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10 DOWNING STREET

From the Private Secretary

30 September 1983

Dear Steve.

Redundancy Payments and Supplementary Benefit

The Prime Minister's attention has recently been drawn to the argument for qualifying in some way the treatment of redundancy payments in connection with the payment of supplementary benefit. It is argued, on the one hand, that there might be a case for spreading payment of redundancy money over, say, five years, to avoid the situation in which these large capital sums are spent to little lasting effect, with the recipient then moving directly on to supplementary benefit; a solution to this problem might, for example, be to deem a redundancy payment recipient as having an income of an appropriate size, such deeming to be disregarded if the recipient had lost his redundancy money in setting up his own business. It is argued, on the other hand, that the size of the capital sum is in itself highly useful in achieving otherwise difficult, but necessary, redundancies. The Prime Minister would be grateful if your Secretary of State could let her have a note on whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments, in the light of these arguments.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would restrict access to this letter to the maximum extent possible.

Yours sincerely,

Michael Scholar

Steve Godber, Esq.,
Department of Health and Social Security.

PRIME MINISTER

REDUNDANCY PAYMENTS AND SUPPLEMENTARY BENEFIT: DHSS NOTE

I am afraid the proposed cure seems slightly worse than the disease.

1. Deeming redundancy payments to be drawn on as a kind of do-it-yourself supplementary benefit is surely to pervert their purpose. The lump sum is intended to compensate for the loss of a job in which much of a working life has been invested, and to help towards a new start in life, not as temporary income support.
2. So long as benefit can still be paid under the "urgent need" regulation, there will still be some people who will blue their pay-off on a Majorca holiday. And if we refuse urgent need, we shall be accused of letting those people starve.
3. The proposal would only bite at all if we were to weaken the disregard provisions. For example:

Mr A receives a redundancy payment of £5,000. He spends £2,001 on a fortnight in Majorca, in order to get under the £3,000 disregard. But he is denied benefit under the new scheme, because he is deemed still to be drawing on the spent £2,001 at the rate of, say, £40 a week. In practice, however, he would be drawing on the £2,999 which he has left. In other words, we would be penalising him by expecting him to use up that money too.

Punishing thriftlessness by outright beggary is surely not what we want.

4. The other options produced by DHSS seem no better:
 - i. To make the redundancy payments payable weekly or monthly would also be to pervert their purpose. Any exemption for investment in a business would be awkward to administer.
 - ii. Disregarding redundancy payment altogether for the purpose of supplementary benefit would, of course, bring more people on to supplementary benefit and add to public expenditure. It would also be unfair to other people whose savings were not so disregarded.

We recommend no change in the existing rules.



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cc: Mr Mawt

10 DOWNING STREET

From the Private Secretary

7 November, 1983

REDUNDANCY PAYMENTS AND SUPPLEMENTARY BENEFIT

The Prime Minister has seen the note attached to your letter to me of 27 October. She was very grateful to you for setting out the arguments for treating redundancy payments as income for the purposes of supplementary benefit. Having considered those arguments, however, the Prime Minister feels that on balance it would be undesirable to follow this course. No further work need be done on this idea.

I am sending a copy of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and to Richard Hatfield (Cabinet Office).

(A. Turnbull)

S.A. Godber, Esq.,
Department of Health and Social Security

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From the Secretary of State for Social Services

Andrew Turnbull Esq
Private Secretary
10 Downing Street

27 October 1983

Dear Andrew

REDUNDANCY PAYMENTS AND SUPPLEMENTARY BENEFIT

In response to the request in Michael Scholar's letter of 30 September, I enclose a note which examines the arguments and the implications arising from treating redundancy payments as income for the purposes of supplementary benefit.

My Secretary of State's conclusions are that the proposition is feasible, although further work would be needed on the details and on overcoming the problems which have been identified in devising workable and effective arrangements; but that it does raise questions of principle about the redundancy payment scheme, and of whether the same objective might not be better achieved by modifying that scheme itself, which are primarily for the Secretary of State for Employment to consider. On the face of it, it would seem simpler and more effective to make changes in the redundancy payment scheme which would naturally flow through into supplementary benefit, rather than devising special supplementary benefit rules which would inevitably have to be somewhat complex and artificial.

I have not copied this reply to the Department of Employment because they did not receive a copy of Michael's letter. They would clearly need to be brought into any further work.

I am copying this letter to John Gieve (HM Treasury) and Richard Hatfield (Cabinet Office).

*Yours
Steve*

S A Godber
Private Secretary

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REDUNDANCY PAYMENTS AND SUPPLEMENTARY BENEFIT

- Proposal: Redundancy payments to be deemed to be available to be drawn on as weekly income at a rate sufficient to extinguish entitlement to supplementary benefit. An exception would be made if the payment had been used by the recipient to try unsuccessfully to set up his own business.
- Legislation: The change could be achieved by regulations (under the Affirmative Resolution procedure) after consultation with the Social Security Advisory Committee, which seeks public comments on the draft and publishes a report to Parliament on them but which cannot block or defer them.
- Financial and staffing implications and numbers affected: Difficult to estimate because of insufficient data. But the effects would almost certainly be very small (see below, under arguments against). Probably overall there might be a small financial saving but a small staff cost.
- Amount of loss of benefit involved: Depends on Ministerial decisions on the size of redundancy payment to be taken into account and the weekly income it is deemed to be worth. Could be very substantial losses of benefit for the few individuals concerned.
- Arguments:
- For:
- Removes the incentive to recipients of lump sum redundancy payments to spend their capital hastily in order to move directly on to supplementary benefit.
 - No distinction is normally made at present as to how people spend their capital - those who have lost it trying to set up a business are treated in the same way as those who have spent it on a holiday.
- Against:
- Little evidence that there is a problem in practice. Only payments over £3,000 disqualify a person from supplementary benefit. The average payment under the statutory redundancy fund arrangements in 1982 was only £1,265, and the maximum £4,200 (though individual employers may pay more than this). Social Security Policy Inspectorate study in 1981 found that, of a sample of men receiving redundancy payments of £2,000 or more, only 13 per cent had received supplementary benefit during the following year. And of these the inspectorate thought that only about 15 per

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divesting themselves of the money paid, it would seem simpler and easier to operate directly on the redundancy payments scheme itself, and make redundancy payments payable as weekly or monthly amounts. They would then automatically be taken into account for supplementary benefit purposes, unless the recipient wished to use the money to set up his own business, in which case it could continue to be paid as a lump sum. This would be for DE to consider. This would largely avoid the practical difficulties of the main proposal although it would still be open to the objections of principle, which are for DE to consider.

- (ii) If on the other hand the main objective is to remove the incentive under present arrangements to "spend up" redundancy sums so as to qualify for benefit (so that, for example, people might have more incentive to retain the lump sum and look for an opportunity to set up a business) then the logical course would be to disregard redundancy payments altogether for supplementary benefit purposes. This achieves the objective in a very different way - by allowing more people to come on to supplementary benefit instead of keeping them off it; and would have a staff and money cost (possibly substantial). It would also lead to pressure for similar treatment for other kinds of capital (eg compensation payments or vaccine damage payments). There would also be practical difficulties since it becomes increasingly difficult with the passage of time to identify redundancy payment as a separate element in a claimant's capital.

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10 DOWNING STREET

Prime Minister

Norman Fowler has looked at the suggestion you made at the Seminar to deem redundancy payments to be paid over time and to adjust supplementary benefits accordingly.

He is unenthusiastic and suggests that if any action were taken it would be better to pay redundancy over time.

Ferdy disagrees with the principle. ~~at~~

Agree take no further?

Agreed ~~no~~

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4/11