



10 DOWNING STREET

Prime Minister ①

Mr Fowler's statement seems
much too long - more like the
Speech he will have to make in
the Debate or like a Press Notice
David Willetts has indicated
areas where it could be shortened.

Agree to Fowler be asked
to edit it down by one third
or more?

AT
31/5

I really don't think
he can shorten this statement
very much. To do so would
deprive him of essential support
material & arguments. I have
marked my own comments
in red. ml

SECRET



Pch

CC DW

46

261/5

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

DW

31/5/85

Andrew Turnbull Esq
Private Secretary
10 Downing Street

31 May 1985

Dear Andrew

SOCIAL SECURITY REVIEW

I attach a draft of the statement my Secretary of State will be making on publication of the Green Paper on Monday. I shall be grateful for any comments as soon as possible.

Copies go also to Rachel Lomax (HM Treasury), Janet Lewis-Jones (Lord President's office), Murdo MacLean (Chief Whip's office), David Morris (Lord Privy Seal's office) and Graham Sandiford (Northern Ireland Office).

Yours

Shene

S A Godber
Private Secretary

SECRET

RAFT STATEMENT ON SOCIAL SECURITY REVIEW

I will, with permission Mr Speaker, make a statement on the review of social security.

^{Over a year ago}
~~At the end of 1983 and during the early months of last year~~ I informed the House of the establishment of four Review teams to examine the major parts of our social security system - provision for retirement, benefits for children and young people, the supplementary benefit system and housing benefit. Three of the teams were headed by ministers in my Department and the fourth - an housing benefit - by an independent Chairman, Mr Jeremy Rowe. Each had a number of members from outside Government whose advise has been of great assistance this is formulating our conclusions.

The review teams each issued consultation documents and invoked evidence from interested organisations and the public. ~~In total some 40000 consultation documents were issued, 4500 prices of evidenece were received and 69 organisations and individuals gave oral evidence at 19 public sessions.~~

The Government have brought together the results of this programme of research, evidence gathering and consideration and are today putting forward their conculsions ~~on the measures which are necessary if our social security system is to be reformed to meet better the needs of the last part of the twentieth century.~~ The proposals and the reasons for them are set out in full in a three volume Green Paper which is being published this afternoon and of which copies will be available in the Vote Office for Members.

[Consistent with the process of public consultation and discussion on which the Review has been based,] the Government will be seeking comments on its proposals from interested organisations and will be providing an early opportunity for the House to debate them.

[Mr Speaker, the social security system in this country owes much to the radical restructuring and development proposed by Sir William Beveridge during the second world war. Although much of what he proposed was changed in the implementation and more has been changed since,]

Beveridge's original

many of the principles on which his proposals were founded remain sound. The Government remains committed to the concept of a national insurance system under which entitlement to the major benefits is earned by the payment of contributions during a working life. The Government also believe that social security should be based on a partnership between state provision and provision for which individuals themselves take responsibility. ~~Accordingly we believe that~~ Provision by the State should not, in Beveridge's words, "stifle incentive, opportunity, responsibility". Yet the social security system we have today has moved far from the basis on which it was conceived. [It cannot be denied that it has achieved much.] ^{Nevertheless} Benefit levels for all the major benefits are higher than ever before. The real value of, for instance, the basic pension and supplementary benefit are higher now not only in relation to prices but also in relation to average take home pay than they were thirty five years ago.]

But the Review has shown that there are many serious shortcomings.

The system is too complex. That my Department requires some 80000 staff to administer the system is some indication of the problem. [That the 35000 staff involved in paying supplementary benefit have to use an instruction manual comprising 16,000 paragraphs of instructions illustrates the problem they face in providing a reasonable service to the public. It is small wonder that few members of the public fully understood the system, that too many errors are made and that the provision of help can too often depend on the reinterpretation of case law rather than assessment of genuine need. Indeed there is real cause for concern that the system is in danger of breaking down.]

