



Prime minister.  
 Mr Fowler will be circulating  
 at the meeting a note on the  
 castings of HB & Supp B.  
 A copy of this has been sent  
 to you in advance and has  
 been inserted in MISC 111 (S) 4.

PRIME MINISTER

## SUPPLEMENTARY BENEFIT

(MISC 111(85)1, Appendix 2)

(MISC 111 (85) 4)

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1. Supplementary Benefit at present costs over £6 billion per annum and there are over 4 million recipients. The present system, consisting of regular weekly payments topped up by a variety of single payments for particular needs is bewilderingly complex for claimants and requires 16,000 paragraphs of office instructions. The level of the income disregard and capital cut-off discourage people from helping themselves. There is evidence that families with children find it very hard to manage. The Secretary of State for Social Services proposes new arrangements which would be simpler, better targetted, encourage incentives, and maintain fairness between those in and out of work. The main elements are:-

- (i) Replacing supplementary benefit by an 'income support scheme' on a simpler basis without entitlement to any extra payments related to detailed assessment of individual circumstances. Benefit would consist of
  - basic income support, depending only on marital status and age;
  - extra money for those with children, pensioners, the long-term sick and the disabled.
- (ii) Housing costs (rent and rates) to be dealt with through housing benefit which will have a parallel structure and use the same income test. Mortgage interest to be payable for those on supplementary benefit - but only after the first 6 months on benefit.
- (iii) Better income and capital disregard rules to increase incentives to save and, for long-term unemployed couples, to help resume contact with the labour market.

- (iv) A discretionary fall-back ('social aid') scheme for real emergencies and special needs. Operated by DHSS local offices against cash limits, with no legal entitlements or detailed rules.

2. About 250,000 claimants would lose entitlement to benefit altogether. There would be a lot of turbulence among existing claimants; overall as many would be as well or better off as would lose. Because they are now seen as relatively less in need, some 80% of pensioners staying on benefit would lose (130,000 of them would lose over £5 a week). As presently planned, the reform has been costed to provide sufficient savings (£100 million +) to pay for transitional arrangements in order to prevent cash loss at the time of change. Savings of up to £250 million could then accrue subsequently. There would be staff savings of 2,000 to 3,000.

#### MAIN ISSUES

3. The main issues are:

(a) Are the basic proposals for an "income support scheme" supplemented by discretionary "social aid" acceptable in principle to the Group?

(b) In principle should the income and capital disregards be raised to increase incentives to save and to work?

(c) Should mortgage interest only be payable after the first six months on benefit? (It is proposed that rent and rates should be dealt with entirely through housing benefit).

(d) What level of future savings would make the turbulence (gainers/losers and administrative upheaval) implicit in the reforms acceptable?

#### "Income support scheme" and "Social aid"

4. The new Income Support scheme will aim to give people a reasonable level of help for them to manage as they wish. It



will not seek to provide in detail for every variation in individual circumstances. Help will be set by three elements. All claimants will have a personal allowance based on their age and marital status. There will be a higher rate for people over 25. Those with children will get extra help, through a flat-rate addition for all those with family responsibilities and, as now, amounts for each child depending on age. The new system will thus give more help to those with children. Finally, there will be extra allowances for special groups to reflect their higher needs. These groups will be pensioners, the long-term sick and disabled, and lone parents. This system will replace the present structure based on age and marriage, householder status, family responsibilities, and time on benefit; all topped up by a separate system of weekly additions.

5. The supplementary system of Social Aid will provide for exceptional circumstances and emergencies. It will be operated on a discretionary basis rather than be set by complex regulations and instructions. It will be controlled by a cash limit.

6. On the face of it these proposals will effect a considerable simplification in the arrangements in this area. The danger must be that as consultation and further work goes forward, complexity will be reintroduced to deal with this or that special case. Furthermore, the approach to social aid will be affected by the level of income support. If the latter is set too low, the burden on social aid will be increased.

#### Income and Capital Disregards

7. The papers do not spell out what new levels of disregard are contemplated. Increases will have a beneficial effect on the incentive to save and on the unemployment trap. They will,



however, give rise to criticism that state help is being wasted on people who do not need it.

#### Mortgage Interest

8. At present mortgage interest payments are eligible for supplementary benefit support from the beginning. The proposal is that they should not be eligible until it is clear that the recipient is in more than short-term difficulties, and should therefore not be paid for the first six months.

#### Savings and Overall Judgment

9. Mr Fowler will table at the meeting illustrative costings. They indicate gross savings of £300 million from the new arrangements offset by £50 million for higher earnings and capital disregards. Mr Fowler also argues for transitional protection of £175 million in 1987/88 to prevent cash losses. On that basis, net savings could be £75 million in 1987/88 (or £125 million if raising the disregards is delayed by a year) and £250 million in subsequent years. These savings are rather more than the Group were led to believe last week, though possibly still not so much as the Chancellor and Chief Secretary might wish for. The Group will need to decide in the light of their judgment about the controversies and difficulties of going forward, whether they wish to ask Mr Fowler to produce options showing further savings.

#### HANDLING

10. You may wish to suggest that discussion should first concentrate on the structure and detail of the proposals, and then consider the merits of proceeding in the light of possible savings. The Secretary of State for Social Services should introduce his proposals. He will hand round further information on costs and savings. The Secretary of State for Employment and the Minister without Portfolio will have comments on the effect on the unemployment trap, and the Secretary of State for the Environment on mortgage interest payments. The Chancellor of the Exchequer and the Chief Secretary, Treasury, will wish to contribute particularly on the efficiency and expenditure aspects.



The Lord President, the Chief Whip and the Paymaster-General will have views on the public and Parliamentary impact.

#### CONCLUSIONS

11. You will wish to reach conclusions on:
- i. whether the Group endorse Mr Fowler's structural proposals in the supplementary benefit area;
  - ii. any particular points of reservation, or where further work needs to be done; and
  - iii. at least in a preliminary way, the judgment of the Group on whether prospective savings justify going forward with the proposals, and whether further savings should be sought.

*PLG*

P L GREGSON

12 February 1985