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SOCIAL SECURITY REVIEW

Memorandum by the Secretary of State for Social Services

This paper summarises the outcome of the review of social security. The review has taken place over the last 18 months and is the most extensive examination of the social security system for 40 years. With the exception of the independent housing benefit inquiry the review has been led by Ministers assisted by outside advisers. Nineteen public hearings have been held. All told over 40,000 copies of consultation documents have been issued and nearly 4,500 pieces of written evidence received. This paper explains the case for change; describes the principles on which the reform is based; and sets out a programme of action. It will be supplemented by a separate presentation. Also attached as an Annex is a draft of Volume 1 of the Green Paper which explains the proposals in more detail.

THE CASE FOR REFORM

2. The case for reform is that the social security system leads to over-reliance on the State; it pre-empts too large a share of resources; it is not well targeted; it is in danger of breaking down administratively and is too complex for people to understand.
3. Spending on social security now totals over £40 billion a year and represents almost a third of all public spending. The proportion of Gross Domestic Product taken up by social security has risen from 4.7 per cent to 11 per cent since the start of National Insurance in 1948. If social security spending were allowed to continue to grow, as it would on present policies, it would pre-empt an even larger share of Government resources and put the Government's overall economic strategy at risk. The cost of the State Earnings Related Pension Scheme (SERPS) alone will eventually increase spending on pensions in real terms by over £20 billion (if pensions are uprated by prices) or £35 billion (if pensions are uprated by earnings).
4. Even with the present level of spending the evidence of the review is that help is not being targeted to those most in need. Our research shows that the position of the retired population has improved very considerably over the last 15 years. Against that, however, it is clear that poor families with children now emerge as the group most in need. This includes not just the unemployed but poor families where the head of the

family is working. For low paid workers with children the gap between income in and out of work is narrow and it is here that we have the worst effects of the unemployment trap.

5. Two-thirds of the population are now entitled to social security payments and the resulting pressure on the administration of the system is immense. In particular, the supplementary benefit system which now provides help for some four million claimants is in danger of breaking down. Currently some 36,000 staff (out of a total social security staff of 80,000) are working on supplementary benefit alone.

6. As a result of the ad hoc additions to the social security system made over the last 40 years we now have a system of bewildering complexity. For supplementary benefit the rules of entitlement are so complex that the guidance to the staff is contained in a two-volume guide of 16,000 sections and an index of 43 pages. The complexities of housing benefit put a strain on local authorities while the evidence of market research shows that there is considerable public ignorance of benefits like the SERPS.

7. Above all, perhaps, the balance between the State and the individual is wrong. The social security system currently gives too much responsibility to the State and too little to the individual. The earnings related pension scheme is one - but only one - example of this. This dominance by the State was never intended by Beveridge who believed that there were important roles for both the State and the individual.

PRINCIPLES OF REFORM

8. The programme for reform builds on the basic principles that social security is not a function of the State alone. It is a partnership between the individual and the State - a system built on twin pillars. Most people not only can but wish to make sensible provision for themselves. For example, they wish to have their own pension just as they wish to have their own house. The organisation of social security should encourage the individual to make his own provision while recognising the particular responsibility of the Government to help those in need. In developing this approach the aim has been to meet a number of other objectives -

a. Resources should be directed more effectively to meet the areas of greatest need. This does not mean that benefit should be provided only to those in need. Retirement pensions and child benefit will remain basic benefits on which the individual can build. Nevertheless, if we are to bring extra help to those in greatest need then we must target the resources we have as effectively as possible.

b. The social security system must be consistent with the Government's overall objectives for the economy. It must not pre-empt too large a share of the nation's resources. The social

security system should not discourage people from helping themselves and should certainly not be a barrier to employment. The public should be aware of the costs of the system and the retention of the contributory principle helps here.

c. The social security system should be simpler for the public to understand and better administered. This means replacing the elaborate system of supplementary benefit with a system of income support; and simpler structures for both housing and family support.

PROGRAMME FOR REFORM

9. The programme for reform, which is outlined below and set out in the draft Green Paper annexed to this paper, follows from the problems and principles I have identified. The proposals for each area of social security are designed to achieve the best balance between the various objectives we are trying to meet. At the same time, we can achieve better co-operation and integration between the Inland Revenue and Department of Health and Social Security (DHSS) systems, particularly in the light of the computerisation programmes now taking place. Those issues are to be further developed in the Chancellor of the Exchequer's Green Paper on Personal Taxation.

PENSIONS

10. My proposals for pensions are in two parts -

a. I believe that the SERPS should be ended - although clearly with accrued rights preserved. The basic case against SERPS is that it pre-empts public resources for the next 50 years. On the most modest assumption spending on pensions which is £15.4 billion today will have risen to £45 billion by 2033. Inevitably this would affect spending on other social priorities like health and social services. In pensions terms alone SERPS does nothing for anyone who retired before 1978 and never will do so, while the spread of occupational pensions has virtually been ended by the existence of SERPS.

b. In addition to the State basic pension I aim to have a system under which virtually everyone in work shall have the right to an occupational pension or his own personal pension. In my view it is essential that SERPS should be replaced with a good alternative second tier. Under my proposals the Government will set down a minimum contribution level of 4 or 5 per cent of earnings - split between the employee and employer. The effect will be that about seven million extra workers will be covered by their own pension provision.

11. The Government will set down simple qualifying standards - limited post award indexation and survivors benefits - and will also set requirements for the providers of pensions. We will not require particular levels of benefits. The pension resulting will depend on the investment performance of the scheme. Existing occupational and public sector schemes will automatically meet the new rules. People will be free

to take out their own personal pension plan if they wish or join their employer's scheme. Employers and employees will also, of course, be free to build on the minimum provision we lay down.

12. The effect of the change will be to prevent the build-up of an extremely large burden on public spending through SERPS. The benefit is that it will reduce the role of the State and give almost the whole population a direct personal investment in their own future.

FAMILY SUPPORT

13. The main change I propose is to abolish Family Income Supplement (FIS) and introduce a new family credit to improve the targeting of help on low income working families with children. Family credit will be assessed on a similar basis to the successor to supplementary benefit; this will prevent people in work being worse off than if they were unemployed. It will be calculated on net pay; this will mean that families can be sure of being better off as their pay rises. It will be paid through the pay packet as an offset to tax; this will mean that wage-earners have a better understanding of their total family income and should increase wage flexibility. It will be more tightly administered to prevent the abuse to which FIS has been subject.

14. Family credit will represent a major improvement in the effectiveness of our support for families - now clearly the greatest priority. It will substantially improve incentives for many on low incomes and prevent the worst effects of the poverty and unemployment traps. I also propose to use the abolition of FIS to end the availability of free school meals and welfare foods to those not on supplementary benefit. Instead a cash sum will be included in the rates for family credit.

15. I do not propose any change in the basis of child benefit. The benefit is simple, well understood and popular, as was shown by a public opinion survey I commissioned. It is the only way in which we can now recognise the costs of children for the majority of families. I shall, however, make some savings in the cost of child benefit to cover the relatively small extra cost of introducing family credit. Because family credit will be a much more effective means of helping poor working families, we will also have greater flexibility, following its introduction, in considering the level of subsequent upratings of child benefit.

SUPPLEMENTARY BENEFIT

16. My proposals will replace the supplementary benefit scheme by a new income support scheme with a much smaller social aid scheme as a "safety net" fallback. Supplementary benefit is too complex and over-regulated. It is difficult to administer and its cost is difficult to contain. The new income support scheme will be much simpler. It will provide assistance at set rates to a limited number of different categories of claimant. There will be no additional payments for individually assessed needs: claimants will be left with the responsibility for managing their lives within the set rates. This will cover the great majority of

circumstances but the separate social aid scheme will provide a fallback for emergencies and will provide practical help to those with special problems. The social aid scheme will, however, be much more closely controlled. It will be operated on a discretionary basis by DHSS local offices to avoid legal entitlements to social aid being created; and expenditure will be cash limited. Within the income support scheme there will be more generous rules on the treatment of capital and on the amounts some people, including some of the long-term unemployed, can earn. This will improve incentives both to save and to regain contact with the labour market.

17. The introduction of the income support and social aid schemes will lead to a radical simplification of our means-tested benefits system providing also a consistent framework for the assessment of housing benefit and family credit. It will make the system more intelligible to staff and the public; and it will ensure that costs are properly controlled.

HOUSING BENEFIT

18. The reform of housing benefit will follow the same pattern. The present scheme is highly complex, inconsistent in its treatment of those in and out of work and subject to rapid cost escalation. It now extends help too far up the income scale and insulates too many people from the burden of paying rates. The reform of the scheme will have two main elements. It will base assessment of entitlement on the same income test as the income support scheme so that those in and out of work are treated consistently. Above the income support level, benefit will be reduced as income rises by a simple straightforward formula, instead of, as at present, by separate tapers for rents and rates and for different types of claimant. This will have the effect of substantially reducing the number of people who get their rate bills abated.

19. The present scheme, however, means that all those on supplementary benefit pay no rates and, unless we change the position, the reformed scheme would insulate still more people from rate increases. This is inconsistent with the objectives and approach of the review of local government finance; we should be seeking to make sure that nobody is completely insulated from the cost of local services. I therefore propose that under the new scheme the maximum level of assistance with rates should be restricted, initially to 80 per cent. This would apply to all claimants including those on the new income support scheme. I would announce this change in principle in my Green Paper. We would, however, need to consider its implications further in the light of the outcome of the Review of Local Government Finance.

20. Under my proposals those on supplementary benefit would continue to receive 100 per cent assistance with rents, as at present. But I propose to introduce new measures, including direct reimbursement of only 80 per cent of benefit costs to local authorities, to ensure that they operate the scheme economically and use their powers to restrict benefit payments

where rents are excessive. This will be particularly important if action is taken to deregulate private sector rents. We would, however, need to keep the position under review and take further steps if it seemed that rents were rising faster than intended.

OTHER BENEFITS

21. In addition to the major reforms above, I propose to make the following changes in other areas -

- a. Unemployment Benefit. At present the great majority of the unemployed are on supplementary benefit, not unemployment benefit; but many people in receipt of unemployment benefit need extra help from supplementary benefit. To prevent this duplication I propose to bring the structure of unemployment benefit in line with the new income support scheme - with the effect of increasing its rate but reducing its duration.
- b. Widows Benefits. I propose to replace the short-term widows allowance (currently paid for six months) by a lump sum grant. Thereafter, continuing benefits will be concentrated more on older widows and those with children.
- c. Death and Maternity Grants. These two National Insurance benefits have been left at the same cash value - which is now inadequate - for many years. The result with death grant, for example, is that the administration cost is now approaching the cost of the benefit. The time has come to abolish both grants. Rather than universal grants we propose to provide better help to those who need it most.
- d. Maternity Allowance. The National Insurance benefit, payable for 18 weeks around the time of confinement, will be made more flexible and the qualification period will be made more relevant to working women.
- e. Students. In line with our general stance that young people should not depend on social security benefits, I propose to announce our intention in principle to exclude students from supplementary and housing benefits. This will be carried forward in the light of the Secretary of State for Education and Science's review of student grants.

FINANCIAL AND STAFFING IMPLICATIONS

22. My reform proposals recognise that the social security budget has grown sharply and, unless steps are taken, will continue to grow. They respond in three ways: first, by making structural changes which will save £800 million in 1987-88. These changes should also save between three and four thousand staff and perhaps £20 million in administrative costs. Second, the abolition of the SERPS will produce major long-term savings: £500 million by 1993-94 and £22 billion by 2033-34. Third, we shall make further progress in limiting our future liabilities by

replacing the supplementary benefit scheme by a more tightly defined income support scheme and (for the first time) a cash limited social aid scheme. The housing benefit proposals will similarly help to limit liabilities by reducing the scope of the scheme and by making it more difficult for local authorities and private landlords to exploit it.

IMPLEMENTATION

23. The conclusions of the review will be set out in a Green Paper to be published before Whitsun. Main legislation will be required. I have a place for the Bill in next Session's programme and have undertaken to have it ready for the beginning of the Session. Even so, given its scope, we must assume that it will not gain Royal Assent until the summer of 1986. Regulations would then have to be laid; instructions written; and staff trained. Employers and local authorities will also be involved. The earliest practicable date for implementation is therefore April 1987.

PRESENTING THE PROPOSALS

24. The draft Green Paper shows how I intend to make the case for and present the reforms. The central themes which the reform package will emphasise are -

- a. A better balance between State and private provision. The proposals on retirement will give everyone the right to their own pension through their job in addition to the basic National Insurance pension.
- b. Better direction of resources towards priority areas. The family credit scheme will have a real impact on the poverty and unemployment traps and improve incentives for low paid workers with children.
- c. Simplification of the social security system. The new income support scheme will be simpler to understand and less subject to cost escalation. It will also provide a consistent and coherent basis for assessing entitlement to all the means-tested benefits.
- d. Better control of the seemingly inexorable growth of social security spending. The main short-term savings will come from the reform of housing benefit which will also give strong support to our aim of increasing accountability in local government. The major long-term savings arise from the SERPS.

Once put into effect the reforms will provide a system of social security provision which meets our needs as a society, which we can afford and which can be managed efficiently.

CONCLUSIONS

25. I invite the Cabinet to agree to my proposals for reforming the social security system.

Department of Health and Social Security

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GREEN PAPER

SOCIAL SECURITY REVIEW

VOL 1

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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CHAPTER 1: A NEW APPROACH

1.1 To be blunt the British social security system has lost its way. There is no question that it has helped to raise the living standards of the poorest people; that it has provided a safety net against urgent need; and that it has improved the position of some of the most vulnerable groups in society like the retired, poor families with children and sick and disabled people. Yet those achievements have to be weighed against a number of other factors.

1.2 The cost of social security will this year be over £40 billion. It has grown five times faster than prices; twice as fast as the economy as a whole; and is set to rise steeply for the next forty years. Despite mounting costs, resources have not always been directed to those most in need and under present plans will not be so in the future. The piecemeal development of the system has resulted in a multitude of benefits with overlapping purposes and differing entitlement conditions. The complexity in benefit rules has meant that social security is difficult to administer and impossible for many of the public to understand. While the overlap between social security and income tax means that significant numbers of people are paying income tax and receiving means-tested benefits at the same time.

1.3 Each new development in social security since the war has been made for the best of motives. The fact is, however, that the effect has all too often been to confuse and to complicate. Worse still our understanding of what the social security system should be seeking to achieve has been obscured. Our responsibilities as individuals and collectively through the State have been left ill-defined.

1.4 This Green Paper aims to define a system which is founded on public understanding of the purposes and the workings of social security; which is more relevant to the needs of today; and which is capable of meeting the demands we shall face over the next quarter of a century. It sets out a new approach to social security - but it recognises and seeks to build on what has been achieved over the past forty years.

The twin pillars

1.5 Fundamental to this approach is a belief that the system of social security provision should be based on a clear understanding of the relative roles and responsibilities of the individual and the State. In building for the future we should follow the basic principle that social security is not a function of the State alone. It is a partnership between the individual and the State - a system built on twin pillars.

1.6 Most people not only can but wish to make sensible provision for themselves. The organisation of social security should encourage that. It should respect the ability of the individual to make his own choices and to take responsibility for his own life. But at the same time it must recognise the responsibility of government to establish an underlying basis of provision on which we as individuals can build and on which we can rely at times of need.

1.7 Such an approach does not lead, as some have suggested, to a system based on a single concept: whether it be universality or means-testing. For such concepts almost invariably concern only the State dimension of social provision. They regard State provision as good or bad: they postulate that it should do as much or as little as possible. Either analysis misses the central point. State

provision has an important role in supporting and sustaining the individual; but it should not discourage self-reliance or stand in the way of individual provision and responsibility.

1.8 This was a central theme in the 1942 report of Sir William Beveridge:

The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.¹

Much has changed in the forty years since then. The ability of most people to make more of their own provision has substantially improved. For instance the spread of home ownership among those previously relying on public provision of housing underlines the wish of most people for greater independence.

