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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

Miss Janet Lewis-Jones
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Prime Minister:
This is the
note which DHSS
are circulating to
all members of the
3 June 1985
Cabinet

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Dear Janet,

PRESENTATION OF ECONOMIC AND SOCIAL POLICY: SOCIAL SECURITY REVIEW

I attach a general speaking note on the social security review.
In view of the widespread interest, I am sending copies to
Private Secretaries to all members of the Cabinet.

Yours sincerely
S H F Hickey

S H F Hickey
Private Secretary

REFORM OF SOCIAL SECURITY: SPEAKING NOTE

No-one disputes the need for review or reform of the social security system. Not the 120,000 or so administrators handling the system. Not the taxpayer who has seen costs rise five-fold in real terms since national insurance came in - up to over £40 billion in the current year. Certainly not the beneficiaries. The present pattern of provision is so complex that many people are confused about where they stand. Many people in need do not even take up the benefits to which they are entitled.

A simpler system, a more coherent system, a better targeted system must be in everyone's interests. Even the Labour Party ought to be able to agree on this. Michael Meacher, their spokesman, has called the structure of the system "defective". He has condemned supplementary benefit, for example, as a "mess". There must surely be general agreement that the real question about reform is not "whether?" but "how?".

No responsible Government could avoid taking a critical look at a system which uses enough administrators to populate the City of York and which consumes some 30p in every pound the Government spends. That look is even more essential when such a massive undertaking - for all its undoubted successes and for all the commitment of most of its staff - is failing to give the best possible service to beneficiaries.

Yet there has been no major review of social security since Churchill's war-time coalition called in Lord Beveridge. Beveridge put forward a coherent plan - a plan based on insurance, one that sought to cut administrative costs and to promote personal involvement.

Many of the principles of the Beveridge proposals remain sound. But Beveridge's plan was never put into operation as he intended. It was crucially changed at the outset - and has been changed further since. "Preserving Beveridge" is not an option. What we have today is a system that has grown up piecemeal in a manner and on a scale that Beveridge never imagined. And since the 1940s there have been many major social changes which the present social security system fails to reflect.

What the Government therefore set out to do was to examine the way the system was working in the 1980s, to look at the real problems of today and at the challenges of the future, and to devise a modern and simpler social security system, using modern methods, geared to the needs of today and tomorrow.

Norman Fowler began this major review process in November 1983. Four review teams examined in detail the main areas of social security. David Owen has claimed that this review was "neither independent nor comprehensive". In fact, it broke new ground, involving independent and outside advice to an unprecedented degree. Over 40,000 consultation documents were issued. Evidence was invited from the public. And evidence flooded in - 4,500 pieces of written evidence, 19 major public hearings involving oral evidence from almost 70 organisations and individuals. From inception to publication the review covered eighteen months. It provides a fuller and more comprehensive basis for reform than anything since the War.

What did the review uncover? It found that social security had achieved a great deal. It found that living standards had risen and that main benefit rates had increased substantially in real terms since 1948 (up to two and a half times for pensioners). But it also found clear difficulties.

First, it found that benefits were badly targeted in many cases; the system had failed to respond to changing patterns of need. Today, for example, there is little doubt that a higher proportion of those in greatest need are low income families with children. Almost half the people now living on the lowest incomes are in families with children while, by contrast, over the last thirty-five years the relative living standards of pensioners has increased. The average disposable income of pensioners is now some 70 per cent of the average of non-pensioners. So, clearly, while protecting the position of pensioners in need, any reform would need to attend to the problems of families with children.

Second, the review found a major rising trend in spending which threatened to run ahead of what the country can afford.

In the next century pensions commitments in particular could double the total bill. With an increase in the numbers of pensioners of getting on for 4 million, and because of the growth of commitments under the State Earnings Related Pension Scheme, the pensions bill is projected to treble from £15 billion today to £27³/₄ billion by 2013 and £45 billion ^{by 2033.} If Labour's extravagant promise to uprate in line with earnings were ever put into effect costs could rise to £66½ billion - well over four times present spending in real terms.

