contributory benefit. |
| Customer Satisfaction | Survey shows that claimants think the standard of service in UBOs is better than DHSS offices. DE believe that continuing this service in small offices would reduce problem of difficult claimants currently found in DHSS offices. | No argument that unemployed are less satisfied with DHSS. But this is inevitable given that DHSS administers only the benefit of last resort. DHSS believes that putting responsibility for all benefits for the unemployed in one office would increase customer satisfaction. |
| Impact on the Unemployment Register | Payment of benefits and placement/training measures for unemployed put under control of one Minister. This gives:<br>(i) more opportunity to develop links between UBS and MSC (eg through interchange of staff)<br>(ii) more impetus for joint UBS/MSC measures to help unemployed back to work, check abuse etc. | DHSS would have to strengthen links with the MSC. No reason why the links should not be effective, given that MSC network of local offices (Job Centres) is already separate from UBOs. |

## SUMMARY OF MAIN AREAS OF AGREEMENT AND DISAGREEMENT

### Objectives

Both Departments agree that the major objective of the new network(s) is the efficient and correct payment of benefits to those who are entitled to them; and the promotion of opportunities for job placement or training for unemployed people.

### Meeting the objectives

Both departments agree that a radical change is needed to the networks to achieve the objectives and agree that the costs for achieving this under the two options are so close as not to be a deciding factor.

The departments disagree, however, on how best to meet the two elements of the agreed objectives. On the payment of benefits:

Option B — proposes a 'client group' approach. DE believes that this will give a better service to unemployed people, with greater opportunities for control.

Option C — proposes one network for all benefits; this accords with the 'whole person' concept. This gives equal treatment to all claimants, and avoids people having to go to different offices for different benefits when unemployed.

On the promotion of opportunities for placement:

Option B — DE believes that putting the responsibility for administering benefits and placement under one department will get more people into work or training. Having one Minister responsible creates the scope for more effective links between UBOs and the MSC.

Option C — DHSS believe that separation of 'benefit' and 'placement' functions will not interfere with the ability to place unemployed people in work or training. The task of building up links between its local offices and Job Centres will be no greater than building up links between UBOs and Job Centres.

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PRIME MINISTER 2 December 1986

PAYMENTS TO THE UNEMPLOYED

This is one of Whitehall's longest running and most acrimonious border disputes. The Schleswig-Holstein pales by comparison. We suggest that the way forward tomorrow is to get down to brass tacks and ask exactly how offices would operate and claimants be handled.

We will always need to carry out several different and distinct tasks when dealing with unemployed claimants:

(i) check that they are genuinely unemployed,

(ii) try to get them back into a job,

(iii) calculate their UB entitlement from their national insurance contributions,

(iv) assess their SB entitlement from the details of their personal circumstances,

(v) deal with local authorities who pay out housing benefit

And these aren't just one-off tasks. We need to check that the unemployed keep on searching for work. They may run out of unemployment benefit and get more SB. Changes in rates or rents mean HB has to be recalculated.

Integrating all these different functions, as David Young proposes, sounds seductive and sensible. But we need to be clear what it means in practice. It certainly doesn't mean one-stop shopping. One clerk behind one counter will not have the range of skills and information to carry out all

these tasks. Moreover, unless we are to engage in an enormously expensive programme of buying and selling buildings, the pressure of space will keep the different functions apart - there isn't any room in a Job Centre or even many UBOs for labour intensive means tests. So we are going to be lumbered with the need for communication between staff carrying out different functions in different offices.

David Young is not offering 'one stop shopping' but a unified management structure supervising these different functions. We agree that all the specifically labour market functions need to be brought together - that is why testing availability for work has been handed over to the Department of Employment. There is a lot more to do within his own bailiwick to to meet his aim of integrate job centres, availability testing, restart interviews and MSC programmes to process for getting the unemployed back into work. But we doubt whether this programme also requires taking over the assessment and payment of benefits because:

- If computerisation works, it will eventually do much more to ease communications between different offices than reshuffling administrative responsibilities.

- If DE gets responsibility for the enormous task of paying out the benefits, the labour market ethos that David Young is creating may get swamped by the need to pay out large amounts of benefits efficiently.

Norman Fowler wants ultimately to bring back all payments for the unemployed into the DHSS. Robin Ibbs accepts that this is the most efficient option, but it also has its disadvantages:

- the links between paying benefits and checking on availability for work may be weakened,

- the benefit system is fully stretched at the moment, especially in central London where staff morale is particularly poor. Now is not the time to contemplate adding further to the responsibilities of the DHSS, In the long run it might worsen the industrial relations risk by channelling all functions into a single, large structure,

- computerisation may improve the DHSS system but we should not yet put all our eggs in that particular basket.

**The practical way forward**

In our view neither of the extreme options are sufficiently attractive to earn your commitment at this stage. But the meeting won't be very helpful if two senior Ministers just argue each other to a standstill. You may want to reinforce areas of agreement and emphasise practical ways forward. We suggest that you:

(i) Invite Norman Fowler to endorse the important principle that DE should have full responsibility for testing availability and authorising payment of unemployment benefits. Although already conceded, it still apparently needs communicating down the organisation to avoid duplication:- we get reports that DHSS offices are re-examining UBO requests to stop benefits, thus delaying some Restart cases.

(ii) Leave open the big issue on where to locate the administration of benefits. You do not need to take this decision now - the computer system should be flexible enough to accommodate either structure, and both Ministers agree that no organisational changes are practical before 1989.

No. Lord Young wants to keep this as quiet as possible. You will want to consider separately how best to take this forward.

(iii) Ask departments to prepare in the next 6 months, a fuller appraisal of Lord Young's proposals to integrate UBO, Job Centre and MSC functions and an updated assessment of the timing and capabilities of the computerisation projects.

(iv) Emphasise what can be achieved at present without waiting for the grand organisational solution - after all, Restart is largely working. One simple step might be to locate a benefit expert in Job Centres who could encourage the unemployed to take low paid jobs by making it easier to get advice on their benefit entitlement in work.

Janet Evison.

pp NORMAN BLACKWELL

David Willetts

DAVID WILLETTS

cc BG

PRIME MINISTER

DHSS/DE LOCAL OFFICE NETWORKS

You are due to have a meeting with Ministers tomorrow on this subject.

In my minute to Mr Norgrove of 31 July I said that transferring the payment of benefit to DHSS Offices appeared the better option. The change is straightforward and they can then concentrate on assessing and paying the full range of benefits efficiently. This is still my view.

However, although the DHSS option is the more efficient in terms of paying benefit, it does not provide an opportunity to establish a direct link between benefit payment and getting the unemployed into work. It is claimed that the DE option would do this by building closer links between DE Benefit Offices and MSC Job Centres. David Young has proposed a single management structure for the two networks. Some benefits (eg Social Fund Payments) would continue to be paid by DHSS. DE have still to think through in precise detail the practicalities of their scheme and what its effects will be.

While the DHSS option should be the more efficient in terms of paying benefit, either option would be a substantial improvement on present arrangements and offers potential savings in the range of 1500 to 2000 staff. This suggests that a decision on one option or the other should not be avoidably postponed. Even with an immediate decision it will take at least three years to obtain the savings.

I have no basis on which to advise you on the extent to which links between DE Benefit Offices and MSC Job Centres would in practice reduce unemployment. Indeed I believe that evidence on this together with details of the DE scheme has yet to be established. If it is judged that the DE option has sufficient attraction for it to be explored further, this should be done against a tight timetable to avoid further unnecessary deferment of the savings.

I am sending a copy of this note to Sir Robert Armstrong.

ROBIN IBBS
2 December 1986

SOCIAL SERVICES

REMEMBER

PTS

SECRET

12. CC B/L P

MR NORGROVE,
PS/PRIME MINISTER

cc PS/Sir Robert Armstrong

**DE/DHSS LOCAL OFFICE NETWORKS**

1. Mr Unwin is providing a brief, which he has discussed with me, for tomorrow's meeting with Lord Young and others. I have also had discussions on the subject with Mr Willetts and Mr Blackwell, who I understand will also be providing briefing.

2. As far as I know, however, none of these are aware of Lord Young's further minute of 23 October to the Prime Minister, which brought in yet wider considerations concerning the whole future of the MSC and the transfer of its training functions to a DES agency. Sir Robert's preliminary advice on these matters was set out in his minute of 31 October.

3. I have therefore prepared a separate note on this which I would be grateful if you would add to the Prime Minister's briefing for Wednesday's meeting.

R A C HEWES

2 December 1986.

SECRET

PRIME MINISTER

## DE/DHSS LOCAL OFFICE NETWORKS

1. You are meeting tomorrow with Lord Young, Mr Fowler and others to discuss options for the future of these two networks for paying benefits. Mr Unwin has provided a brief.