1.9 Yet the scope and scale of the State social security system has extended greatly. The decision at the outset of National Insurance to pay pensions at once rather than after a build-up of entitlement substantially dented any claim that the new system was insurance based. The development of earnings-related benefits and contributions was radically different from Beveridge's concept.

1.10 We should not be deceived about the nature of national insurance. It is not the same as private insurance and owes little to normal insurance principles. It is a pay-as-you-go scheme. Today's contributors meet the cost of today's benefits. As for tomorrow the most we can do is to create a

1: Sir William Beveridge, Social Insurance and Allied Services, (1942), Cmd 6404 para.9

liability to be met by our children. Even with the elaborate State earnings-related pension scheme the contributor is doing no more than helping to pay for the present cost of pensions. His own entitlement is a claim to a pension which he hopes future generations of contributors will finance.

1.11 Forty years on there is little point in seeking to replicate private insurance arrangements inside the State organisation. We should certainly recognise the debt we are building up for the future. But the better course is to distinguish between what can and should be organised in the private sector and what can and should be organised by the Government. This is what the twin pillar system seeks to do. It recognises the importance of the State provision but it seeks to define its limits.

1.12 In developing this approach the Government believe that the social security system should aim to meet a number of important objectives.

First, the social security system must be capable of meeting genuine need.

This is a basic responsibility of any Government. No individual should be left in a position where through no fault of his own he is unable to sustain himself or his family. Supplementary benefit is based on that principle and - while it has many faults - it is more effective than many equivalent schemes overseas. At the same time the overall system must be flexible enough to recognise that what constitutes need changes and that those groups most in need also change. Over the last half century the picture has changed markedly. In the 1930s working-age families

were seen as the main group in poverty: the main causes being unemployment and low earnings among men with large families. By the 1950s and 1960s pensioners were the major cause for concern. Now the position has changed again and in 1985 it is families with children who face the most difficult problems.

Second, the social security system must be consistent with the Government's overall objectives for the economy.

It is an essential part of the Government's economic strategy that the share of national resources consumed by the public sector should be curtailed. Social security, is already by far the largest Government programme - more than twice defence spending and larger than health, social services, education and housing put together. Because social security pre-empts such a large part of public expenditure and is growing so rapidly it must put the Government's economic strategy at risk. Many other countries find themselves in a similar situation and there is widespread agreement internationally on the need to take stock. But there are also wider issues. While it is one of the functions of the social security system to help those who are unemployed, it is self-defeating if it creates barriers to the creation of jobs, to job mobility or to people rejoining the labour force. Clearly such obstacles exist if people believe themselves better off out of work than in work; or if employers regard the burden and administration of national insurance as a substantial discouragement to providing new jobs. Equally restrictions in areas like pensions can discourage people from changing jobs. If we wish to encourage individuals to provide for themselves then the social security system - public and private - must not stand in the way.

Third, the social security system must be simpler to understand and easier to administer.

Forty years of tinkering have resulted in complexity and confusion. Nobody can be happy with the system as it stands today. The supplementary benefit system alone requires some 36,000 staff to administer it. The rules of entitlement are so complex that the guidance to staff runs to two volumes and 16,000 sections. Nor is it only the rules which cause confusion. All the main means-tested benefits - supplementary benefit, housing benefit and family income supplement - use different measures of income and capital. While the evidence suggests that, for the public, schemes like the State earnings-related pension are shrouded in an obscurity which at times is virtually total. As for administration, much of the social security system is run from local offices which largely lack the kind of aids which modern computer science can provide. The result is that the service for the public too often fails as the staff hunt for files in a Dickensian paper-chase.

1.13 It is, of course, clear that these three objectives are not independent of each other. At times choices have to be made. Thus it is quite possible to construct a scheme under which all benefits - including pensions - would be means-tested on the basis that this was concentrating public resources on those who needed them most. Yet the objective of relieving need does not lead simply to the conclusion that the State should provide only where all else fails. It is an entirely proper function for the Government to provide a basis on which individual provision can rest. In particular, such support can come at times when expenses are high (as when raising children) or when income is limited (as in retirement). Here Government is underpinning individual effort: encouraging it not replacing it.

1.14 The Government's proposals are not based on a grand design for a new State system but on a vision of social security which sees important roles for both State and individual provision. In that respect it takes a radically different direction from some of the developments over the last forty years consistent with the Government's overall approach to give greater responsibility and greater independence to the individual. But the proposals have been framed also with the clear belief that our tradition of State support for those in need is one which should be maintained and developed.

CHAPTER 2: THE DEVELOPMENT OF SOCIAL SECURITY

2.1 By any measure the Beveridge Report of 1942 was a landmark in the development of social security provision in Britain. But social security did not start with Beveridge¹. He was building on advances made in the first forty years of the twentieth century, advances which in his words had produced a social security system 'on a scale not surpassed and hardly rivalled in any other country of the world'².

2.2 The early role of the State in supporting those who could not support themselves was, as with the Poor Law, simply to avoid extreme destitution. Any help beyond this was left to charities and - increasingly during the late nineteenth century through the development of collective self-help - to friendly societies, trade unions, co-operatives and savings banks.

2.3 On their own these arrangements failed to relieve poverty and it was this which led to the setting up just before the First World War of the schemes which form the foundation of our modern welfare state. The systematic social surveys by Booth in London and Rowntree in York provided incontrovertible evidence of urban poverty. Friendly society schemes in the main could only cover short-term interruptions of employment and the level of benefits depended on what the members could afford. The first State schemes set up - non-contributory old age pensions and social insurance for short-term contingencies - were quite deliberately designed to avoid the stigmatising effects of the Poor Law and to provide people with a right to a payment from the State to cover those contingencies

¹ A more detailed account of the development of social security is given in Appendix 3, Volume 3.

² op. cit. para 3

which most often gave rise to poverty. These first initiatives were consolidated and extended in the early 1920s, when the principle of basic non-means-tested provision financed largely through contributions was established.

2.4 The second main strand in our social security system - a national system of means-tested help for those unable to manage otherwise - was also in place by the time Beveridge began his task. The Unemployment Assistance Board took over responsibility in 1935 for payments to those unemployed people who, with the increasing unemployment during the twenties and thirties, had exhausted their title to unemployment benefit. Compared to the previous administration by the Public Assistance Committees of the Poor Law, the Unemployment Assistance Board carried out its task in a way that was relatively free from controversy. Its functions were expanded during the Second World War to include the supplementation of old age pensions and the provision of help for widows with children.

2.5 What confronted Beveridge was a system where means-tested benefits played a major role; where a mixture of State and private insurance arrangements existed for all the main contingencies but operated on different systems with different rules and at different levels of benefit; and where in some areas benefit levels were inadequate. His proposals were designed to eliminate want, to create a coherent system which would cut out 'the needless administrative cost which marks the British social services today'³ and to achieve this in a way which would leave room for individual and private contribution.

³ *ibid* para. 29

Beveridge's plan

2.6 Beveridge's plan for social security was essentially a plan of insurance - of giving, in return for contributions, benefits as of right and without means-test. He was under no doubt that this - 'rather than free allowances from the State'⁴ - was what the British people wanted.

2.7 It followed that at the heart of Beveridge's proposals was the contributory principle: contributors received payment when they experienced a particular contingency be it retirement or unemployment. But he was convinced that the State should not take over all responsibility from the individual and must leave scope for individual action. State benefits were to be generally flat-rate and at subsistence level. Contributions were also flat-rate. All insured people - rich or poor - would pay the same contributions for the same security. This distinguished his scheme from, for instance, the New Zealand system which Beveridge described as an income tax assigned to a particular service. Under the Beveridge scheme all contributions would be paid into a single social insurance fund and all insured benefits paid from it.

2.8 The most important consequence of the insurance principle was the assumption that there would be a delay while entitlements built up before full benefits were paid out. Improved pensions would not be paid at once to everyone: rights would have to be built up in the national fund over a twenty-year period. What was also implicit in Beveridge's plan was the ability of the vast majority of the population to make contributions; and for the contributory benefits to be adequate once the contingency had occurred. 'For the limited number of cases of need not covered by social insurance', he said, 'national assistance subject to a uniform means test will be available.'⁵

⁴ *ibid* para 21

⁵ *ibid* para 19(x)

Beveridge in practice

2.9 There is no doubt that in the years since the Beveridge Report social security provision has improved substantially. Equally it is beyond doubt that the basis of the system is radically different from that envisaged by Beveridge.

2.10 The most fundamental changes have been in pensions. Beveridge had envisaged a twenty year period of build up. This was rejected in favour of the immediate payment of full pensions. Graduated contributions were introduced to supplement, and later to replace, the original flat-rate contributions that Beveridge proposed. While SERPS marked another step away from the original concept of flat-rate state pensions.

2.11 Another major difference between Beveridge's plan and what took place was that he envisaged only a limited demand for help from those not covered by social insurance. From the inception of the national insurance scheme that proved hopelessly optimistic. Within three years some fifteen per cent of pensioners and unemployed people were receiving national assistance. Today thirty per cent of them are receiving supplementary benefit, the successor of national assistance. Supplementary benefit has become a mass scheme providing long term support for millions of people.

2.12 Yet another significant difference was in child support. Beveridge proposed the introduction of child allowances for all except the first child to be paid in addition to the existing system of child tax allowances. They were to be paid at the same rate whether the beneficiary was in or out of work - which would both tackle

family poverty and maintain a sufficient gap between earnings and income from benefit. But family support payments were not introduced at the same level for people in and out of work and have never been so since. The position has been helped by the introduction of family income supplement and child benefit but the total income of some working families is still below the level of support given to people out of work.

2.13 Substantial gaps were also found in the coverage of benefits proposed by Beveridge, particularly in the field of disablement where social insurance was not a realistic model. Over the years additional non-contributory benefits were introduced to give help to particular groups as of right outside the national insurance system.

Preserving Beveridge

2.14 When, therefore, there are calls to preserve Beveridge they need to be examined carefully. Beveridge's plan for social security was radically changed at the outset and has carried on being changed since. The insurance principle he envisaged soon perished and with it went much of the fundamental structure. The goal of a simple and comprehensible social security system seems as far away as ever. Those who argue for no structural change or tidying at the edges should not be allowed to envelop themselves in the mantle of Beveridge. They are arguing for the status quo.

2.15 But Beveridge's purpose was not to produce new structures for their own sake. His plan sprang from 'a diagnosis of want'⁶. It was based on social surveys carried out in Britain in the 1930s and aimed at ensuring that

⁶ *ibid* para 11

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no-one fell below a subsistence standard. He wanted to see the relief of poverty whether that was caused by unemployment, sickness, the extra financial demands of raising a family or old age. In this the State had a central role but not an exclusive one. It was intrinsic to his plan that there should be co-operation between the State and the individual. To what extent have these aspirations been realised?

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CHAPTER 3: SOCIAL SECURITY TODAY

3.1 Spending on social security¹ (including administration) has increased sixty-fold since the start of national insurance. That is five times as fast as the cost of living. This year it will total over £40 billion and represent almost a third of all public spending. The proportion of GDP taken up by social security has risen from 4.7 per cent to 11.0 per cent over the same period. Even in the last fifteen years this proportion has increased by more than half.

3.2 Part of the growth in the budget is explained by changes in the definition of social security: particularly the introduction of child benefit in place of child tax allowances during the 1970s and the unification of housing support (previously met in part from rent and rate rebates) through housing benefit in 1982 and 1983. But the main cause has been increases in the real value of benefits, which have accounted, on average, for two-thirds of the real growth in spending since 1948.

3.3 The main sources of finance for social security spending are general taxation (about half), national insurance contributions from employers (about a quarter) and from employees (about a quarter). Although this distribution is broadly the same as at the beginning of the 1950s, general taxation is now meeting a greater share than for most of the intervening thirty years.

1 An account of past growth of expenditure on social security and projections of future growth based on current policies is given in Appendix 2, Volume 3.

The reason for this is primarily the rapid increase in the last decade of spending on non-contributory means-tested benefits, mainly supplementary and housing benefit.

Nevertheless, national insurance contributions worth about £20 billion a year are collected and the Newcastle Central Office of the DHSS maintains over 50 million personal accounts.

3.4 The payment of social security is one of the biggest and most staff-intensive undertaking in Government service. Although over 100 million payments a year are made by girocheque, the vast majority are made by order book - 53 million are issued each year - personally presented at a post office counter. DHSS staff handle 17 million new claims to benefit a year and annually review another 20 million existing awards. All told the DHSS employs 81,000 staff on social security - although this total is down from nearly 89,000 in 1979. Apart from the 36,000 employed on supplementary benefit cases there are another 30,000 in local and regional offices dealing with other benefits and contributions, and 10,000 employed at Newcastle. A further 26,000 are employed in the Department of Employment administering unemployment benefit and about 8,500 employed in local authorities on housing benefit.

The benefit structure²

3.5 Figures 1, 2, 3 and 4 show how total spending on social security has grown; how the value of the main benefits has increased; how the importance of different benefits has changed; and how the numbers receiving the main benefits have changed. The role of the social security system can also be looked at in terms of broad groups of people who are being helped: the elderly, families, unemployed people and sick and disabled people.

2

A detailed description of the current social security system is given in Appendix 3, Volume 3.

Figure 1
Growth of Social Security Expenditure In Constant (1984 - 5) Prices

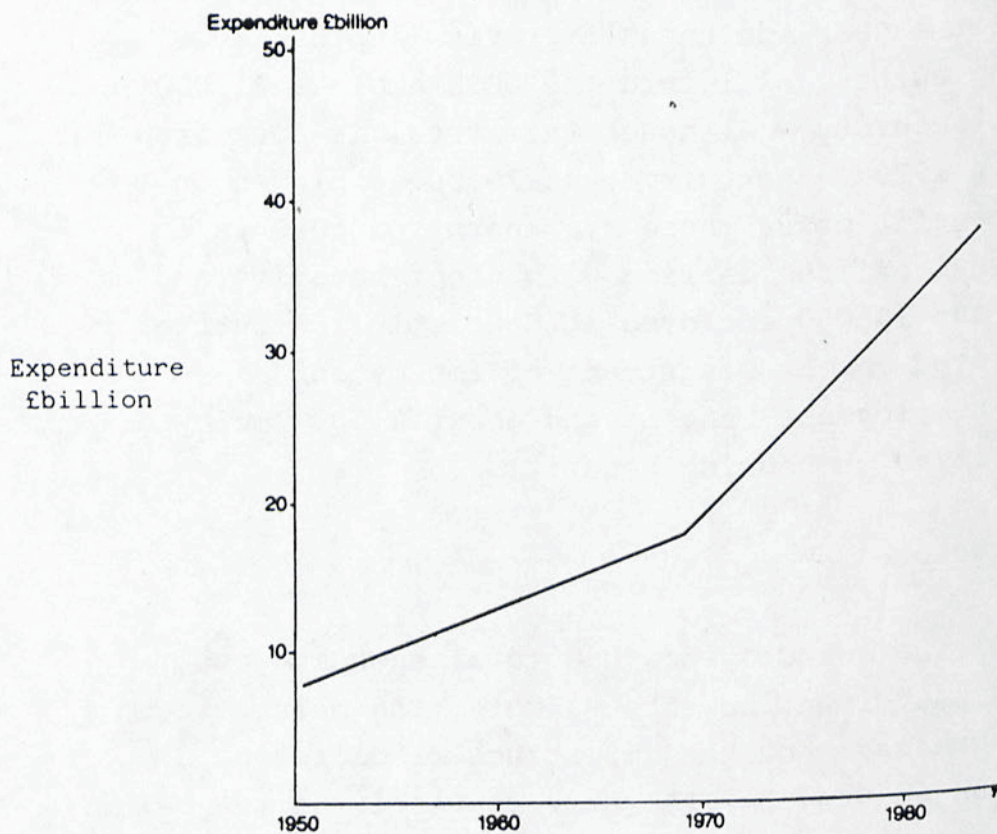


Figure 2
Growth in the Value of Benefits in Relation to the Increase in Prices between
1949 and 1984