Thirdly, the review found that the incentive for private individuals to work, to improve their salary and to save was frequently stifled. The effects of the poverty and unemployment traps are felt heavily by many low income families. Higher wages and even finding a job in too many cases simply do not pay. The possession of limited quantities of savings disqualifies the thrifty from entitlement to some benefits. And the growth of occupational pension schemes, so marked up to the period of the late sixties, has come to a halt.

Fourth, the review found a system of staggering complexity. There is little coherence and consistency between the structure and rules of many of the 30 different main benefits. One benefit alone - supplementary benefit - needs an instruction book 16,000 paragraphs long. A tenth of payments are, in fact, wrongly calculated.

That was the background uncovered by the review. Hard evidence confirmed what everyone with any experience of social security knew to be true - fundamental reform was overdue.

On the basis of its findings the Government has put forward a new structure for social security. That structure is founded on clear principles with which there should be widespread agreement:

- first, a new partnership - the "twin pillars" of provision - between state and individual;
- second, help to be more effectively directed to those in need;

- third, simpler, more coherent benefit structures and rules;
- fourth, a soundly based system which the country can afford;
- fifth, a modern, computerised service delivering help with accuracy and efficiency and respecting the dignity of the beneficiary.

Those principles are commonsense ones. They address real problems and offer a real basis for reform. Not for this Government is Labour's pretence that every problem can be solved by taking more money from the taxpayer. But equally not for this Government are the ideas of those who believe all benefits, including pensions, should be means-tested. We believe in preserving the contributory principle for retirement, invalidity and unemployment benefits. That principle ensures a strong link in the contributor's mind between what must be paid in contributions and what is received in benefits.

So what are our main proposals for change?

Let us look first at pensions.

Nothing we propose affects the basic state pension. Since 1979 this Government has fully protected pensioners against price rises. We stand by that pledge for the future. But what we also want for the future is that everyone should have their own pension with their job in addition to the basic state pension.

The costly State Earnings Related Pension Scheme will be phased out. Future taxpayers simply cannot be expected to finance the full £23 billion extra it would cost. Yet it is on the doubtful expectation that they would finance it that pension security under SERPS alone would rest. We believe we need a securer foundation for the pensions of the future.

The changes we propose will not be made suddenly. Existing pension rights will be protected so that employees have time to build up new pensions. No existing pensioner, nor anyone retiring this century, will be affected.

The new arrangements will only involve men under 50 and women under 45. ^{at the time of change} At present only about half the workforce have occupational pensions. There are, in fact, two pension nations - those with their own pension and those dependent on the State. For the future, our aim is a system in which everybody is able to contribute to his own pension - either through an occupational scheme or by the personal pension, topped up by his employer, which every worker will be given the right to choose. The phasing of the changes will mean that everyone affected has the time to save through his job for a better retirement. But where there will be least time, for men in their forties and women five years younger, we will provide as a special bonus, alongside their new personal provision, enhanced value pension rights on top of what they have already earned through the state scheme.

Turning now to income-related benefits, where we plan a coherent new system to replace family income supplement, supplementary benefit and the present tangled housing benefit scheme. The benefits for all low-income families will have the same basis of assessment and similar structures. That will ensure consistent treatment for those in and out of work. These benefits will be simpler, easier to understand and easier to administer.

For the low-income working family with children, so many of whom are among the poorest in modern society, we will bring in a new Family Credit. This will replace Family Income Supplement which has been neither popular nor successful. The new scheme will tackle the poverty and unemployment traps. People will no longer be made worse-off by earning more; we aim to do away with the absurdity of marginal tax rates of over 100 per cent. At the same time our aim is to ensure that no-one in work should be worse-off than he would be on benefit. The fact that a common basis of assessment will be used for all income-related benefits will mean that it should always pay to take a job.

The new Family Credit is a major reform designed to tackle the problems of some of our most disadvantaged families. But the Government believe that the special responsibilities for all families should be recognised. Child benefit will continue to be paid to all mothers as a contribution to the cost of bringing up children.

