

PRIME MINISTERSocial Security Reviews: Handling

The outcome of Monday's meeting will affect the agenda for Thursday's Cabinet. The position is complicated by your need to depart at noon and Mr Walker's desire to finalise gas privatisation and what gives way in the legislative programme to accommodate it. (I apologise for having to arrange this meeting so late on Monday evening - during the afternoon Treasury Ministers are involved in the Second Reading of the Finance Bill and the Lord President on Clause 1 of the Abolition Bill in the Lords.)

Monday's Meeting

The first paper sets out the revised figuring for four options:-

- i) Abolition plus a compulsory replacement in April 1987.
- ii) Abolition with no compulsory replacement.
- iii) Deferment of Option 1 to April 1990.
- iv) A modified SERPS with the variables adjusted to make its cost manageable.

The figures show that the effects of Mr. Fowler's option are not as damaging as first thought. This is partly because the Treasury costed a 5% replacement scheme whereas the new figures are based on 4% which DHSS believe will be adequate to float most pensioners off of SB. Time lags have now been built into the figuring which soften the initial impact. The cost to the PSBR in 1987-88 is now only £0.2b. rather than £0.4b. and in 1988-89 there is a small saving. The cost to employers in 1987-88 is now unchanged and that for employees is halved. The aggregate figures do, however, disguise

distributional changes between contracted out and contracted in. Figures for these are still to come. The other worrying feature is the significant extra cost for the self-employed which remains.

Flag B

In the light of this, Mr. Fowler's minute urges sticking to the original course. The Chancellor has yet to decide what he will press for. He may go for modified SERPS on the grounds that Mr. Fowler's option still presents a substantial increase in employment costs in 1987-88 for contracted out employers and for the self-employed. In addition the compulsory scheme will put a much greater administrative burden on small firms which is inconsistent with the Government's deregulation philosophy. Policy Unit (Flag D) recommend a variant of Option 1.

He has now minuted recommending modified SERPS.
Flag C.

You could open the meeting by asking whether either party wishes to make any qualification to the figuring. You will need to assess the risk of some further snag arising. Mr. Fowler can then develop his case and the Chancellor his. The Lord President and Chief Whip can then give a political assessment of the expected reaction of colleagues and backbenchers.

Cabinet on Thursday

Thursday's agenda will depend on the outcome of Monday's meeting. One thing is certain - Cabinet must discuss all or part of the social security reviews on Thursday or the impression of confusion and discord will grow. Cabinet does not have to complete discussion on Thursday. Your enforced departure to Bonn creates the possibility of saying that the Cabinet discussed the reviews, made good progress, but was unable to get through all the issues in the time available and will resume its work the following week.

Monday's meeting could:

- i) Agree to proceed with Mr. Fowler's option. Either no further papers would be circulated to Cabinet or

simply an additional note setting out for colleagues the same figures which are before Monday's meeting. This could be done quickly and permit an attempt to be made to take the reviews in total on Thursday.

- ii) Agreement to present further options for Cabinet to consider e.g. modified SERPS or a compromise such as a phased compulsory scheme. This could require significant drafting and MISC 111 should be reconvened to give colleagues such as Mr. Tebbit and Mr King the opportunity to comment. This would make it impossible to take SERPS at Cabinet on Thursday but would allow all the other items to be taken. Cabinet the following week could then take a supplementary report from MISC 111.

The Rest of the Cabinet Agenda

Time is short on Thursday. At present it is intended that there should be a presentation to the whole Cabinet in the Cabinet Room and not, as originally envisaged, to a separate gathering of the colleagues not on MISC 111. The presentation should be a factual one, lasting not more than half an hour. It would be advisable to insist on the separation between the presentation and the discussion.

You will then need to race through the standard items.

Sir Robert Armstrong's business minute recommends that gas privatisation and the legislative programme should come after the social security reviews. If you are running out of time on Thursday you will need to decide whether to call a halt at some point to the discussion of the social security reviews in order to allow gas to be discussed or whether to allow gas to be pushed out to the following week. Mr. Walker

will argue that the story has broken in the press and he cannot hold the position any longer though some may feel that this has been engineered to put pressure on colleagues.

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AP.*

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27 April 1985