

PRIME MINISTER

1979/80 CASH LIMITS : CIVIL SERVICE WAGES AND SALARIES

I am disturbed that some colleagues seem anxious to reopen the decision that we reached on 17 May about ways that Departments might meet the target savings called for by the Lord President in staff costs. I fear we may be in danger of subordinating reality to presentation.

It might be helpful if I were to remind colleagues of the points I made on the basis of which it was recognised that economies in some areas, and Social Security administration was quoted as an example, might actually prevent the realisation of much bigger savings, which led you in your summing up to say that the Chief Secretary would be approached about alternative ways of securing equivalent savings.

In our election manifesto we said that:

"The rules about the unemployed accepting available jobs will be reinforced and we shall act more vigorously against fraud and abuse."

We cannot carry out this undertaking and cut the local office staffs.

I drew a clear distinction between staff in the local social security offices and most of the rest of my Department. (There is, I understand, no dispute that the special hospitals like Rampton must be excluded from the cuts.) In the local offices, the urgent need is to strengthen the defences against fraud and abuse. There are four areas of work where an increased investment of staff should produce significant benefit savings.

a. Unemployment Review Officers. In 1977 UROs called 136,270 cases for interview, of whom 57,841 (42 per cent) ceased to draw benefit shortly before or after interview. (This was an 11 months period; a 12 month period could reasonably have produced 60,000 ceasing to draw benefit.) For each URO man-year 200 cases went off the books,

1979 JUN 13

MEMORANDUM FOR THE DIRECTOR

I am pleased that your colleagues were able to report the results of their work on the project. The results are very encouraging and show that the project is making significant progress. I am sure that the project will continue to make significant progress in the future.

It is also good to hear that the project is making progress in the area of research. The results of the research are very promising and show that the project is making significant progress in the area of research. I am sure that the project will continue to make significant progress in the future.

The results of the research are very promising and show that the project is making significant progress in the area of research. I am sure that the project will continue to make significant progress in the future.

I am sure that the project will continue to make significant progress in the future.

I have a great interest in the project and am sure that the project will continue to make significant progress in the future.

173 JUN 1979

The results of the research are very promising and show that the project is making significant progress in the area of research. I am sure that the project will continue to make significant progress in the future.

of whom 150 would not otherwise have done so. Assuming average benefit figures (for 1978) this produces savings of a sum of the order of £100,000 per URO man-year. This is a cost benefit ratio of about 20 to 1.

b. Liable Relative Officers. Benefits are not quite so great, but the average savings achieved by staff on this work are about £34,000 a head - a cost benefit ratio of 6 to 1.

c. There are two types of Fraud Officers. Our calculations suggest that the estimated benefit saving per man-year amounts to about £23,000 for local office fraud officers. (A cost benefit ratio of $4\frac{1}{2}$ to 1) And about £43,000 for the more skilled special investigators (a cost benefit ratio of over 8 to 1).

As a result of the decision to increase benefits, the savings in the latter part of the year will be even larger. I am assured that we are some way off from the point at which diminishing returns may set in and our predecessors said so in public. On the contrary, all the evidence suggests that when the word gets round that we are being a good deal tougher in these areas than our predecessors, the deterrent effect could well spread wider.

It is in these circumstances that colleagues appeared to accept my point that, since we are looking for cash savings, it would be better to deploy more staff to secure these savings than to risk the loss of benefit (or fail to make any savings) by trying to cut back staff in the local offices by 3 per cent.

I might also remind colleagues that, recognising the difficulties that this might create for colleagues, I have undertaken to cut the rest of my Departmental staff totalling around 25,000, not by 3 per cent, but by 4 per cent. This includes not only all DHSS Headquarters and the social security Central Offices at Newcastle and North Fylde, but also such sensitive areas as the Artificial Limb and Appliance Centres.

In these circumstances I hope very much that colleagues will feel able to adhere to the decision that they took. So far as the presentation problem is concerned, it does seem to me that it should be possible for the Lord President to take

credit for the additional benefit savings which can be achieved by the more sensible deployment of staff, which my proposals envisage. I cannot believe that it would redound to our credit, if it became known (for instance through the Staff Side in my Department, whom I have consulted on the Lord President's exercise) that we were foregoing large-scale continuing savings which could over the next two or three years amount to substantially more than the cost of deploying the additional 1000 people to combat fraud and abuse, for which I am asking.

I am copying this minute to all Cabinet Colleagues, Norman Fowler, Michael Jopling and Sir John Hunt. In view of the Cabinet's consideration of the issue tomorrow, I attach a copy of my earlier letter to John Biffen.

PJ

13 June 1979