

PRIME MINISTER

29 March 1985

MISC 111

Three notes are attached covering:

- The miscellaneous outstanding issues.
- What have ^{we.} achieved?
- The option of missing an uprating which the Chancellor is likely to raise orally.

David Willetts

DAVID WILLETTS

MISCELLANEOUS OUTSTANDING ISSUES

Family Credit and Child Benefit

We favour holding Child Benefit at £6.85 rather than uprating it to £7 as proposed by Norman Fowler. This gives an extra £80 million of savings - more than enough to absorb the costs of any higher take-up of Family Credit. We should have only one Child Benefit uprating between now and the next Election. And it should be nearer the Election.

Maximum Rents

Centralised rent-capping could be an administrative nightmare. And as local authorities will be paying 20% of the Housing Benefit bill, they will at last have an incentive not to pay high rents. But to make sure that we get savings, the DHSS should issue guidelines on calculating maximum rents which hold them down very close to average rents in an area. If local authorities fail to keep within these guidelines, then we impose the rent cap.

Students

We recommend that you pocket the savings of £20 million for the coming academic year. We should get bigger savings in later years as students come fully out of benefits. Keith

Joseph will want to use some of the £100 million savings, but we should aim for net savings of at least £50 million.

Pensions

These tricky questions are best remitted to Treasury and DHSS to resolve bilaterally.

WHAT HAVE WE ACHIEVED FROM THE SOCIAL SECURITY REVIEWS?

Gainers and losers

We have helped poor working families, with the Family Credit. The new HB regime helps people with low wages close to SB rates.

Old people lose from the HB reforms because a lot of them are owner-occupiers getting rate rebates. They also lose from the abolition of heating additions. But we don't break any pledges to old people. As pensioners receive half the total benefits budget, savings are bound to affect them.

Unemployed young single people are hit. They have a much tougher SB regime (a maximum rate of £22.45 for people under 25). Unemployed couples with families gain from the new Family Premium under SB, though - like all other SB recipients - they lose from the HB changes.

Positive Themes

Getting people back to work by helping the family man with a low wage and by reducing the benefit floor, especially for the unemployed single person.

Strengthening local democracy by exposing everybody to some of the cost of rates.

Making the scrounger's life more difficult by getting rid of some of the most easily exploited loopholes, such as SB special payments and benefits for students. Making local authorities challenge high rent costs for HB recipients.

In simplifying the system, we save between 3,000 and 4,000 DHSS staff. One entire means test - the separate HB assessment of need - disappears. Several benefits go - SERPS, death grant, maternity grant, and FIS. One new benefit has been introduced (the Family Credit) but that is not part of Girocheque culture.

The Unemployment Trap

Norman Fowler's evidence shows that unemployed families have the toughest Supplementary Benefit regime at the moment. So his changes in Supplementary Benefit aim to help these people. But if we want to get them back into jobs, the benefit regime should be tougher for unemployed people than for other categories. Should his Family Premium for people on Supplementary Benefit be cut back? He could put the savings into helping other groups such as the sick and the disabled.

E. R.

SOCIAL SECURITY UPRATINGS

There are obvious political difficulties in messing around with social security upratings. So far, we have saved about £900 million for 1987-88 (excluding Child Benefit savings). That is not a bad score. We want to save more or, at the very least, get the savings sooner. Why give people money now, and then take it back from them shortly before the Election?

The Chancellor may therefore raise the option of not uprating the unpledged benefits this year. Total savings are £200 million in 1985-85, and £580 million in 1986-87. (Details in the attached table.)

He will argue that once you have decided not to uprate Child Benefit this year, then you need to hold SB for the unemployed as well - otherwise you have exacerbated the Why Work problem. And if you're going to cut HB, what's the point in raising it this year?

But a partial uprating will to some extent take you in the wrong direction. Pensioners will get full protection; but they will then subsequently lose under the reforms of SB and HB. The Green Paper will eloquently argue that we need to shift support from pensioners to poor working families. At the same time, we will be helping pensioners whilst depriving working families of their Child Benefit increase.

C. R.

There is also an important practical point. Norman Fowler doesn't believe it would be feasible to implement his reforms in November 1986 without risking a fiasco like the unification of Housing Benefit. November 1987 would be too late for comfort. One way out would be to shift to an uprating of unpledged benefits in April 1987 (having missed November 1986) and implement all the changes then. An alternative would be to implement some of the changes in Housing Benefit and Supplementary Benefit in April 1986, and miss this year's uprating. The remainder of the reforms could be implemented in April 1987.

There are tricky political and practical issues here. You will not wish to take a final decision on Monday. But missing or delaying this year's uprating of the unpledged benefits seems the least objectionable way forward.

Not uprate unpledged benefits this year:

	<u>Savings (£m)</u>	
	<u>1985/86</u>	<u>1986/87</u>
Child Benefit	70	210
One-Parent Benefit	5	10
FIS	10	30
Supplementary Benefit (except pensioners)	90	260
Mobility Allowance	5	20
Housing Benefit (pe)	20	50
(rate rebates non-pe)	20	55
<hr/>		
TOTAL (rounded)		
pe	200	580
non-pe	20	55

Note: these figures assume a one-off step change in the level of benefits by musing a 5% uprating. Subsequent upratings do not restore the cut.