2. In considering the options which he sets out you will want to have in mind also the additional proposals contained in Lord Young's minute of 23 October. These concerned the possibility of abolishing MSC altogether and the transfer of its training functions to a DES agency. Sir Robert Armstrong's preliminary advice was contained in his minute of 23 October to Mr Norgrove.

3. As Lord Young's minute was not copied to the other Ministers or officials attending tomorrow's meeting, I imagine that you will not want to refer to these additional proposals in the discussion. They are, however, relevant both to the timing of any decision and to the choice between the options which Lord Young and Mr Fowler respectively have put forward.

4. Sir Robert's earlier minute indicated that Lord Young's training proposals, like those for job centres, would need more thorough and detailed study. The two aspects would be better handled separately to avoid the risk of premature disclosure that proposals for abolishing the MSC (which would be extremely sensitive) were being studied. Nevertheless the need to bring together the results of the two studies points to not taking any decision on the future of the networks at this stage. And as any transfer of MSC's training functions to DES could not realistically be implemented before an election, you might think it sensible to avoid committing yourself at this stage to any particular timing for a decision on the network issue before the election.

5. As to the choice between the options favoured respectively by Lord Young and Mr Fowler, Lord Young's proposals for the future of MSC's training functions are closely tied up with his proposals for bringing together within DE the work of job centres and unemployment benefit offices. The case for transferring training functions from MSC to a DES agency would be different if MSC were to continue to manage job centres and it is unclear that Lord Young would still recommend the transfer.

6. In summary it would seem sensible:

(a) to take no immediate decision between the options for the future of DE/DHSS local office networks;

(b) to commission further work on aspects of those options not yet thoroughly examined (especially the cost and benefits of Lord Young's proposed merger of job centres and UBO's). This could best be undertaken by the joint DE/DHSS study team in consultation with the Efficiency Unit and Machinery of Government Division in the Cabinet Office;

(c) to avoid any commitment to a firm date for deciding on the future of the local office networks pending any separate study of Lord Young's proposals for training. If such a study were to be undertaken, you would no doubt commission Sir Robert Armstrong to have this done.

5. I am copying this minute only to Sir Robert Armstrong.

R A C HEWES
Head of Machinery of Government Division
Cabinet Office (MPO)

2 December 1986.

10 DOWNING STREET
LONDON SW1A 2AA

*From the Private Secretary*

2 December 1986

**PERSONAL PENSIONS**

Thank you for your letter of 1 December about personal pensions. The Prime Minister will look forward to seeing the promised further report on the free-standing AVC proposal.

I am copying this letter to Tony Laurance (DHSS) and to Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

(David Norgrove)

A.W. Kuczys, Esq.,
HM Treasury.

MR 2/82

CONFIDENTIAL

CCBS

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

David Norgrove Esq
10 Downing Street

1 December 1986

Dear David

**PERSONAL PENSIONS**

You wrote to me on 16 July, following Mr Fowler's letter of 30 June to the Chancellor. I can now let you have an interim report on free-standing AVCs.

The consultative document on the tax treatment of the new pensions arrangements ('Improving the Pensions Choice') has just been published. I enclose a copy, along with a Revenue press release issued simultaneously. (The Chancellor mentioned this to the Prime Minister last week).

The free-standing AVC proposal is deliberately not dealt with in that document, because more work needs to be done on the tricky issues it raises. The Chancellor and the Secretary of State for Social Services have had a useful meeting and agreed that if anything is to be done it should be announced in the Budget; although Ministers should be in a position to reach conclusions by Christmas. I will let you know the outcome.

I am copying this letter to Tony Laurance (DHSS) and to Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours ever,

Tony Kuczys

**A W KUCZYS**
**Private Secretary**

INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x] 27 November 1986

'IMPROVING THE PENSIONS CHOICE'

'A new pensions deal for the ten million employees in this country who do not belong to an occupational pension scheme. And a wider pensions choice for all employees'.

This was how, in reply to a Parliamentary Question, the Financial Secretary to the Treasury, the Rt Hon Norman Lamont MP, described proposals contained in a consultative document published today by the Inland Revenue ('Improving the Pensions Choice').

'Changes in the tax rules will make it easier and cheaper for any employer to set up a simplified pension scheme with the benefit of tax relief', Mr Lamont said. 'And the same tax reliefs will be given to the new personal pension schemes which will be open to all employees.'

'We also envisage improvements in the rules for retirement annuities which will be particularly welcomed by self-employed people nearing retirement.'

'Finally', Mr Lamont went on to say, 'we propose much greater transferability between different pension arrangements.' In the past barriers to mobility, including the existing provisions for pensions, have been a drag on the country's economic performance. Improving job mobility is an important Government objective. The new proposals will give much greater opportunity for people to have a pension arrangement which they can take with them when they change jobs.'

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/THE MAIN PROPOSALS

## THE MAIN PROPOSALS

The Inland Revenue consultative document outlines the proposed tax rules for the new pensions arrangements heralded in the White Paper 'Reform of Social Security' published last December by the Secretary of State for Social Services.

The main proposals are:

* tax reliefs for the new personal pensions, based broadly on the present rules for self-employed retirement annuities

* broadly the same tax rules for all personal pension arrangements, whether taken out by employees or the self-employed

* special rules, with minimal red tape, for new simplified occupational pension schemes offering 'no frills' benefits

* a new simplified type of money purchase occupational pension scheme with no benefit limits, with tax relief limited by reference to contributions

* much greater transferability between different types of pension arrangement.

The consultative document can be obtained by calling at or writing to the Inland Revenue Reference Room, Room 8, New Wing, Somerset House, Strand, London WC2R 1LB and costs £1 (including postage). Comments on the proposals should be sent, in writing, to Mr Philip Clarke, Inland Revenue, Policy Division 2, Room 23 New Wing, Somerset House, to arrive by 30 January 1987.

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/NOTES FOR EDITORS

NOTES FOR EDITORS

Background

1. The proposals contained in the Inland Revenue consultative document extend the present tax reliefs for pensions to the new pensions arrangements announced in last year's DHSS White Paper, 'Reform of Social Security' (Cmnd 9691) and contained in the 1986 Social Security Act.

2. The DHSS White Paper promised:

- new 'personal pension schemes' by which employees could 'contract-out' of the State Earnings Related Pension Scheme (SERPS)

- new simpler ways for employers to set up occupational pension schemes contracted-out of SERPS

- greater transferability between different pension arrangements

- further encouragement of 'industry wide' occupational schemes.

Personal pension schemes

3. Personal pensions will provide 'money purchase' benefits - ie the benefits on retirement will be based on the actual return from the invested contributions.

4. The consultative document sets out the terms under which tax relief for the new schemes will be available. Like the current retirement annuities, there will be no limit on total benefits, but there will be a limit on the amount of benefit which can be taken as a tax-free lump sum. Schemes will be on offer from banks, building socieities and unit trusts as well as insurers, to increase competitition and widen choice.

5. For tax relief purposes, there will be limits on how much can be contributed. For people aged 50 or less, the limit will be 17.5 per cent of earnings. For older people, higher limits will apply. These will be more generous than the present retirement annuity limits and they will be based on the individual's age rather than, as now, his date of birth.

6. The same limits will apply for employees and the self-employed, but there will be provision, within the overall limit, for an employer to contribute - if he wishes - to his employee's personal pension scheme.

7. As was announced in the DHSS White Paper, employees will be able to 'contract-out' of SERPS via a personal pension scheme. Such schemes will receive a 'minimum contribution' from the DHSS (representing a rebate of part of the National

/Insurance contributions

Insurance contributions paid by the employer and the employee). This 'minimum contribution' will not count for the tax relief limits.

8. The rules for the new personal pension schemes will be fully in place by April 1988.

Simplified occupational pension schemes

9. In future, employers setting up occupational schemes for their employees will have a choice. If they want a scheme tailored to their detailed requirements, the present rules for tax approval will apply. But if they are willing to have a simple scheme providing only 'no frills' benefits, they will be able to obtain tax approval without having to worry about the full range of Inland Revenue rules.

10. There will be two types of simplified scheme.

i. Simplified 'final salary' schemes

Pension benefits will be based on final salary at retirement but, even if additional voluntary contributions are paid, will not be able to accrue at a higher rate than 1/60 final salary for each year of service.

ii. Simplified 'defined contribution' schemes

This is a completely new concept: a money purchase occupational scheme with no limit on total benefits, but a limit on annual contributions (employers and employees combined) of 17.5 per cent of payroll. It will be possible for such schemes to 'contract-out' of SERPS if they satisfy DHSS requirements.

11. In order to achieve these simplifications, certain conditions will have to apply to both types of simplified scheme. The main ones will be:

- scheme members will generally not be permitted to be members of another occupational scheme

- controlling directors (ie with 20 per cent or more interest in the firm) will be excluded from membership

- unless the scheme is 'contracted-out' of SERPS, it cannot be self-administered (ie schemes can only invest in insurance policies, unit trusts etc).

