

CONFIDENTIAL



BF (Minute Only to PG) 13/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Richmond House
 79 Whitehall
 London
 SW1

PA - 1988 Res

NRPM

PA 14/6

10th June 1988

Dear Secretary of State,

1988 SURVEY: SOCIAL SECURITY BENEFITS

Thank you for your letter of 25 May.

top of folder attached

Our officials will be discussing the detail of your proposals in the coming weeks, and I will be writing again after the July Cabinet to set out an agenda for our bilaterals. However, in view of what you have proposed, I thought I should let you have an initial response now on benefit expenditure.

Although you mention that your bids are lower than has been the case in recent years, they are nonetheless substantial: £¾ billion in year one, rising to over £2½ billion in year three. And your bids for extra benefit expenditure would have been larger than the increases we agreed last year but for the £½ billion a year reduction due to the lower assumed level of unemployment.

Against this background, I will have to seek considerably more than the £16 million a year of offsetting savings you have offered in your letter. I will also need to bear in mind that the longer term costs of some of your proposals, for example on Mobility Allowance, would be much larger than the costs you project within the Survey period. My agenda letter will, as usual, set out my proposals for the total savings which I would judge appropriate. But there are a number of pressing issues which I would like to raise with you now.

CONFIDENTIAL

The first of these is disability benefits. You say in your letter that you do not see this as an issue in this year's Survey, since it is unlikely that major changes will be possible before 1990-91. However, the size of your estimating bids for these benefits means that they cannot be ignored. They account for about half the estimating bids in the Survey period: £400 million in 1989-90, £570 million in 1990-91 and £1020 million in 1991-92. This follows, as you know, an increase in real terms of 80 per cent in expenditure on disability benefits since 1979.

The other reason for my concern is that this also appears to be a longer term problem. Your officials' interim report on the disability review points to a further substantial increase in expenditure between now and the end of the century, even assuming no increase in the real value of the benefits, if we do not change our policies.

You will no doubt be bringing forward proposals for tackling this problem when you write to me about the review. We will obviously have to look at the whole range of these benefits. But there are two particular areas which I think we ought to address, with a view to containing the long-term costs. The first is the Additional Pension. The projections in your officials' interim report suggest that expenditure is likely to increase from £350 million in the current year to around £1¼ - £1½ billion (in today's prices) in 2000, as entitlements increase. The other is Industrial Injuries Benefit. This is now costing us £450 million a year. It is an expensive and badly-targetted feature of our system of support for the disabled. Action in these areas would be consistent with our policies of reducing dependence on state benefits and encouraging private provision.

My second area of concern is Housing Benefit. It is difficult to see that we will ever have a reasonable system for controlling expenditure so long as we guarantee to compensate all those on benefit for 100 per cent of rent increases. I recognise that the new system has only just been introduced and that we have little evidence of how it is working in practice. However, the 100 per cent rule is inherently likely to push up rents and benefit expenditure, and is especially dangerous now that we are moving towards more market-related rents. Our policy on rents has, of course, moved more strongly in this direction since decisions were taken on the new housing benefit system following the social security reviews.

I would like our officials to look at alternative solutions, more in line with our new approach to rents and with our general desire to see markets work effectively. The options should include a maximum cash entitlement for assistance with rents. The impact of the options on housing benefit expenditure should also be assessed. The review would need to be completed in time for us (and then colleagues) to consider possible changes

CONFIDENTIAL

for implementation in 1990. The work will also need to take account of Nick Ridley's proposals on Housing Revenue Accounts. My officials will be in touch with yours about some of the ideas we might consider.

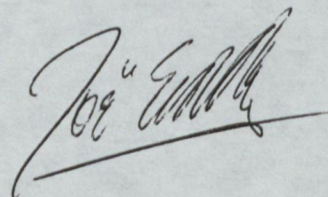
Thirdly, I know that your Department, with the help of Touche Ross, have been working on plans to recover from insurance companies amounts which the companies deduct from awards to accident victims who receive social security benefits as a result of their injuries. Significant savings could be achieved from implementing such a scheme, and I assume you will want to include this in your 1988-89 Bill. You will recall that the government was criticised last year by the PAC for not taking action to recover these sums. I wrote to you at the time (30 November) to say that I hoped we would be in a position to take account of savings from tort awards in this year's Survey. I think the PAC report would help us mount a strong defence of this decision.

Finally, you may recall that in my letter of 27 November I said that I would like to take a systematic look in this year's Survey at the scope for savings from anti-fraud work. This followed the withdrawal of your commitment to make an additional £30 million of savings from a special anti-fraud drive in 1988-89. It would be helpful if you could let me know what progress has been made on this front since the decision to ring-fence fraud staff, and what prospect you see for producing additional savings in future years.

I would like to be in a position to discuss each of these issues with you in July, so that we can aim to agree the next steps, including consultation with colleagues and preparation of legislation where necessary. To this end, I would be grateful if you could let me have your proposals on each of the issues by the first week in July.

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

Yours sincerely



for JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

ECON 20L · Public Exp. PT39

