

SECRET file

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SUBJECT
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bc J. Redwood
P. Gregson,
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10 DOWNING STREET

From the Private Secretary

6 March 1985

Dear Steve,

SOCIAL SECURITY REVIEWS

The Secretary of State for Social Services came to see the Prime Minister last night to discuss the way forward on the Social Security Reviews. He said he had approached the Reviews not simply as a cost-cutting exercise but if sensible economies were identified they would be made. The Treasury had originally proposed savings of £ $\frac{1}{2}$ - $\frac{3}{4}$ b. The proposals he had made were not only capable of delivering such savings but would also achieve the Government's objectives - greater emphasis on private pension provision, simplification of supplementary benefit, a reduction in the cost of housing benefit, and, through the Family Credit, better provision for poor families.

Subsequently, the Treasury had raised its target for savings to £2b. The Secretary of State said that, in his political judgement, this could not be achieved at the same time as reform. It would provoke a strong reaction which would make it impossible to achieve the very worthwhile changes identified by the Reviews. The additional savings would have to come from the 40% of the social security budget which was not the subject of ~~changes~~ ^{pledges}. Even before the Reviews began, the Secretary of State was committed to finding savings of £ $\frac{3}{4}$ b from this area.

The Prime Minister said the Reviews had to be considered against the background of continuously rising social security expenditure. Major savings were necessary just to stand still and some reduction was necessary as the social security budget had become too large. Previous reforms such as the housing benefit scheme had led to increases in expenditure. Any reform would generate substantial numbers of gainers and losers with only the latter being voluble. Substantial savings were necessary to make it worthwhile for the Government to face out such protests. She had not identified a specific target for savings from the Review but was convinced that the Secretary of State could secure more than the £ $\frac{1}{2}$ - $\frac{3}{4}$ b originally proposed.

Discussion then turned to the way in which extra savings could be achieved. It was agreed that biennial upratings were inconsistent with the pledges given on pensions. The move to

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the historic method had been a major advance and it was not possible to go further.

The Secretary of State said that if larger savings were to be found it would be necessary to look at the area of child support. The Prime Minister suggested the re-creation of child tax allowances which would open the way for a reduction in child benefit. One possibility was for there to be an option between CB and CTA's. The Secretary of State said that part of the savings on child benefit could provide the resources for the Family Credit which would contribute to alleviating the unemployment trap and to relieving the most acute area of poverty. He agreed that child tax allowances could be a promising way forward and offered to provide a paper on this issue.

Other points which emerged from the discussion were:

i) The Prime Minister supported the principle of transitional relief but was reluctant to see higher disregards for capital.

ii) Consideration should be given to denying entitlement to SB where a large capital sum received as redundancy compensation had been spent too quickly.

iii) The Prime Minister asked whether the heating allowance could be retained at a lower level. Your Secretary of State said this would negate the effort to simplify the system and would create a base from which this type of expenditure would inevitably grow.

iv) It was agreed that the new system of HB should provide less than 100% reimbursement of rent and rates.

Summing up the discussion, the Prime Minister asked the Secretary of State to offer the greatest savings he could. He should develop further the proposals for child support, including the possibility of reintroducing child tax allowances. He should report back to a meeting of MISC 111 the following week.

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Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

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