Alongside these proposals for the pensioner and for the family we shall be replacing the present system of supplementary benefit. The new, simpler structure called Income Support will avoid the complexities and the intrusive questioning that are so wasteful in administration and so disturbing to so many beneficiaries. The central concept of this income support scheme is that the regular extra payments now made on the basis of detailed individual assessment should be absorbed into the main rates of benefit. Those rates will provide a special, higher level of benefit for pensioners, the long term sick and disabled and lone parents. 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 present supplementary benefit rules are simply too complex. They also excessively discriminate against those who have saved and those who seek part-time work. We propose more generous rules for both capital and earnings. At the same time, we recognise that alongside the new Income Support scheme it will still be necessary to provide for the exceptional problems faced by a minority of those in need. So we plan a new Social Fund, with an annual budget, to help people with special difficulties over budgeting and other financial emergencies. The Fund will also help to carry forward the Government's policy of care in the community, for example, by giving elderly people more cash help so that they can stay in their own homes.

Housing benefit, which presently goes to one household in three, some with income up to average earnings, will be greatly simplified. It will be provided on an equal basis to those in and out of work. Benefit will be reduced through a single taper as income rises - a system far easier to understand and to administer than the six separate tapers we have now.

Help with rents will be based on 100 per cent for all those on the lowest incomes. The future of help with rates depends on other studies the Government has in hand. But the review proposes that all households should expect to pay some contribution, say perhaps 20 per cent, through the rates towards the cost of financing local government services. Such a change would increase every individual's personal involvement with the decisions made on his behalf by his local authority.

Taken as a whole, the reforms to income-related benefits create not only a more coherent and comprehensible system. They will mean greater fairness of treatment between those in and out of work. They promise an end to the worst aspects of the poverty trap. They will reduce detailed inquiries into individual circumstances. They will be targeted on the needs of today and will offer greater incentive to individual effort, to savings and self-help.

Certain other benefits will be reformed to provide better help at times of special need - for the least well-off with the expense of births and of funerals and for widows at the time of bereavement. Death and maternity grants will be replaced by help from the Social Fund for low-income families. A new lump sum of £1,000 will be paid to widows instead of the present temporary widows' allowance. Maternity allowance will be based more understandably on recent employment. Expectant mothers will be given more choice about when to give up work.

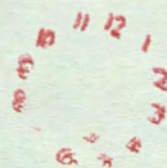
No changes are proposed to unemployment benefit, which has been the subject of so many scare stories. The Christmas bonus will continue to be paid. The Review did not consider the structure of benefits for the sick and disabled. But the Government have set in hand a major survey into the present extent and effects of disablement on which any future improvements can be based.

The review also proposes changes on the timing of benefit upratings in a way which will mean bringing forward the next upratings. At present upratings come in November. Pensioners^{and others} often complain of the time spent "waiting" for upratings because most other major changes affecting personal incomes - on taxation, on contributions, on rent and rates come in April. From 1987 we want to uprate benefits in April as well. That will be a significant step towards aligning the tax and benefit systems. It will produce savings to local authorities who now have to change housing benefit twice a year. But it will be particularly good news for all beneficiaries personally. The 1986 uprating will be brought forward by four months and paid early-in July. The 1987 uprating will come forward seven months from November to April. Thereafter all significant changes on personal incomes will be made together.

Better alignment of the tax and benefit systems also depends on reformed administration. Administering social security presently costs some £1.7 billion a year. We intend to transform its management by what will be the biggest computerisation programme in Western Europe. A new social security management board is being established; it will include members from outside Government with experience in running large business operations. Taken together with the simpler benefit structure the reforms in management will radically improve service to the public.

Better service, greater simplicity and fairness are central elements in the Government's proposals. It would be absurd to perpetuate a system so complex that it requires a whole industry of specialists to interpret it to the world. For the first time for forty years we have now put forward - in a Green Paper for public discussion - a plan for social security based on clear principles and coherent objectives. It is a programme involving a new partnership between the State and the individual which will rebuild personal incentive and personal involvement. . It is a programme which will for the first time give every person a right to his own pension through his job. It is a programme which will tackle the real needs of today using up-to-date analysis and up-to-date methods to set about the job. It is a modern programme. But it is above all a caring programme directing the immense resources involved in a far more effective way than ever before for the benefit of those in need of support.

