DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

I am most appreciative of the contents & clarity of the paper and booklet – but please could I have some more idea of the forward commitments – e.g. under the contributions in pension scheme – & rise of cost over the coming 20 years MT

Willie Ricketts Esq.,
No. 10 Downing Street,
London SW1

10 August, 1983

Dear Willie.

I promised Robin Butler that I would let him have some copies of the handbook which we had intended to put before the Prime Minister in our presentation on social security last week. I now enclose 3 copies for your use in No. 10. You might like to let the Prime Minister see one in due course.

We have made some small but important amendments to the text, hence the short delay. I think the handbook is largely self-explanatory. The central message, about the substantial growth of expenditure on social security in real terms over the last 10 years in relation to a GDP which has been nearly flat, comes out all too clearly.

I also enclose, as promised, some notes based on the oral presentation which Michael Partridge would have given, which can be read with the handbook.

We are, as arranged, working with the Treasury on the preparation of the base paper for the seminar in September.

I am sending a copy of this letter and enclosure× to Alan Bailey and Robert Armstrong. I am also sending a copy to Robin Ibbs because of the big efficiency dimension.

Yours ever.

Ken Stowe.

×but not Michael P's notes.

10 DOWNING STREET

From the Private Secretary

31 August 1983

Thank you for your letter of 10 August and for the documents prepared for your presentation on social security.

The Prime Minister read these during her holiday. She found them very useful and has asked me to say how much she appreciated the contents and clarity of the handbook and Michael Partridge's notes.

She is much looking forward to reading the paper for the seminar on 16 September. She hopes it will set out the forward commitments faced by the Government in the field of social security over the next twenty years with as much clarity as the present paper describes the existing situation. The future cost of pensions, and an analysis of demographic prospects and their implications for social security expenditure, are examples of the statistical material she would like to see, and I am sure these will be covered in the paper you are preparing. If, however, the inclusion of this material would make the main paper for the meeting too bulky, perhaps it would be best to provide a separate fact sheet.

I am copying this to Alan Bailey (HM Treasury), Robert Armstrong and Robin Ibbs.

Sir Kenneth Stowe, KCB, CVO.

PRIME MINISTER

Significant Changes and Key Facts about Social Security

These comments about social security were planned for the oral presentation which had to be cancelled last week. They are based on the accompanying slim Handbook of key facts about social security, and they are designed to bring out the salient points in that Handbook.

As background, a brief description of social security when you left us from the Ministry of Pensions and National Insurance in 1964. There was a simple structure then. Six main benefits (retirement pension, national assistance, sickness and unemployment benefits, war pensions and family allowances), with the political interest focussed on the first two. Contributions still collected mainly on stamped cards, with only a small, new graduated contribution. Total social security expenditure was £1.9 billion a year (6.2 per cent of GDP) of which the elderly accounted for nearly 60 per cent. Apart from the LEO pay computer and the EMIDEC computer at Newcastle Central Office to operate the new graduated scheme (a giant in its day, but a pygmy now), there were no computers in MPNI or the NAB. There were 53,000 staff in the two Departments, 39,500 in MPNI and 13,500 in the NAB.

The enormous increases in size and scope of social security today have come about because the programme has exploded in four dimensions:-

(a) higher levels of benefit in real terms;

(b) more claimants;

(c) many new benefits;

(d) new and higher levels of contributions.

The total effect is of a radical transformation. We are now running an incomparably larger and more complicated business. I want to explain how the various changes came about, and why. The analysis is different for the different client groups (the elderly, the sick, the unemployed and the family) and carries different messages for future trends and the planning of future policies. I also want to comment on the management and efficiency of social security programmes, which are as important as the policies themselves and have significant impacts on future policies.

