

PRIME MINISTER

You asked for Derek Rayner's advice on the Chancellor's scepticism about the unemployment benefit scrutiny recommendations.

Derek's minute below suggests that you should firmly override the Chancellor's objections.

The strongest of the Chancellor's arguments is that additional staff might save or collect greater amounts if used for VAT. Derek argues that the Chancellor should first look within his own Departments to use additional staff resources for this, and should not use this argument to undermine proposals which offer very significant net saving. The argument is neatly set out in paragraph 15 of his minute.

If you are happy with this advice, may I write to the Treasury as in the draft letter at Flag A? (The Chancellor's comments are at Flag B.)

*Excellent  
Agreed.*

*MA*

30 January 1981

*ms*

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PRIME MINISTER

JOINT DHSS/DE SCRUTINY OF UNEMPLOYMENT BENEFIT

1. You asked for advice on the Chancellor of the Exchequer's minute of 23 January.

Public expenditure implications

2. It is of course right that the Treasury should be associated with the drafting of the Government response. Indeed, I am surprised that Treasury officials have not been in touch direct before now with the implementation committee, set up following your Private Secretary's letter of 31 December. I understand that the committee will be consulting Treasury officials on the draft response.

3. The Chancellor himself will be consulted by the Secretaries of State for Employment and Social Services on the draft when it goes to their colleagues.

4. I trust however that Treasury officials will not be short-sighted in the view they take of the issues, not least of the fact that the proposals involve an initial expenditure to achieve recurring savings.

5. Reform of the kind and as big as that put forward in this scrutiny may often require some investment. It certainly would in business. The important thing is to make sure that the necessary investment in money or men yields a reasonable return.

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750 extra special investigators to counter unemployment benefit fraud

6. One should not allow the figure of 750 extra investigators to be treated as a tablet of stone. I understand that DE could not produce so many trained staff over-night nor indeed for some time.
7. The Chancellor says that the proposal sits oddly with the objective of making substantial further reductions in the size of the Civil Service.
8. It will of course make the manpower target that much more difficult to achieve.
9. But I believe the taxpayer would find it incredible if, for that reason, the Government passed up the opportunity of a net saving of at least £24m a year. That would sit oddly with the Government's objective to get public expenditure under control and to improve the efficiency and effectiveness with which its functions and its services are managed.
10. I believe also that if the proportion of fraudulent claims is in the region of 8% (and the scrutiny team thought this a minimum figure) there is a palpable risk of it increasing as the message gets round that the chance of being caught is small. This could have serious long-term public expenditure implications which, for want of a little repair work today, could prove very expensive eventually to put right.
11. I can understand the Chancellor's point about the extra 750 staff perhaps being better employed, earning a greater return, in the Inland Revenue and Customs and Excise.

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12. But the same might just as easily be said about diverting for this purpose staff employed in other parts of the Chancellor's departments or in other parts of Whitehall.

13. It is by no means clear that the allocation of staff within departments is at the moment the best possible. I think that avenue should be explored thoroughly before trying to achieve the theoretic ideal of an optimal allocation between departments. A "within department" examination of effectiveness in the use of staff was one of the objectives of the DE/DHSS scrutiny, as result of which Ministers are now able to consider a coherent plan for the use of their staff. The Chancellor's counter proposition does not adduce evidence about whether his staff are already deployed in the most effective way.

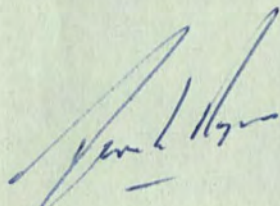
14. It is important also not to lose sight of the whole through focusing too closely on the proposed extra staff:

- a. There is the political decision on whether an 8% (or higher) rate of fraud is acceptable to the Government.
- b. The scrutiny proposed a package of measures to improve the effectiveness of the anti-fraud procedures, of which the increase in special investigators was but a part.
- c. The scrutiny was directed at creating a system of delivering benefits to the unemployed which is effective in its use of money and men, the two of which cannot be separated.
- d. The extra staff on fraud are better regarded as a redeployment of resources with more than off-setting savings having been found elsewhere.

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15. It may be difficult as the Chancellor suggests to explain to Revenue and Customs staff why DHSS and DE have managed to obtain more fraud investigators. I believe inaction would be even more difficult to explain to the taxpayer.

16. I attach a draft of a reply that your Private Secretary might send to the Chancellor.

  
DEREK RAYNER

30<sup>th</sup> January 1981

Enc: Draft letter

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DRAFT OF 30 JANUARY 1981

J A WIGGINS ESQ

Joint DHSS/DE Scrutiny of Unemployment Benefit

1. The Prime Minister has seen the Chancellor's minute of 23 January.
2. She understands that the official Implementation Group will be consulting Treasury officials on the drafting of the Government response and that the Chancellor will be consulted, along with other Ministers, by the Secretaries of State for Employment and Social Services when a draft is ready for Ministers.
3. In considering the expenditure implications in the short term, the Prime Minister hopes that full weight will be given to the value of the recurring savings and to the opportunity provided to reform the administration of the delivery of services to the unemployed, to the advantage of both the taxpayer and the beneficiary.
4. With regard to an extra 750 fraud investigators the Prime Minister has said that whilst she understands that it may make the manpower target that much more difficult to achieve she believes the taxpayer would find it difficult to understand why, for that reason, the Government passed up the opportunity of an estimated net saving in benefit payments of at least £24m a year. That would sit uncomfortably with the Government's objectives to bring down public expenditure and to improve the effectiveness with which the functions of government are discharged.

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5. The Prime Minister is also concerned lest fraud increased if it got about that the chance of being caught was small.

6. The Prime Minister takes the Chancellor's point that the extra staff might earn a better return in the Inland Revenue and Customs and Excise. She believes however that the same could be argued for the deployment of staff across his three departments. She feels that before trying to ensure the best use of staff across departments energies should be focussed on getting efficiency in the use of staff within departments. The DHSS/DE scrutiny is an excellent example of this from which others could learn.

7. As the Chancellor says the Government needs all the savings it can get from any sources. The scrutiny has provided an opportunity for substantial net savings of posts.

8. Copies go to the earlier copy addressees.

PRIVATE SECRETARY

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