12. Scheme documentation will be as simple as possible, and tax approval will be based on standard documents. The Revenue will provide, on request, model documents for which tax approval will be automatic.

/Transfer values

Transfer values

13. It is proposed to allow much greater transferability between different types of pension arrangement. But there are fundamental differences between 'defined benefit' occupational schemes and 'defined contribution' personal pension schemes. These make some conditions necessary where the transfer is to a 'defined contribution' scheme which imposes no limits on benefits.

14. The main conditions will concern:

- death in service benefits

  if there is a surviving spouse or a dependant, the personal pension scheme receiving the transfer must provide for annuities (rather than lump sum only)

- controlling director schemes

  in order to prevent abuse of the tax reliefs, special conditions will attach to transfers from controlling director schemes.

Administrative procedures

15. It is proposed to give basic rate tax relief for employees' contributions to a personal pension scheme 'at source' (as applies now for mortgage interest relief). So if the overall contribution is £100, the employee will pay only £71 (with the present basic rate of 29 per cent), and the managers of the scheme will claim the balance from the Inland Revenue. Any higher rate relief must be claimed direct by the individual through a tax return.

16. Where the scheme is 'contracted-out' of SERPS, a similar arrangement will apply for tax relief on the employee's share of the DHSS 'minimum contribution'.

CC/35

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

28 November 1986

NBPM.

Dear Tony

will report Greg'd.

SOCIAL SERVICES SELECT COMMITTEE'S REPORT ON PUBLIC EXPENDITURE

You wrote to me on 11 November seeking H Committee's agreement to the terms of your reply to the report by the Social Services Select Committee on Public Expenditure. You will have seen Nicholas Ridley's letter of 21 November suggesting a minor drafting amendment. No other member of the Committee has commented and I am writing to confirm that you have H Committee's agreement to proceed.

I am sending a copy of this letter to the Prime Minster, the members of H Committee, and Sir Robert Armstrong.

Yours

Antony Newton Esq MP

Review of Soc. Sec. : SOCIAL SERVICES.
Pt 5.

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

28 November 1986

*From the Private Secretary*

**SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST**

The Prime Minister has seen your Minister's letter of 25 November to the Chief Secretary about supplementary benefit for mortgage interest, and the Chief Secretary's response of 26 November.

The Prime Minister shares the Chief Secretary's view that it would be wrong to delay the announcement until Parliament resumes after the Christmas recess, both on tactical and political grounds and in order to secure greater savings in 1986/87. She believes the announcement should be made as soon as possible.

I am copying this letter to the Private Secretaries to members of H Committee and to Trevor Woolley (Cabinet Office).

David Norgrove

Colin Phillips Esq
Department of Health and Social Security.

CONFIDENTIAL

003/2985

CONFIDENTIAL

010

CCBS

Treasury Chambers, Parliament Street, SW1P 3AG

John Major Esq MP
Minister of State for Social Security
and the Disabled
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

Prime Minister?
Do you have views on the timing of any announcement? (See also N Fowler's letter below.)

26 November 1986

DHS 27/11

Dear John,

**SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST**

As soon as possible

Thank you for your letter of 25 November. will request if req'd

I am prepared to agree to the suggested minor amendment to avoid the creation of a "mortgage interest trap" and I am content with the draft response to the SSAC report.

I do feel however that tactically and politically it would be wrong to delay the announcement until Parliament resumes after the Christmas recess. The press is already full of speculation about possible concessions on this measure. If that speculation is allowed to build up it can only make the climate for an announcement more difficult and the significant concession we are offering look ungenerous. We have also delayed already much longer this year in implementing this measure than we originally planned. So I think that an immediate announcement would be by far the best course, and that we should get it out of the way before the Recess. That would also avoid any further erosion in the savings you agreed to deliver for 1986-87.

I am copying this letter to the Prime Minister, members of H Committee and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

AR1556p

CONFIDENTIAL


**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 John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

25 November 1986

Prime Minister 2

This will raise the temperature on home repossessions.

DHS 26/11

Dear John,

SUPPLEMENTARY BENEFIT FOR MORTGAGE INTEREST

During discussions in MISC 130, it was agreed that we should go ahead with the proposal to restrict help under the supplementary benefit scheme for mortgage interest payments, but to meet half the interest payments for the first 4 months of a claim rather than half for the first 6 months as originally proposed. In the first full year, 1987-88, this would reduce social security expenditure by £23m instead of £30m under the original proposal. I am now writing to confirm our plans for announcing the decision and implementing the change.

Can I say at the outset it is clear that the announcement will need careful handling. It will attract controversy and media attention and, despite the easement, some of our own supporters will continue to be unhappy about the impact on unemployed families. As you will recall, the reactions when the original proposals were announced earlier in the Year were very hostile. And the presentation will be made more difficult by events since then - the recent rise in mortgage interest rates and the wide publicity given to the growth in mortgage arrears and re-possessions.

The Social Security Advisory Committee have reported on their consideration of the original proposal in the light of their public consultation. The report strongly opposes the main change - the 50 per cent limitation - but the Committee have generally endorsed all the other changes, including those which include tightening-up in other areas of help with mortgage interest. We will have to publish the report, along with the Government's response, and there will need to be debates in both Houses since the amending regulations are subject to the affirmative resolution procedure.

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E.R.

CONFIDENTIAL

We are aiming to make the announcement immediately Parliament resumes in January after the Christmas Recess. There would be an early debate with implementation at the beginning of February. The timetable would be; announcement on 7 January; inclusion in the Business Statement on 8 or 15 January, depending on the timing of the debate; and reference to the Joint Commmittee on Statutory Instruments on 13 January. It will be important to avoid a clash between the debate and the announcement of the January unemployment figures - due on 15th. This suggests getting the debates out of the way before then, especially in the Commons - ie on 14 January, or holding them over for a week or so afterwards.

Implementation early in February will secure the full £23m saving as agreed for 1987/88. It will also save £1m in 1986-87. I acknowledge that this compares unfavourably with the £12m we had originally hoped to save this year. But, as you know, this was whittled down because of the longer than expected consultation exercise involving the SSAC and of the decision reached between us to reduce the restriction period from 6 months to 4 months.

I hope you and colleagues will find the timetable outlined above acceptable. It will distance the announcement and debates from the rises in mortgage repayments, some of which take effect on 1 December, and from the run-up to Christmas. I am sure we would have much greater presentational difficulties if we sought to put this out in the next few weeks.

I would be grateful for your agreement to the minor, but important concession presentationally, which will avoid the creation of a "mortgage interest trap". The SSAC report highlights that this trap would otherwise affect up to 1,000 claimants at any one time, and that it could increase the possibility of re-possessions because of growing arrears of mortgage payments. As you know, this concession has a negligible effect on the savings - we still achieve £23m - but I am sure it will be disproportionately helpful in presenting the proposals in the House. I hope you see no difficulty in this.

I would also welcome any comments you or colleagues might have on the terms of the Government's response to the SSAC's report; copies of the draft response and of the Committee's report are enclosed. In preparing the response, we have emphasised the SSAC's recognition that, for the majority of cases, the limitation should not give rise to significant hardship. The assurances of the Building Societies Association have been highlighted too (in paragraph 9), and we take credit both for the reduction in the restriction period from 6 months to 4 and for the proposed mortgage interest trap concession.

I am copying this letter to the Prime Minister, members of H Committee and Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

CONFIDENTIAL

TS

CC BY.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref: R/PSO/19807/86

Your ref:

Tony Newton Esq OBE MP
Minister for Health
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

21 NOV 1986

NBPR

Dear Tony

SOCIAL SERVICES COMMITTEE REPORT ON PUBLIC EXPENDITURE

Thank you for copying to me your letter of 11 November covering your proposed response to the Social Services Select Committee.

Recommendation 34, which has not been seen previously by my officials, has relevance to my housing responsibilities and I would be grateful if you would include the following replacement for the second sentence of the draft response:

> "The future structure of payments for ordinary board and lodging, including their relationship to payments for other forms of accommodation, is currently being considered in order to produce proposals for consultation".

Apart from this minor amendment I am content with the draft response and for it to be published as soon as possible.

I am copying this letter to the recipients of yours.

Yours ever
Nicholas

NICHOLAS RIDLEY

10 DOWNING STREET

DBN,

Chris Capella, Paymaster General's Office, rang re the question of inviting the Paymaster General to the 3/12 meeting on NEXT — DHSS say to take their silence as assent so an invite can now be issued

Cathie done CR. 9:11 18/11

Please invite the PMG to the meeting on 3/12 re payments to the unemployed.

David.

MR. NORGROVE

**MEETING TO DISCUSS PAYMENTS TO UNEMPLOYED**

I have fixed this for Wednesday 3 December at 1500 hours. The following will attend:

Lord Young
Chief Secretary
Secretary of State for Social Services
Sir Robert Armstrong

CR.