Analysis of growth and change in different benefits

Social security benefit expenditure has grown substantially over the last twenty years, mostly over the last ten years, as Chart 7 on page 11 of the Handbook shows. Between 1963 and 1983 cash expenditure increased by 18 times. In real terms, the growth in the first decade was 64 per cent and in the second decade was 77 per cent. By contrast GDP grew by 38 per cent in real terms in the first decade, and by only 7 per cent in real terms in the second decade. Social security expenditure has grown as a proportion of GDP as a result from 6.2 per cent in 1963, to 7.2 per cent in 1973, to 11.4 per cent now.

Within these totals, moreover, there are significant differences between the different benefits and client groups. The great bulk of social security expenditure goes to the elderly, mainly through retirement pensions; about half of the total now (See Chart 10). That proportion has in fact shrunk over the years: ten years ago it was 60 per cent. Retirement pension as a proportion of GDP has grown from 3.7 per cent in 1973 to only 5 per cent now.

What has bulked larger in the total social security budget over the years has been expenditure on the unemployed (up from 6 to 17 per cent) and on the family (up from 11 to 17 per cent), mainly because of the change to child benefit (see Chart 10). As a result, expenditure on the unemployed as a proportion of GDP has gone up more than four times in the last decade, that on the family has trebled and that on supplementary benefit has increased 2½ times.

By contrast, the proportion of total social security expenditure on the sick has fallen dramatically, from 7 to only 1 per cent.

This striking fall is a combination of three factors:

i) more people unemployed means fewer workers who can go sick, and there is evidence that among the increased number of unemployed are many who used to go sick more than the average, either because their health was poor or because they were not the best of workers, and employers seized the opportunity of tougher employment conditions to get rid of them;

ii) workers are now less inclined to go sick because they may lose their job. This is well attested by opinion among our local office staff who handle sickness benefit claims, who are in close touch with more people than almost any other organisation and whose evidence is often interesting and valuable;

iii) since April this year, the transfer of sick pay to employers has seen a massive decline in the number of claims to sickness benefit. This comes on top of the change last year to self-certification by claimants. With no protective signature from a doctor, some claimants seem less inclined to claim.

It is interesting to analyse the various factors at work within each client group which have caused increases or decreases in expenditure (see Chart 10 and facing commentary). Thus:-

- of total growth in expenditure in real terms between 1973 and 1983, about half was due to policy decisions (such as new benefits, upratings etc.)and half to "outside factors" (such as demography, unemployment etc.).

- of the growth on pensions, which accounted for under 40 per cent of the total growth, about five-sixths was due to real improvements in the pension rate and only one-sixth to more pensioners.

- by contrast, of the growth on unemployment benefits, which accounted for about 30 per cent of the total growth, virtually the whole of it was due to more unemployed. Indeed, without that growth in numbers expenditure would have declined as a result of policy changes in the last Parliament (abolition of earnings-related supplement and reduction in dependency benefits).

- the growth of family benefits accounted for most of the remainder of total growth (nearly 20 per cent). The vast majority of this (16 per cent of the total) came from the change to child benefit rather than real improvement in family support, because child tax allowances had previously accounted for most of it, although not appearing as public expenditure but as tax forgone. The remaining 4 per cent improvement in family support came from new benefits for one-parent families - and increases in their numbers.

- the final 10 per cent of total growth came from disability benefits, of which most (4 per cent) was extra claimants for existing benefits (i.e more disabled being kept alive by medical advances); 3 per cent from improvements in benefit rates; and 3 per cent from new benefits for the disabled.

Significant changes since 1964

How did these substantial increases come about? the brief chronology on pages 2-4 of the Handbook picks out the main events. The period of the 1964-1970 Labour Government began with one of the most significant increases in the levels of social security benefits. Retirement pensions, for example, were put up by 18½ per cent, to £4 a week for a single person and £6.50 for a married couple. This increase was far larger than the increase in prices (5.7 per cent) or earnings (12 per cent). It was a big step up to a higher platform for all benefits. The means-tested support of national assistance went up by the same proportion, so this large increase in contributory benefits did not float people off means tests.

