

PRIME MINISTER

Enclosed are the papers for the Social Security Seminar on Thursday.

- Flag A - The record of the September meeting
- Flag B - An agenda agreed between DHSS and Treasury
- Flag C - The Policy Unit brief
- Flag D - An updated Green Book
- Flag E - Mr. Fowler's Progress Report of 23 December
- Flag F - Notes by Sir Kenneth Stowe on FPS and Social Security expenditure
- Flag G - Chief Secretary's letter to Mr. Fowler of 22 December (Mr. Fowler's reply to follow)
- Flag H - Note on Housing Benefit

In addition, I have put in a separate folder some documents you have already seen

- The Binder Hamlyn Report on FPS
- The two OECD reports (I doubt if either the Chancellor or Mr. Fowler have studied these).

AT

10 January 1984



10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Fowler's reply to the Chief Secretary's letter of 22 December has now arrived, completing Flag G. You should also look at Sir Ken Stoves' notes at Flag F.

In addition, you might like to look at the paper on FPS to be taken at H next week. The main recommendation is for some control on the numbers of practitioners contracted to the NHS.

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From the Secretary of State for Social Services

Andrew Turnbull Esq
Private Secretary
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10 January 1984

Dear Andrew

I attach a working agenda which my Secretary of State suggests might form the basis for discussion at the Prime Minister's meeting on Thursday. It has been agreed with the Treasury.

The agenda identifies the relevant background papers and I attach

- a copy of the revised 'Green Book'. This booklet provides data and background on the whole range of DHSS responsibilities. It has been updated to take account of policy decisions and more recent information since the September meeting.
- the Secretary of State's minute of 23 December to the Prime Minister, which recorded progress since the September meeting.
- a background note on Housing Benefit.

On forecasting, you have already had notes on both Family Practitioner Services and Social Security - under cover of Sir Kenneth Stowe's letter of 23 December to Robin Butler. But my Secretary of State will also be replying fully before the meeting to the Chief Secretary's letter of 22 December.

I am copying this letter and enclosures to the Private Secretaries of those who will be attending the meeting.

Yours
Steve

S A GODBER
Private Secretary

WORKING AGENDA

1. Background papers are

- 'Green Book': DHSS paper on policies for Health, Social Services and Social Security, circulated for September meeting and updated.
- 'September record': Robin Butler's letter of 16 September to Sir Kenneth Stowe.
- 'Progress Report': Secretary of State's minute of 23 December to the Prime Minister
- Housing Benefit: background note
- Forecasting: letter of 22 December from Chief Secretary and Secretary of State's reply

to follow

2. Health Services2.1 Hospital and Community Health Services

Objective: Main emphasis on increasing efficiency and improving management. Aim to develop services and provide for medical advance by cost improvement in existing services. Additional resources have been provided for demographic pressures.

Action: initiatives already taken to increase accountability and to control costs and manpower are reinforced by Griffiths report. Implementation of Griffiths now starting. New Management Board being set up to lead sustained programme of management action.

? check Lisman's ?

Question on Griffiths

Reds. 265,800
478,000

480,800
365,000

Outstanding Issues:

a. Should the main priority for DHSS action remain the follow-up to Griffiths, including the pursuit of cost improvement and better use of staff.

b. NHS Supervisory Board has identified care of the very elderly, prevention, and bottlenecks in acute treatment (eg hip replacements and renal dialysis) as priorities for policy review and action.

2.2 Family Practitioner Services

Objective: to improve control of expenditure and management of services.

Action:

Costs

a. Steps taken, and continuing, to improve forecasting.

b. Tighter controls on drug prices already announced; and on number of contractors, following Binder Hamlyn report to be published soon.

c. Direct influence on FPS management through FPC independence provisions in Health and Social Security Bill. Arthur Andersen study looking at FPC administration and use of computers.

d. Reductions in subsidies to patients: end of NHS supply of glasses except to exempt groups already announced; proportionate dental charges agreed in PES but not yet announced.

Outstanding Issues:

a. Action already agreed will be unpopular and opposed by the professions. Important to develop a primary care strategy which shows resources being better directed not just controlled.

b. Charges. Increased charges reduce net cost of the NHS although focus should be on gross expenditure and services delivered. But scope for increasing income from charges is limited unless past public commitments (on hotel charges, GP visits and exemptions for the elderly or children) are overturned or new charges introduced (eg for dental check-ups or sight tests) where action to reduce subsidies is already underway. Should any of these options or others (eg cost-related prescription charges) be reconsidered? And what would be their impact on demand?

c. Remuneration system for contractor professions. The legal basis of the system for pharmacists has now been found to be invalid and legislation will be required to restore the present position. Consideration also needs to be given to new and more easily controllable systems taking account of Binder Hamlyn and of the nature and incentive effects of each system.