C.R.
6 November 1986

SECRET AND PERSONAL

SUBJECT
CC MASTER

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

**SIR ROBERT ARMSTRONG**

**THE FUTURE OF JOB CENTRES AND THE MANPOWER SERVICES COMMISSION**

The Prime Minister was most grateful for your brief of 31 October about the proposals which have been made by the Secretary of State for Employment for redistributing the functions of the MSC.

The Prime Minister discussed the proposals this morning with Lord Young. Lord Young added very little to the description of his proposals, though he did say that one advantage of them would be to bring fresh, action-oriented people, into the DES.

The Prime Minister expressed no views either way. However she said she thought it would be worth considering alongside other possible changes. She mentioned in this context the possibility of transferring regional support from DTI to Department of Employment (which had been mooted but rejected because Mr. Brittan resisted it when be became Secretary of State for Trade and Industry) and also the possibility of transferring to the Department of Employment responsibility for payment of all benefits met from the National Insurance fund, on the grounds that these benefits were all paid to people not working for one reason or another.

At the end of the meeting Lord Young asked for a few moments on his own with the Prime Minister to discuss "a political matter". I believe he did no more than to ask for a session at Chequers with the Prime Minister to explain his proposals in greater detail. I shall be consulting the Prime Minister further about whether she really wants to do this. I shall also consult her about taking forward the conflicting proposals from Lord Young and Mr. Fowler for changing the arrangements for payments to the unemployed.

DN

(DAVID NORGROVE)

4 November 1986

SECRET AND PERSONAL

DCABNJ

SECRET

10 & FILE DA CBG TPM

COPIED FROM MANPOWER: SEMS PT 15

PRIME MINISTER

**PAYMENTS TO THE UNEMPLOYED**

You discussed with Lord Young this morning his proposals for redistributing the functions of the MSC. This is a longer term proposal. More immediately, you will need to deal with the conflicting proposals from Lord Young and Mr. Fowler on payments to the unemployed.

I suggest a meeting with Lord Young, Mr. Fowler, the Chief Secretary and Sir Robert Armstrong at which you would listen to the arguments but not come to a decision. This would allow you to hear Mr. Fowler's side of the case before you consider further the wider proposals.

Agree?

I understand that Lord Young mentioned to you while I was not in the room his wish to discuss proposals on unemployment and his ideas on restructuring of the MSC etc. in a session at Chequers. His office have now been on to me to propose a meeting in late November or early December.

Do you wish me to sort out a date now or leave it to lie until after the meeting with Lord Young and Mr. Fowler?

(DAVID NORGROVE)

4 November 1986

PRIME MINISTER

31 October 1986

## LINKING EMPLOYMENT SCHEMES AND BENEFITS

We believe that Lord Young is developing far-reaching proposals to evolve the current training and community programmes into a stricter régime in which the long-term unemployed would be required to work or train in return for benefit. However, a major administrative reform will be required for this to be possible. It is in this context that Lord Young is pressing for the boundaries between DHSS and the Department of Employment for administration of benefit to be redrawn. It may also be necessary to reform the current tripartite structure of the MSC.

We have considerable sympathy with the logic of this strategy, but the central administrative reform of benefit administration raises the prospect of a major conflict between Lord Young and Norman Fowler. Lord Young has written to you on this topic and will almost certainly raise it with you in his next meeting, along with his ideas on the MSC. These issues are central to the Government's employment and benefit strategy, not just minor issues of administrative tidiness. But you will also wish to be cautious in responding to what could be seen as empire building. Before replying to Lord Young you therefore need to decide whether to take a personal interest in developing these ideas now or let them lie until after the Election.

## 1. Evolution Towards a Workfare Scheme

Although the Restart Scheme and new Availability Test are expected to have a significant impact, moving towards a system where young people (at least) are required to work or train for benefit is likely to be the only fully effective way of breaking the benefit culture. Lord Young believes he now has a practical plan to bring this about without excessive cost. The first step would be to recognise the guarantee of a place on YTS to school leavers and simply withdraw entitlement to benefit for anyone under 18 who chose not to take part. The new training schemes for the 6 month unemployed, which pay people their current benefit level, could also be made a required condition for benefit for those under 25. With the Community Programme becoming a less critical part of programmes for the unemployed, the Government could then take the risk of breaking the link with union wage rates and use special CP programmes as the ultimate availability test for the remaining long-term unemployed.

## 2. Integration of DHSS and Department of Employment Benefit Systems

The long-term unemployed are now the largest group of recipients of supplementary benefit. The Restart Programme is demonstrating the administrative complexities and delays involved in having a separation between the officials responsible for policing the availability of work criteria and

the officials responsible for the final decision on benefit entitlement. Lord Young will argue that the more complex arrangements of linking benefit entitlement to participation in training and work programmes will only be possible if screening and payment of benefits are brought back together.

## 3. Reforming The MSC

The other essential requirement to implement this strategy is to strengthen Government control of the work and training programmes. Under the current structure, any attempt to link benefit entitlement to participation in MSC programmes would be blocked by the union representatives. The Government would therefore need to restructure the MSC, folding some functions back into the Department of Employment.

## 4. Questions for Lord Young

You will not wish to debate all these issues in your meeting, but there are a number of questions you might ask Lord Young to find out how far he has developed his thinking:

1. Which decisions must be taken now and which can be left until other pressures on DHSS are less critical?

2. Is it essential to link payment of benefit with the decision on entitlement, or could the Job Centre be used to administer the availability test and provide

a certificate of benefit entitlement - with all payments through DHSS offices?

3. How feasible is it to get both YTS and the new Training Programme up to the level where everyone under 25 can be guaranteed a place - a necessary step if they are to be used as a condition of benefit entitlement?

4. Could the MSC take full responsibility for the under 18 group now without any other administrative changes?

5. How would we ensure that the training side of the MSC was effectively controlled after restructuring? (His favoured option may be to link it with the DES which has some clear drawbacks).

## 5. The Way Forward

The direction of Lord Young's proposals makes a lot of sense, although they clearly need a lot more analysis - including a thorough costing. Yet a green light to Lord Young to pursue these ideas could well cause friction with Norman Fowler. It could also direct DHSS attention from other urgent issues at a critical time.

Your options are to:

1. Ask Lord Young to prepare a complete paper on these issues which could subsequently be considered by a wider group of Ministers.

2. Ask Lord Yong to proceed on these areas where he has direct control, but defer the more contentious issues.

3. Give a non-committal response and let the matter lie for the time being.

On balance, we believe that these issues are sufficiently important that you should ask Lord Young to develop more detailed proposals - including answers to the questions raised above - and then decide whether or not to proceed further.

Norman Blackwell

NORMAN BLACKWELL

SECRET

PRIME MINISTER

71000

## BILATERAL WITH LORD YOUNG

Lord Young wishes to discuss with you his secret and personal minute at Flag A. This forms part of a tangled web, and you will want to read Robert Armstrong's brief below.

You will remember that there is an argument between Mr. Fowler and Lord Young about who should have responsibility for paying benefits to the unemployed. Both Minister want it. Lord Young's personal minute to you proposes among other things that Job centres should be integrated with payments for the unemployed, and this would effectively pre-empt the decision in his favour.

Both Lord Young and Mr. Fowler seem to feel passionately about the question, and there has been bad blood.

I suggest that on Monday you do no more than listen to the arguments, and tell Lord Young that the question of the future of the Job centres will need to be sorted out alongside the question of who should pay unemployment benefit.

How next to take this forward? (Not for discussion with Lord Young.) You could simply issue a decision one way or the other, or say that the matter will have to wait until after the election. But I suggest you probably ought to hold a meeting with Lord Young and Mr. Fowler.

There is then a question of whether you should be supported by any other Ministers. Mr. Tebbit would be an obvious possibility, but Mr. Fowler might well think he would be a natural ally of Lord Young. The Chief Secretary has an interest in view of the expenditure implications.

SECRET

I recommend that you hold a meeting to air the issues, but not to take a decision, with Lord Young, Mr. Fowler, the Chief Secretary, and Sir Robert Armstrong. The meeting would probably be held towards the end of November. You could then reflect further on the whole complex of questions.

Agree?

DN

31 October, 1986.

JD3ARO

Ref. A086/3107

MR NORGROVE

The Future of Job Centres and the Manpower Services Commission

Your minute of 23 October asked for preliminary advice on the minute which the Secretary of State for Employment sent to the Prime Minister on the same date.

2. The proposal to bring the responsibilities of the Manpower Services Commission (MSC) for employment services ("Jobcentres") back into the Department of Employment and put them alongside responsibility for payment of cash benefits to the unemployed as part of a nexus of proposals which together would constitute a substantial reorganisation of the machinery of government. The proposals are:

1. To abolish the MSC as such (which would require legislation).

2. To put the MSC responsibilities for Jobcentres into the Department of Employment.

3. To transfer to the Department of Employment from the Department of Health and Social Security responsibility for the payment of all cash benefits to the unemployed (this proposal has been the subject of separate minutes to the Prime Minister by the Secretary of State for Employment and the Secretary of State for Social Services).