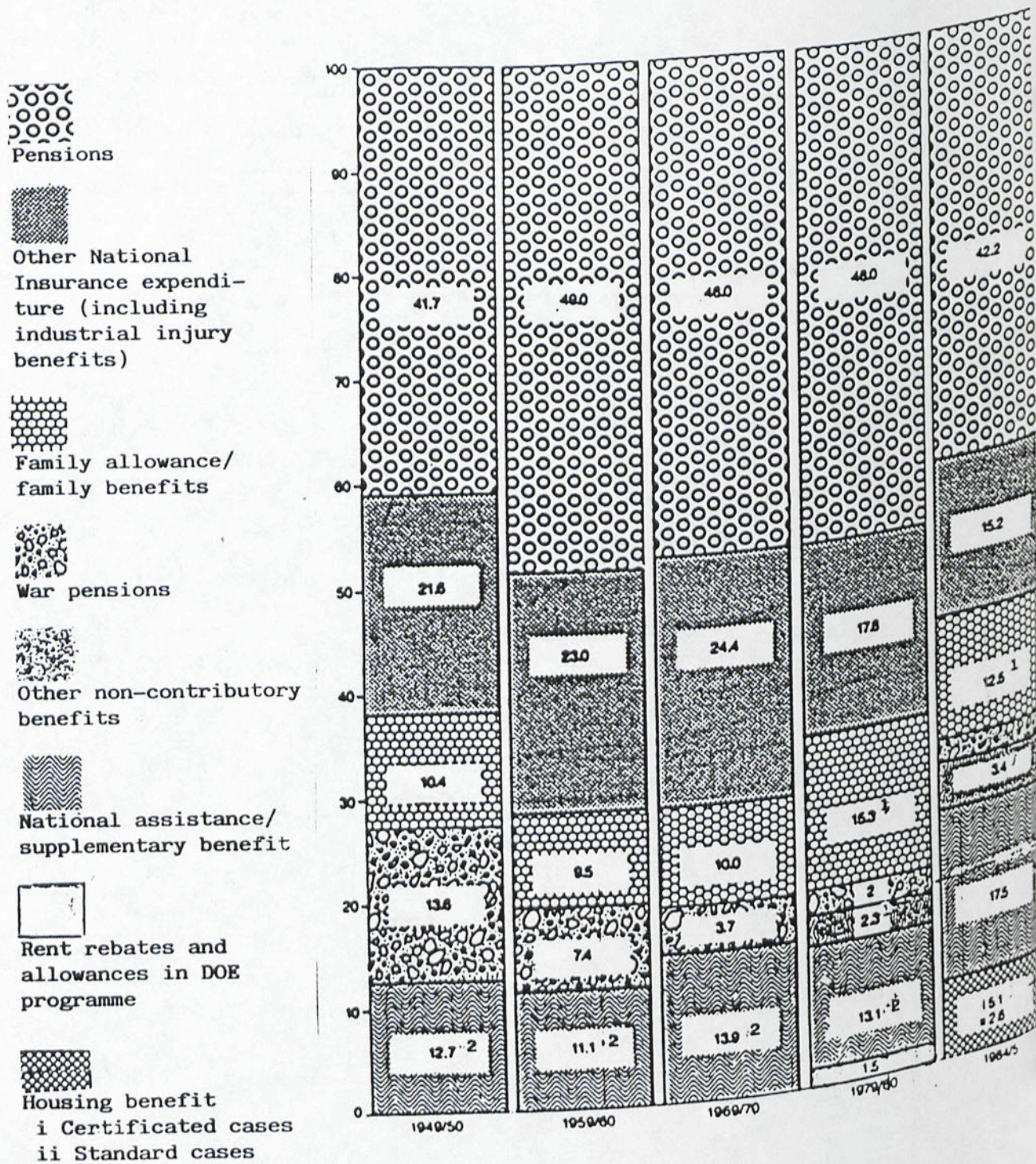
Benefit (single person' rate) - percentage increase 1949-1984

Supplementary Benefit (long term rate)	169 %
Retirement Pension	149 %
Invalidity Benefit (long term sick)	139 %
Supplementary Benefit (ordinary rate)	112 %
Unemployment Benefit	98 %
Sickness Benefit	90 %

Benefits for children

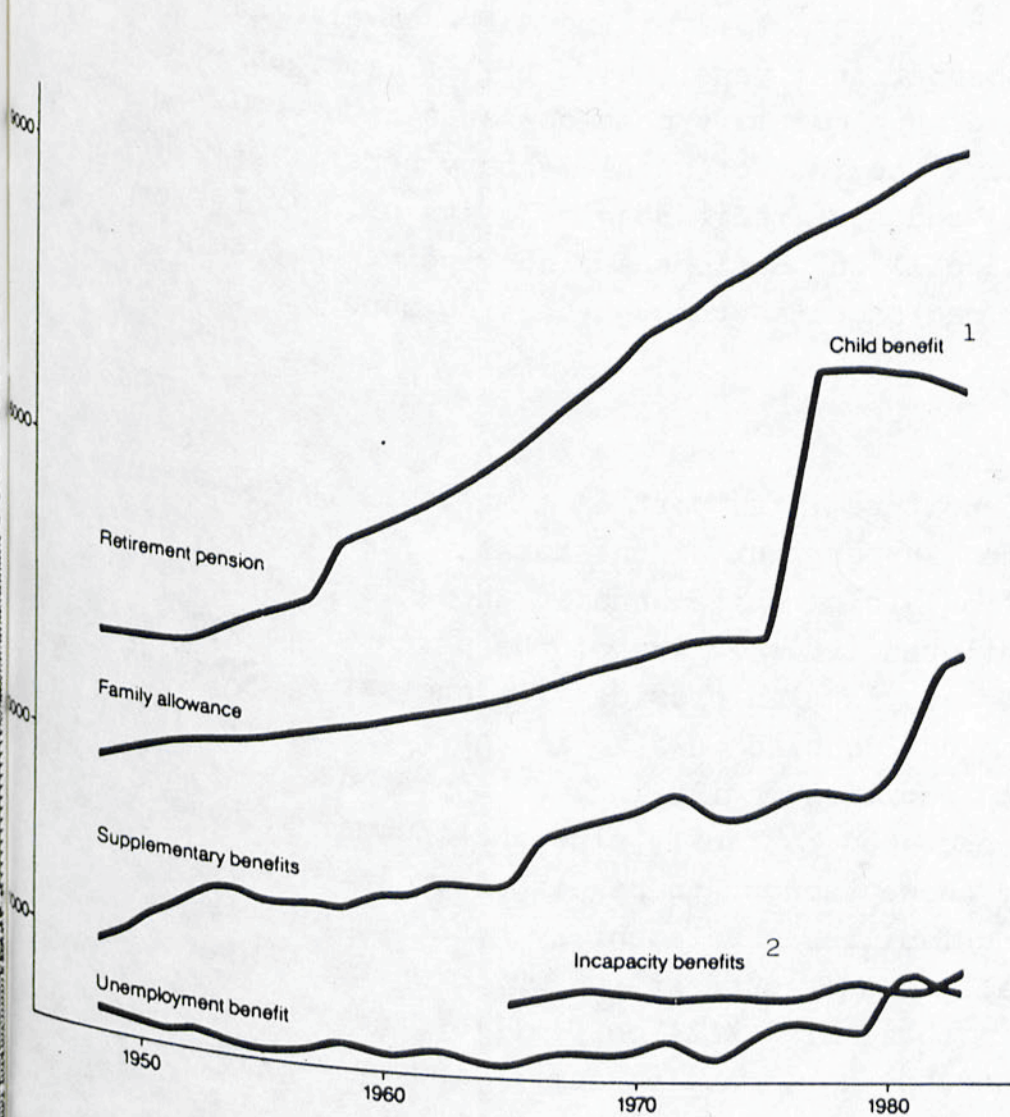
Child Benefit/Family Allowance	148 %
Supplementary Benefit scale rate for a child under 5	132 %
Supplementary Benefit scale rate for a child 5 - 10	93 %

Figure 3
Expenditure on Social Security Programmes as a Percentage of Total Expenditure



1 Consists of child benefit, one parent benefit and family income supplement
 2 Includes housing needs requirements

Figure 4
Social Security Benefits - Numbers of Beneficiaries 1948-1984



Child Benefit first introduced in 1977/8 for ALL children
Figures not available for period prior to 1967

The elderly

3.6 Almost half of all social security spending goes to the elderly. There are 9.3 million national insurance retirement pensioners (3.2 million of whom also have separate occupational pensions). 1.7 million pensioners also receive supplementary pension (at a rate about one quarter above the rate of supplementary benefit paid to the unemployed) and have their housing costs paid in full. A further 2.5 million pensioners also receive some help with their rent and/or rates through housing benefit.

The family

3.7 Expenditure in support of families with children accounts for 20 per cent of the total. The lion's share (£4.3 billion) is on child benefit which is paid tax-free for all children irrespective of the parents' income. Additional help is also provided for one-parent families - a group which has doubled in size in the last fifteen years. For working families family income supplement is available on a basis related to family size and income, although only about half those thought to be eligible claim it. For non-working families supplementary benefit provides substantially higher support for children than child benefit. A total of 7 million families receive child benefit, 200,000 also receive family income supplement and nearly a million receive supplementary benefit support for their children.

Unemployed people

3.8 Another 17 per cent of benefit spending goes on dealing directly with unemployment. Unemployment benefit is available for up to twelve months for those who meet the contribution conditions. For other unemployed people support is on a means-tested basis through supplementary

benefit. Sixty two per cent of unemployed people are wholly dependent on supplementary benefit. In addition, a quarter of those on unemployment benefit require additional help through supplementary benefit particularly where they have children.

Sick and disabled people

3.9 Spending on benefits for sick and disabled people is approaching £5 billion a year - 13 per cent of total expenditure. The bulk of this is on the longer-term sick and disabled, with three main benefits accounting for over £3 billion, or 60 per cent. Invalidity benefit, paid to some 800,000 people at any one time, costs over £2 billion; attendance allowance, with about 500,000 recipients, and mobility allowance, approaching 400,000 recipients, are the two other main benefits. Between them these two cost nearly £1 billion.

CHAPTER 4: WHAT HAS IT ACHIEVED?

4.1 Despite its self-evident scale some argue that the British social security system has achieved all too little. In the words of one author, it is 'another British failure.'¹ Whereas the national health service and the education system attract widespread public support, it is argued that there is no similar public affection for the social security system. Such over-generalised criticism is unfair.

4.2 At its most basic the social security system has done much to ensure that absolute deprivation such as existed before the Second World War cannot return. The absolute level of benefits is now very much higher than in earlier years. The levels of major benefits like pensions and supplementary benefit have more than doubled since the War and more than kept pace with the take-home pay of the average earner. Today a family on supplementary benefit will be living at the same standard as the average manual earner was just after the War.

4.3 The achievements of the social security system can also be shown by the improvement in the economic position of pensioners, who are the largest group in society dependent on benefits. The basic pension increased between 1951 and 1981 from 30 per cent to 50 per cent of average net earnings for a married male manual worker. Occupational pension provision

¹ Sir John Walley, Social Security: Another British Failure?, (London, 1972)

has improved: more pensioners receive occupational pensions and receive more income from them than before. Taking pensioners as a group, their average personal disposable income per head has increased from 41 per cent of the average for non-pensioners in 1951 to 57 per cent in 1971 and to 69 per cent today.² The most significant development of all - an outstanding example of individual provision - is that about half of all pensioners are now owner-occupiers and have a self-sufficiency and independence denied to their predecessors. Looking forward thirty years it is estimated that the proportion of owner-occupiers among pensioners will reach 70 per cent.

Present needs

4.4 The living standards of those most dependent on social security benefits can therefore be seen to have improved substantially over the post-war period and in this respect a prime objective of any social security system has been achieved.³ But many commentators have come to argue in favour of a relative rather than an absolute standard of poverty or deprivation. Instead of being based unalterably on subsistence needs the poverty line should, it is argued, rise with the general level of national prosperity; thus if living standards rise in the community as a whole so should the minimum standard to be made available to the poorest members of the community.

2 Figures from Population, Pension Costs, and Pensioners' Incomes, (HMSO, June 1984)

3 A detailed analysis of Low Incomes and Social Security is presented in Appendix 1, Volume 3.

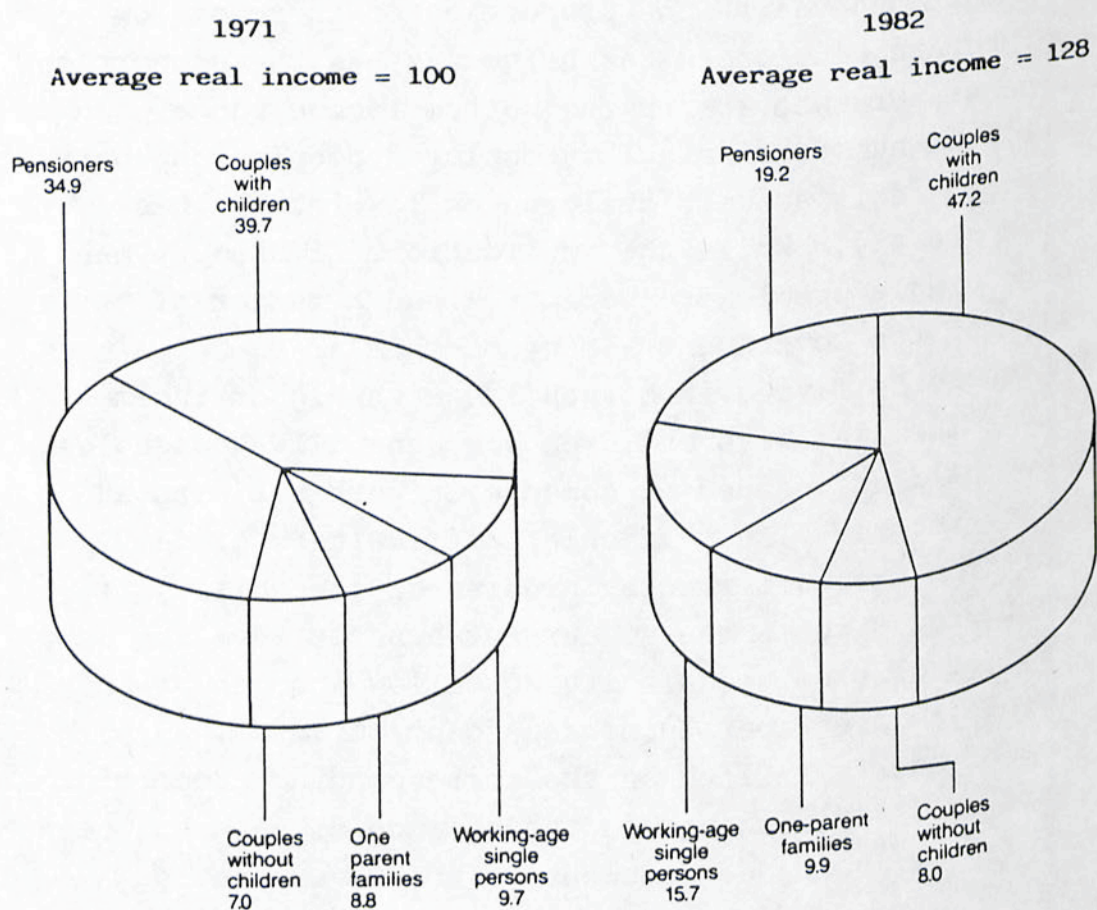
4.5 Various attempts have been made to measure poverty using a relative standard. A common approach is to count all families with incomes below the level of supplementary benefit as being in poverty and those with incomes between 100 and 140 per cent of supplementary benefit as being on the margins of poverty. There are, however, serious drawbacks to this kind of approach. In particular, if the level of supplementary benefit rises relative to other forms of income, more families will be counted as being in poverty even if the real incomes of all families in the population are rising.

4.6 For these and other reasons there is now no longer any universally agreed standard of poverty. This does not mean that the question of determining priorities for the social security system can be avoided: indeed it remains important that those whose needs are greatest are correctly identified. The new approach to social security described in this document is closely linked to such an assessment of today's priorities.

