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Public Expenditure Pt 39

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

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*From the Secretary of State for Social Services*

**CONFIDENTIAL**

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**PES 1988: SOCIAL SECURITY BENEFITS AND DHSS ADMINISTRATION**

I am writing to give you my proposals for increased provision for social security benefits and DHSS administration expenditure for the 1988 PES round. As usual I am writing separately about health and personal social services expenditure. The principal figures are set out in the Annex.

I should first refer to the outstanding items from PES 1987. We discussed the child benefit proposals last week and you now have details of the package which we expect to put to the Prime Minister very shortly. In my judgement the child benefit savings must be linked to improvements in our provision for poorer pensioners. I believe there is a strong case for the latter even if it is judged right to leave the child benefit provision unchanged and I therefore entered it as a separate bid. Similarly, whatever the decision on the structure of child benefit, I attach great importance to a full uprating of this benefit in April 1989. I have therefore entered a bid to reverse the previous decision that the benefit should be partially uprated next year.

We agreed that officials should examine three other areas and report in time for this year's survey:-

Christmas Bonus

You suggested that the Christmas bonus might be at a higher rate to poorer pensioners and withdrawn from others. We have looked into this but I am afraid that I do not think that this makes practical politics at the moment.

Mobility Allowance

You will recall that we discussed the position of mobility allowance recipients who, under current legislation, will lose benefit at age 75. This will occur from November 1989. You suggested that freezing the rate from April 1989 would be a way of meeting the cost of extension. Officials have examined this but my preference would be to extend the age limit to 80, as an interim measure, pending the outcome of the disability review, and to continue to uprate the benefit. I shall find offsetting savings in my programme.

Occupational Pension

We also discussed the possibility of making savings by offsetting occupational pensions against invalidity benefit. It would be better to deal with this in the context of the wider review of disability benefits on which officials have submitted an interim report.

PES 1988

Forecasting changes

Section 3 of the scoresheet at the Annex records the results of the May round of economic and estimating forecasts. The figures will be revised in August but it is encouraging that the net effect is a considerably lower bid in the first year of the survey than has been the case in recent years. The estimating changes in the first year are mainly attributable to increases in the disability benefits; it is too soon for us to be able to make any firm forecasts for income support and housing benefit. I shall however, be looking for an agreed addition to my programme - or a PES transfer from DOE - if there are increases in housing benefit expenditure arising from changes in housing policy.

E.R.

Agreed bids

The agreed bids are at section 5 of the Annex. They comprise:-

E(LF) - community charge

The figures here are only a marker: the E(LF) decision on compensation for 20% of the community charge cannot be re-costed until DOE have revised their forecasts of community charge levels. I have written to you and Nicholas Ridley on this and await your views.

Rent taper

This is the cost of the decision not to increase the housing benefit rent taper from 65% to 70%.

Losers package

This, of course, is the cost of the recent package to increase the housing benefit capital limit from £6,000 to £8,000 and provide transitional protection to those losing more than £2.50 a week.

ETP

These figures have been agreed with Department of Employment, and are net of a transfer to DE in respect of training allowances formerly paid by DHSS. The bulk of the cost is attributable to DE's revised assumptions about the caseload composition.

I have dealt with 4 of the items of section 7 of the Annex. The remaining bids are very minor in the context of my programme and I shall seek to find offsetting savings for the smaller items.

I must, however, put down a marker in the areas of income support and the social fund. Both schemes are in their infancy and we may not have uncovered all the rough edges. We shall know by the autumn and I may then need to seek provision to make some minor adjustments.

E.R.

Finally, there is the internal review of disability benefits. I do not at the moment see this as an issue in this year's survey since it is most unlikely that major changes will be possible before 1990/91. But the OPCS reports will be published later this year and we shall have to decide on the handling of this matter before then. There are some difficult issues involved and I shall write to you shortly.