- 4 JUN 1985





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REFORM OF SOCIAL SECURITY

Norman Fowler, Secretary of State for Social Services, has today
(Monday 3 June) published "Reform of Social Security"

(Cmnd Nos 9517 - 9519) and "Housing Benefit Review" (Cmnd 9520). *

A summary of the Green Paper is attached.

* These are to be found in the folder at the
back of - SOCIAL SERVICES: Review of Benefits At 3

REFORM OF SOCIAL SECURITY: SUMMARY

1. The Green Paper sets out the Government's proposals for a modern and simpler social security system which is better adapted to changing needs. The Green Paper follows on the work of four review teams which have been examining the main areas of social security over the last 18 months. The key principles of the reforms are:

- a new partnership - the "twin pillars" of provision - between state and individual through occupational and personal provision;
- help to be more effectively directed to those in need;
- simpler, more coherent benefit structures and rules;
- a soundly based social security system which the country can afford;
- a modern, computerised service.

Main proposals

(a) Pensions

2. Everyone will have their own pension with their job in addition to the basic state pension the value of which the Government will maintain.

3. The State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of the reform. For those below these ages it will be phased out, so that younger employees have time to build-up new pension rights. No existing pensioners, nor anyone retiring this century, will be affected by these changes.

4. All existing rights under SERPS will be honoured.

5. There will in addition be a special enhancement of existing SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a bonus in addition to any occupational pension they are building up. The table below shows the effect:

Effect of bonus years for men over 40 and women over 35

Age in 1987		Number of added years	Addition to SERPS rights %
Men	Women		
40	35	1	10
41	36	2	20
42	37	3	30
43	38	4	40
44	39	5	50
45	40	5½	55
46	41	6	60
47	42	6½	65
48	43	7	70
49	44	7½	75

6. Employees will be able as of right to take out personal pensions with a contribution from their employer, if they so wish. This change will carry forward the Government's programme of occupational pensions reform, and adds to current measures to provide:

- better protection against inflation for the pension rights of those who leave a scheme before retirement;
- a right on leaving a scheme to a transfer value representing the value of their deferred pension rights;
- access to better information about their pensions.

7. No change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70, within which the timing of retirement would be a matter of individual choice.

(b) Income-related benefits

8. A new, coherent system of income-related benefits will replace family income supplement, supplementary benefit and the present complex housing benefit scheme. The benefits for all low-income families will have the same basis of assessment and similar structures to ensure consistency of treatment for those in and out of work. They will be simpler and easier to understand and to administer.

9. A new Family Credit for low-income working families with children will replace family income supplement. The new scheme will tackle the poverty and unemployment traps. People will no longer be made worse off by earning more because benefit will be based on net pay instead of gross. There will no longer be marginal tax rates of over 100 per cent. The aim is to ensure that no-one in work should be worse off than on benefit. Because the same benefit structure is to be used it will pay to take a job. Family credit will be paid in the wage packet as an offset to tax and national insurance.

10. Child benefit will continue to be paid for all children in recognition of the costs all parents bear.

11. The supplementary benefit scheme is being replaced by a simpler structure of Income Support which will avoid present complexities and intrusive questioning. Families with children, including lone parents, will have a new family premium. Other premiums will be paid to pensioners, long-term sick and disabled people and lone parents.

12. There will be more generous rules for capital and earnings. One effect will be to help remove the penalty on savings.

13. A new Social Fund will be set up, with an annual budget, to help people with special difficulties over budgeting and other financial emergencies. It will also help to carry forward the Government's policy of care in the community, for example by giving elderly people more cash help so that they can stay in their own homes.

14. Housing Benefit will be greatly simplified and provided on an equal basis for people in and out of work. Benefit will be reduced through a single taper as income rises instead of the six separate tapers we have now.