② [The system is also highly expensive.] The budget now totals some £40 billion a year. That is over thirty per cent of all public spending and consumes over 11 per cent of Gross Domestic Product compared with only 5½ per cent thirty five years ago. Nor has the pressure for growth in spending ended. [We face the prospect of costs increasing by at least a further 20 per cent in real terms over the next twenty years, even with falling unemployment. And in the next century our growing pensions commitments could double the total bill.]

As well as being more complicated and more expensive than Beveridge envisaged, the system we have today also has to meet different needs. Whereas forty years ago the group facing the greatest problems

For pensioners, today there is little doubt that those in greatest need are low income families with children. Thirty five years ago the basic state pension for a married couple was worth only a third the average take-home pay of a manual worker. Today it is half. And the average disposable income of pensioners is now 70 per cent of the average for a non-pensioner. By contrast almost half the people now living on low incomes are in families with children - an increase of [] million in the last 10 years. Moreover, almost half this group are in families where the head is working. Low income working families not only face the difficulty of escaping the poverty trap - where they may get no increase in total income when their earnings rise. They can also find that they would be better off out of work than remaining in their jobs.

Mr Speaker, making better provision to meet the needs of poor working families with children has been a major priority of the Review. We therefore propose to introduce a new benefit - to be called Family Credit - to provide better help for them. The Family Income Supplement will be abolished. The new Family Credit will have three main features;

- First it will be paid on the same basis as help to unemployed families. [Help will be related to the age of children and extra help will be given to single parents and part-time workers.] This will mean that families with children cannot generally be better off out of work than in work.
- Second it will be related to take-home pay not gross earnings, as happens with family Income Supplement. This means that total income must increase as earnings rise. The worst effects of the poverty trap will be eliminated.
- Third it will be paid by employers through the pay packet. We regard it as important that those in work should see their benefit as part of their income from work - whether as an offset to tax and national insurance or, in the case of the lowest paid, as an addition to gross pay.

*Are you sure?
I thought it
would be the
of the children*

~~Those receiving family credit will not receive free school meals or welfare foods but the benefit rates will be increased to give them the freedom to choose how best to meet their children's needs both in and out of school.~~

The Family Credit will be paid in addition to Child Benefit. The Government believe that the extra responsibilities carried by all those bringing up children should be recognised. Child Benefit will therefore continue to be paid (as now) for all children irrespective of the means of the family.

surely not - we are paying it some to everyone but not "as now"

An important prerequisite of the family credit for those in work is that it should be fully aligned with the help provided to those out of work. So too must housing benefit if we are to achieve a simpler system which can be administered more fairly and more effectively. A more coherent system of income-related benefits providing consistent help for those in and out of work is essential. But we are in no doubt that the present supplementary benefit ~~cannot provide the basis for that system.~~

is too complex to do this

Its complexity, the mass of detailed rules and regulations by which it operates, and the continued uncontrolled growth of single payments far beyond what was originally intended, all point to the need for reform.

We therefore propose to replace supplementary benefit with a new Income Support System. The income support scheme will be based on a uniform level of benefit for all claimants. It will have no extra payments for particular individual requirements and none of the divisions of the present scheme between householder and non-householders, or long and short term rates. But pensioners and the long-term sick and disabled will receive a higher level of benefit. And families with children will not only receive assistance for each child but also a premium to reflect the extra pressures they have to cope with.

The income support scheme should provide for the needs of almost all claimants but we recognise that the system must be ready to cope with particular problems which can arise and to do so flexibly and quickly. We therefore propose to set up a social fund which will be operated on a discretionary basis by DHSS local offices. It will provide emergency help where needed and help those who cannot manage their resources properly. We also expect that the social fund will, in time, provide a better basis for contributing cash help to accompany health and personal social services to those being cared for in the community.