The earnings rule for widows' benefits was abolished at the same time in 1964. Retirement pension expenditure reached £1 billion in that year, and the NAB spent under £250 million, 60 per cent of it on supplementary pensioners.

That Labour Government did a lot of planning for large expansions of social security, especially on the Crossman pension plans. But they did not succeed in carrying this through into legislation, still less into operation, with a few exceptions, such as the introduction of earnings-related supplements to short-term national insurance benefits (sickness and unemployment benefit) introduced in 1966 (and abolished in 1980).

Some significant changes which that Labour Government did make were:-

first, they added a long-term addition to the benefit of supplementary pensioners, and for those under pension age on supplementary allowance after they have been on the allowance for two years. This was in an attempt to "buy out" the discretionary extra grants and regular allowances which had grown up over the years since 1948 and which were going to most of those on supplementary benefit, causing much extra work and complications and needing extra staff. For some years this move succeeded, and the discretionary extras went down dramatically until the 1970s, when they gradually crept back on top of the higher base rates. Its effect, however, was to give supplementary benefit a permanent "lead" over national insurance benefits, even apart from the additional payment of housing costs for those on supplementary benefit. This gave many pensioners entitlement to a small amount of supplementary benefit, and increased the staff requirements on that side substantially.

secondly, they began the process which has continued ever since, of freezing the value of some benefits: the death grant (last increased in 1967, to £30), maternity grant (last increased in 1969, to £25), and the preference for those on industrial injuries benefit.

thirdly, they amalgamated the MPNI and NAB into the Ministry of Social Security in 1966, and that Ministry with the Ministry of Health into DHSS in 1968.

All the Crossman plans were lost at the 1970 Election, by which time social security expenditure was £3.7 billion and there were 65,000 staff, the increase being mainly on supplementary benefit. The incoming Conservative Government prepared their own plans for a new earnings- related pension scheme and contributions, published in a White Paper "Strategy for Pensions" in 1971. But they also legislated for many of the Crossman proposals (e.g pensions for widows aged between 40 and 50, and attendance allowance). And they added many new benefits of their own (e.g invalidity pension, pensions for the over 80s, the Christmas Bonus, and FIS). They also started benefit upratings annually, from 1972 onwards.

This all added up to a substantial increase in the scope and size of social security. By 1975, social security expenditure had risen to £9 billion, and the staff to 82,000, again mainly in supplementary benefit staff.

The Conservative pension plans in turn were lost at the 1974 Election, but the new Labour Government went ahead in 1975 with earnings-related contributions and the end of the 1959 graduated scheme, while they planned their own earnings-related pension scheme.

Meanwhile, as in 1964, an incoming Labour Government gave flat-rate benefits an enormous increase, this time in July 1974 by 29 per cent, to £10 a week for a single person and £16 a week for a married couple. Once again this was far in excess of the rise in prices (13.4 per cent) since the previous increase (in only October 1973) or in earnings (14.7 per cent). And again means-tested benefits went up equally, so nobody was floated off supplementary benefit. There was just a huge lift of the basic floor for all.

The 1974-1980 Labour Government saw a large increase in the cost and size of social security, for several reasons. They put annual upratings into legislation, with long-term benefits guaranteed to go up in line with the better of the earnings or price indices, and the short-term benefits in line with prices. The large increases in prices and earnings in the late 1970s were thus passed straight on into benefit upratings. That Government also introduced several new benefits, especially for the disabled, chiefly on a non-contributory basis (e.g non-contributory invalidity pension in 1975, mobility allowance in 1976, and invalidity care allowance and housewives' non-contributory invalidty pension in 1977). They also introduced child benefit in place of family allowances, which extended payment to include the first child in the family, thereby doubling the cost; and replacing child tax allowances, which transferred £3 billion of tax forgone into an increase in public expenditure.