4. To transfer the training responsibilities of the MSC to a departmental agency which might be in the Department



RTAADT

Department of Employment and the Department of Education and Science, for example the rather complex arrangements for Ministerial sponsorship of the new National Council for Vocational Qualifications.

5. But the starting point is in Lord Young's present proposals, the proposal to move the Jobcentres from MSC into the Department of Employment and unify them with the Unemployment Benefit Offices. The potential advantage seen in this move is increased effectiveness of programmes to reduce the unemployment count, leading to better detection of fraud and abuse and hence savings in expenditure on benefits to the unemployed.

6. I think that the case for this change needs to be further tested. At present there does not seem to be any detailed analysis of the extent to which savings in expenditure on benefits would in fact be forthcoming. Government programmes aim to reduce unemployment, and in a future of different, lower levels of unemployment the degree of emphasis proposed on detecting fraud and abuse might appear disproportionate. There would need to be an analysis of the manpower and accommodation consequences of unifying Jobcentres and Unemployment Benefit Offices. These could be significant, given the scale of both networks.

7. Unifying Jobcentres and Unemployment Benefit Offices would also foreclose one of the options which has emerged from the study of Department of Employment/Department of Health and Social Security local office networks. It would be compatible with Option B - giving Unemployment Benefit Offices responsibility for all cash benefits to the unemployed, as favoured by Lord Young. But it would not be consistent with Option C - bringing the payment of unemployment benefit together with the payment of all other social security benefits in Department of Health and Social Security local offices - because there would be no attraction in unifying Jobcentres and

of Employment but could better (Lord Young now seems to think) be in the Department of Education and Science, which would then become a Department of Education and Training.

5. To transfer responsibility for science from the Department of Education and Science to the Department of Trade and Industry.

3. The separation of employment services from training would not be an entirely clean break. Employment programmes contain significant training elements, and the Jobcentres offer assistance on training as well as job placement. If the new training agency, as well as the Jobcentre network, were to remain under the Secretary of State for Employment it is not clear to me that there would be advantage in separating them into distinct management structures.

4. I could see more attractions in separation if the new training agency were to be located in the Department of Education and Science. Last year Lord Young's note "Whitehall Departments; an Enterprise Structure" included a proposal for a new Department of Education and Training. In my minute of 8 July 1985 I suggested that this proposal had sufficient advantages to merit serious consideration, though at that time I judged that they did not outweigh the disadvantages. Since then policy has developed towards a more direct Department of Education and Science involvement in education - for example the new City Technology Colleges. Brigading training with the Department of Education and Science would thus bring together two functions to which the approach is increasingly similar. As Lord Young recognises, it would give the Department of Education and Science, at present a relatively small policy department, an executive capability. And it would avoid some of the difficulties which arise from the present boundary between the

Unemployment Benefit Offices under the Department of Employment, only to transfer the unemployment benefit component to the Department of Health and Social Security a year or two later. Mr Fowler's minute of 20 October to the Prime Minister came down firmly in favour of Option C, and my minute of 18 August to you suggested that on the evidence then available the balance of administrative advantage and efficiency appeared to lie with that Option.

8. Thus one of Lord Young's proposals is the subject of fundamental disagreement between the two Secretaries of State concerned. The present time is not one at which to divert the attention of the Department of Education and Science from the major educational issues which it is tackling. The abolition of the MSC would require legislation, for which there is no room this session. In practical terms I think that Lord Young is right: this is a reorganisation to put into effect next session (or after an election), not before.

9. Lord Young's proposals would in any case require more thorough and detailed study. The Prime Minister may like to consider whether such a study should be put in hand.

10. In considering how any such study might be organised there are two points to bear in mind:

i. Because of its link with Options B and C in the Department of Employment/Department of Health and Social Security local office networks study, there is rather more urgency about reaching a view on the Jobcentre aspect of Lord Young's proposals than on the training aspect. Lord Young and Mr Fowler are agreed that an early decision in principle between Options B and C is highly desirable; indeed Mr Fowler would ideally like a decision by the turn of the year to avoid the risk of abortive work on the Department of Health and Social Security computerisation

programme. Also, the study of Department of Employment/Department of Health and Social Security local office networks was announced in the Green Paper on the Reform of Social Security: no doubt there will be questions in due course as to what has resulted.

ii. Lord Young's proposals for the future of the MSC are not public knowledge. Further study of the Jobcentre aspect of the proposals is likely to require work at a local level to appraise the consequences on the ground of unification with Unemployment Benefit Offices, and the existence of the study would be likely to become widely known. This could cause some uncertainty and distraction for MSC staff, and arouse concern elsewhere: the TUC, for example, is guaranteed a voice by the present tripartite struction of the MSC, and could be hostile to an implication that the MSC's role might be reduced.

11. If the Prime Minister decided that further study of Lord Young's proposals was desirable, I would propose that the Jobcentre aspect should be remitted to the joint Department of Employment/Department of Health and Social Security study team, with continued Efficiency Unit involvement and consulting Machinery of Government Division in the Cabinet Office. The team's remit would be to revise its analysis of Option B so as to bring into account the manpower and accommodation consequences of a unification of Jobcentres and Unemployment Benefit Offices, and to analyse the extent to which this unification would provide savings in expenditure on benefits not obtainable by other means. The team could also analyse the suggestion in Mr Fowler's minute of 20 October that under Option C labour market related functions performed by Unemployment Benefit Offices might transfer to Jobcentres, and only benefit assessment related functions transfer to the Department of Health and Social Security: I am not clear how significantly this would change Option C as previously envisaged.

12. Through this study it would become generally known that the options under consideration included a transfer of the Jobcentres from MSC to the Department of Employment. But there would be no implication that the future of the whole of the MSC was under consideration, and excluding training from the remit should reduce the time required for study before a decision could be taken between Options B and C.

13. The training aspect of Lord Young's proposals could then be examined separately, and knowledge of the examination of this aspect kept within Government circles. I should propose to put in hand a study involving the Department of Education and Science, the Department of Employment, and the Machinery of Government Division in the Cabinet Office and the Efficiency Unit. If the Prime Minister favours such a study following her discussion with Lord Young, I will prepare a detailed proposal.

14. There is a territorial aspect of Lord Young's proposals: the MSC reports to the Secretaries of State for Scotland and Wales in respect of its operations outside England, and the Scottish and Welsh Office Votes contribute to the total MSC grant-in-aid. At an appropriate stage the Scottish and Welsh Offices would need to become involved in the study of the Jobcentres aspect of Lord Young's proposals, and in any study of the training aspect - all the more so because the Scottish and Welsh Offices have education functions parallel to some performed by the Department of Education and Science.

15. We should aim to bring the outcomes of these two studies together and report on the whole range of Lord Young's proposals as soon as possible.

RA

ROBERT ARMSTRONG

31 October 1986

SECRET AND PERSONAL

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBERT ARMSTRONG

**THE FUTURE OF JOB CENTRES AND THE MSC**

You will wish to see Lord Young's minute to the Prime Minister about the future of job centres and the MSC. Lord Young intends to discuss this with the Prime Minister at a bilateral on Wednesday next week.

I do not believe the proposals are known to more than one or two people in Lord Young's department, let alone other departments. But I am sure the Prime Minister would welcome your preliminary advice on Lord Young's ideas.

DAVID NORGROVE

23 October 1986

SECRET AND PERSONAL

6.

PRIME MINISTER

In my recent minute to you about future arrangements for paying benefit to the unemployed I said that I was convinced that the management of the Jobcentre network must be removed from the Manpower Services Commission and brought under the direct control of my Department. Only by unifying the management of the Jobcentres and the Unemployment Benefit Service under direct Ministerial control can we ensure that we maximise the effectiveness of Restart, Availability Testing and the other programmes I am developing to reduce the unemployment count. I would like to make this change as soon as possible, but I suspect that it will have to be in the next Parliament.

Removing the Jobcentres from the MSC immediately raises the question of what should happen to the Commission's training functions, which needs to be resolved at the same time. My recommendation is that we should not continue with an external organisation under tripartite management. I believe that the training functions should be transferred to a departmental agency under direct Ministerial control. There would then be a choice to be made between an agency responsible to DES and one responsible to my Department. Given the thrust of our policies for the 14-18 age group, there is a strong argument of principle for a DES agency. But this could carry a risk of

weakening the links between training and the world of work. Neither solution is without its disadvantages and both would involve cross links: for example, a DES agency would have the job of providing places for my Department's training programmes for the unemployed.