Mr Speaker, the use of a common basis of assessment for the family credit and income support schemes marks an important step towards a simpler and better benefit system. But it is essential that the same basis should also underly housing benefit. At present the benefit is provided on a different basis for those in and out of work. The Report of the

Housing Benefit Review, which I am also publishing today, recommended that we should move to a uniform basis of assessment and one which is aligned with the income support scheme. I have accepted that and most of their other recommendations. The Review Team also found that Housing Benefit was excessively complicated, involving six different tapers applied to different groups at different incomes levels. It is also expensive and poorly targetted, with over one third of all households - some with income up to average earnings - receiving benefit.

We intend to move to a simpler, clearer system. It will be based on the same net income assessment basis as the income support and family credit systems. It will also provide help on the basis of rent and rates together rather than separately as at present. This will mean that less help is provided to those on higher incomes who currently receive help with their rates alone but we believe that to be justified.

For the poorest families, housing benefit will continue to meet 100 per cent of rent, and the new system will ensure that help is withdrawn consistently as income rises. We will, however, take action to ensure that local authorities operate the system economically and to prevent excessive rents being paid wholly from public funds.

We believe, however, that the basis on which help is provided with rates needs to be changed. At present some 7 million householders receive help with some or all of their rate bills and over 3 million householders pay no rates at all. As a result, a large proportion - in some areas as much as half - of people live in households in which no rates are paid. This means that there is no effective link between payment for and use of local services and hence a weakening of local accountability. The whole structure of rates is currently under review but the Government believe that, so long as domestic rates remain a significant element of local government finance, all householders should be required to make a contribution towards them. The maximum level of help with rates under the reformed housing benefit scheme would therefore be set below 100 per cent, probably at about 80 per cent.

Mr Speaker, the reform of income-related benefits which I have outlined is intended to provide a simpler, more coherent and better targetted system which will be fairer, easier to understand and to administer.

marks a major step away from the detailed inquiries into individual circumstances on which much of the current system is based and towards greater fairness and equality of treatment for those in and out of work. It will also provide a more flexible system better geared to today's needs.

Apart from pensions, the other major area covered by the review is the contributory national insurance benefits for unemployment, maternity and widowhood. [As I have already made clear, the Government remains committed to the principle of basic provision for these contingencies organised by the State through the National Insurance system.] We therefore propose no fundamental change in the structure of these benefits. We do, however, propose some modifications in benefits for widowhood and maternity to relate them better to today's needs.

First sentence only of each of next three paras.

For widows, we propose to replace the widows allowance payable to all widows over the first six months by a lump sum grant, probably of about £1000. [This will give more help when it is most needed - at the time of bereavement - and allow widows greater flexibility in using the help available to them. The continuing benefits available to widows after the initial period - widowed mothers allowance and widow's pension - will continue and will be paid from the time of bereavement. But the rules of eligibility will be modified to concentrate help more on older widows and widows with children who are least likely to be able to continue in or resume work. The changes will not affect the benefit paid to any existing widows.

In maternity, we propose to adjust the rules governing maternity allowance so that the mother can have greater freedom in choosing when, around the time of her confinement, she wishes to be paid the allowance. We also intend to change the qualification period so that the benefit is more likely to be paid to women who have had to give up work in order to have their baby. Both these changes will help to apply the allowance more effectively to the changing pattern of women's working habits, in modern society.

The maternity grant and the death grant have, however, almost entirely lost their relevance to modern society. The grants have been left at their present level - £25 and £30 respectively - for many years [and are now quite inadequate for their purpose.] The average cost of a funeral is now over ten times as much as the death grant and the cost of

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Administering the benefit is nearly as much as its total value. In both cases, therefore, we should aim to target the resources better on those who most need help. We intend to end the maternity and death grants as universal benefits and to replace them by help at a realistic level for those who need it. A new maternity grant, probably of about £75, will be introduced for low-income families including those receiving income support and family credit. Realistic help with the full cost of funerals will be made available more widely than at present to anybody who has responsibility for a funeral and ^{costs?} costs the resources to pay for it. [Help will be provided through the social fund to ensure that it can be given quickly and flexibly and with the minimum of detailed enquiry. These changes will concentrate help where and when it is most needed instead of providing a token contribution to everybody when it may be of little practical use.]