15. Help with rents will be based on a maximum of 100% for those on the lowest incomes whether in or out of work. The future of help with rates depends on other studies the Government has in hand: but it is proposed that all households should pay at least a minimum contribution, possibly of 20%, towards their domestic rates

(c) Other benefits

16. Better help will be provided at times of special need - to help the least well-off with the expenses of births and deaths and to help widows at the time of bereavement. The death and maternity grants will be replaced by help from the new social fund for low-income families whether in work or out of work. The maternity allowance will be concentrated on working expectant mothers who will have some choice over the period it can be drawn. A new lump sum payment of £1,000 will be paid to widows instead of the present weekly widows' allowance paid for six months. Weekly benefit will be focussed on widows with children and older widows without children.

17. No changes are proposed to unemployment benefit, to the structure of benefits specifically for sick and disabled people, to the entitlement of young people to benefit or to the Christmas bonus.

(d) Aligning tax and benefit years

18. Benefits will be uprated in April, at the same time as changes in taxes, contributions and rent and rates. The first April uprating will be 1987. The November 1986 uprating will be brought forward to July 1986. This change will be a significant move towards aligning the tax and benefit systems.

(e) Management of social security

19. The management of social security is being transformed by the biggest computerisation programme in Europe. A new social security management board is being established and will include some members from outside Government with expertise in running large businesses. These changes plus the simpler benefit structure proposed in the Green Paper will radically improve service to the public.

REFORM OF SOCIAL SECURITY: MAIN POINTS

1. The Green Paper is in three volumes:

Green Paper references

* **Volume 1** (Cmnd 9517) sets out the background to the review, the case for reform, the Government's approach to reform, including the objectives of social security, and the proposed changes.

* **Volume 2** (Cmnd 9518) contains a more detailed account of the main benefits covered by the review; these are examined area by area and the fuller programme for change is described.

* **Volume 3** (Cmnd 9519) publishes five background papers which have informed the review and gives an account of the review process, including consultations.

The report of the Housing Benefit Review Team - "Housing Benefit Review" - is published separately (Cmnd 9520).

2. The background to the review includes:

Changing needs

Vol 1,
Chapters 2,3
and 4

* living standards have improved substantially - average gross earnings have doubled in real terms; housing conditions and the nation's health have improved markedly; ownership of household goods (televisions, refrigerators, washing machines) is almost universal; central heating, cars and telephones are much more widely owned.

Vol 3, Papers
1, 2, 3 and 5

* main benefit rates have increased substantially in real value since 1948 (up to 2½ times for pensions).

* the pattern of need has been changing. A special analysis for the review of the Family Expenditure Survey has shown that families with children now account for over half the people living on low incomes, as measured by those in the bottom fifth of income distribution.

* although many pensioners still have low incomes, their position as a group has improved substantially since the 1950s. Their average disposable income per head is now 69 per cent of the average for non-pensioners compared to 41 per cent in 1951.

* in seeking to respond to new and changing needs, social security has been developed in piecemeal, incremental ways, resulting in growing complexity and difficulties for administration by staff and understanding by claimants.

* there are now over 30 main benefits and allowances (with 2 volumes and 16,000 paragraphs of guidance on supplementary benefit alone).

* around two thirds of all families receive benefits at any one time.

3. **Resources consumed by social security:**

* social security spending is estimated to exceed £40 billion in 1985-86, about 30 per cent of all Government spending,

Vol 1, Ch 3

* spending has increased over five fold in real terms since 1948.

Vol 3,
Papers 2
and 5

* spending is estimated to be about £8½ billion (28 per cent) in real terms higher in 1984/5 than in 1979/80. Most benefits have gone up by more than inflation since then; more than half the real increase is due to this and the higher numbers of pensioners, lone parents and sick and disabled people claiming benefits.

* some 81,000 DHSS staff are engaged on social security work including 38,000 on supplementary benefit; in all nearly 120,000 civil servants and local authority officials are involved.

4. **Public opinion.** A special public opinion survey conducted for the review found that:

Vol 3,
Paper 4

* most people said they saw their national insurance contributions, which they recognised as paying for certain benefits, as different from tax deductions.

* a large majority of people would prefer a simpler system than the present system which was widely recognised as complex.