4.7 Families whose needs are likely to be greatest may be defined as those falling in the bottom 20 per cent of the national distribution of income, with family incomes being adjusted for differences in family size and composition to allow for the greater requirements of large families. The latest evidence shows that over the last ten years (and indeed over the post-war period as a whole) the share of total net income received by the poorest 20 per cent of families has remained roughly constant. Although in absolute terms the position of the worst-off has improved, it has remained unchanged relative to the rest of society. But there have been important changes within the low income population in terms of the mix of different family types. In particular, the number of pensioners in the bottom income range has fallen significantly and there has been a corresponding increase in the number of families headed by a person of working age.

4.8 Higher unemployment is the single most important cause of this shift and unemployment has now displaced old age as the main reason for low income. Figure 5 shows that, over the last ten years, the proportion of those on low incomes who are pensioners has halved as has the proportion of all pensioners who are in the bottom income range. In contrast, the number of single unemployed people, one-parent families and families with children on low incomes has increased greatly. While the implications of unemployment for young single people are serious - and a matter of priority for the Government - many of them are non-householders living in households with higher incomes. Low-income families with children are generally householders and about half are headed by someone in work but with an inadequate income. The particular difficulties of families with children are confirmed by studies of the ability of different groups to manage at current benefit levels. Well over half of all individuals living on low incomes are now members of families containing dependent children, an increase of nearly a fifth on the corresponding proportion ten years ago. This change in the balance of need has been a major factor in the development of the Government's proposals.

Figure 5
 People on Low Incomes² - 1971 and 1982 Compared



1 Average real incomes for the bottom quintile group rose by 28% in real terms between 1971 and 1982.

2 This figure shows the percentage of INDIVIDUALS by FAMILY TYPE in the bottom quintile. The bottom quintile contains the 20% of families with the lowest incomes, adjusted for family type and composition. (More detailed information is given in Appendix 1 of Volume 3.)

CHAPTER 5: THE NEXT FORTY YEARS

5.1 Past changes in the pattern of need are an important factor in determining the shape of the social security system for the future. But they are only one factor among many. Account must be taken of changes which are likely in the future, in terms of the demands which will be placed on the system and our ability - or the ability of our children - to meet them. We must also recognise the increasing burden which the social security budget is placing on the economy as a whole. Over the last forty years, the proportion of national wealth required to finance social security benefits has more than doubled¹; even in the last fifteen years it has increased by more than half. That increase has to be compared with, for instance, the cost of the health service - a major and popular social priority - which has remained roughly constant as a proportion of GDP for many years. But the issue is not just one of cost increases and competing priorities within the social security programme today. We must also face up to the pressures which are already built into the system.

5.2 The first of these is demography. Whatever uncertainties there may be about the future, some facts about changes in the structure of the population are clear. The number of elderly people in the population has increased substantially in recent years and will begin to increase rapidly again at the beginning of the next century. Moreover, over the next twenty years the number aged over 80 will increase by 40 per cent. That has implications not just for social security but also for health and personal social services. The retired population will need more hospital and community care as well as pensions. Similarly,

¹ See Appendix 2, Volume 3.

if the number of one-parent families increases in line with expectations, expenditure on them could increase by one third over the next twenty years.

5.3 At the same time, the balance of the population will change. The number of people of working age will fall relative to the number of pensioners from the beginning of the next century. The ratio of people of working age to pensioners will decrease from 3.3 now to 2.7 in 2025/6. By then the cost of the extra basic State pensions alone, without any increase in their real value, will be more than £5 billion a year higher than now. This cost will, fall to be met by a smaller and more heavily burdened productive workforce. This trend is exacerbated by the existence of the State earnings-related pension scheme (SERPS). This scheme is intended to provide an earnings-related addition to the basic pension for those not saving for their own retirement through occupational schemes. But the cost of SERPS will fall on the social security budget and have to be paid by future contributors and taxpayers. The extra cost, even on minimum assumptions, will rise eventually to £23 billion a year at current prices.

5.4 Even in the next twenty years the cost of the social security programme is projected to increase by a minimum of between £5 and £8 billion (12 - 20 per cent) in real terms on present policies. The range of increases is accounted for by different assumptions about the course of unemployment. The lower figure would result if unemployment fell to half its present level over the next ten years. The higher figure assumes that unemployment falls from the current 13 per cent to 10 per cent. Equally important is the assumption that benefits are uprated in line with prices. This would maintain present living standards for those dependent on State benefits but over the last forty years benefit rates have in fact increased by more than this and have broadly kept pace with increases in earnings. If

benefits were to be uprated by, say, one and a half per cent a year ahead of prices, the range of extra social security costs to be borne by the working population in twenty years' time would be £16 billion - £20 billion. These figures would represent an increase in total social security spending of between 45 per cent and 55 per cent after allowing for inflation. And the in-built pressures from the current pension scheme would add a further £24 billion during the twenty years thereafter.

5.5 There are many uncertainties in forecasting what will happen in the future, particularly where factors such as unemployment and economic growth are concerned. The same applies to projections of population size where this is influenced by changes in the birth rate. But the basis of forecasts of the numbers of pensioners is the existing population on which we have very accurate data; and forecasting of likely patterns of mortality is also subject to much narrower margins of error. Thus, while we may regard forecasts of the future size of the employed population and of growth in the economy as speculative over even quite short periods of time, the current growth of the elderly population and the resumption of that growth at the beginning of the next century are certainties. So too is the growth in expenditure resulting from SERPS. It results from the build up of entitlements rather than the increase in numbers. It is against this background that the Government have prepared their proposals for the future.

CHAPTER 6: FACING UP TO THE FUTURE

6.1 The Government believe that the case for reforming our system of social security provision is clear. In putting forward proposals the Government are seeking both to provide a coherent basis for social security in the future and to tackle the real problems which have been identified. We believe the time for reform is right and the need for reform is urgent.

6.2 First, the Government believe that the financial issues must be faced now. The escalating cost of social security must be controlled now and contained for the future. In particular we have built ourselves a State earnings-related pension scheme from which we all expect to benefit in the future but which none of us is paying for. It is our children who will have to meet the cost and the burden will be too great. We should act now to restore the proper balance between basic State and private provision. We should make sure that everyone contributes now to his own occupational or personal pension.

6.3 Second, the Government believe that resources must be directed more effectively to meet the areas of greatest need. This does not mean that benefit should be provided only to those in need. We believe that, for instance, the State should provide basic support as of right to pensioners and families with children. But we do not accept that a greater spread of universal benefits is right. It gives an over-important role to the State; it undermines individual self-reliance; and it leads always to greater costs. If we want to see the money we spend on social security spent more effectively, we must accept that this involves some redistribution between different groups of people. If those in the greatest need are to get more help, then those who need less help will get less. We have to avoid constructing systems, such as we now have in housing benefit, which grow,

from being schemes designed to give limited means-tested help to those most in need, until they cover much wider areas of the population. We must target the resources we have more effectively.

6.4 Third, the Government believe that the system should be simpler. The evidence shows that people want to see a simpler and more comprehensible system.¹ That means simpler rules of entitlement, less duplication between benefits and between public and private provision. We can end the overlap between unemployment benefit and supplementary benefit; and we can reduce the duplication between State and private provision. Yet the greatest aim must be to simplify our means-tested benefits. We intend to replace supplementary benefit with a system of income support based not on detailed regulation and needs-testing but on reasonable support for all with the minimum of complication. And that simple structure can be carried through to form the basis also of our systems of housing and family support.

6.5 Fourth, the Government believe the system should be better administered. At present more than 80,000 staff are employed in DHSS on social security and they are often engaged in an endless paper-chase to the frustration both of themselves and the public. We have embarked on a strategy to make full use of information technology in bringing the system up to the standards of the late twentieth century. This will be an enormous modernisation programme presenting a major challenge to DHSS management. We propose to strengthen the Department's managerial capacity by creating a new management board which will bring together the key people in

¹ An account of public attitudes to social security, including a survey commissioned by DHSS is given in Appendix 4, Volume 3.

the Department and will include, to work with them on a part-time advisory basis, a number of experienced managers from outside the Civil Service.

6.6 Fifth, the Government believe we must not undermine individuals' willingness to help themselves. We can ensure that people, particularly families with children, do not find themselves better off on benefit than in work or with no advantages from greater work effort. We can help unemployed people to maintain contact with the labour market. And we can do more to help people to secure their own pensions.

6.7 Above all, the Government believe in restoring a proper partnership between State and individual provision. There is an important role for the State but there is also one for the individual. The Government must encourage individuals to meet costs which they should bear and to make appropriate personal provision. This will create a strong, new partnership between the State and the individual.

6.8 It is with these objectives in mind that the Government have formulated their proposals for the reform of social security. The proposals for each area of the benefit system are outlined in succeeding chapters and explained in more detail in Volume 2. The proposals for each area of provision are designed to achieve the best and most appropriate balance between the different objectives which the system should seek to achieve, taking account of the current pattern of provision and the needs of those the system now serves. The intention is to achieve a system which serves the varying needs of people and the country best, rather than a system which is determined by a single objective or which places too great a weight on the mechanisms for delivering benefits.

6.9 Thus, we consider it right to retain a contributory system for contingencies like retirement, unemployment and long-term sickness. It is not the function of the State to be the sole provider of these benefits but there is a real value in retaining a link between benefits and the contributions paid to earn entitlement to them. The contributory system is not based on strict insurance principles, and never has been, but it provides a valuable means for determining entitlement. The public rightly see benefits related to the payment of contributions as different from and better than, to use Beveridge's phrase, 'free allowances from the state'.² The Government therefore reject the alternative approaches advocated by those who argue for a totally new design whether it relies entirely on means-tested benefits or on universal benefits paid regardless of circumstances.

6.10 A wholly means-tested approach to social security - including pension and child benefit - would at best meet only one of the main objectives identified above: to concentrate help on those who need it most. This approach would, by discouraging self-help and reducing incentives, undermine the importance of individual provision. Nor, in the Government's view, would a system which provided no benefits as of right to pensioners or families with children be acceptable.

6.11 At the other extreme is the approach which envisages a bigger role for better universal benefits paid to all regardless of their needs. This approach diminishes the role of the individual and further enhances the role of the State. It would increase the overall level of resources required by social security, pre-empting an even larger slice of public spending for this area, increasing taxation

² Sir William Beveridge, op cit., para 21.

or precluding action in other priority areas. One consequence of this increased role for the State would be a reduction in the extent to which individual provision was encouraged or could be afforded.

6.12 The Government believes it is right to look first at the objectives which each part of the social security system should seek to meet and how those objectives can best be balanced. Having done so there is then a clear responsibility to see that the mechanisms for delivering benefits operate as effectively as possible. This goes wider than just the DHSS. There may also be scope for improvements in the co-operation between the tax and social security systems or more effective links between them. The Government believe that the scope for such links should be pursued actively wherever they seem likely to lead to improvements for the public, employers, or the Government. The projects to computerise PAYE and social security offer new opportunities which can now be examined more fully in the light of new benefit structure proposed here. There are, of course, differences: for instance, personal taxation is based on income assessed over a fixed yearly period while social security is often necessarily concerned with responding quickly to short-term changes in income, particularly when someone becomes unemployed. And social security payments are normally made direct to claimants, most of whom have no employer through whom any payments could be made. Nonetheless closer links between the systems could lead to improvements in the collection of revenue, in the assessment of entitlement to benefit, in the payment of benefit, and in the taxation of benefits. The Government will bring forward ideas for further discussion in the Green Paper on the reform of personal income tax to be published later in the year.

6.13 In putting forward the proposals for reform contained here, the Government is conscious that social security cannot provide a cure-all. Its important role in meeting financial needs is complemented by other Government programmes that provide health, education and other social services. But social security is, and will remain, an essential part of the fabric of our society - a reflection of our collective responsibility to help those who need help and to provide for ourselves at times when we cannot be self supporting by our own efforts.

6.14 Social security cannot prevent the causes of poverty, it can only alleviate the symptoms. Problems, such as unemployment, that can lead to poverty must therefore be tackled at their roots. This can only be done by creating the conditions for sustained and real economic growth. If we are to achieve this, the cost of social security must not be allowed to become a millstone preventing the general economic improvement on which the real alleviation of poverty depends.

CHAPTER 7: PROVISION FOR RETIREMENT

7.1 The most crucial decisions about the relative position of the individual and the State have to be made in the area of pension provision. All the evidence is that members of occupational schemes place great value on belonging to a private pension scheme: those without such private cover would like to have it if they could. Yet in the mid-1970s a giant step was taken in the opposite direction by extending unfunded State cover.

7.2 The State earnings-related pension scheme provides that retirement pensioners will receive an earnings-related pension in addition to their basic State pension. Under the scheme the best twenty years of qualifying earnings since 1978 are revalued to the date of retirement in line with national average earnings and the earnings-related pension is one quarter of the resulting average. The scheme was introduced in 1978 with a twenty year maturity period so that the full cost does not start emerging until after 1998 - although additional costs are already being met as people covered by the scheme retire with, say, a five or six year entitlement.

7.3 Occupational schemes can contract out of the State scheme - although this description supposes a degree of separation which does not exist. A contracted-out scheme must promise to provide a guaranteed minimum pension. In other words the scheme must guarantee a level of pension: it is not enough for an employer to guarantee a level of contribution to a pension. The workings of this part of the State scheme are undeniably complicated but the incentive for the employer to face this and bear the risk of the cost being more than he had bargained for is a lower national insurance contribution. The State also offers other

inducements: in particular when the guaranteed minimum pension becomes payable the State in effect takes on the responsibility of maintaining its value in line with the rise in prices. About half the eventual cost of the scheme comes from inflation-proofing the guaranteed minimum pension provided by occupational schemes. The other half comes from the payment of second-tier State pensions. On the basis that pensions are uprated in line with prices this will mean that spending on pensions which is £15.4 billion today will have reached £17.9 billion by 1993; £21 billion by 2003; £27.7 billion by 2013; £35.7 billion by 2023; and £45 billion by 2033. If pensions were to be uprated by earnings then the figures would be £20 billion; £25.9 billion, £36.4 billion, £49.8 billion and £66.5 billion. This cost will be borne entirely by the contributors and taxpayers of the time. No fund is accumulating, only a debt.

7.4 That inevitable burden is but one of the drawbacks of SERPS. The Government believe that it suffers from other serious defects.

The role of the State: the Government's first duty should be to look after today's pensioners. SERPS does nothing for anyone who retired before 1978 and never will do so. It would be an altogether more sensible division of responsibility for the Government to concentrate on providing as good a basic pension as possible and on assisting those who needed extra help in retirement; while the private sector should concentrate upon providing additional pensions with the aim of extending such cover to as many of the population as possible.

Individual provision: occupational pension cover is static and has been discouraged by SERPS. The complexity of the State scheme's provisions on contracting-out and the open-ended commitment that

employers have to take on has meant that there has been little increase in occupational pension coverage in industries like agriculture, construction and distribution. The present contracting-out structure provides no incentive for small employers to provide occupational schemes - indeed by making final salary pensions a condition of contracting-out rather than a much simpler contribution test we have virtually ensured that there will be no expansion.

Pensioners in need: SERPS would take some future pensioners out of supplementary benefit. But there is no reason why an expansion of private provision should not have the same effect. If the central purpose of SERPS is to reduce reliance on supplementary benefit then it is a badly-targetted way of ensuring this - given that half the additional cost of SERPS comes from uprating occupational schemes.

7.5 Yet looming above all is the emerging cost of SERPS. According to one view, 'It is difficult to discuss the future of social security rationally in the shadow of this foolish commitment.'¹ And certainly it is beyond doubt that the cost of SERPS can at the very best mean a pre-emption of the State social security resources to this form of pension provision for forty years to come. The most optimistic hope is that national insurance contributions show only a slight percentage rise, given that the earnings on which they are levied will rise. A more realistic assessment is that contributions will rise sharply leaving no scope for improvements elsewhere in social security provision, unless there are to be even further increases in contributions and tax.

¹ A W Dilnot, J A Kay & C N Morris, The Reform of Social Security, (Oxford, Clarendon Press, 1984) p 63.