#### Administration

Manpower requirements are invariably the biggest single component of my Department's administration costs. I am pleased to note that, after several years of growth, the trend is now firmly in the opposite direction. If the 1,800 manyears agreed on a one year basis in last year's survey for new work are carried forward the manpower comparison with last year is broadly neutral for 1989/90, but with substantial reductions for the two succeeding years.

#### Salaries

The cost of paying staff has increased substantially. For example, during 1987/88, average salaries moved upwards by almost 9.7% in comparison with the 3.75% movement used as the basis for PES 87 assumptions. I suggest we leave it to our officials to agree on the calculations which lie behind this bid.

#### Accommodation

I continue to attach a very high priority to improving the DHSS estate particularly in our local offices where there remains much to be done. Accordingly I am making a bid for a further substantial increase in expenditure for the first two years, the dividends for which are both better staff morale and better service to social security customers.

#### Non-manpower running costs

In many areas, eg fuel, rents and telecommunications, prices are forecast to outstrip the provision in the baseline. My Department will seek to contain the effect and savings targets will be set (see reference below to the Departmental Management Plan) but a substantial bid is unavoidable.

E.R.

Service to the Public

In addition to the improvements in accommodation we need to improve our service to social security claimants in other ways. The Public Accounts Committee will almost certainly issue a report urging greater expenditure in this area, and I am making a modest bid to enable improvements to be made in communications and training.

Medicines Agency

I endorse the proposal in the Evans/Cunliffe Report that the Medicines Agency should be transferred to net running costs control with effect from 1 April 1989 and I trust that our officials will be able to settle the details in the course of their discussions.

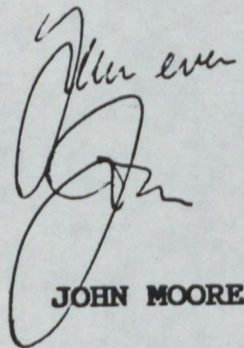
HB transitional payments

The bid does not include any provision for the administrative cost of these payments. A costing will be supplied as soon as possible.

Management Plan

I attach a Management Plan for the Department which our officials have discussed and which sets out the ways in which we intend to achieve efficiency gains of at least 1 1/2% over each of the next three years.

I am copying this letter to the Prime Minister and Sir Robin Butler.



JOHN MOORE

## SCORESHEET

	1989/90	1990/91	1991/92
1. Agreed PES 87 totals			
1.1 Benefits	48,673	51,065	52,342
1.2 Administration	2,435	2,507	2,570
2. Total (baseline)	51,108	53,572	54,912
3. Economic changes			
3.1 unemployment	-573	-596	-610
3.2 prices & rents*	-81	-16	331
3.3 budget	-25	-29	-29
4. Estimating	709	1,168	2,166
Total of 3 and 4	30	527	1,858
5. Agreed bids			
5.1 E(LF) (subject to revision)	88	91	94
5.2 Rent taper	46	48	49
5.3 Losers			
(a) HB capital limit	22	23	24
(b) transitional protection	50	40	30
6. Agreed adjustments			
6.1 ETP	177	189	193
Total of 5 and 6	383	391	390
7. Policy bids			
7.1 Poorer pensioners	74.0	84.0	90.0
7.2 Mobility allowance	0.3	3.2	7.8
7.3 Child benefit	44.0	44.0	44.0
7.4 Overseas pensions	16.0	28.6	40.0
7.5 E(LF) over 25s	9.0	9.3	9.5
7.6 Uprating	3.6	4.8	6.0
7.7 Pre-1973 war widows	2.6	2.4	2.4
7.8 Miscellaneous savings	-16.0	-16.0	-16.0
Total of 7	133.5	160.3	183.7
8. Administration			
8.1 Salaries	105	141	123
8.2 Non-manpower running costs	59	109	148
8.3 Capital	45	38	-21
8.4 Other costs	1	-3	-3
Total administration	210	285	247

\* Compensation for RPI error, included in forecast for changes in prices/rents: +£77m 1989/90; +£81m 1990/91; +£84m 1991/92.