* at the time of the survey half of all respondents had not heard of SERPS. Asked about the importance of having an occupational or additional pension besides the state pension, nearly 90 per cent of those who were or had been scheme members and two thirds of those not in schemes said it was important or very important.

* there was strong support for universal child benefit and for giving more help to low-income families with children.

* the main criticisms people had of social security were that: help goes to people who do not need it; that not enough goes to those who need it most; that administration is poor and staff unhelpful; and that the system is too complicated.

5. The **main emphasis** of the Green Paper is on modernising the benefit system through **structural** reform based on the following **key principles**: Vol 1, Ch 6

- * a new partnership - the "twin-pillars" of provision - between state and individual through occupational and personal provision;
- * help to be more effectively directed to those in need;
- * simpler, more coherent benefit structures and rules;
- * a soundly based social security system which the country can afford;
- * a modern, computerised service.

6. A fuller account of the proposals is given in the attached notes, but the main features of the benefit reforms proposed are as follows:

Pensions **(Note 1)**

- * everyone will have their **own** pension with their job Vol 1, Ch 7
in addition to the basic state pension the value of which Vol 2, Ch 1
the Government will maintain;
- * the State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of the reform. For those below these ages it will be phased out, so that younger employees have time to build up new pension rights;
- * no existing pensioners, nor anyone retiring this century, will be affected by these changes;
- * **all** existing rights under SERPS will be honoured;
- * there will in addition be a special enhancement of existing SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a **bonus** in addition to any occupational pension they are building up;
- * Employees will be able to take out **personal pensions** as of right with a contribution from the employer, if they so wish. This change will carry forward the Government's programme of occupational pensions' reform;
- * no change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70, within which the timing of retirement would be a matter of individual choice.

Family Support:
(Note 2)

- * **child benefit** will continue to be paid for all children; Vol 1, Ch 8
Vol 2, Ch 4
- * there will be a new **family credit** for low-paid working families with children; replacing the present unsatisfactory family income supplement;
- * family credit will be based on the same structure as the new income support scheme;
- * the aim of this is to ensure that no-one in work should be worse off than out of work;
- * families receiving family credit will receive extra cash instead of free school meals or free welfare foods;
- * family credit will be calculated by the DHSS but paid by employers in the pay packets. It will be offset against tax and national insurance deductions or paid in cash.

Supplementary benefit: will be replaced
(Note 3)

- * new scheme of **Income Support** will be simpler, avoiding present complexities and intrusive personal questions; Vol 1, 9.1-9.11
- * instead of the present tangle of benefit rates and additional payments, often poorly-targetted, there will be a clear structure of weekly income support rates; Vol 2, Ch 2
- * this new structure will reflect the special needs of different groups by paying premiums for:
 - families with children (on top of the additional payment for each child)
 - lone parents
 - pensioners
 - long-term sick and disabled, and the over 80s
- * a new **Social Fund** will be set up, with an annual budget, to help people with special difficulties. It will also help to carry forward the Government's policy of care in the community, for example, by giving elderly people more cash help so that they can stay in their own homes;
- * there will be more generous rules for savings and earnings from part-time work.

Housing benefit: will be greatly simplified:
(Note 4)

Vol 1, 9.12
- 9.24

* the income test will be aligned with the income support scheme. This will enable housing benefit supplement to be abolished;

Vol 2, Ch 3

* a single combined taper for rent and rates instead of six different tapers will be used to withdraw benefit as income rises;

* help with rents will be based on 100% for those on the lowest incomes whether in or out of work;

* the future of help with rates depends on the outcome of the current study of local government financing. But it is proposed that all households should pay a contribution - possibly of 20 per cent - towards domestic rates.

Other benefits

Maternity allowance: two changes are proposed:
(Note 5)

Vol 1, 10.5

Vol 2, Ch 5

* the allowance will be better targetted on expectant mothers with a recent work record

* mothers will have some choice about when they wish to draw the allowance

Widows' benefits: changes focus mainly on widows under 60:
(Note 5)

Vol 1,
10.8-10.13

* a new lump sum of £1000 to be paid instead of the present 26 weeks' widow's allowance;

Vol 2, Ch 5

* widows with children will, in addition to the lump sum, receive widowed mother's allowance straightaway;

* widows without children will, in addition to the lump sum, receive a widow's pension straightaway if they are over 45. This will be paid at the full rate at 55, and at lower rates between 45 and 54 (instead of between 40 and 49 as now);

* the benefit currently being received by existing widows will not be affected.