However, of crucial importance is the influence of DES over the education service. If we can move to a position where they exercise much greater influence, it seems logical that DES should acquire the training agency as an executive arm. I believe the prospects of achieving this position should be the deciding factor on Departmental responsibility for training.

I am sending this note to you on a personal basis in order to give you some idea of the direction in which I think we should be moving. I am not copying it to colleagues, here or in other Departments.

D Y
23 October 1986

MS0884p

PRIME MINISTER

DHSS/DE LOCAL OFFICE NETWORKS

The study proposed in the Social Security Green Paper into the arrangements for paying benefit to unemployed people came up with 3 options. Option A can be left to one side because both David Young and I agree that maintaining the present split of responsibilities is not sensible, no matter what minor improvements might be made. I firmly believe that Option C is the right course; a transfer of the operations of the Unemployment Benefit Service to my Department. There would be no change as far as policy responsibility is concerned; I already hold this for all social security benefits, including Unemployment Benefit, which Department of Employment deliver as my agents.

David Young's recent minute to you advocating Option B rests on the proposition that we should regard unemployed people as totally separate from other groups receiving cash benefits. I entirely agree with this for all aspects connected with the labour market - that is why I agreed to transfer unemployment review work to DE. But once we have established through these mechanisms that a person is genuinely unemployed, his needs for cash assistance are no different from those of any other group. If we were to pursue the idea which David introduces in his minute, of bringing together Job Centres and Unemployment Benefit Offices - an idea not considered or costed by the study team nor included in any of our discussions so far - there would be a grave risk that staff would become bogged down on benefit work to the detriment of their proper tasks of testing availability and job placement. However, there may well be

E.R.

tasks which can sensibly be transferred from Unemployment Benefit Offices to Job Centres so as to concentrate tasks associated with the labour market in one place. Indeed I envisage this happening under Option C if all the actual assessment of benefit were to be done in DHSS.

The strategic aims for social security are very clear and have been well publicised. First is the restructuring of benefits, designed to provide among other things, greater consistency of support across work and benefit boundaries. The new benefit for people not in work - Income Support - will provide for all those in need, whatever the reason for their lack of resources. It removes distinctions between unemployed people and others existing in the current SB scheme. Similarly we decided that the special needs of all groups should be met from one discretionary source - the Social Fund.

Second is our computerisation strategy with its major declared objective of enabling one office to deal with all benefits for an individual through access to central computer records. For example, the system will bring together information about unemployment benefit claims and simultaneous disability benefit payment.

Only Option C matches up with these objectives. They would be wrecked if the benefit service was to be split as proposed in Option B.

To split the operation of the Income Support scheme makes no sense. Many claimants move backwards and forwards between benefit categories, most commonly between unemployment and sickness. Some could claim on different counts - one-parent family heads who become unemployed - and income support covers a multitude of circumstances, including such groups as homeless people and boarders. These already cause severe problems which would be made worse if the claimants were liable to be dealt with by a different department depending on whether they were unemployed or in some other category. The operation of the Social Fund would also be made more complicated as this would necessarily be handled by DHSS for all claimants including the unemployed, but with DE involved in the

E.R.

recovery of loans. Option C removes the present need for benefit claimants to be shuttled between separately managed networks of offices with all the scope for duplication of work, for delay and error that that entails. The size of the resulting benefit department makes it possible to provide a network of local offices to give a balance between economy of size and ease of access. There is potential to provide a large number of smaller offices if further work showed this to achieve better service cost-effectively. Option B on the other hand involves the physical transfer to DE of some 13,000 to 14,000 staff and would inevitably mean that some smaller DHSS offices would cease to be viable and would have to be closed, and therefore there would be fewer contact points than now for the sick, disabled and elderly.

Under Option C, for the first time, all contacts on benefit matters with employers, the MSC and the Inland Revenue would be made by one Department only. This same Department would maintain exclusive contact with Local Authorities, for Housing Benefit in particular. The prospect under Option B of having local authorities deal with 1000 Unemployment Benefit Offices as well as 500 DHSS local offices on Housing Benefit could not possibly be presented publicly as a sensible step forward. In particular the local authorities would not know which office to contact because of the movement on and off the unemployment register. And in the longer term, the split of responsibility for benefits between Departments would run counter to the Government's aims for a closer relationship between tax and benefits systems.

To sum up, in my view all measures to get people back into work, including training and special employment measures, should be concentrated in the DE group, but I do not believe that the function of assessing and paying benefit should be part of the same organisation. The Restart scheme has shown that, given the will and the political impetus, the placement service can work effectively without also being responsible for benefits. The right answer now is one benefit service with efficient links with the placement service, which in turn must have the specific duty of monitoring the availability and efforts to find work of unemployed claimants.

E.R.

My preferred option also brings together all fraud and abuse measures within one department for the first time, to provide a single, unified force, avoiding duplication and communication problems between departments and allowing for maximum impact in our efforts to cut abuse of the benefits system. A combined team of this kind would have the expertise to deal with all types of fraud - cohabitation and board and lodging fraud for example - and not just working and claiming.

David Young and I are agreed that it would be inconceivable to imperil the implementation of the Social Security review by attempting to introduce any major operational changes until 1989 at the earliest. However, we also agree that an early decision in principle between the options is still highly desirable. Radical change of the proportions we are considering here must be carefully planned if the Government is not to find itself responsible for administrative chaos. In addition, a decision between the options is required as soon as possible, ideally by the turn of the year, if abortive work is to be avoided on my Department's computerisation programme.

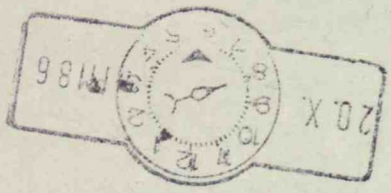
I strongly believe that we should collectively approve Option C.

I am copying this minute to David Young, John MacGregor and to Sir Robert Armstrong.

20th October 1986

N F

SOCIAL SERVICES Review: PEST.



4

SECRET

P 02285

Prime Minister
DHN
15/10.

From: J B UNWIN
15 October 1986

MR NROGROVE - No 10

cc PS/Lord President

**SOCIAL SECURITY UPRATING**

Following discussion within the Star Chamber and with Mr Fowler this morning the Lord President would like to explain the current position on the social security uprating when he sees the Prime Minister after lunch.

2. The position, in brief, is as follows. With the full agreement of the Star Chamber, and in the light of his talk with the Prime Minister yesterday, the Lord President has prepared the attached paper for handing round at Cabinet tomorrow. As you will see, this poses a straight choice between a normal prices uprating and an enhanced uprating (of £1 and £1.50p in the single and married pensions respectively) offset (except for £10 million) by no increase in child benefit.

3. Mr Fowler made it clear this morning that he is very strongly opposed to not uprating child benefit. He offered to try to find other off-setting savings. The view of the Star Chamber was that, if he could find any other savings, they should be used to set against the enormous other bids on his programme. My own frank view, after separate discussion with DHSS, is that other genuine savings would not in fact be forthcoming.

4. After the Star Chamber discussion Mr Fowler indicated to the Lord President that, in the light of the above, he would now prefer to stick with a prices only uprating. If the Prime Minister is content with this, it would not be necessary to circulate any paper at Cabinet tomorrow. Mr Fowler could simply report that he will be making an uprating statement next week on the normal prices uplift basis.

J B UNWIN

Cabinet Office

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October 1986

CABINET

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APRIL 1987 SOCIAL SECURITY UPRATING: RETIREMENT PENSIONS

Memorandum by the Lord President of the Council

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In their discussions with the Secretary of State for Social Services the Ministerial Group on Public Expenditure (MISC 130) have considered as a matter of urgency the April 1987 pension uprating. An immediate decision is required both on account of the important wider public expenditure implications and so that the uprating can be announced next week, following publication of the relevant Retail Price Index figures on 17 October.

2. The Index is likely to show an increase of 2% over the relevant uprating period (January to September 1986). This would mean an increase of 75p in the single pension (from £38.70p to £39.45p) and £1.20p in that for couples (from £61.95p to £63.15p) next April. The Social Services Secretary, however, has proposed that these increases should be enhanced to £1 and £1.50p respectively. The extra cost, together with its carry through to pledged and linked long-term benefits (supplementary pensions, invalidity and widows benefits, invalid care allowance, severe disablement allowance, and by the same cash amount the pensioners needs allowance for housing benefit) would be £95 million in 1987-88 over a normal prices only uprating.

3. In view of the large demand-determined additions that have already had to be made to the social security programme (some £1.4 billion in 1987-88), and the very severe pressures on the public

? { Risk of leaks, adding to concern about tax planning ahead next year?

expenditure planning totals overall, the Ministerial Group are unable to recommend such an increase unless the extra cost to the social security programme base is (in large measure) offset by not uprating child benefit next April. The Index would justify an increase of 15p from £7.10p to £7.25p; forgoing this increase would save an estimated £85 million in 1987-88. The Group take the view that any other savings that can be made on the social security programme (which will be the subject of further discussion with the Secretary of State) should be used to help offset the existing excesses over the planning totals.