7.6 The emerging cost of SERPS should give everyone, of whatever persuasion, pause for thought. The twenty-year postponement of the final implementation of the scheme had nothing to do with building up a fund: there is no fund. It was based on the assumption that it could be afforded from 1998. The questions are whether this is a sensible way of planning; whether it is fair to the working population to hand down such a bill; and whether pension provision cannot be provided in a different and better way.

7.7 The Government believe that there is a better course. We remain committed to direct provision in the form of the basic national insurance retirement pension as an entitlement earned by the payment of contributions. We will continue to ensure that the pension retains its value; and that extra help goes to pensioners who need it. The question then remains as to the future of the earnings-related part of the State scheme.

7.8 A possible approach here would be to reduce the emerging cost of SERPS. One way of achieving this is by:

reducing the rate of accrual on earnings above a certain level;

no longer giving full additional pension rights on twenty years' contributions, basing them instead on a lifetime's earnings; and

making contracted-out schemes responsible for inflation-proofing the guaranteed minimum pension, up to a maximum of 5 per cent a year or the retail price index, whichever was lower.

7.9 Those who support such an approach argue that SERPS came at the end of a long period of debate on pensions and that there is now a degree of stability - although that stability would go if Labour's plan for a national investment bank and direction of pension funds were ever to be put into operation. Although the Government see the apparent attraction of clinging to at least part of the SERPS structure, we believe that stronger arguments prevail.

7.10 Even a reduced scheme would still lead to a substantial extra pensions bill rising to £19.6 billion by 2003 and £31.2 billion by 2033. All the complexities implicit in the present scheme would be retained, and possibly exaggerated. And the barrier which SERPS represents to the expansion of personal and occupational provision would remain. The Government believe that private provision is the right way to augment the basic state pension and that this is an area in which the role of the State should be minimised. It is better to ensure that as many people as possible contribute to their own pension, making their own savings to prepare for their own retirement. That is what many people already do and the Government believe that is what the public would prefer. Accordingly it is proposed that SERPS should be ended - although all rights earned since the scheme began will, of course, be honoured in full.

7.11 Although the State's prime concern should be with the first pillar of pension provision - the basic pension provided through the National Insurance system - it also has a responsibility to ensure that the second pillar - private provision related to earnings - has a firm foundation. That means ensuring that people make at least a minimum level of provision for their pensions, that they have the right to influence how their pension savings are used and that their investments are properly safeguarded. Yet the extent of

state involvement in private provision should be kept to the minimum. What is required is for the State to establish the ground rules upon which employees and employers can base their decisions.

7.12 The ending of SERPS will make it unnecessary to retain the complex system of controls and contribution arrangements which now govern contracting out. These arrangements were created to ensure some notional parity between the State and occupational schemes and because of the financial interdependence of the two. With the ending of SERPS the need for much of this complication will reduce. It will no longer be necessary, or appropriate, to distinguish between contracted-in and contracted-out employees in setting national insurance contribution rates. Nor will it be right for detailed requirements to be set on the levels of benefit to be secured by occupational schemes. These requirements have in themselves acted as a significant disincentive to employers from setting up occupational schemes because they carry the risk of an unknown future liability - in some ways similar to that presented by SERPS.

7.13 Yet the Government believe that minimum standards of private provision must still be laid down. It would be irresponsible to end the State scheme without ensuring that those who have been contributing to it, or who have been contributing to it for their employees, continue to make some future provision to augment the basic pension and the rights they have earned under SERPS. It would be possible to leave this entirely in the hands of those directly concerned, but the results would be too uncertain and the long-term consequences for some future pensioners too serious. It is proposed, therefore, that, with the minimum of exceptions, employees and employers should be required to contribute at least a small percentage of earnings towards the employee's pension scheme. By defining the minimum standard in terms of a contribution test rather than a set

benefit level, employers will know precisely the extent of their commitments; it will be much easier for employers to set up occupational schemes of their own; there will be greater flexibility in the type of pension scheme which can be used; and employees will be in a better position to make their own personal pension arrangements if they wish. There are strong arguments for applying the same arrangements to self employed people.

7.14 The Government have already made clear their concern to improve the rights of people contributing to occupational pensions. That concern will apply just as much under the new arrangements which will follow the ending of SERPS. Legislation currently before Parliament will ensure that the rights of people who leave existing occupational schemes are protected and the value of their pensions preserved. Action is being taken to provide better information to members about the schemes they belong to. And the Government announced last July, as an early result of the review of pensions, that it wanted people to be able to have their own personal pension plan. The new arrangements will be consistent with the thrust of these changes and, in particular, will make personal pension plans much easier to operate.

7.15 The transition to the new arrangements will not be straightforward, but the Government believe that the framework that is proposed will enable the transition to be achieved without placing undue burdens on employers. In the first place, the new arrangements will be designed to provide a foundation on which employers and employees will be free to build as they wish. Unlike the present contracting-out conditions, they will not constitute a strait-jacket under which schemes are compelled to make detailed amendments to their rules in order to qualify. The aim moreover will be for the new arrangements to be as self-policing as possible, with scheme actuaries rather than

an outside body certifying that the contribution test has been met. For most existing occupational schemes there will be no change. Schemes which are already contracted out will automatically meet the new conditions. Other existing schemes are also likely to meet the minimum conditions without change. For employers without a scheme the contribution test will be much easier to meet than the current contracting-out requirements.

7.16 To help prepare for the transition, the Government will be consulting the organisations concerned with pensions about the new arrangements. As a starting point for these discussions the Government will be issuing a detailed consultation paper on the arrangements, including the basis for approving plans for employers schemes and for personal pensions. As part of the consultations, the Government propose to hold early talks on the possibility of industry wide pension schemes to help small employers and those in industries with low occupational scheme coverage.

7.17 The change to near universal private provision as the second pillar in support of the basic State pension, will mark an important step in re-establishing the rights of the individual to control his own future. It will also end the two nations in retirement - where half the work force are building up occupational pension rights while the other half are unable to do so and have to rely on State provision. All this will change. In future all who are now within the scope of SERPS will be put in the position where they are saving for their own retirement and where they can influence - through wage bargaining, or their decisions on the type of pension provision they wish to make - the value and nature of the investment they are making in their future. The Government believe that it is right for us all to take a direct stake in our own futures and in the future of our economy rather than to leave the responsibility in the hands of the State and the bill to be paid by the next generation.

Retirement age

7.18 At present men become eligible to receive national insurance pensions at 65 and women at 60. People can delay taking their pension for up to five years and get a higher pension. The issue of retirement age is a matter of considerable debate both in this country and abroad. In France, for instance, retirement ages have been reduced in response to current unemployment levels. But this has had little discernible impact on that problem. It is also a moot point whether it is desirable to move to earlier retirement when life expectancy and the burden of providing for the retired population is increasing. In the USA the intention is eventually to increase the normal retirement age because of a recognition that by the beginning of the next century the contraction in the available labour force could have damaging economic consequences.

7.19 In this country debate has centred on the issue of a common retirement age for men and women. The House of Commons Select Committee on Social Services recommended a common retirement age of 63.¹ But any move to a common age of retirement has severe drawbacks. The key problem is cost. A common retirement age of 60 would cost over £2½ billion a year net and even to compromise on 63 would cost over £500 million. Moreover, the more the cost is reduced the greater the increase in retirement age which would be involved for women who may have been planning for some years to retire at 60.

7.20 Another possibility which has attractions is to increase flexibility in retirement age. This would be done on the basis that earlier retirement gave entitlement to a reduced pension and later retirement to an enhanced pension.

¹ Third Report from the House of Commons Social Services Committee, (1982)

The timing of retirement would then be a matter for the individual to decide in the light of his private and State pension entitlements together. If a 'decade of retirement' (between 60 and 70) were to be introduced, it would also be possible, within it, to bring the rights of men and women closer together.

7.21 This approach could not be introduced without some restrictions. Those wishing to retire early and receive an abated national insurance pension would have to demonstrate that they had sufficient private provision to ensure that they would not be dependent on means-tested State support to supplement the abated pension.

7.22 The Government's detailed proposals for pensions are set out in Chapter 1, Volume 2.

CHAPTER 8: PROVIDING FOR CHILDREN

8.1 The principle that we should give financial support to those who bear the extra responsibility of bringing up children is one to which this Government are committed. It acknowledges not only the duty to ensure that children should not face hardship, but also the importance of supporting family life and those who are ensuring our own future by caring for the next generation. It is a principle which is acknowledged by almost all countries by either concessions in their tax systems or the payment of benefits or both.

8.2 In this country the basis of provision has changed substantially over the years. The original Beveridge concept was that there should be a system of family allowances for all except the first child to provide each family with sufficient support to meet the basic needs of its children. He regarded it as reasonable to expect the incomes of those in work to meet at least the living costs of the parents and one child but recognised that many families with more than one child could not manage and that such families had suffered particularly before the war.

8.3 But when family allowances were introduced, the level of allowance was lower than he suggested. What is more, the allowances were not regularly uprated and so lost their value. As a result, the family allowance system contrasted unfavourably with the more generous support for children in the rest of the social security system. Higher flat rate help was paid to those with children on national insurance benefits and higher age-related help was given to families through first national assistance and later supplementary benefit. Although the system of child tax allowances which had long been a feature of the income tax system remained, and was put on an age-related basis with higher allowances for older children, families on lower incomes were least able to benefit from them.

8.4 The result was a serious gap in the pattern of social security provision. For those with least means - families wholly dependent on social security benefits - the State rightly provided for all the essential costs of bringing up children. And for those in work, the State gave recognition of, and made a contribution through benefits and tax concessions to, the extra financial burdens of bringing up children. But for those working families with low incomes, this contribution was insufficient. The gap between the levels of assistance with children provided to those out of work and to those in work was such that low income working families could be worse off than if they were out of work.

Family Income Supplement and Child Benefit

8.5 An attempt was made to deal with these problems through the introduction of family income supplement (FIS) in 1971. This is paid only to low-income working families with children. It was followed by the proposal to replace both child tax allowances and family allowances by a child tax credit. This eventually resulted in child benefit which, after a transitional period, replaced both allowances in 1979. Child benefit helped in particular working families too poor to take full advantage of their child tax allowances though, with the relative fall in the thresholds, the numbers were relatively small. And it is offset against the benefits for children payable under the national insurance and supplementary benefit schemes. So these changes have helped to move the balance in the right direction.

8.6 But these changes have not removed the problems. FIS was introduced as a temporary measure. It is administratively simple but it has not proved popular. Its flat rate allowances for children are out of line with rates payable to families on supplementary benefit. And it has been open to manipulation by those claiming it. Working families, especially those with larger families and older

children, can still find themselves worse off than if they were unemployed. The combined effect of increasing deductions for tax and national insurance and reducing benefit levels as income increases mean that disposable family income scarcely rises at all, and can in fact fall, over substantial ranges of gross income. The disincentive produced by these effects to work and to self-help are exacerbated by the way that child benefit and FIS are paid, normally to the wife, so that wage earners may not be fully aware of the total income which their family is receiving.

8.7 The Government's strategy of raising tax thresholds and thus reducing the burden of taxation on low income families is an important part of the answer to these problems. The increases announced in the Budget mean that tax thresholds are over 20 per cent higher in real terms than in 1978/9. The changes to national insurance announced in the Budget will also mean that the lowest paid families will pay less in contributions. But the raising of tax thresholds and changes in contributions, helpful though they are, will not be sufficient to meet the Government's purpose. Because families with children are in a minority among low-income households, such means cannot be precisely targetted on them. The Government therefore believes that a new approach is required to create an effective bridge between income in and out of work for some of the poorest families in our community.

8.8 Nor does the Government believe that child benefit can be the right vehicle. Although, superficially, the unemployment and poverty traps could be largely eliminated for families with children by for instance doubling child benefit, the cost of doing so - some £4 billion - would be insupportable and completely inconsistent with our objective of targetting help on the areas of greatest need. The great bulk of the extra spending would in fact be directed to those well able to meet the costs of bringing up their

children. Nor does the Government accept the alternative proposal that child benefit should be increased but subjected to a means test or be taxed. To do so would result in an unacceptable degree of 'churning' and means-testing. It would also go against the Government's basic acceptance that the responsibilities of all families with children should be recognised.

8.9 The Government do not therefore propose any changes to the basis of universal child benefit. Child benefit will continue to be paid to all mothers as a contribution to the cost of bringing up children. Nor are any changes proposed to one parent benefit which will continue to provide extra help to parents bringing up children alone.

Family Credit

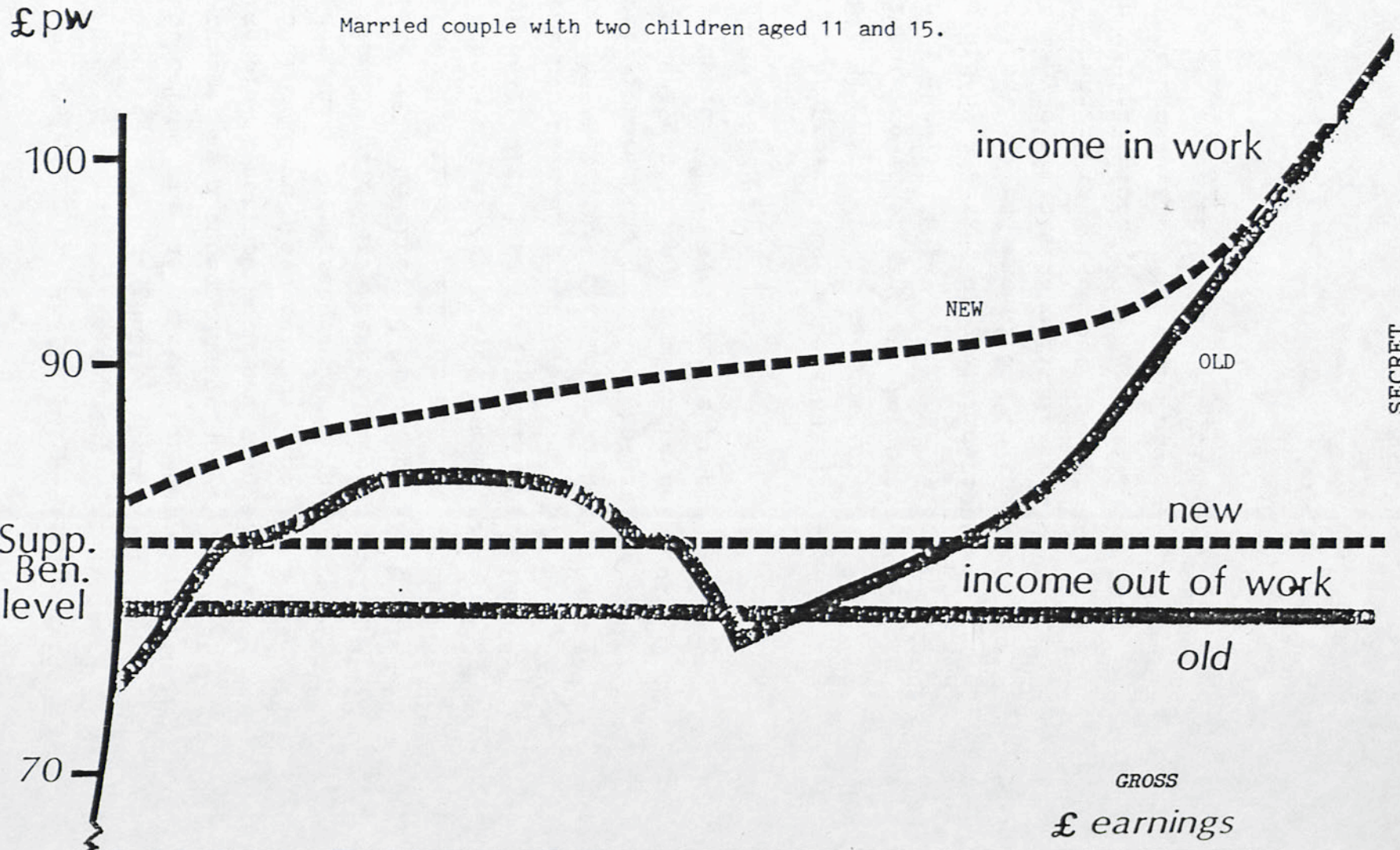
8.10 Instead the Government propose to introduce a new mechanism to assist low-income families. Its objectives will be to provide extra support to these families in accordance with their needs; to ensure as far as possible that they are better off in work; and to see that they can achieve improvements in family income by greater effort without losing all the benefits because of high marginal tax rates. The new system - to be called the family credit - will act both as an offset to tax and an addition to income for those on low earnings. The credit will replace family income supplement and will be so structured as to be compatible with the basic income support available to families with children not in work. To make employees aware of the full extent of the help they are receiving the credit will be paid by employers through the pay packet. The employers will deduct the amount of benefit from the tax and national insurance payments and the effect for the wage earner will be that he will see his payments reduced and his income enhanced to reflect his family responsibilities.