2.3 The Private Contribution

Objective: to enable the private sector to contribute more to health care and health services where it can do so effectively while retaining the basic commitment to a NHS financed mainly by taxation.

Action:

a. Health authorities now being required to bring in competitive tendering for support services.

b. Increased competition in provision of glasses and privatisation of dispensing for non-exempt groups being brought in under the Health and Social Security Bill.

Outstanding issue: September meeting proposed further encouragement of private health care by tax relief on insurance premiums. Should this be considered for Budget 1984? What implications for the NHS?

~~84~~ 2m - half 1
1016m
under
50p.
a week

3. Social Security

Objective: to ensure that benefit levels are not excessive in the light of likely costs; and identify options to contain and, if possible, reduce expenditure.

Action:

a. DHSS is taking steps to introduce more sophisticated forecasting methods (background note) but they will not eliminate uncertainties nor affect the underlying causes of the rise in expenditure - notably the effect of the recession on supplementary benefit expenditure.

b. To restrain the rise in expenditure requires reductions in benefit levels. Action on housing benefit and benefits for young people have already been announced. Other measures - on heating additions and FIS - have still to be announced.

Central
heating allowance

c. A major public Inquiry into Provision for Retirement is underway and will look at the cost of the state pension scheme as well as related issues such as personal portable pensions.

d. An Interdepartmental review of Family Income Supplement is in progress to ensure that the structure and administration of the scheme is operating in the most cost-effective and efficient way.

Outstanding Issues: The scope for increasing control and reducing the cost of other parts of the social security system needs to be examined. Reviews in consultation with the Treasury are now being set in train of

a. Supplementary Benefit: to examine the scope for simplifying the system including its application to the unemployed and for significantly reducing its costs;

b. Housing Benefits: to simplify and reduce the scope of the scheme so as to concentrate help on those most in need.

c. Benefits for young people: to consider whether young people should have an independent right to supplementary benefit.

HOUSING BENEFIT

Key facts

From April 1984 will:

- * help 6.3 million households on low incomes (including 3.3 million on supplementary benefit) with rent and/or rates.
- * cost £3.75 billion
 - £2 billion on rent rebates (for LA tenants)
 - £0.4 billion on rent allowances (for private tenants)
 - £1.3 billion on rate rebates (for tenants and owner occupiers).

Origins

1. The housing benefits scheme was introduced in April 1983, replacing local authority rent and rate rebate and allowance schemes (on which it is modelled) and supplementary benefit provisions for rent and rates. The old local authority schemes, operated under the aegis of DOE, were introduced in 1972; the rate rebate scheme in 1974. They were not designed primarily as a form of income support for poor people but as an adjunct of rent and rating policies. The rent rebate scheme in particular allowed the then (Conservative) Government to achieve more realistic local authority rent levels, by cushioning increases for those on lower incomes. This policy which has continued, implied that help should be reasonably generous, stretching some way up the income scale; but not so high that large inroads were made into the extra rent (or rates) being raised.

Scale of assistance

2. The very rapid rise in local authority rent and rates in recent years has led to a very substantial expansion in both the expenditure and number of beneficiaries. For example:

* Expenditure on help to those not on supplementary benefit (now known as "standard cases") has more than doubled in real terms since 1972/73 - figure 1 in Annex B).

* Rapidly increasing numbers of local authority tenants got help under the old scheme between 1979 and 1983 (figure 2 in Annex B).

* Between 1979 and 1983, average rent rebates rose in real terms by 59 per cent from £5.20 a week to £8.25; but higher rents are the main reason for this. They rose in the same period by 56 per cent from £9 to £14.05 a week. (All amounts are expressed in 1983 constant prices.)

3. This increase in the scale of assistance was not seriously questioned when the scheme was being run by DOE. It was simply seen as the natural consequence, and the price that had to be paid, for the rise in local authority rents in line with Government policy.

£600m out

4. The current estimate of benefit expenditure for 1983/84 is £3837m against an initial estimate of £3285. The two main reasons for the difference are (i) increased supplementary benefit expenditure which had an inevitable effect on housing benefits payable to supplementary benefit claimants and (ii) increased take up of 'standard' benefits.

