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PRIME MINISTER

Outcome of the Review  
(MISC 111(85)13) — *ath*

Following the consideration of the components of the review, item by item, the Group need to look at the outcome as a whole and to consider how to take matters forward.

MAIN ISSUES

2. The main issues are:

- a. whether the package of structural reforms and expenditure savings is acceptable;
- b. the timing of Cabinet discussion, public announcement, consultation, legislation and implementation.

The Package

3. The proposals approved by the Group are summarised, together with costs/savings and an estimation of gainers/losers in Annex 1 of MISC 111(85)13. The Group also wanted to see some illustrations of how typical households might be affected by the changes. Mr Fowler hopes to bring some information on this to the meeting.

4. There is an element of multiple-counting in the gainers/losers; overall it looks as though there may be between 2 and 3 million gainers and perhaps between 7 and 8 million losers. (7.2 million will lose from the housing benefit changes alone; some of these will lose from other changes also; perhaps about half a million unaffected by housing benefit - for example the better-off recipients of death grant and maternity grant - will also lose.)





SECRET

5. Mr Fowler estimates that the reforms will save over £900 million in 1987/88 and well over £1 billion in 1988/89. These figures include hardly anything for the abolition of SERPS which will be producing further savings of £550 million a year by 1993/94 and over £20 billion a year eventually. At the first meeting of the Group the Chancellor of the Exchequer indicated that he was seeking savings of £750 million by 1988/89. This figure is reached comfortably. Subsequently he and the Chief Secretary, Treasury, have argued for £2 billion by 1987/88. The shortfall on this target is about £1 billion.

6. The Group has been anxious throughout to secure sufficient savings to make the controversy and turbulence created by the structural changes worthwhile. Against this a too ambitious target for savings may arouse so much controversy and difficulty that the reforms will not carry through and the Government will lose both the savings and the other benefits of reform.

7. Since the Group has ruled out action on child benefit other than perhaps freezing it at or somewhat above its present level, the only remaining area for savings is in the benefit rates, in particular the uprating of unpledged benefits. Mr Fowler will argue that savings from this source are not relevant to the review and should be discussed in the public expenditure round in the normal way. As against this, there is the danger that the upset created by the review will in practice severely restrict the scope for obtaining further savings in social security in the lifetime of this Parliament. There is therefore a case for reaching a clear understanding now on all the savings that are considered necessary for some years, taking account of overall public acceptability.

#### Next Steps

8. Mr Fowler proposes:

Cabinet	- immediately after Easter
a Green Paper	- on about 7 May
Legislation	- next Session
Implementation	- from April 1987.





SECRET

9. Unless there are significant issues still not agreed it would seem sensible to put proposals before Cabinet as soon as possible. 18 April is the next opportunity. (The Chancellor of the Exchequer will be in New York at that time for the IMF meeting but this should not be crucial, provided that he is broadly content with the proposals.)

10. Mr Fowler proposes a Green Paper in early May. It would, however, make clear that some of the proposals - notably pensions, supplementary benefit, housing benefit and family support - are firm. It would be followed by a White Paper in the autumn at the same time as the Bill is presented. You may wish to suggest that the Green Paper should be circulated to the Group in draft.

11. Mr Fowler says that legislation can be ready for the start of the Session (ie early November). Given the scale of change there must be some doubts about just how practical this would prove to be. Nonetheless Cabinet has agreed a place for a Bill in next Session's programme and it is clearly important that what will be a large and contentious Bill should be ready very early in the Session.

12. April 1987 is suggested as the earliest practicable date for general implementation. It is also the latest if fully adequate savings are to be secured in 1987/88. Mr Fowler argues against advancing the timetable (eg to the previous November) on grounds of the need for effective instructions, staff training etc. Given the scale of the changes it does seem important that staff and public should be adequately prepared. The danger otherwise is initial confusion on a potentially large scale as happened with housing benefit.

#### HANDLING

13. You will want the Secretary of State for Social Services to introduce his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury will in particular have views on the acceptability of the package, as will most other members of the Group. On presentation and legislation, the Lord President may wish to comment.





SECRET

CONCLUSIONS

14. You will wish the Group to reach conclusions on:

- i. the overall acceptability of the package;
- ii. the next steps, in particular, reference to Cabinet, publication of Green Paper, legislation and target date for implementation.

*PLG*

P L GREGSON

29 March 1985

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