8.11 Under this proposal anybody in work with children on low income will be able to apply to the DHSS for a family credit. The basic entitlement will be assessed by reference to rates related to those applying to supplementary benefit and reduced in proportion to the amount by which his income exceeds a minimum level. This weekly entitlement would then be notified to the employer and paid as part of his normal net pay. The employer would recoup the cost from the contributions or tax he has to pay to the Government.

8.12 The family credit will be an integral part of the take-home pay of the wage earner in low income families. It will put such families in a position where they can see more clearly the level of income on which they can depend and on which they need to plan their lives. For this reason, those in receipt of family credit will not receive free school meals or free welfare foods (although they will be exempt from NHS charges). Instead the rates of family credit will be enhanced to provide extra cash help. Free school meals and free welfare foods will continue for those in receipt of supplementary benefit but the low income scheme for welfare foods and local authority discretionary schemes for school meals will be ended.

8.13 The family credit scheme will represent a substantial change in our approach to helping working families on low incomes. Figure 6 shows that it will reward those who are seeking to help themselves and prevent families being worse off in work than unemployed. It will ensure that children in all low income families can be properly supported. It will put extra help in the pay packet rather than in the benefit order-book. And it will reduce the worst disincentive effects of the poverty trap.

Figure 6. THE EFFECT OF THE FAMILY CREDIT SCHEME TAKING ACCOUNT OF CHANGES IN OTHER RELEVANT BENEFITS INCLUDING SUPPLEMENTARY BENEFIT AND HOUSING BENEFIT



SECRET

SECRET 51

CHAPTER 9: PROVIDING INCOME SUPPORT

Basic income support

9.1 Supplementary benefit is the main provider of help for those in need in this country. It is based on a detailed test of individual circumstances and personal need. A national scheme has existed for 50 years. In that time the scheme has changed considerably. But what is most noticeable is not how much has changed but how much of the original concept has survived. The scheme we have today is the descendant of arrangements in place before the end of the Second World War. Beveridge gave little attention to assistance as he expected his proposals to eliminate the need for additional help for all but a residual group. Yet the scheme has always played a mass role. Since 1948 it has never dealt with less than 1 million claimants. A residual scheme has been an unachieved aim. But many reformers have concerned themselves primarily with that aim and have largely ignored the question whether the social assistance scheme was continuing to meet the needs of the day as well as it could. The Government's proposals tackle that question directly.

9.2 At present the scheme suffers from three main problems. First it is too complex. It is difficult for claimants to understand and for staff to run. It contains a mass of detailed rules, with the basic provisions being overlaid by a series of qualifications, detailed specifications and exceptions to the rules. The result is that many claimants have little real understanding of how their benefit is worked out or what they are entitled to. Help may therefore go to those with the best knowledge who are not necessarily those who need extra help most. And staff are expected to have encyclopaedic knowledge and to

make extremely difficult judgements in deciding help. The result is a very staff-intensive scheme. We believe people want a simpler system.¹

9.3 Second, the basic purpose of the scheme tends to be swamped by the extra additions to it. The most important role of the scheme is to provide a regular weekly income for claimants on the basis of set rates of help for different groups of claimants. But the scheme also tries to take account of individual need through weekly additions to benefit and one-off payments. These rules do not work well. Some of the extra payments are now for all practical purposes already part of the basic benefit. Others no longer reflect present day society or today's needs. And we are faced with a mushrooming of payments to claimants for specific items now totalling almost three million a year - descending to what by any standards are minor items. Trying to administer these rules puts at risk the efficient delivery of income support for claimants. It also leads to an undesirable degree of intrusion into claimants' lives. Detailed questions - often on personal and sensitive matters - are needed to administer the rules. We believe that these arrangements are not cost effective and that they undermine people's responsibility for managing their own lives.

9.4 Third, the scheme does not target resources to those who need help most as effectively as it could. The level of help available for claimants overall has doubled in real value since 1948. Originally, common rates were set. But in the last ten years there has been a marked divergence between groups of claimants. The higher rates of benefit, in particular those for pensioners, have increased in real value by over one fifth since 1973. And over 90 per cent of pensioners also get extra help each week on top of their

¹ An analysis of public attitudes to complexity in social security is given in Appendix 4 Volume 3.

basic rates. By contrast, the ordinary rates have increased by less than one tenth. The Government accept that rates of help for different groups should differ. But there is good evidence to support some re-allocation of help towards families with children.

9.5 A further problem is created by the fact that the means-tested benefits differ both in terms of their structure and the rules by which they are applied. This mismatch undermines attempts to establish a more consistent system of help for people in and out of work. Some divergence may be needed - different benefits have different functions - but there is little dispute that one of the main problems of housing benefit, for instance, has arisen from the lack of a common basis for assessing income support. The result is housing benefit supplement - a benefit created solely to deal with the differences between supplementary benefit and housing benefit rules. That can be no-one's idea of sensible social security provision. Greater compatibility is impossible while supplementary benefit itself offers such a wide range of potential extra help for its claimants.

9.6 The Government have concluded that these problems require radical change and the replacement of the supplementary benefit system. In its place the Government will provide a system to fulfill two separate functions. First, there would be a system of income support. This will provide people with a reasonable level of income which they will be responsible for managing as they wish. The system will not provide in detail for every variation in individual circumstances. Benefit will be determined essentially by age and family responsibilities with extra allowances for a limited number of specific client groups. Thus there will be a lower rate for those under 25 and a higher rate for pensioners. Families will receive a flat-rate addition to the basic rate as well as age-related amounts for each child

Extra allowances will be payable only to the long-term sick and disabled, and lone parents, reflecting their greater needs. This income support scheme will replace both the present structure of scale rates (based on age and marriage, householder status, family responsibilities, and time on benefit) and the separate system of weekly additional payments.

9.7 The scheme will also give more encouragement to people to save and take on work than the current scheme. The current capital rule - under which anyone with over £3,000 savings is not entitled to any benefit - operates unfairly and discourages thrift. That maximum will be increased to £6000 although benefit will be reduced on a simple sliding scale for those with savings between £3,000 and £6,000. To help them in seeking employment and helping themselves some groups - lone parents, disabled people, and couples who have been unemployed for two years - will be allowed to earn up to £15 a week before their benefit is affected. The Government will want to see how this change works out before deciding whether further changes should be made in the earnings rules.

9.8 The Government recognise that, alongside the new income support scheme, it will be necessary to provide for the exceptional circumstances and emergencies faced by a minority of claimants and to help those who find difficulty in managing their resources and budgeting. At present these problems are dealt with ineffectively through the single payments and exceptional needs payments systems. These systems have become unacceptably cumbersome and expensive. They are subject to complex regulations and instructions as a result of which help is often dependent more on intricacies of interpretation than on a genuine assessment of need. These arrangements will be replaced by a new system of social aid. It will be administered by DHSS local offices on a discretionary basis so that appropriate

and flexible help can be given to those in genuine need. The social aid budget will be cash limited and subject to close monitoring to ensure that it is being operated appropriately. Staff will be specially trained to assess individual need, to offer help with budgeting problems and to assist the more vulnerable groups who face special difficulties.

9.9 In the longer term, the Government will consider the further development of this aspect of social aid to promote our objectives of encouraging care in the community for mentally and physically handicapped, elderly and mentally ill people. At present, the social security system can either be seen as an automatic paymaster, as in the case of residential care, or as a barrier to the most sensible mix of cash and services for people. What we should be aiming for is a more effective and responsive system which can bring the resources of the supplementary benefit scheme, local authority personal social services, and health authorities together in a cost-effective way to meet social and financial needs.

9.10 The new income support and social aid schemes will, not generally provide assistance with housing costs. This is largely provided through the housing benefit scheme - discussed below. At present, people receiving supplementary benefit can get assistance with mortgage interest payments as part of their benefit. For those dependent on income support for long periods help from the State is right, but the Government believe that short-term difficulties should be handled by arrangement between the mortgagee and the mortgagor, rather than by the State. Indeed, some mortgagors now operate arrangements under which changes, for instance in interest rates, are not reflected in repayments for up to a year afterwards; and others offer insurance against contingencies like sickness and redundancy. The Government therefore think it reasonable that the State

should only accept responsibility for the individual's interest payments once it is clear that the interruption of employment is no longer temporary. It is therefore proposed that mortgage interest should only become payable under the income support scheme after the first six months on benefit.

9.11 The replacement of supplementary benefit by the new income support and social aid schemes will be the most radical change in the safety net of support provided by the State since the 1930s. It will provide a simpler and more intelligible system, able to deal more effectively with genuine needs. Detailed proposals are set out in Chapter 2 of Volume 2.

Housing costs

9.12 The Government's proposals for housing benefit build on the reforms of supplementary benefit. They provide a fairer and simpler system for assisting low-income households with their housing costs. This takes forward the changes made in 1982 and 1983 which brought together the previous separate but overlapping schemes run by the DHSS and the local authorities.

9.13 The present scheme was an important step forward from the previous fragmented systems. Its main achievement has been to focus the administration of help with rent and rates in one place: the local authority. This has significantly eased the work of supplementary benefit staff and has allowed proposals for the simplification of supplementary benefit to be developed. But the scheme is still unsatisfactory in a number of respects and its introduction created major administrative problems for many local authorities. Consequently the Government set up an independent review of the scheme in February 1984, whose report is being published at the same time as this document.¹

¹ Housing Benefit Review: Report of the Review Team Cmndxxxx

9.14 There are three main difficulties with the structure and scope of the scheme. First, it does not provide equitable treatment to all recipients. Housing benefit is still basically two separate schemes: one for those on supplementary benefit and one for other claimants, with different entitlement rules and different tests of income and capital. People on supplementary benefit can receive more help than others on similar net incomes. As the Review Team noted, this is unfair and can substantially weaken work incentives.

9.15 Second, housing benefit is too complicated. The different rules for those on supplementary benefit and for other households are in themselves a source of complication and confusion for claimants. Attempts to reduce the inequity caused by different rules have led to further complications: the prime example is housing benefit supplement. Another source of complication is that housing benefit also attempts to relate benefit in detail to individual circumstances: more so than most housing assistance schemes abroad. Moreover certain aspects of the scheme have particularly complex rules, for example the treatment of students and of high rents.

9.16 Third, housing benefit goes to a very large number of households - about one in three - much higher than other countries with similar economies and social security systems. The Government have already taken steps to control the scope of the scheme, but there is still room for resources to be directed more to those who need help most.

9.17 The Review Team called for basic reforms in the scope and structure of the scheme since they found that there were inherent flaws which no amount of tinkering or fine tuning will put right.² The Government accept this conclusion.

² Review team report para 1.2

9.18 The fundamental reform is, as proposed by the Review Team, to align the entitlement rules - including the capital rule - and the income test for housing benefit with those for the new, income support scheme which will replace supplementary benefit. All households in receipt of income support or at equivalent levels of income will therefore in future be eligible for the same level of help with their rent and rates.

9.19 The Review Team proposed that rents should be eligible for full reimbursement to all those in receipt of income support or at equivalent levels of income. The Government accept this proposals, subject to safeguards to ensure that the rents charged to such households are not unreasonable. The effectiveness of the safeguards will be monitored: if there were evidence of rents rising because the taxpayer was meeting the bill, the decision on full reimbursed would be reviewed.

9.20 The whole structure of rates is currently under review in studies of local government finance. A major issue in that review is the need to renew the links between payment for, and use of, local authority services to help ensure proper local accountability. However, whilst domestic rates continue to be a significant element of local authority income the Government believe local accountability would be strengthened if every household was required to make some contribution towards them. This would mean that the maximum level of rate rebate in a reformed scheme would be set at less than 100 per cent.

9.21 Benefit for households with incomes above the income support level will be reduced by a simple, straightforward formula related solely to net income. This is illustrated in Figure 7. The Review Team based their main recommendations on separate formulae for rent and rates, as in the current scheme. But they suggested that in the longer term

Figure 7

Illustration of Housing Benefit entitlement under current scheme
Standard cases only - certificated cases (on supplementary benefit) receive 100% HB.

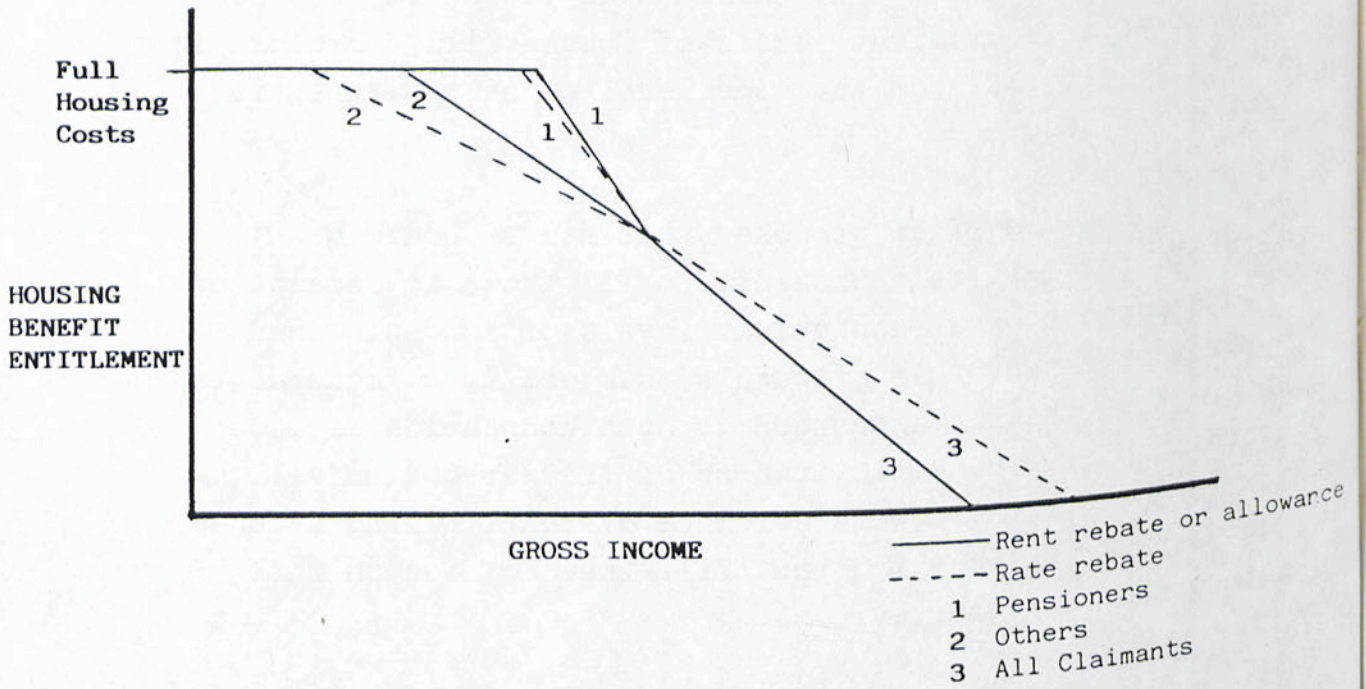
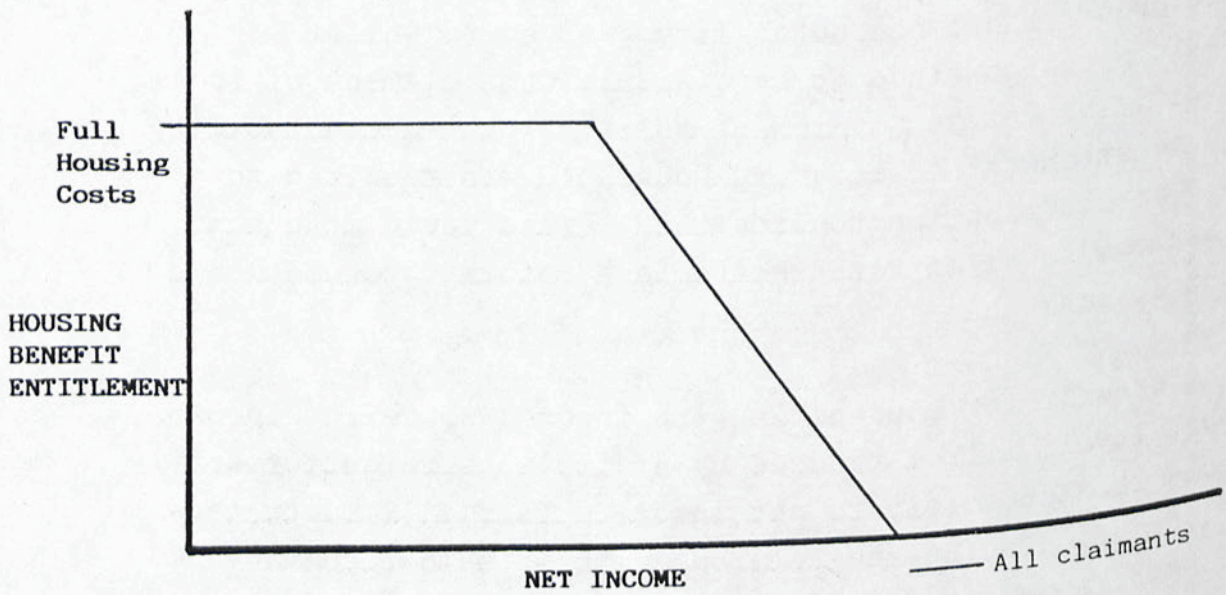


Illustration of Housing Benefit entitlement under proposed scheme

(All cases)



rent and rates should be assessed together as one sum. This would lead to a reduction in the number of households on housing benefit, further simplification and greater concentration of resources on those most in need.