Changeover to Housing Benefit

5. Housing benefit was a structural reform designed to:

- * Put all help with rent and rates under one roof - the local authority's
- * Remove the administrative waste of one public authority (DHSS) paying over money to an individual only to have it paid to another public authority (the local authority) as rent or rates. It also prevented money being mis-spent and rent arrears consequently building up.
- * To remove the need for pensioners in particular to choose between the rent and rates rebates scheme and supplementary; all now receive housing benefit.

6. Achievement of the reform required a shift in resources towards poor pensioners. Money was taken from the better off above the needs allowance to do this - but overall the scheme was nil cost. Even so, there was an outcry over the losers and the reductions in benefit had in fact to be staggered. Any attempt to have gone further and save money on the scheme would probably have made its introduction politically impossible.

Autumn Statements cuts

7. The social security cuts were centred on housing assistance because more of this tends to go to rather better off people than of most other social security benefits. The particular changes to take effect in April 1984, are set out in Annex C.

8. The changes were deliberately designed to focus on households in the scheme with higher incomes - those with income above the needs allowance and those with working non-dependants. Although over 2 million households are affected by the taper changes, the weekly loss is under £1 and nearly half the losses are less than 50p a week. 600,000 people cease to receive help altogether.

9. Nevertheless, the changes have aroused considerable opposition. The Social Security Advisory Committee, which has had to be consulted about the changes, has put in its most critical report. The local authority associations are also very critical and there is back-bench criticism of the effects particularly on pensioners. The main criticisms are:

- * The changes hit some poorer families as well as the better off;
- * The cumulative effects on those affected by a number of changes can be very large; critics call for some or all the cuts to be withdrawn or at least phased in.
- * The increases for non-dependants, especially the young ones, are too harsh and where non-dependants will not pay the extra the householder will suffer.

10. It may be necessary to make minor concessions in the package to head off the weight of criticism.

Future

11. The housing benefit scheme will have experienced 2 rapid shifts in its detailed structure on its introduction and because of the autumn statement measures. The scale of the scheme will continue to grow despite the cuts, if rent and rates continue to rise in real terms. DHSS aim shortly to begin a thorough reappraisal of the scheme to see if it can be simplified and help concentrate more on those most in need.

HOW THE SCHEME WORKS

1. All help with rent and rates now comes from local authorities in the form of rebates* or, for private tenants, allowances.

2. Supplementary benefit claimants normally get 100 per cent help. A certificate of entitlement is sent by DHSS to the local authority to authorise this - so they are known as certificated cases. Deductions are made if there are non-dependants (eg a grown up son or daughter) in the household.

3. Other cases ("standard cases") normally get a partial rebate or allowance, worked out in 4 stages

i. start by taking 60 per cent of rent and/or rates.

ii. adjust the figure(s) downwards or upwards by a percentage ("taper") of the amount by which the claimants income exceeds or falls short of his "needs allowance".

(NB. the tapers are different for rent and rate assistance and for incomes above and below the "needs allowance". Needs allowances are statutory figures which vary with family circumstances).

iii. make deductions if there are any non-dependants in the household.

iv. if the final amount(s) are less than the "minima", no benefit is payable.

4. Certain LAs can operate a "high rent scheme" on more generous rules (for standard cases) if the public/private sector rents in their area exceed certain national "thresholds".

5. Standard cases who fall below supplementary benefit levels after paying their residual housing costs may be entitled to "housing benefit supplement" (HBS) to make up the difference. HBS is a supplementary benefit carrying entitlement to other benefits (eg single payments from DHSS).

FIGURE 1 : EXPENDITURE ON STANDARD HOUSING BENEFITS
(Constant Prices : 1982/83)

ANNEX B

*From April 1983 help with rent and rates
for supplementary benefit recipients was
included under the housing benefits scheme.
Overall expenditure £3567 million in 1983/84
(Constant 1982-83 prices)