The total effect was a very large increase in public expenditure. By 1980, social security expenditure had reached £18 billion and social security staff 89,000.

Since 1980 social security expenditure has continued to rise,but mainly because of increases in numbers of claimants, especially of the unemployed and hence those on supplementary benefit also, but also of pensioners. The scope of benefits has started to reduce, in contrast to the process of the previous twenty years, with the abolition of earnings-related supplements to short-term benefits, the transfer of much of sick pay to employers, and of the housing costs of those on supplementary benefit to local authorities under the housing benefit scheme. These reforms, and others such as the revised supplementary benefit scheme, have been carried out at nil cost, and with substantial staff savings, reversing the upward trend in staff numbers for the first time since the 1950s.

Total savings in social security expenditure since 1979 amount to over £1½ billion a year; and in staff to over 15,000, despite an increase in beneficiaries from 30m to 35m, and an even larger increase in the costly and staff-intensive supplementary benefit claims, from 3m to 4.5m, and in supplementary benefit claims from the unemployed, from 660,000 to 2m.

The present position

So where are we now? (See pages 5-8 of the Handbook).

Social security now collects over £17bn a year in contributions, whereas the Exchequer provides over £18bn a year; most of that is to pay for non-contributory benefits (£14.6bn) such as supplementary benefit (£5bn), the disability and housing benefits (£5bn) and the family benefits such as child benefit and FIS (£4bn); and it also pays nearly £3bn to supplement the National Insurance Fund, which goes to pay contributory benefits, and meets about £1 bn of the £1½ bn administration costs.

The total benefit payments amount to nearly £35 bn a year, of which £20 bn is in contributory benefits.

The scale of operations is vast. On contributions, the Newcastle Central Office maintains 53 million personal accounts. There are over 20m new claims to benefit a year, which occupy a substantial part of total staff time. Most are from the sick (7½m), for supplementary benefit (5½m) and the unemployed (5m). Relatively few are for child benefit (less than 1m) or retirement pension (3/4m).

Reviews of existing awards also run at over 20m a year, and are the second large chunk of staff work. The great majority (13m) are on supplementary benefit, and nearly all the remainder on child benefit (4m) and retirement pension (also 4m).

Over 1 bn payments are made every year, nearly all by order book. The great majority of these, on pensions and child benefit, come from Newcastle Central Office, from the massive computers there which, with the huge contribution record computer, make it the biggest computer centre in Europe. That Central Office employs 11,500 people. The great majority (nearly 80 per cent), however, of social security staff work in the 500 local offices, which deal with the short-term benefits and supplementary benefits and which as yet have very little computer help.

Turning briefly to the parallel increase which there has had to be in revenue, the significant changes are:-

- the shares paid by employers and employees have gone up. The employers' share went up by 10 per cent between 1963 and 1973, and has been held steady since then. The employees' share has gone up by nearly 7 per cent over the last twenty years.

- What has gone down is the Treasury supplement to the NI Fund, by 16 per cent, in recognition of the Exchequer's increased contribution overall to non-contributory benefits.

- And the contributions from the self-employed, have gone down by 50 per cent, having been deliberately held down as a matter of policy, especially in the last ten years.

Employers and employees now have to pay substantially increased contributions as a percentage of earnings. In 1963 they paid some 10½ per cent of earnings between them, split roughly half and half, but with the employee paying rather more than half. By 1973 it was some 12½ per cent, but with the employer now paying rather more than half. But now it is some 19½ per cent, plus a 1½ per cent NI surcharge, with the employer paying more than half. On top of income tax, this is a substantial marginal tax rate on earnings. How much further could it go? On the other hand, in other countries (e.g West Germany, France and Sweden) contributions are much higher than in the UK.

Finally, management and administration costs; and the increases in efficiency and reductions in staff which have been made since 1979, which are significant.