Subject to the outcome of the studies of local government finance, the Government agree that there should be a single assessment of housing costs for determining entitlement to housing benefit.

9.22 Finally, as recommended by the Review Team, local authorities will retain responsibility for administering the scheme. But there will be changes in the subsidy systems, to give authorities greater incentive to control costs. The Government will seek also to take forward the Review Team's recommendations for a more systematic approach, both centrally and locally, to the development of management information and cost controls and for certain common standards of administration, to ensure equity of treatment across the country.

9.23 The Review Team sought to simplify the substance of the scheme and the procedures for its administration so that assistance is provided on the same basis to all who are eligible, and so that it can be administered more economically and cost-effectively. The Government endorsed those aims and the modifications it has proposed to the Review Team's report are consistent with them. The reformed housing benefit scheme will be more equitable, simpler, easier for claimants and staff to understand, and its administration will be made more efficient and effective.

9.24 The Government's detailed proposals for housing benefit and their response to other recommendations made by the review team are set out in Chapter 3 of Volume 2.

9.25 The introduction of the new family credit and the reformed housing benefit system, on a basis consistent with the new income support scheme, will provide a coherent and integrated basis for helping those with low incomes, consistent with the objectives set out earlier. All three components will be operated on the same system of income testing. This will be based on net income and will allow more sensible treatment of capital resources than at present in order to retain the incentive to save. The income support scheme will give families who have been unemployed for a long period greater encouragement to keep in contact with the world of work by allowing a higher level of earnings before entitlement to support is reduced. The new system will do much to ensure that those in work but on low incomes are not disadvantaged compared with those who are out of work. By basing entitlement to all benefits on net income, the new arrangements will also mean that an increase in earnings always leads to an increase in net income. The worst effects of the poverty trap that can exist now will therefore be avoided.

9.26 These proposals will be a major step towards making the benefit system simpler to operate and easier to understand. Most importantly, they will establish a more comprehensive and fairer system which will give people greater encouragement to help themselves - by working and by saving - than they receive at present.

Young people and income support

9.27 The Government have recently published a White Paper⁴ setting out proposals for tackling the serious problems posed by the current high level of unemployment among school leavers. Subject to the outcome of Consultations now being

⁴ Education and Training for Young People, Cmnd 9482,

conducted by the Manpower Services Commission the Youth Training Scheme is to be expanded with the objective of guaranteeing training for young people not in work or full-time education for the two years after school leaving age. This will reduce substantially the number of young unemployed people claiming supplementary benefit. It offers the prospect of a future in which unemployment will not be an option for this age group. No changes are proposed at present to the benefit entitlement of young unemployed people. But this will be given further consideration in the light of the development of the new training arrangements.

9.28 The Government believes, however, that young people should in general not rely on social security benefits where this can be avoided. This applies clearly to students in higher education. Moreover, claims from students for supplementary benefit and housing benefit create disproportionate administrative problems for both schemes, particularly as the amount of benefit involved is usually small. The Government believe it right in principle to return to the situation which existed before the introduction of supplementary benefit in 1966 with students supporting themselves by grants, loans, help from families and their own earnings in vacations. Some changes towards this objective will therefore be made from the beginning of the next academic year and further changes will be considered in the light of the outcome of the process of public consultation following the Government's consultative Paper on student support.

CHAPTER 10 : PROVIDING FOR CONTINGENCIES

10.1 Apart from pensions, the national insurance system provides cover for unemployment, sickness, maternity and death. But the development of these benefits - their value, their relevance and the conditions governing them - has varied considerably. They are therefore best looked at separately.

Providing for unemployment

10.2 Unemployment benefit was designed to be the main support for people who lose work. It was to be earned by contributions paid in previous work and paid for up to a year. But only half of those becoming unemployed receive unemployment benefit and a fifth of those have it topped up by supplementary benefit straightaway. Taking the unemployed as a whole, about two-thirds are entirely dependent on supplementary benefit. The overlap between the two benefits - unemployment benefit and supplementary benefit - is confusing for claimants who may move from one to the other. It also leads to complication in administration. The two benefits are handled in separate offices by DHSS and the Department of Employment.

10.3 Unemployment benefit, in its present form, has ceased to be the main support originally intended and the contributory basis of unemployment benefit has thus been devalued. People who think themselves insured against unemployment find that the insurance benefit is paid at a rate little higher than supplementary benefit and thus been contribution tests which refer back to periods in work as much as two years earlier. These tests often exclude people who have only recently joined or rejoined the work-force. If they have children they may need to have their benefit topped up by supplementary benefit.

Moreover, if they turn to supplementary benefit for support, they may have to run down their capital, and to use up resources which might have helped them to set up in business themselves, before they can qualify for it. The present system all too often fails to provide a breathing space for a newly unemployed person during which he can continue to rely on his own resources and an adequate contributory benefit before he has to seek income-tested assistance.

10.4 The Government are therefore considering - and would welcome views on - the possibility of moving to a new structure for unemployment benefit under which:

- benefit would be payable for six months only;
- the structure of the benefit would be aligned with that of the income support scheme (ie including allowance for children);
- the rates of benefit would be set above the income support scheme levels; and
- entitlement would be related more closely to a test of regular recent employment than under the present complex contribution conditions.

This would have the advantage of ensuring that newly unemployed people did not need to apply to the income support scheme for the first six months; it would increase the incentive to resume employment quickly; and it would simplify the scheme both for claimants and in terms of administration.

Providing for maternity

10.5 The national insurance scheme has provided two forms of payment to assist mothers at the time their children are born: a single payment of a flat-rate grant, now available to all mothers without any contribution test; and a weekly allowance paid for a period to mothers who have been in regular work and paid contributions. The grant is dealt with separately in the next section of this chapter. This section concentrates on the allowance, which has the essential purpose of replacing the mother's earnings for a period around the birth of her child to enable her to give up work. This allowance is complemented by maternity pay which is paid by employers to women who have worked continuously for the same employer for two years and who give up work to have a child.

10.6 The Government propose to retain both maternity allowance and maternity pay to provide income for working women who give up work to have a child. But the national insurance maternity allowance will be changed. Like unemployment benefit, entitlement to maternity allowance will be based more closely on a test of regular recent employment rather than the present complex contribution conditions which often relate to a period up to two years previously. And the period during which maternity allowance is paid - from eleven weeks before the expected week of confinement to six weeks after - will be made more flexible to allow women more choice about when to give up work.

Maternity grant and death grant

10.7 These two grants were included in the original national insurance scheme to cover the immediate costs associated with birth and death - providing essential equipment and clothing for a new child and providing for a

funeral. They have not maintained their value and - at £25 and £30 respectively - are hopelessly inadequate for their tasks. Even a simple funeral now costs some £350. Yet successive Governments have failed either to maintain the value of the grants or to replace them. As a result, the administrative cost of giving out each grant has now - certainly in the case of death grant - reached a very high proportion of the value of the benefit itself. Extra help towards the actual costs of a birth or funeral is only available to those in receipt of supplementary benefit.

10.8 At the inception of national insurance it may have seemed right to provide State insurance for these contingencies. But in the 1980s this is something which the Government believe can properly be dealt with - and is now being dealt with - almost entirely by individual provision, through insurance if necessary. The Government's responsibility should be restricted to ensuring that those genuinely without means to meet these contingencies are provided for. The intention is, therefore, that maternity and death grants will be replaced with new provisions.

Help with maternity costs will be provided only to low-income families, mainly those in receipt of the new income support or family credit. It will be paid at a flat-rate of £75.

Help with funeral costs will be available on a discretionary basis from the DHSS to anyone responsible for providing a funeral who has not the means to pay for it. The DHSS will have to have the right to reclaim money advanced if it turns out that there were sufficient resources (eg from the deceased person's estate) to meet the cost, but the discretionary arrangements will ensure that effective help is given quickly to those who genuinely need it without intrusive or bureaucratic procedures.

Provision for widowhood

10.9 There have been many changes since the present system of benefits for widows was introduced, which make it timely to reappraise this area of provision too. Society rightly provides State benefits for widows : equally, it is now an established feature of private pension schemes that there is financial provision for widows. The balance between the twin pillars of State and private provision needs to be re-examined.

10.10 The present benefits date from days when far fewer married women worked. Today two thirds of all married women with children over school age, and over a half of widows between 40 and 60, go to work. The present pattern of benefits nonetheless provides support without regard to widows' other income in many cases long after they have ceased to be responsible for bringing up children. Beveridge did not propose this. His view was that 'there is no reason why a childless widow should get a pension for life; if she is able to work, she should work'¹. This view has all the more force today. The greatest need is to make provision for widows of working age who have children to support, and for older widows less able to establish themselves in work.

10.11 The present system of benefits provides three types of support for widows under pension age. A widow's allowance at a higher rate is paid for the first six months after bereavement, at whatever age it occurs. Then, if she has children, the widow receives widowed mother's allowance as long as they are dependent on her, with additional payments for each child. For the older widow without children widow's pension is paid after the first six months. The complications do not end there. Widow's pension can be

¹ op cit, para 153

paid when widowed mother's allowance ends, if the widow is then over 40. And the rate at which the pension is paid, for any widow, depends on the age at which she qualifies for it. To get the full rate she has to be over 50; while between 40 and 50 she receives it on a lower but rising scale. (Under 40 it is not paid at all.)

10.12 The Government think the present benefits no longer reflect the changed working patterns of women, and the availability of help through private schemes. We propose first that short-term assistance should be given to all widows at the time they need it most - immediately on bereavement. Second, longer-term assistance should be better concentrated on those who are least likely to be able to support themselves.

10.13 The Government would welcome views on the following proposals, which have been drawn up to meet these objectives. Widow's allowance would be replaced by a single substantial lump-sum payment (of the order of £750), which would be payable immediately after the husband's death. This would be of more help to a widow in the immediate period of adjustment than a benefit paid over 6 months. If the widow is eligible for a continuing benefit as well, it would be put into payment at the same time and run from the beginning of widowhood, instead of starting 6 months later. Widowed mother's allowance, which would continue as at present, would start immediately on that basis. But widows without children would not qualify for a widow's pension unless they were 45 or over. At that age they would qualify for the lowest rate of pension; at 55 they would qualify for the full rate. The rate would increase according to age at bereavement between 45 and 55 - an age range set five years later than at present.

10.14 This would, in the Government's view, be a system better attuned to current circumstances. Widowhood is a contingency for which an increasing number of people can - and do - make their own private provision. It is no longer right to assume that State provision for widows should continue to grow rapidly, as it has in the past. The twin pillar approach justifies some re-thinking so that the State's contribution is reduced and concentrated on those who have the greatest need.

Provision for sick and disabled people

10.15 The present review of social security has not included benefits for disablement. The Government's objective here, as elsewhere, would be to secure a coherent and better targetted system, concentrating resources on the most seriously disabled : this remains the long-term aim. But to plan for this, better and more up-to-date information about the present extent of disablement and its effects is needed. The Government have set in hand a major new survey to obtain this. The last survey of this kind is over fifteen years old : it had significant gaps, and since it was conducted a number of new disablement benefits have been introduced. The new survey will provide the evidence needed to enable this important set of benefits to be reviewed in their turn.

10.16 In the field of short-term sickness a major reform has already been carried through, on principles which accord entirely with the approach in this Green Paper. The overlap between State and private occupational provision has been rationalised by the new statutory sick pay scheme, which at present covers the first eight weeks of sickness and is to be extended to cover the whole duration of sickness benefit - 28 weeks. Most people will then look to their employers for their sick pay for up to six months of absence through

illness or injury : State benefit will be paid only to those who do not qualify for payment by their employers or whose incapacity for work is long term.

10.17 The Government's detailed proposals for benefits for unemployed people, maternity, and widowhood, are set out in Chapter 5 of Volume 2.

CHAPTER 11 : CONTRIBUTIONS AND FINANCES

The contributory principle

11.1 The principle that entitlement to benefits should be related to contributions paid is one to which the Government remains committed. An opinion survey¹ has shown that people generally regard their contributions as not just another tax. They realise that they are earmarked to finance particular benefits, and consequently find them more acceptable. That preference for a separate contribution must be recognised.

11.2 Some contributory benefits are to tide people over a temporary loss of earnings: unemployment benefit is the most obvious example. Others, like the retirement pension, provide the certainty of a continuing income when a working life is over, or (as with invalidity benefit) is interrupted for a long period, or when a woman loses her husband's earnings through widowhood. As the cost of these benefits is met on a pay as you go basis, the contributory principle can be seen not so much as social insurance but as a social compact - between those in work and those not, or between one generation and the next. It is a compact which must not become one-sided. But it is right that people in work should see that they are paying for the benefits of those who are not, and are in turn establishing their own rights to those benefits when they need them.

The structure of national insurance contributions

11.3 But a commitment to the contributory principle need not imply a commitment to a particular structure of contributions. As with the benefit system, the contribution system should be considered in terms of its wider impact on Government policies as well and its role in social security.

¹ See Appendix 4, Volume 3

11.4 Much has been made of the high marginal tax rates created by a lower earnings limit for contribution liability which, when reached, means that contributions must be paid on all earnings, both below and above it. It is sometimes argued that the lower limit should operate like a tax threshold, with all earnings below it exempt from contributions. And some have suggested that the upper earnings limit - the point at which contribution liability ends - should be abolished for both employers and employees.

11.5 The Government recognise the threat which a high marginal tax rate at the lower earnings limit may pose to incentives and to employers' willingness to take on more workers. However the cost of changing to a threshold below which no contributions would be levied is extremely high. It would cost some £6½ billion to convert the existing Lower Earnings Limit into a threshold. If such a change were made instantly it could only be paid for by higher contribution rates (and hence marginal tax rates) for all. Nonetheless the Government is already taking action to improve the position. The Chancellor of the Exchequer announced in his 1985 Budget speech, that a graduated scale of contribution rates to benefit low-paid employees and their employers will be introduced later this year. This will help to reduce marginal tax rates and will improve incentives. Employers will face lower wage costs for their low-paid employees, and many should be able to take on more staff, so creating new job opportunities. And the changes in both national insurance and tax thresholds announced in the Budget will combine to give low-paid workers more take-home pay. This will increase the incentive for people, particularly young people, to take jobs.

