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PRIME MINISTER

26 March 1985

BENEFITS

Three broader arguments are relevant to all the specific issues on tomorrow's agenda:

- i. The savings from the individual changes together add up to quite a tidy sum - well over £100 million and possibly more.
- ii. We want to simplify the system. This not only saves staff and administrative costs but will appeal to the many critics who do not like the current benefit maze. We really shouldn't have over 25 different benefits.
- iii. You will not want big political rows for small savings and to satisfy bureaucratic tidy-mindedness.

A few specific points on the individual items.

✓ Students should not be part of the benefits system. It starts them off wrong, just like SB for 16-18 year olds. Students should look to the existing grants, their parents, work through college, or take out loans.

The UB proposals are attractive in distinguishing contributory UB more clearly from SB for zero cost. After six months you move down from UB to SB. But why not achieve this gap by cutting SB rather than raising UB?

⌋ You will want to be wary of abolishing Death Grant and Maternity Grant. Savings of £25 million may not be worth the row.

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Norman Fowler is right to propose that Maternity Allowance and Maternity Pay should be rationalised. But couldn't we also get real savings, not just statistical fiddles? This could be done by uncoupling the new statutory maternity pay from previous earnings.

Norman Fowler is not radical enough on the Industrial Injuries Scheme. There is no need for the State to run such a scheme. It should be privatised. Each firm should be legally obliged to insure to provide benefits for its own employees' industrial injuries. This would also get rid of the ludicrous effect whereby safe firms cross-subsidise dangerous ones. Norman Fowler should not just offer to study this, but float it as his proposal in the Green Paper. It could over time save the £400 million Industrial Injuries budget.

We spend almost £800 million on benefits for widows. But the politics of any change will be very unattractive.

David Willetts

DAVID WILLETTS

SECRET

# Government disagrees on social security review

BY ROBIN PAULEY

THE REVIEW of the social security system initiated by Mr Norman Fowler, the Social Services Secretary, last April, has become the subject of serious disagreements within the Government.

As a result, immediate changes to the present system may be very limited. The prospects for benefit cuts appear to be increasing as the likelihood of radical reform recedes.

Any formal announcements have been delayed until after Easter, and may not come till early May.

While major reforms, such as the integration of the tax and benefit system, may be mooted in the eventual report, they are likely to be said to be very long term because of the need for further computerisation. The delay could extend beyond the next general election.

The divisions within the Government are between the Department of Health and Social Security, the Treasury,

the Prime Minister and the No 10 Policy Unit.

Mr Fowler wants to re-organise benefits, with the emphasis on simplification. He would like any money freed from the streamlining of the £40bn a year social security budget, which totals a third of all public spending, to be recycled into giving higher basic benefits to those needing them.

The Treasury is looking for a straightforward cut of between £2bn and £4bn from the budget to reduce the public spending totals, and alleviate what will otherwise be an exceptionally difficult public spending round in the autumn. Treasury ministers have privately made little secret of the fact that they agreed to the social security reviews only because they were determined to obtain cuts.

The Prime Minister's policy unit, with views close to those of Mr Fowler, is arguing for genuinely radical reform in the structure of the benefits system

to direct cash more accurately to where it is needed.

The Prime Minister, who is chairing the Cabinet Committee considering the changes, does not support any of those three options. She is convinced that a large amount of the social security budget is being paid to people who do not deserve the money.

The complexities of how to begin to identify who deserves, rather than needs, will probably halt this line of argument but it is holding up progress on the other possibilities.

Mrs Thatcher has a more conservative approach to the structure of the benefit system than her departmental ministers and is not enthusiastic about streamlining if it means the removal or integration of too many of the small benefits which have built up over the years.

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## UK NEWS

# Robin Pauley examines a top-level split over changing the welfare budget Looking for ways to alter the social security net

A CABINET committee chaired by the Prime Minister is trying to find a way of changing the social security system on the basis of reviews in progress for the last year under the auspices of Mr Norman Fowler, Social Services Secretary.

The discussions have run into a sticky path between those who want to cut the social security budget, which will total £40bn in 1985-86, and those who want to reform the cradle-to-grave nature of the system and give benefits where they are most needed.