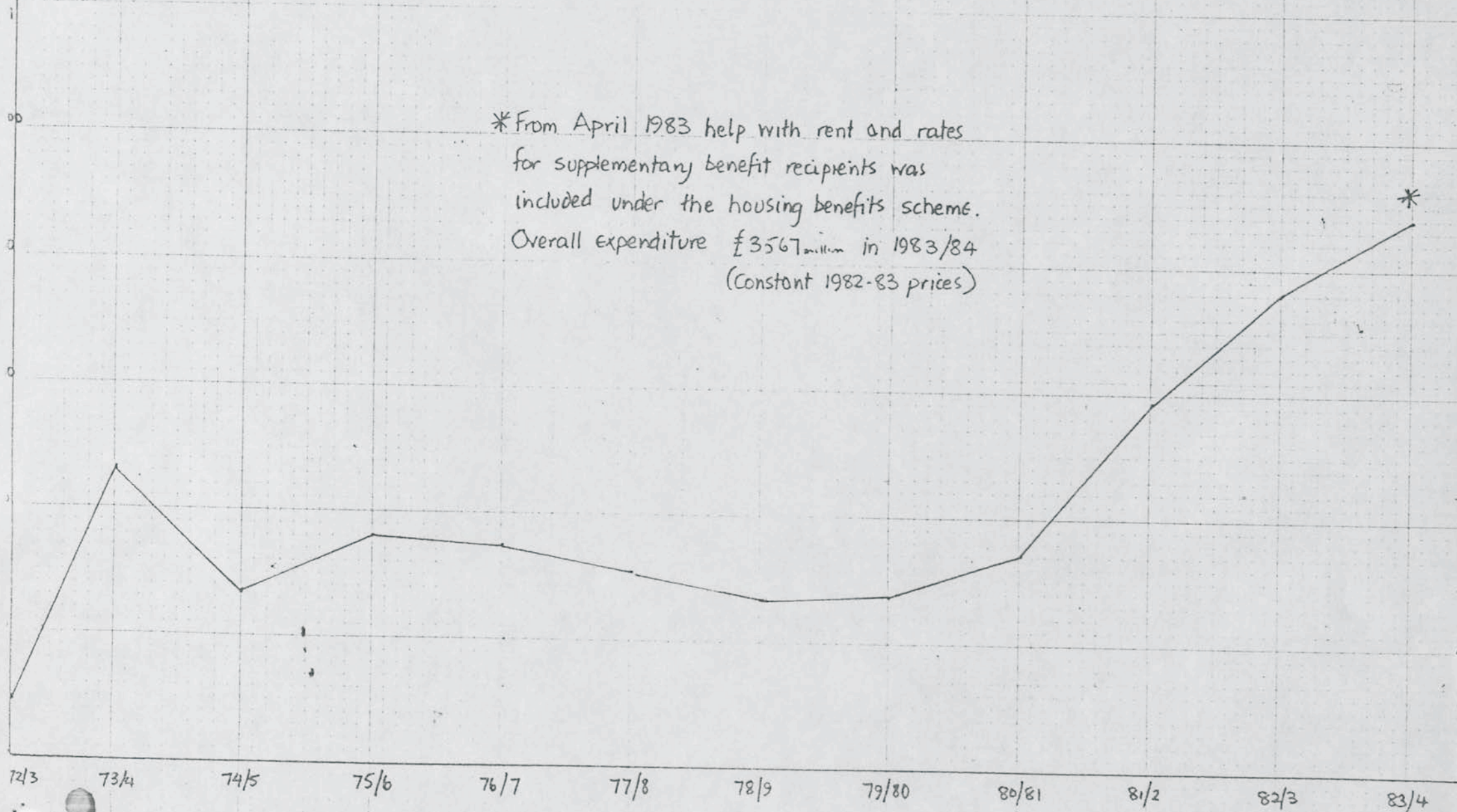
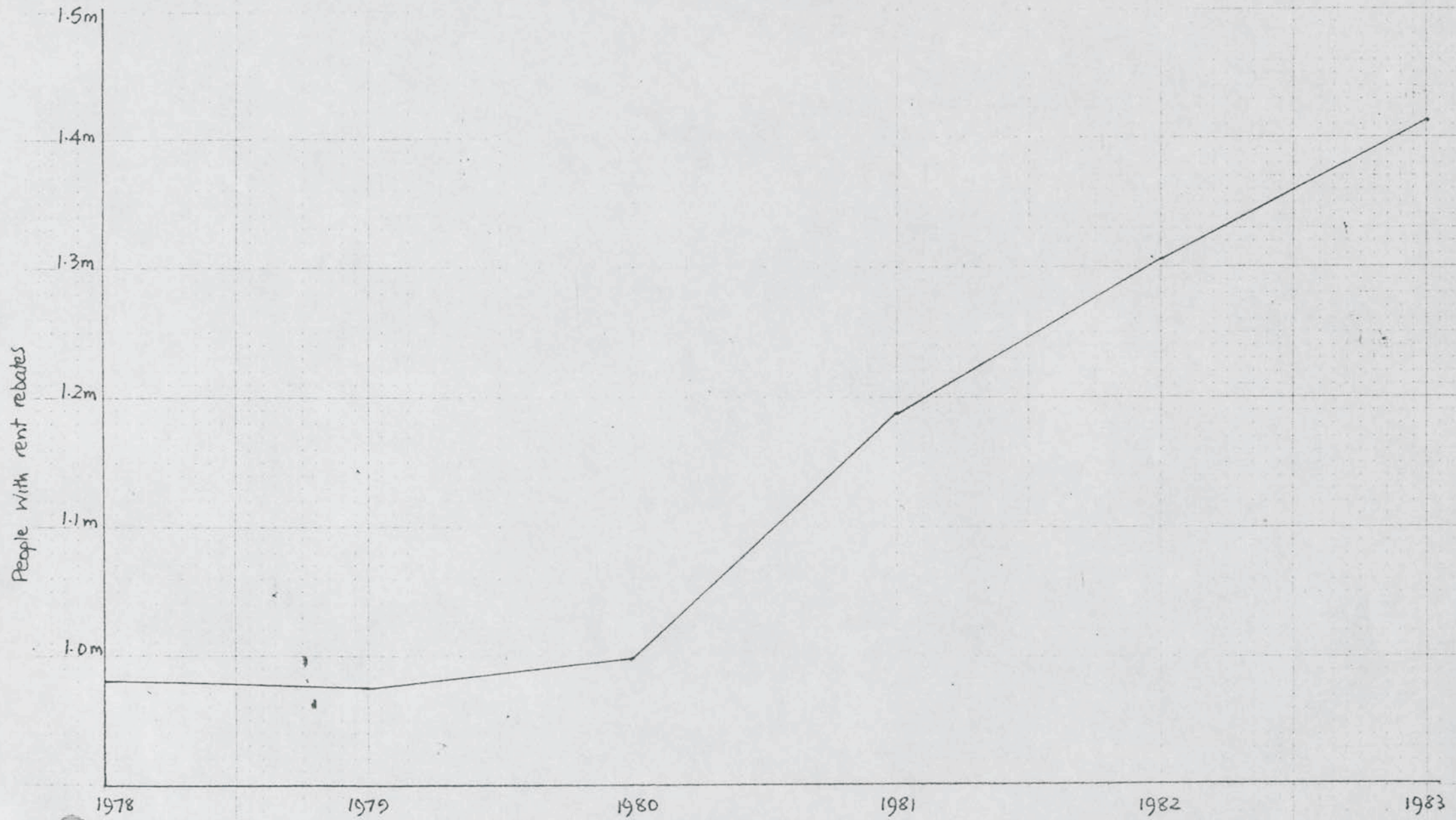