11.6 The upper earnings limit for employers is to be abolished at the same time as graduated rates come in. This represents a radical change to the structure of national insurance contributions. It recognises that there is no

good reason for aligning exactly the bands of earnings on which employers' and employees' contributions are levied. It is right that employers as a group should share with their employees the need to provide for the payment of contributory benefits. This implicit recognition of a common interest of employers and employees underlies the principle of an employer's contribution which is a feature of most western social security systems. But the purpose of the employer's contribution is simply to raise revenue for the National Insurance Fund. No benefit rights hinge on it, and its structure is therefore best considered in relation to its effect on employment.

11.7 With the abolition of the State earnings-related pension scheme, it will no longer be necessary to keep detailed records of everyone's contributions for each year. All that will be needed is an indication of whether enough contributions have been paid or credited in a year to maintain contributor's rights to basic pension and other flat-rate benefits. Some may use this to argue that the upper earnings limit for employees should also be abolished. But the circumstances are very different. Employers generally will gain more from the graduated rates of contribution than they lose from the upper earnings limit going; but there cannot be a similar trade-off for individual employees. We have made it clear that the high marginal tax rates which abolishing the upper earnings limit would create make it unacceptable.

Contributions and PAYE tax

11.8 National insurance contributions and PAYE tax are generally collected together. Employers deduct both from employees' earnings and pay over to Inland Revenue a total sum to cover both. This has led some people to argue that there should be a complete alignment between tax and contributions; or even that contributions should be a part

of income tax. And a recent Government scrutiny of burdens on business, published in April, provided evidence that at least some employers find the differences between liability to tax and contributions add to their burdens.³

11.9 These differences are significant: contributions are calculated on weekly or monthly earnings, while income tax is calculated on annual income including unearned income and pensions. A range of allowances can be made against income for tax purposes but not for contributions. Complete alignment between income tax and contribution liability is not necessary, given the Government's wish to preserve a separately identifiable contribution. It would not in any case be a realistic possibility in the near future: the operational and distributional effects would be vast and far-reaching. But the changes envisaged in the benefit system make it sensible to see whether there are differences between tax and contribution liability which are no longer needed and could be removed to help employers. In particular, the abolition of the State earnings-related pension scheme will reduce the amount of detail that DHSS needs to keep. These records might then be brought more into line with the simpler ones used by Inland Revenue.

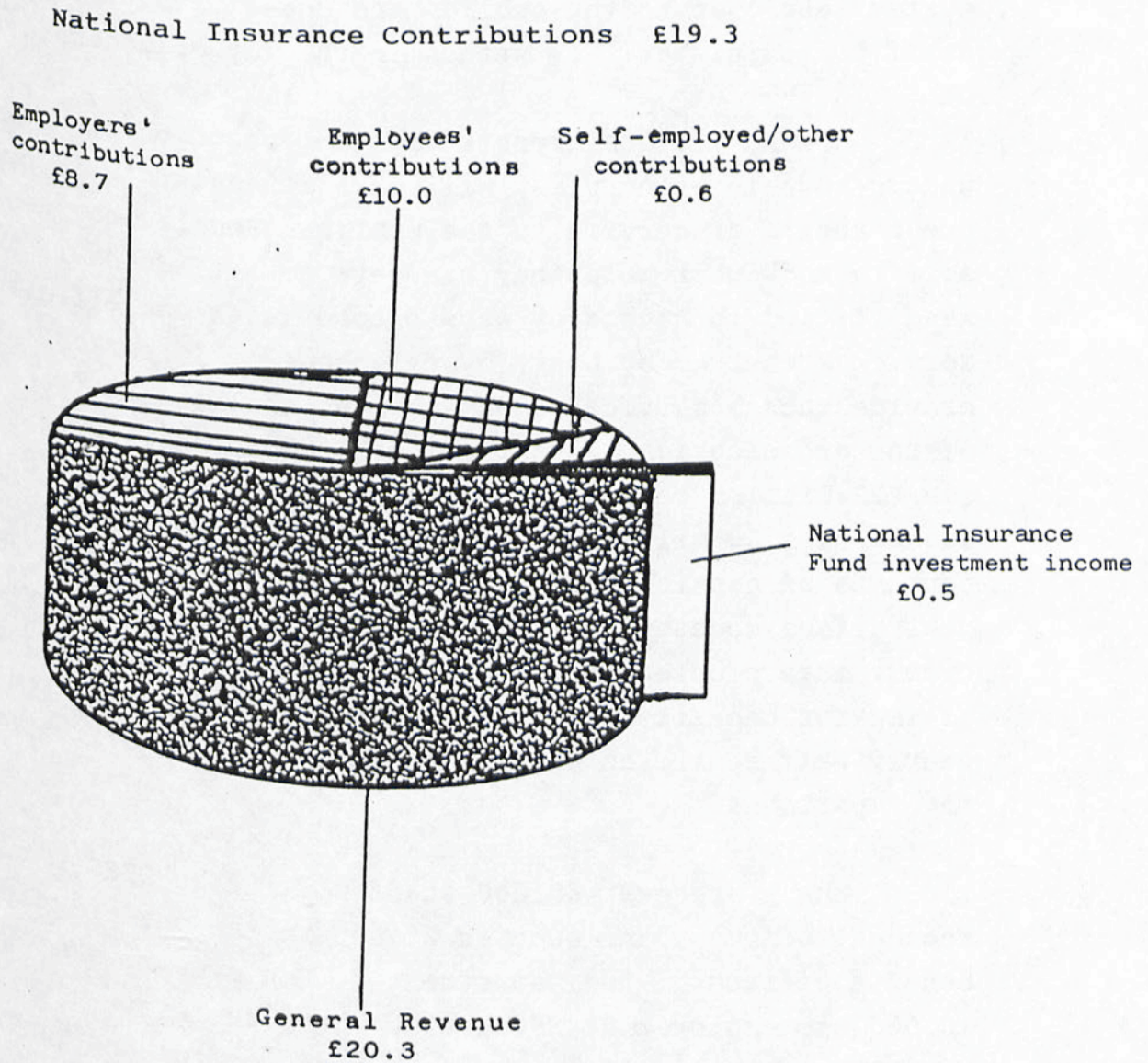
11.10 The examination of the scope for better links between the tax and social security systems, referred to in Chapter 6, will therefore include an examination of the scope for bringing PAYE tax and national insurance contributions more into line, while keeping them as two separate systems. In doing so it will consider the recommendations of the study mentioned in paragraph 11.10.

³ Burdens on Business, HMSO, March 1985

The social security budget

11.11 Changes in contributions will not change the balance of funding of social security. Contributions from employers and employees will continue to provide the great bulk of the income to the National Insurance Fund which in turn is about half the total social security budget. A small proportion of the Fund's income is provided directly by the Exchequer from general Government revenue. Most of the income from contributions paid by employers and employees goes to the National Insurance Fund, but some goes to the Maternity Pay Fund, the Redundancy Pay Fund, and the national health service. Apart from meeting a small proportion of the income to the National Insurance Fund, the Exchequer meets the cost of non-contributory and means-tested benefits: in total therefore over half the cost of social security is met from general taxation. Figure 8 shows the different sources of income for social security in 1984/5.

Figure 8
Social Security Income (£ billion)



CHAPTER 12: PROVIDING A BETTER SERVICE

12.1 The Government's proposals for reform of the benefit system set a high premium on greater simplicity. A system which has to cover such a wide range of needs effectively must sacrifice some simplicity. But unnecessary and incomprehensible complexity must be avoided. It makes the system less open to the public, and unreasonably hard for staff to administer. It stands in the way of modernisation.

12.2 A more rational benefit system, based on clear and understandable principles, will make it easier to improve the standard of service to the public. People should be able to know what help they can get; to get advice if they need it; and to have easy access to a quick and efficient service - whether by post, by telephone or in person. To provide such a service is an enormous challenge. The scale of the organisation is vast. The DHSS has dealings with over 22 million people in this country. Every year it issues over 50 million order books for regularly weekly payments of pensions and other benefits, to be cashed across post office counters. It makes 13 million regular payments direct into people's bank accounts. About 17 million new claims for benefit are dealt with every year. Each week nearly half a million people are seen in local offices of the Department.

12.3 There are over 65,000 staff working in DHSS local and regional offices, and another 26,000 in the unemployment benefit offices of the Department of Employment. Another 10,000 are employed at Newcastle, where there are very large computer centres handling contribution records and benefit payments. This is a system which already has a heavy investment in modern technology, and a good record of reducing the administrative costs of paying benefits. But the public will be most conscious of the clerical operations that still dominate work in local offices, where staff have

a monumental and unremitting task to perform. Local records and local payment systems are only now beginning to be computerised. Contact by telephone is often difficult because the level of enquiries regularly outruns the capacity of switchboards. The difficulties with which staff have to contend - complicated benefits, large caseloads, voluminous instructions and old-fashioned methods of work - mean that there are often delays, queues and poor access for the public.

12.4 Putting this right must be a high priority. New telephone exchanges are being provided so that the public can get an answer from their local offices, and Freephone services are now available in most of the country to deal with general enquiries and offer advice. Microcomputers are being installed to cut out a number of clerical processes and help staff quickly locate the records they need. Local offices have been given the task of developing their own initiatives to improve their service, with most encouraging results. Premises have been smartened up, advice points introduced, contacts with other local services improved, and a range of new steps taken to explain benefits to the public. The Department has published its own handbook of good practice; and, as part of a programme to improve its forms and leaflets it has issued a 'good forms guide'. Local managers have been given an incentive scheme to carry this work forward. Nevertheless, there is still much to be done.

12.5 At a national level the DHSS is now embarking on the biggest computerisation programme in Europe so that offices will not have to depend on manual records as they do now. The aim is to enable staff to get access, on their desks or at the public counter, to the information they need to deal with claims and provide answers quickly, wherever in the country that information is held. This is a long-term

programme which will only yield its full benefit in the next decade. But when it does it will free staff from many of the constraints under which they currently labour. It should be easier to provide offices which are more accessible to the public and properly equipped to provide a quick and accurate response to all kinds of enquiry.

12.6 These developments will proceed alongside the computerisation of the tax system and the two computer systems will be compatible. Already the processes of collecting tax and national insurance contributions are integrated. As set out in Chapter 6, the Government will be examining further the opportunities for improvements and for new links between these two systems that the computerisation plans open up. Computerisation will also create new opportunities for drawing more closely together the operation of the two chains of offices run by DHSS and Department of Employment, and these too will be examined.

12.7 DHSS management and staff will be presented with a major challenge in carrying through the benefit changes the Government now propose while pressing ahead with the operational improvements which are already in train. To provide a clear focus for this work a Social Security Management Board will be established to which the Department will appoint a number of part-time members from outside Government with expertise in running other large businesses. The Board will be responsible for ensuring that benefits are administered quickly, accurately and economically; that the Government's investment in computers and information technology is brought into use as soon as possible; and that the reforms proposed in this paper are implemented on time.

12.8 There can be no doubt about the staff-intensive nature of the existing social security arrangements. The proposals put forward by the Government should result in a significant net saving in the 81,000 staff currently

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employed on social security. Precise figures must depend upon the detail of the legislation. Every effort will be made to keep the staff and their departmental unions informed of the likely consequences in terms of net staff reductions as detailed proposals are developed.

12.9 The proposed arrangements for the future administration of social security are set out in detail in Chapter 6 of Volume 2.

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CHAPTER 13: CONCLUSION

13.1 The social security system affects almost all of us during our lives. It grew out of Beveridge's clear concepts but has developed into a leviathan almost with a life of its own. The proposals in this document seek to achieve a greater coherence and comprehensibility in the benefits provided by the State and to give the State and private provision their proper relationship. They will rein back the rising social security budget and very greatly reduce the future burden of expenditure.

13.2 In summary the main proposals put forward are as follows.

Pensions will be based on a twin pillars: a proper partnership between basic State provision and extra income from pensions earned by people through their jobs. The State earnings-related scheme will be ended (although all rights earned under it will be honoured). Instead everybody will build up extra pension savings through their job. People will be free to have a personal pension plan of their own or to join the scheme their employers use. The State involvement in these private arrangements will be kept to the minimum.

Family support will be strengthened by the introduction of a new family credit to give extra help to low income families with children. It will be paid in addition to child benefit which will continue as a universal benefit on the same basis as now. The family credit will be assessed by DHSS but paid through the wage packet as an offset to tax and national insurance.

The supplementary benefit scheme. It will be largely replaced by a new income support scheme. This will provide an income as of right without detailed investigations into individual need. A smaller social aid scheme will be introduced to give flexible, discretionary help for those with special difficulties.

The housing benefit scheme will be greatly simplified. Its income test will be aligned with that for supplementary benefit and help with housing costs will be on the same basis for those on supplementary benefit as for others. Help with housing costs will no longer meet the full cost of rates.

Young people will need to look less and less to social security for income support. As the new training scheme is brought in fewer 16-18 year olds will need supplementary benefit. Their entitlement to supplementary benefit will be further examined after that scheme is fully introduced. The position of students will be reconsidered in the light of the review of student grants now under way.

Unemployment benefit could be restructured so as more adequately to meet the needs of people who have recently become unemployed. Higher rates of benefit would be paid to people unemployed for less than six months to enable them to manage without recourse to the income support scheme. The income support scheme would provide for those unemployed for more than six months.

The two lump sum grants, for death and maternity, which have long out-lived their purpose and are disproportionately expensive to administer will be replaced. But extra help will be given to those who really need it.

Benefits for widowhood will be restructured so as to reduce duplication between the State and private sectors and direct resources more effectively to those in greater need. Widow's allowance will be replaced by a lump sum payment and changes will be made to the age limits for entitlement to widow's pension.

The financing of the system will be reformed. The contributory principle will be retained but contributions are being restructured to remove the undesirable disincentive effects of the current system.

13.3 These proposals are the culmination of the review which the Government have undertaken over the past 18 months, the most fundamental since the Second World War. It has been based on the work of four review teams - the inquiry into provision for retirement, the review of benefits for children and young people, the supplementary benefit review and the housing benefit review. This has involved a unique exercise in public consultation, with three of the four review teams being led by Ministers, the fourth, the independent review of housing benefit, by Mr Jeremy Rowe. All the teams had the benefit of invaluable advice and assistance from outside members and all have undertaken extensive public consultation. Nearly 4500 pieces of written evidence were received, well over half from members of the public. Nineteen oral sessions were held in public and over 62 organisations and individuals gave oral evidence at those sessions. The Government have

already published, as part of the product of the Inquiry into Provision for Retirement, a consultation document on personal pensions of which 30,000 copies have been issued. There have also earlier been consultations over the future of the death grant. All of this public participation has been important in helping the Government to formulate the proposals for change outlined here.

13.4 In view of the long-accepted principle of parity in social security provision throughout the United Kingdom, this review extends to Northern Ireland as well as to Great Britain. Housing benefit is governed by different legal and administrative arrangements in Northern Ireland. A separate review was therefore conducted by a team of officials who reported their views to the Great Britain team.

13.5 Despite the fact that such extensive public consultation has already been undertaken, the Government believe it is right to publish these proposals in the form of a Green Paper to provide an opportunity for the debate generated by the review to continue and for further comment, especially on areas such as unemployment benefit and provision for widows which have not so far been the subject of public consultation. Following these consultations, the Government will publish a White Paper. Legislation will be introduced before the end of this year to put the reforms into effect. It is expected that the main body of the reforms will be implemented in 1987.

13.6 Comments on the review proposals should be made by 31 August 1985 at the latest. They should be sent to the Central Review Unit, DHSS, Room D406, Alexander Fleming House, Elephant and Castle, London SE1 6BY.