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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore PC MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Alexander Fleming House
 Elephant and Castle
 London
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NSM

Dear John,

NB 2 pps. 21st September 1987

SURVEY: INCOME RELATED BENEFIT RATES

Thank you for your letter of 18 September.

I think it is important to see our discussion about the new benefit rates in the wider context of the Survey and your very large bids for additional resources. You have submitted additional bids of broadly £1½bn in 1988-89, £2bn in 1989-90, and £3½bn in 1990-91. And this is on top of 40% real terms growth in the programme since 1978-79. As I have explained, these bids pose considerable difficulties for me in meeting the objective agreed by you and other colleagues that public spending should continue to fall as a proportion of national income. Accounting as it does for 30% of public spending by Departments, Social Security must play its part in the measures needed to meet that objective.

Against this difficult background, I wrote to you on 31 July and put forward for our joint consideration a number of savings options which could at least partly offset your bids. These options covered the rates at which the new income-related benefits are to be introduced next April. I also invited you to put forward any alternative proposals for savings which you preferred

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to consider. We have begun discussions on these savings options, and we are due to meet again on Wednesday of this week. Your letter therefore came as something of a surprise.

Turning to the specific question of the new benefits, I cannot agree that the decision to compensate income support recipients for their 20% rates contribution precludes us from settling the new benefit rates at levels other than those in the 1985 White Paper, revalued to current prices. The White Paper made it clear that these rates were illustrative, and that has remained our position. The announcement on rates compensation on 15 May made no commitment on the overall level of the new benefits; nor was there any suggestion at the time that the decision on rates compensation restricted our discretion in settling the new benefit levels.

You mention in your letter that the strongest argument against the savings option I have put forward on the new benefit rates is the impossibility of squaring such action with the pledges 'senior colleagues' have given on compensation for the 20% rates contribution. It would help me to know what statements you have in mind.

As for the number of losers from the reforms, we both know that the gainers/losers picture has become much more positive since the White Paper. At the time of the White Paper, the illustrative benefit rates would have resulted in 2.2m gainers and 3.8m losers. Your revised figures, taking account of the decision on rates compensation, show 4.5m gainers and 3.7m losers. As I have argued, this doubling of the number of gainers means that we have to look very closely at the possibilities for savings and that we can afford to do so in presentational terms.

I have much sympathy for your timetable problems, and I would like to be helpful. But, in view of Cabinet's remit, I clearly cannot exempt the income-related benefits, which account for nearly 30% of your programme, from the usual Survey process, including possible discussion in Star Chamber, given the size of your bids and the recent history of rapid growth in the programme. This would be unfair to other Departments, who must go through the full Survey scrutiny. A decision to make no savings on the new benefit rates would leave their programmes under more pressure to meet our overall Survey objective. For neither of us could pretend to colleagues that there are other, easier options available for later discussion which might substitute. In this connection, you have not yet responded to my invitation to come forward with alternative proposals to mine, although I would be happy to consider any such suggestions.

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For this reason, I should only be prepared to recommend to the Prime Minister and the Lord President that the income-related benefits be exempted from the normal Survey process if we are able to reach agreement on what the new rates should be. I therefore hope we can make progress to this end when we meet on Wednesday. It would seem to me inappropriate to air these issues more widely with colleagues before we have had that discussion.

I am copying this letter to the Prime Minister, Willie Whitelaw, and Sir Robert Armstrong.

*Yours Ever,
John*

JOHN MAJOR

ECON POL - Public Expenditure. PG-38.