Mr Speaker, the largest single area of social security spending is on pensions. The basic pension alone accounts for over £15 billion and is paid to 9 million people. That pension accounts, on average, for half the income of pensioners and has been a major factor in raising pensioners living standards since the war. In the last thirty five years its value has increased two and a half times in real terms and it has helped substantially to improve the income of pensioners relative to those of working age. It is, and must remain, the basis on which individuals can build additional provision related to their earnings. The question is how that extra provision should be made.

At present about half the working population belong to occupational pension schemes and about half are contracted-in to the State Earnings Related Scheme. The development of occupational pension schemes has been an important factor in improving living standards since the war. But the coverage of schemes has not increased since the mid 1960s. The development which it was said would follow the 1975 Social Security Pensions Act has not taken place. [In view of the complexities and uncertainties for employers involved in contracting-out it is unlikely that further development can be expected.] Experience since 1975 has, therefore confirmed the anxiety expressed on our side of the House at the time that the new scheme leaned too heavily towards state provision.

I also expressed concern at the time about the burdens which the State Scheme would place on succeeding generations. Its funding on a pay-as-you-go basis means that unlike private schemes those in work are

Building up entitlements but they are not saving now to meet the cost of their own pensions.

Personal wealth ownership theme here

The analysis which we have undertaken in the review has shown concern about the financial implications of the state scheme to be well founded. The costings on which the state scheme was based depended on assumptions of much higher levels of economic growth and lower levels of unemployment than we have seen in the succeeding ten years.

More important, it is now clear that the long term costs resulting from the inevitable growth in the number of pensioners in the next century will be considerable. Even if no improvement is made in the value of the basic pension, the cost of providing it will increase over the next fifty years from £15 billion to £22 billion at today's prices. If the basic pension was to keep pace with earnings the cost would treble. But on top of that the cost of the state earnings - related scheme will eventually add another £23 billion. The pensions bill will at least treble and could increase by over four times.

That is not a cost we can ignore. The amount by which the basic pension is increased is within the control of governments which can decide, as economic growth permits, how much of additional national wealth can be given to existing pensioners. And the basic pension provides help to all pensioners whatever their age. But the cost of the State earnings-related scheme is inevitable. Entitlements are being built up now which will have to be paid for in forty years. They will place extra burdens on the taxpayers of that time and restrict the freedom of governments at that time to devote extra resources to other public services or to the basic pension itself.

Mr Speaker, I believe that there is now a growing acceptance that the State Scheme cannot be left as it is. Delaying action is not an option as every year which passes builds up a larger bill to be faced in the future. The Government believe that action should be taken now. We have considered whether the terms of the State Scheme should be restricted so as to reduce its eventual cost. But the effect of restricting the scheme in this way would only be to reduce the additional pensions which those in the scheme could expect.

we must
The Government have concluded that it would be preferable to begin

now to replace the state earnings-related scheme by a new partnership - a partnership based on continued commitment to the basic national insurance pension by the state and additional provision by all employers and employees through occupational and personal pension schemes.

will take some time to achieve
That goal ~~cannot be fully achieved overnight.~~ The Government do not intend to make any change for those now within sight of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation the existing arrangements will continue. Nobody retiring in the rest of this century and no existing pensioner will be affected.

For the younger age groups, however, we propose to change to a system in which everybody will contribute to his own personal pension or to an occupational scheme organised by his employer. Every employee will also be entitled to at least a minimum contribution to his pension from his employer. Under these new arrangements everybody will have time to build up a reasonable level of pension investment by the time they retire to augment their basic national insurance pension. In addition all rights built up in the state scheme up to the time of the change will be honoured. All men in their forties and all women between 35 and 45 will also have their entitlement under the state scheme enhanced to provide a better basis for their own additional pension provision when they retire.

The Government believe that this new approach on pensions will restore the proper balance between state and private provision.