4. On behalf of the Ministerial Group, therefore, I invite the Cabinet to choose between the following options for the uprating in April 1987:-

(i) to increase the single and married pensions, and child benefit, by the increase in prices over the relevant period (2%), giving increases of 75p and £1.20p and 15p respectively;

(ii) to increase the single and married pensions (and related pledged and linked benefits) by £1 and £1.50p respectively, and to make no increase in child benefit, at a net cost of £10 million to the social security programme base in 1987-88 over that of a prices only uprating.

Privy Council Office
October 1986

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SECRET

Qf 00189

Please copy to Mr Norgrove (No 10). 3
This shows that there could be a reasonably cheap selective measure for poorer families, if C.B. were not uprated. But it would, of course, set higher thresholds for the new family support scheme in 1988.

MR UNWIN
c Mr Wiggins

**MISC 130: SOCIAL SECURITY**

14/x.

1. You asked if it would be possible to mitigate the effect on poor families of a nil uprating of child benefit. This could be done through increases in other child-related benefits - for example, additions to family income supplement and supplementary benefit. In fact this is precisely what was done in November 1985 when child benefit was uprated by less than inflation (£6.85 to £7, an increase of 2% compared with the 7% increase in the RPI between May 1984 and May 1985). The sidelined extracts* from Mr Fowler's statement then (attached) show what can be done and how it can be presented. The cost would obviously depend on precisely what was done, but it should be possible to keep it relatively small ie under £10 million in the first year.

2. You also asked what the administrative savings would be if child benefit was not uprated. Precise quantification is not possible without consulting DHSS but it is likely that the savings would be negligible. Unlike supplementary benefit which is expensive to uprate because it is done manually, child benefit is paid via the Livingston computer and I think it is largely a matter of changing the figures in the printed books that are issued.

MJE

**M J ELAND**
14 October 1986

* I have the full text.

# Social Security Benefits (Uprating)

3.30 pm

**The Secretary of State for Social Services (Mr. Norman Fowler):** With permission, Mr. Speaker, I should like to make a statement about the annual uprating of social security benefits which takes place in the week beginning 25 November.

The improvements that we are making, which have been allowed for within the Government's public expenditure plans, will increase the Government's social security budget by over £2,000 million in a full year.

As the House will know, the retail price index published last Friday showed a rise of 7 per cent. between May 1984 and May 1985. The Government are pledged to increase pensions and other linked long-term benefits in line with this rise in prices. Accordingly, the retirement pension for a single person will rise from £35.80 to £38.30, an increase of £2.50 a week, while the pension for a married couple will rise fom £57.30 to £61.30, an increase of £4 a week.

This will mean that between November 1978 and November 1985 pensions will have gone up by over 96 per cent. some 10 percentage points more than the expected rise in prices over the same period. Thus, we have more than fulfilled our pledge to protect the retirement pension against rising prices.

Public service pensions will similarly be increased by 7 per cent. We shall also further ease the earnings rule —that is the amount which a pensioner can earn without a reduction of his pension. This will be increased 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 for a single person and from £46 to £49.25 for a couple.

Supplementary benefit is increased in line with the retail price index excluding housing costs. This is because people on supplementary benefit have their housing costs met separately through housing benefit. All the main supplementary benefit rates will therefore be increased by 5·1 per cent. The long-term scale for a couple will go up by £2.90 to £60 a week. The ordinary scale for a couple will go up by £2.30 to £47.85 a week. The scale rates for children will go up to £18.20 for a child aged between 16 and 17 years, £15.10 for a child aged between 11 and 15 years, 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. 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 supplementary benefit households with central heating systems. Those special additional payments were introduced in the early 1960s because at that time central heating was more expensive. That is no longer generally true. In the meantime, there has been an extensive development of additional help with heating costs for those such as pensioners and the disabled. 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 5 August, but the range of automatic heating additions for the special needs of particular groups will be extended so that from November the lower standard rate of heating addition, which will then be £2·20 a week, will be paid automatically to sick and disabled householders on the long-term rate of supplementary benefit.

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 be increased by the full 5·8 per cent. to £47·70 for a single person and £70·20 for a married couple.

The uprating of the housing benefit needs allowances will further increase spending on a benefit which is already paid to well over 7 million households. Expenditure will increase to £4½ billion in a full year. The Government believe that it is right to restrain further growth in housing benefit expenditure. We therefore propose to increase the rates taper above the needs allowance from its current level of 9 per cent. to 13 per cent.

No one on supplementary benefit or with income within £10 of the scale rates will be affected by the change. Indeed, a pensioner couple would need to have an income nearly £13 a week above the retirement pension level before their overall benefit increase was reduced by even 10p a week as a result of this change.

The Government believe it right to maintain child benefit for all children, irrespective of the income of their parents. Nevertheless, we have to consider its level both in relation to overall priorities within social security and, in particular, with the aim to do more for families with children on low income.

The Government have concluded that child benefit should be increased in November to £7 a week. However, one-parent benefit will be increased by the full 7 per cent. from £4·25 to £4·55 per week; and families on supplementary benefit will not be affected and will benefit from the increases in the scale rates for children. At the same time, we propose to take two important steps to give additional help to less-well-off families with children.

First, the prescribed amounts in family income supplement will be increased by more than 7 per cent. to give all FIS families extra help. In addition, we shall introduce new higher prescribed amounts for families with older children. That will mean, for example, that the prescribed amount for a child aged between 11 and 15 years will be increased by an extra £2 and for a child aged 16 and over by an extra £3 a week ahead of prices.

Secondly, we shall increase the child's needs allowance in housing benefit to £14·50 per week—£1 a week more than the normal uprating would have required.

Taken together with the reduction in national insurance contributions for lower paid workers announced in the Budget, those two measures are further steps towards reducing the unemployment trap and directing help more effectively to the families most in need.

Benefits for disabled people, war pensioners and war widows will all be increased by 7 per cent. This will mean that the pension for a war widow will go up to £49·80, the higher rate of attendance allowance will increase to £30·60 a week and mobility allowance will go up to £21.40.

For invalidity benefit, the Government propose to make a total increase of 12 per cent. This will restore the 5 per cent. abatement as well as giving the full 7 per cent. uprating. It will mean that invalidity benefit will increase from £34·25 to £38·30 for a single person and from £54·80 to £61·30 for a married couple. This will bring it in line

*[Mr. Fowler]*

inflation. When the hon. Gentleman lectures us about our concern for the pensioners, let me remind him that it was his Government who presided over a 110 per cent. increase in inflation, which was devastatingly bad news for every pensioner.

The hon. Gentleman's major point was about child benefit. We are spending £2 billion in this uprating. We have had to decide the social priorities for that spending. The first priority must be to give help to families in greatest need. That is why we are giving a full uprating of one-parent benefit. That is why we are giving a full uprating of the children's scale rate on supplementary benefit as well. That is why we are giving more help to family income supplement families with older children. That is why we are giving more help through the housing benefit child needs allowance. The first aim is to direct help to the poorest. We have identified the poorest families as being one of the areas that we most want to help. That is precisely what we are doing.

**Mr. Robert McCrindle** (Brentwood and Ongar): If, as many commentators predict, the rate of inflation in November, when these increases are paid, has fallen again below 7 per cent., will not that represent a small but welcome increase in the standard of living of the beneficiaries?

**Mr. Fowler:** That is precisely the point that I made in my statement. As my hon. Friend realises, inflation is now at 7 per cent. The forecast is about 5 per cent. for November-December this year. Had we kept to the forecast method of the Labour Government, the uprating would be less, and pensioners would receive £1 less in their pension than under this up rating.

**Mr. Archy Kirkwood** (Roxburgh and Berwickshire): Is the decision to cut back the increase in child benefit a one-off decision, or has the right hon. Gentleman taken the view that child benefit will continue to suffer in terms of indexation in the foreseeable future?

**Mr. Fowler:** Each year, and at each uprating, we have to decide what the social priorities for spending are. We have made it absolutely clear that the first aim, the first call on resources, is direct help for families whom we define as being in greatest need. However, we shall keep the issue under review.

**Mrs. Edwina Currie** (Derbyshire, South): Does not my right hon. Friend feel even a little sorry for the Opposition spokesman, the hon. Member for Oldham, West (Mr. Meacher), who constantly uses the lurid language of Armageddon and attributes to the Government all sorts of nefarious motives and activities when the facts are just the opposite? Cannot we buy the hon. Gentleman a violin, and then it might sound a bit better? Does not today's uprating of £2 billion show that the Government keep their promises and will care for the most needy in our society?