Death grant: will be replaced by help from the Social Fund:
(Note 6)

Vol 1,
10.6-10.7

* help will be available on a discretionary basis, and not at a fixed sum, to **any** low-income family unable to meet funeral costs - not, like the present supplementary benefit single payments, only to those on supplementary benefit.

Vol 2, Ch 5

- Christmas bonus:** will continue to be paid.
- Maternity grant:** will be replaced by a higher payment from Vol 1,
(Note 6) the Social Fund for low-income families: 10.6-10.7
- * payment - likely to be about £75 - will be available Vol 2, Ch 5
to these families whether they are in or out of work;
 - * the payment will be made automatically to expectant
mothers for whom family credit or income support is
being paid.
- Unemployment Benefit:** no changes are proposed. Vol 1,
10.2-10.3
- Benefits for sick and disabled people** were not included in the Vol 1,
review, but in parallel with it the Government set in hand a 10.14-10.15
major new survey of the extent of disablement and its effects:
- * this will provide the evidence needed to enable these
benefits to be reviewed in their turn;
 - * the aim here, as elsewhere, will be to move towards a
more coherent system. Progress towards this has clearly
been made by such measures as the ending of the
"invalidity trap" and the introduction of severe
disablement allowance;
 - * the income support proposals, incorporating a premium
for the long-term sick and disabled, are a further
important step.
- Young people and students:**
- * no changes are proposed to the eligibility of Vol 1, 9.27
young unemployed people to benefit;
 - * major expansion of Youth Training Scheme will
offer all 16 and 17 year old school leavers
training opportunities, thus avoiding unemployment
and need to rely on benefit;
 - * aim to restore position where **students** are helped Vol 1, 9.28
by grants, by their families and by their own vacation
earnings; present situation where many students claim
supplementary benefit and housing benefit to be reexamined
following Government's consultative paper on students'
support.

7. The timing of the **uprating of benefits** is to be changed: Vol 1,
 * from 1987 onwards annual upratings will be moved 13.14-13.15
 from November to April;
- * the uprating due in November 1986 will be advanced to July 1986;
- * upratings will therefore take place in November 1985, July 1986 and April 1987;
- * April upratings will coincide with other changes affecting people's incomes - tax rates and allowances, contribution rates, rents and rates;
- * each uprating will follow the current practice of basing increases in benefits on the movement of prices over a previous period
8. **Management of Social Security: major computer strategy** Vol 1, Ch 12
 (Note 7) to be carried forward alongside the structural Vol 2, Ch 6
 reforms and alignment of tax/benefit changes:
- * opportunities for closer links and cooperation between tax and benefit systems to be discussed in forthcoming Green Paper on reform of personal taxation;
- * opportunities to be studied for drawing closer together the two networks of offices run by the DHSS and the Department of Employment;
- * new Social Security Management Board to be set up with outside members;
- * full consultation with staff and DHSS unions over implementation.
9. The emphasis of the proposals is on the structure of social security for the future. The precise **financial effects** cannot be Ch 1,
 assessed until final decisions are taken on the main structure Vol 13.2
 itself and until the benefit rates to be applied are also determined. Until that time, it would be misleading to attempt to provide a detailed analysis of the cost and impact of the changes. The proposals are expected to: lead to major long-term reductions in public spending on SERPS; produce economies in administration; reduce expenditure on housing benefit; and increase expenditure on support for low-paid working families. The changes in the main structure of supplementary benefit are not intended to reduce the overall help provided.