Slightly more than half the expenditure goes on contributory benefits — those paid for out of the National Insurance Fund. About 4 per cent goes on administration and the rest on non-contributory benefits, about two-thirds of which are means tested.

The social security budget is the largest public expenditure budget—more than double defence, the next largest at £18bn in 1985-86—and it accounts for about 30 per cent of public expenditure.

The contributory benefits are pensions, widows' benefits, unemployment and incapacity benefits, industrial injuries benefits and some family benefits such as the £27.25 a week maternity allowance, which costs £174m a year.

Nearly all the numbers in social security are large. In the contributory section minor benefits such as the pensioners' £10 Christmas bonus cost £105m, the £30 death grant costs £17m, the £50 a week (reducing after six months) payable to 30,000 people as a result of industrial deaths costs £59m.

The non-contributory benefits are paid for with money voted by Parliament. The largest are the supplementary benefit, housing benefit and child benefit budgets. The 290,000 war pensions cost £564m, the attendance allowance for the disabled—payable to more than half a million people—costs £638m. The one-parent benefit payable to 590,000 lone parents costs £133m, only slightly less than the cost of Family Income Supplement.

These figures show the scale of the problem facing Mr Fowler and his Cabinet colleagues in searching for reform. Everything is expensive and all the benefits have powerful defenders in Parliament and in society. The interaction of the taxation and social security systems means thousands of benefit recipients lose the equivalent of their benefits in tax, but abolishing or simplifying any of the benefits will be a delicate political operation.

SOME IMPORTANT SOCIAL SECURITY PROGRAMMES 1985-86

Benefit	Cost £m	Recipients (000's)
Retirement pension	16,592	9,410
Unemployment benefit	1,611	980
Invalidity benefit	2,946	1,315
Supplementary benefit	6,807	4,645
Child benefit	4,272	12,210
Widows benefit	823	420
Housing benefit*	2,889	4,780
Family income supplement	140	220
<b>Total contributory benefits</b>	<b>22,163</b>	<b>12,165</b>
<b>Total non-contributory benefits</b>	<b>16,208</b>	<b>23,995</b>
Administration costs	1,735	—
<b>Total benefit spending</b>	<b>40,106</b>	<b>36,160</b>

\* More than 7m people receive rate rebates which are not included here because they do not count as public expenditure.

Note: Beneficiaries may be receiving more than one benefit at any one time

Cutting the real value of any benefits risks parliamentary uproar and means testing or taxing universal benefits, such as child benefit, offends the electorate—the voting parents of 12m children in the case of child benefits.

The £1.7bn administration costs vary in the way they fall. It costs only about 1½p in administration for each £1 paid in retirement pensions, but this rises to 8p for maternity allowances, 9p for unemployment benefit and 10p in the

pound for supplementary benefit.

Of the £40bn of spending on benefits this year about £22.6bn will go in various ways to the elderly; slightly more than £5bn will go to the disabled and long-term sick and a further £470m to the short-term sick; £11.3bn will go to unemployed people; £1.2bn to widows and orphans; and a little more than £8bn to families.

Between 1979-80 and 1984-85 the social security programme expanded by £28.5bn or 28 per

cent in real terms. Only £2.5bn was caused by real increases in benefit rates. The other factors included £1bn more due to the increase in the number of retirement pensioners, £3.1bn because of the increase in the number of unemployed people, £1bn due to the increase in the number of people claiming for long-term sickness or disability, £500m due to the increasing number of single parents claiming benefit, and £250m extra administration costs.

There were some offsetting savings to the Budget over the same period—£500m from a change in sick pay arrangements and a fall in the incidence of short-term sickness and £500m from the declining number of widows and children.

Because much of the social security budget is demand-led there are no overall cash limits. In the last and current financial years estimated expenditure has been exceeded, largely because the Government has been too optimistic about the likely path of unemployment.

In 1985-86 a change in the unemployment totals of 100,000 up or down means an increase or reduction of £200m on the social security budget—£85m unemployment benefit and £115m supplementary benefit and housing benefit.