FIGURE 2 : LOCAL AUTHORITY TENANTS WITH RENT REBATES
(ENGLAND & WALES)



AUTUMN STATEMENT CUTS

1. The measures will reduce expenditure by £230m - £170m in housing benefit and £60m in supplementary benefit. Of this, only £180m counts for public expenditure purposes; the remaining £50m represents savings on rate rebates.
2. It is not possible to provide estimates for the cumulative effect on claimants of all the measures: the statistical model is not sensitive enough. The various changes are:

- * An increase in the tapers above the needs allowance ie the amount by which help is reduced as income rises - Saves £115m; affects (with minima changes 2.2m households of which 0.6m taken off benefit).
- * Increases in the minimum levels of entitlement before housing benefit can be paid. Saves £5m;
- * Increases in the non-dependant deductions for those not on supplementary benefit, on youth training schemes or pensioners:
 - a new deduction for 16-17 year olds in work;
 - 18-20 year olds in work who currently have a modified deduction will be treated as adults and have the full deduction;
 - an increase in the adult deduction.

Saves £60m; affects 700,000

- * Young people aged 18-20 on supplementary benefit will no longer get a housing addition where they are living in somebody else's household - the poorest households are protected, as no non-dependant deductions will be made for this group.

Saves £43m (net) affects 350,000

- * An increase in the threshold at which special help could be given in high rent areas. Saves £6m; affects 90,000

In addition there will be some administrative savings from the reduction in local authorities caseload.