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From the Secretary of State for Social Services

The Rt Hon Peter Rees QC MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
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Thank you for your letter of 22 December about the forecasting of expenditure on social security and family practitioner services.

I am of course as concerned as you that these substantial changes in forecasts occur: but the experience of both our departments makes it clear how difficult it is to achieve any certainty in forecasting how demand-led expenditure will turn out. We shall be talking about this again with the Prime Minister on 12 January: and I enclose copies of notes explaining the background which have already been sent to No 10 by my Permanent Secretary, and have been copied to Sir Peter Middleton. But I can respond to your comments immediately by saying that we are indeed anxious to improve our arrangements; as you know our two Departments have been working jointly on this for some time, with the Government Actuary's Department, and I can certainly undertake to let you have a report by next May.

But it would be rash to anticipate the degree of certainty in forecasting that your letter seems to look for, or to suppose that we can reach a state where forecasting changes can always be offset by programme changes. I could not possibly promise that: nor could I have offered more in the way of savings last time if we had known of these revised forecasts earlier. The facts are that our forecasts are affected quite significantly by minor changes in economic assumptions (for which we rely on the Treasury) and by changes in the pattern of claimant behaviour which it is extremely difficult to anticipate - we have to rely on statistics of recent trends in benefit payments, which are not necessarily a reliable indicator of what is going to occur in the future. The main difficulty occurs over the unemployed, who account for a great part of the sums at issue. We are dealing with unprecedented levels of claims for benefit from the unemployed, and the outturn of expenditure depends not only on forecasts of numbers, but to a significant degree on the split between unemployment benefit and supplementary benefit. The table on page 29 of the "Green Book" for Thursday's meeting shows how the balance between the two benefits has changed over time: past experience is a poor guide to future expenditure on these very large programmes.

Clearly we must aim for the best possible forecasts. But we shall never be able to achieve certainty. New benefits (like Housing Benefit this year) and major changes in schemes (like the change to self-certification for sickness benefit in 1982) have expenditure consequences we cannot exactly predict. A growth in take-up of disability benefits has occurred in the past two years for no apparent reason which we could have predicted. Such uncertainties are bound to occur, and we can only aim to minimise them.

I must say there are a number of points in your letter I take issue with. For instance you refer to Tony Newton's explanation of our approach to take-up of benefits on the "To-day" programme in a way that suggests you think we ought not to be concerned about take-up. We are under endless criticism over this, and could not possibly take any other public stance than the one he adopted (and I quote): "We have two aims in this field. One is to make sure that people who are not entitled to benefit do not get it - the scrounger problem you touched on at the beginning - and the other is to make sure that those who do need benefit, and should have it, do get it."

You claim that the increase in our programme before the Autumn Statement was only made because your officials insisted on it, in the interests of realism. In fact we were having to make adjustments on a rather arbitrary basis because revised Treasury economic assumptions had not been available early enough for us to do a full revision of forecasts in time for the Autumn Statement. We proposed an increase of £93 million which your officials thought was too low and raised to £223 million. We did not dissent.

The latest increase, taking that figure up to £580 million above the estimates available to us at the time of the bilaterals, was the outcome of reworking the May forecasts thoroughly in the light of the revised Treasury assumptions, which we had at the end of October, and of the latest DHSS statistics, particularly those for supplementary benefit claims which were available in mid-November. The results were notified to the Treasury in the first week of December.

As regards the family practitioner service problems which, as you say, have been less severe, we are well ahead with improvements in our forecasting methods on lines endorsed by independent accountants, Binder Hamlyn. But, as with social security, this does not eliminate the uncertainties which stem from the nature of the services and the extent to which they can be controlled. The Binder Hamlyn study examined very thoroughly what the possibilities were for additional short and long-term controls. They saw no scope for short-term controls of the kind that would make cash limits a practicable possibility, but suggested longer term measures for strengthening control. Some of these are controversial and, as you know, I shall shortly be putting proposals on them to 'H' Committee.

I have concentrated in this letter on the larger social security problem, and indicated our concern to secure real improvements from the study we are conducting with you. Since a large element in the problem is the difficulty of expenditure on the unemployed, I wonder whether you could consider a change on your side? As your officials will know, we feel disadvantage in having to work on Treasury assumptions which are not broken down into components relevant to our forecasts. Foreexample they do not break down the figures according to duration of unemployment. It would obviously help to improve forecasts if the

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Treasury assumptions could be improved in this way.

I am copying this to the Prime Minister, and the others who are attending tomorrow's meeting.



James Callaghan



Norman Fowler

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