[The proposals will not affect existing pensioners, those nearing retirement or the Government's commitment to the basic pension. But they will mean that everybody will in due course be contributing to their own additional pension through their job. We will end the overdependence on state provision and ensure that our children are not faced with an excessive and unavoidable bill for the pensions promises we have made to ourselves. We will provide greater freedom and choice in pensions and give more people a direct stake in their own future, in their own investments and in the economy.

? The self-employed will not be affected as they were not included in the SERPS. ?

Mr Speaker, the Government's review of social security has been the most wide-ranging for forty years. I have been able to do no more today than give the House the briefest outline of our conclusions on what is a highly complex system. I can, however, assure the House that the Government will provide an opportunity for the proposals to be fully debated when Members have had the opportunity to digest the Green Paper. That will be an important part of the process of consultation and public discussion which we wish to see take place.]

~~The Green Paper seeks to identify a new direction for social security in the future.~~ It aims to define a broad structure for the system not to settle precise levels of benefit or rules of entitlement at this stage. It is not, therefore, possible to assess the precise costs or impact of the proposals. Nonetheless, the Green Paper indicates the main directions of change.

At defining the right benefit structure is only a part of the Government's responsibility. It must also ensure that the system is administered and managed as effectively as possible to provide a better service to the public. [The Government's benefit proposals will in themselves make the system simpler. But we are now also embarking on the largest computer strategy ever in this country to modernise and improve the system. Carrying through the changes against this background will be a major management challenge to my Department.] I shall therefore also be establishing a new Management Board within the Department involving outside members to provide a better focus and direction for the Department.

The benefit changes and the computerisation both of my Department and the Inland Revenue will also provide opportunities to achieve better co-operation and closer working between the tax and benefit systems. [The Government intend to take advantage of those opportunities and, as my rt hon Friend announced in his Budget speech, the Government will be considering this further in the context of the Green Paper on Personal Taxation.]

The Government have however already decided to take a significant step towards better harmonisation by aligning the tax and benefit years. Instead of benefits being uprated in November each year the uprating date will be moved to April. This will be of considerable assistance also to local authorities who at present have to reassess housing benefits cases twice a year - in November and at the time of annual rent and rate changes in April.

The change in the benefit year will be brought in at the time of implementation of the major structural reforms. We expect this to be on 1 April 1987. After the uprating of benefits due at the end of November 1985, there will therefore be a 16 month period before the change in April 1987. The Government has concluded that it would not be sensible to have upratings both in November 1986 and April 1987. This would be confusing to claimants and would complicate the process of change over to the new benefit system and the new uprating date. Accordingly, the uprating due in November 1986 will not take place. [PAUSE] Instead an extra uprating of benefits will be made four months earlier in July 1986. This will be eight months after the 1985 uprating and eight months before the first uprating on the new cycle. The new pattern of upratings will be based on the movement of prices during

the intervening periods as at present. The Government will be introducing an amendment to the Social Security Bill in another place to allow for this change.

Mr Speaker, I believe that the proposals contained in the Green Paper for the reform of our social security system will gain widespread acceptance. In pensions our proposals will create a new partnership which will give everyone the right to his own pension through his job, in addition to the basic state pension. They will continue the Government's drive to give greater freedom and choice in pensions. And they will help to achieve the wider spread of ownership of assets which we want to see. For those on low incomes, the new system of income-related benefits will be simpler, fairer and easier to administer and understand. They will do much to reduce the impact of the poverty and unemployment traps and to give relatively more help where it is most needed. We will also provide better help for the least well-off at times of special need.

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From the Secretary of State for Social Services

Tim Flesher Esq
Private Secretary
10 Downing Street

30 May 1985

Dear Tom,

SOCIAL SECURITY REVIEW

This is to confirm, for the record, that my Secretary of State proposes to make his statement on the outcome of the social security review on Monday 3 June.

I am copying this to Alison Smith (Leader's office), Margaret O'Mara (HM Treasury), Janet Lewis-Jones (Lord President's office), Murdo MacLean (Chief Whip's office) and to Richard Hatfield (Cabinet Office).

Yours sincerely

S H F Hickey

S H F Hickey
Private Secretary

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31 MAY 1985