- The broad picture is that fewer staff are now processing more claims for benefit than four years ago. Unit costs per case have been reduced significantly. In 1979 there was one staff member to every 298 beneficiaries; now it is one to 337.

- This improvement in efficiency has been achieved despite the great growth over these four years in the proportion of means-tested cases, which are several times more costly to administer.

- Non-means-tested benefits cost about 3 per cent to administer as a proportion of the benefit paid. Means-tested benefits cost over 10 per cent, and four years ago they cost over 12 per cent of the benefit paid.

- Put another way, non-means-tested benefits cost about 65p for each payment made: but means-tested benefits about £2.55p, or four times as much.

- A graphic illustration is that more than half our local office staff (over 30,000 of the 60,000) are now needed to pay 15 per cent of total benefit expenditure, ie that on supplementary benefit.

- The average cost of each payment has not increased as fast as the Retail Price Index over the last four years, again demonstrating a productivity improvement, of about 2 per cent a year.

How have we achieved these productivity improvements and increased efficiency? By unremitting attention to efficiency and staff-saving measures. The total DHSS staff (i.e including those on the Health side) in April 1979 was over 98,000. If we had not pursued efficiency and cost-cutting measures, the increase in demand since then, in the form of extra claims for benefit etc., would have increased our staff numbers to nearly 106,000 by April 1984. As it is, our staff target for then, which we shall achieve, is only 90,700. So we shall have saved some 15,000 posts.

How? Changes in benefits, such as employers' sick pay and new housing benefit, will account for nearly 6,000 of that 15,000 saving. But most of the rest comes from a host of special efficiency studies, including Rayner studies, O & M studies, staff inspections and special exercises. Three examples:-

First, a special study that we made of our Regional and local offices. The aim was to devolve as much work and responsibility as possible to local offices from HQ and Regions. We have acted swiftly to conduct the study and bring in the results. We have reduced our Regional offices within two years from 12 to 7, and cut out a lot of their work and staff. There have been battles with the Unions, but we have made local office managers much more responsible for their staff budgets, recruitment, personnel policy and now their financial budgets. Savings - over 3,000 staff. And local managers love it and are responding to the new challenges with enthusiasm.

We also seized the chance of these changes to replace older Controllers who were invariably retiring from their last job in the civil service with younger men (and women) in their forties who had a career at HQ behind them and also in front of them. They are revitalising the Regional and local offices. Signs of the change are that young Principals and Administration Trainees now want to have a spell in local offices and in social security management at HQ; and local office people want to come to HQ.

We are also now starting experiments in local offices to encourage staff to come forward with ideas for greater efficiency, by allowing the office to be rewarded with some of the proceeds. There have been battles with Unions, but the programme is now launched, and first impressions are encouraging, with a lot of ideas coming forward.

A second example of increased efficiency and staff savings is a new claim form for the unemployed to claim supplementary benefit. This gets the claimant to provide more information on the claim, and cuts out the need for many to be interviewed in the local office or be visited at home. There was opposition from many claimants' groups and our Unions, but we have pressed ahead. We have found that many unemployed prefer the new claim form, and we have saved 1,000 staff.

Thirdly, we have devised and introduced new and more effective measures to detect and stop fraud and abuse. This has enabled us to recover more money than before with 900 fewer staff. That is, we have become more cost-effective.

LOOKING TO THE FUTURE

These notes, and the accompanying booklet, provide the factual background for considering future trends and policy options.

So far as administrative and operational issues are concerned, it is already clear that the Department must continue to develop its operational strategy to harness the benefits of new technology so as to provide a better, cheaper service to the public and to contain staff numbers still further. (The prospects are of investment in this decade leading to savings of 20,000 staff or more after 1990.) On the policy front, against the background of Government determination to reduce public expenditure, much will depend on economic and demographic trends, and on possibilities of significant recasting of the social security schemes. A separate paper on this will be provided as a basis for discussion at the seminar planned for September.

August, 1983 M.J.A. PARTRIDGE