**Mr. Fowler:** We do not want to attack the hon. Member for Oldham, West (Mr. Meacher) too much, because he might be moved unless we are very careful. What the uprating most certainly shows is that we are keeping our word and our pledges to the pensioners, and we shall continue to do so.

**Mr. Jack Ashley** (Stoke-on-Trent, South): Is the Secretary of State aware that I welcome the increase in the vaccine damage payment? However, does he agree that it is no real substitute for a comprehensive compensation scheme, which is what the children merit and deserve?

Rather than feeling sorry for my hon. Friend the Member for Oldham, West (Mr. Meacher), will the right hon. Gentleman reflect on the fact that any increase must be more than 7 per cent.—the inflation rate—to be meaningful, and that any increase less than 7 per cent. would be a cut, which would be disgraceful?

**Mr. Fowler:** I do not accept the right hon. Gentleman's last point. As I have explained to the House, we have increased spending by more than £2 billion as a result of the uprating. The right hon. Gentleman will know that within a budget of more than £42 billion decisions must be taken.

I am grateful to the right hon. Gentleman for his comment on the vaccine damage payment, and realise that he would like us to go further. Nevertheless, I hope that he feels that we have taken a fairly giant step in the right direction.

**Mr. Ian Lloyd** (Havant): Whatever its merits against a wide range of criteria—and I do not dispute that there may be some—does not the announcement represent a massive transfer of real resources from the economically active to the economically inactive population? Do the Government accept that there is a limit to that transfer, and, if so, what is it?

**Mr. Fowler:** It seems to me and to the Government that we have a responsibility to care for and to provide resources for those in our country who are most in need. It is a responsibility that the Government will fulfil.

**Mr. Frank Field** (Birkenhead): I thank the Secretary of State for his announcement of benefit increases. May I draw his attention to the part of his statement on which he did not dwell? Will he list those benefits and parts of benefits that have been cut? How many millions of claimants will be affected? What will be the total saving of public expenditure?

**Mr. Fowler:** The major changes concern child benefit, housing benefit and the central heating additions. The measures all told will reduce the increase in the social security bill by £85 million this year and £250 million in a full year.

**Mr. Douglas Hogg** (Grantham): Does the fact that my right hon. Friend feels unable to uprate child benefit by the full 7 per cent. suggest either that wealthier people should pay tax on the benefit or that they should not receive it? If either of those policies were pursued, would not more resources be available to those in greatest need?

**Mr. Fowler:** Perhaps my hon. Friend will concede that we have sought to direct more resources to those families in greatest need through the family income supplement scheme. I am sure that my hon. Friend already knows that if we followed his advice on taxation of child benefit the result would be a reduction in the take-home pay of literally millions of people. That is a step about which we should think carefully before taking it.

**Mr. Derek Foster** (Bishop Auckland): Will the Secretary of State confirm that one of the most urgent priorities is families with children? Does he recall the

Prime Minister

MR NORGROVE

13/10.

SOCIAL SECURITY UPRATING

The Star Chamber discussed with Mr Fowler this evening next April's Social Security Uprating. The Lord President would like to raise this with the Prime Minister when he sees her tomorrow morning, and asked me to summarise the issues for the Prime Minister in advance.

There are two main issues: -

i. the timing of the uprating announcement;

ii. the amount of the uprating.

Timing

Mr Fowler argued for postponing the uprating until the Autumn statement. After discussion in the Star Chamber, however, he agreed that it should be made next week - probably on Wednesday, 22 October.

Amount

The relevant RPI uprating factor (January to September 1986) is 2 per cent. This will give increases of 75p and £1.25p in the single and married retirement pensions respectively. Mr Fowler proposed that these increases should be raised to £1 on the single pension and £1.60 for couples. This would represent a 2.6 per cent increase and, when carried through to the relevant other pledge and linked long-term benefits, would cost £105 million in 1987-88.

The Chief Secretary proposed that, if this were done, it should be offset by foregoing next April's child benefit increase of 15p from £7.10p to £7.25p. This would save £85 million.

In discussion, Mr Fowler strongly opposed foregoing the child benefit uprating, but was prepared to save £10 million by reducing the married pension increase to £1.50p and £17 million by foregoing the uprating of the Additional Requirements Allowances (for diet and heating), which will not in any case continue in the new income support scheme. This would still, however, leave a net addition to expenditure of £78 million.

? 

Issue for discussion

The conclusion of the Lord President and of the other members of the Star Chamber after the discussion was that, given the very severe public expenditure pressures, it would be better to stick to the RPI uprating only. They saw considerable difficulty in foregoing the child benefit uprating, which Mr Fowler would oppose very strongly; and they thought that increases of 75p and £1.25p should be defensible against the background of the much lower rate of inflation.

The Lord President would, however, like to take the Prime Minister's mind on how she would wish to take this forward. If the Prime Minister thinks that it should be considered by Cabinet on Thursday, the choice would be whether he (for the Star Chamber) or Mr Fowler should submit a paper (which, in view of the sensitivity, he thinks should be short and handed round at Cabinet itself rather than circulated in advance). If Mr Fowler is to submit a paper, he would like to be able to let him know as soon as possible tomorrow.

But once Cabinet discusses this it will be difficult not to give the extra. You can imagine the headlines if it leaks: "Cabinet considers giving 25p to pensioners and turns it down." Or something snappier.

J B UNWIN

DEV
13/10.

SECRET

1 cc BG
NBPM at present - Sir R. Dobbs.
cc Blue
2.10.86

PRIME MINISTER

DE/DHSS LOCAL OFFICE NETWORKS

As you know, the joint DE/DHSS Network Review identified the possibilities for fundamental change and the benefits to be secured. My decided view is that Option B, which would bring together in Unemployment Benefit Offices responsibility for the main cash benefits for the unemployed, should be adopted. Indeed, this was the recommendation of the Rayner Report in 1980 which we then accepted in principle.

2. Perhaps I should at the outset explain just why it is that I favour Option B so strongly. It is my firm belief that the unemployed must be viewed differently from all other social security benefit recipients. Their needs are different and so - more importantly - are the ways in which the State should meet those needs. The unemployed are a quite distinct category of benefit claimant because their need for benefit stems not from their personal circumstances - their health or age, or the size of their family - but from the operation of the labour market. It is their loss of, or failure to find, a job that leads to their claim for benefit. Our priority must be not just to assess their financial needs while they are unemployed, but to test the genuineness of their claim to be unemployed and to get them back into work as quickly as possible. In other words, the services we provide to the unemployed need to be anchored firmly in the labour market at every stage.

3. This all points to organisational arrangements of the kind identified in Option B. Indeed I believe it essential in the much shorter term to bring together under single control responsibility for job placement services; access to training, self-employment and employment measures;

counselling and review; the detection of fraud and abuse; as well as the assessment and payment of benefits. To be clear, my objective is to put the MSC's Job Centres and the Unemployment Benefit Offices firmly in a single management structure within my Department, with common management down to local level so that the network as a whole is firmly rooted in the labour market. My intention would be to establish this new structure just as soon as possible, which can be well before the implementation of Option B. The Review's report points to the efficiency savings which can be achieved from the adoption of option B, which are somewhat greater than those option C might provide. But the primary objective must be to establish arrangements for the unemployed as a single client group and I firmly believe that much greater savings in public expenditure can thereby be achieved.

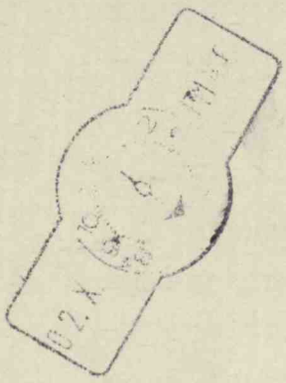
4. I accept that the transfer of functions and staff from DHSS to DE which Option B involves cannot be fully accomplished before the implementation of the new social security structure. That cannot be put at risk. This means that the transfer could not begin to be secured before 1989. I also accept that a continuing coherence is essential for the main policy considerations governing social security as a whole. This can be achieved through the continuance of the present agency agreement between the Departments. But if we are to establish arrangements for treating the unemployed as a single client group, it is essential to take the strategic decision on Option B now so that the unification of the Job Centre and Unemployment Benefit Service networks is not delayed and established just as quickly as possible and a firm framework is established for the many operational decisions which will have to be taken before Option B could be implemented in the longer term.

5. Finally, I am in no doubt that Option B is more readily achievable and will cause less disruption and fewer staff movements and personnel problems than Option C. The change is manageable. On completion it will provide two manageable networks of reasonably sized local offices with clear and distinct functions. It will be more effective and cheaper, not only operationally but also in terms of the benefit savings which will accrue.

6. I invite a decision that Option B should be adopted.

7. I am copying this minute to Norman Fowler and Sir Robert Armstrong.

SOCIAL SERVICES REVIEW pt 5.



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DHSS TO NLW 16.9.86

PART 5 begins:-

SS/EMP TO PM 2.10.86

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