10. **Consultation:** the review proposals have been formulated against the background of extensive public consultation:

Vol 1,
Ch 13.13
and 13.17

- * the four review teams included outside members to assist and advise Ministers in analysing evidence, issues and options;

Vol 3,
Paper 6

- * extensive consultations were held during 1984 - over 40,000 consultation notes sent out identifying main issues on which evidence invited;

- * some 4,500 items of written evidence received;

- * 19 public sessions held, attended by Ministers and other review team members, to hear oral evidence from 62 organisations and individuals;

- * a public opinion survey was commissioned to inform the review.

11. **The next steps:** the Green Paper continues the consultation process:

Vol 1,
Ch 13.13

- * comments to be sent by 16 September 1985;

- * a White Paper setting out final conclusions will be published later in the year;

- * legislation will be brought forward with the aim of bringing in the new structure in April 1987.

12. Comments should be sent to:

Central Review Unit
Department of Health and Social Security
Room D406
Alexander Fleming House
Elephant and Castle
London SE1 6BY.

STATE EARNINGS-RELATED PENSION SCHEME (SERPS) AND NEW PENSIONS FRAMEWORK

Proposals for Reform

1. The main reforms are:

- * Everyone will have their own pension with their job in addition to the basic state pension the value of which the Government will maintain.
- * The State Earnings-Related Pension Scheme (SERPS) will continue for men over 50 and women over 45 at the time of reform. For those below these ages it will be phased out, so that employees have time to build up new pensions. No existing pensioners nor anyone retiring this century will be affected by this change.
- * All existing rights under SERPS will be honoured.
- * There will be a special enhancement in SERPS rights for men aged 40 to 49 and women aged 35 to 44. The effect will be that people in these age groups will be given a bonus in addition to any occupational pension they are building up. The table below shows the effect:

Effect of bonus years for men over 40 and women over 35

Age in 1987		Number of added years	Addition to SERPS rights %
Men	Women		
40	35	1	10
41	36	2	20
42	37	3	30
43	38	4	40
44	39	5	50
45	40	5½	55
46	41	6	60
47	42	6½	65
48	43	7	70
49	44	7½	75

New partnership

- * There will be a new partnership between state, occupational and personal provision.
- * There will be a new framework for occupational and personal pensions under which everyone in work (except those still in SERPS, 16 to 18 years olds and low earners) will have occupational or personal pensions. The minimum contribution to this additional pension will be 4 per cent of earnings, with the employer meeting at least half.

- * As an alternative to membership of an occupational scheme, employees will be able to take out personal pensions as of right with a contribution from the employer, if they so wish. This change will carry forward the Government's programme of occupational pension reform, and adds to current measures to provide:
 - better protection against inflation for the pension rights of those who leave a scheme before retirement;
 - a right on leaving a scheme to a transfer value representing the value of their deferred pension rights;
 - access to better information about their pensions.
- * The new framework will not apply to self-employed people who are not covered by SERPS and for whom other arrangements already exist.

Age of retirement

- * No change in retirement age is proposed. But the Government are inviting views on a "decade of retirement" between 60 and 70 in which the timing of retirement would be a matter of individual choice.

Case for reform

2. Demography. The Government Actuary has estimated that the number of pensioners will rise from 9.3 million in 1985 to 13.2 million in 2035. At the same time, the number of contributors paying for the state part of the pension cost will hardly change, so the ratio of contributors to pensioners will worsen. The Government Actuary estimates that the ratio of 2.3 contributors to each pensioner in 1985 will become 1.6 contributors to each pensioner in 2035.

3. Cost. The future cost of pensions would be unacceptably high. If basic pensions are uprated in line with prices, spending on pensions which is £15.4 billion today will have reached £45 billion in 2033. If basic pensions were uprated by earnings, the spending in 2033 would have reached £64.5 billion. What this means is that the additional cost of SERPS itself would pre-empt state social security resources to this form of pension provision for forty years to come.

4. Two nations in retirement. The effect of present arrangements is that occupational pension cover is static, so that only half of the people in work have the chance of being in an occupational scheme. SERPS has done nothing to encourage the spread of occupational schemes. The complexity of the state scheme's provisions on contracting-out and the open-ended commitment that employers have to take on has meant that there has been little increase in occupational pension coverage in industries like agriculture, construction and distribution.

Objectives and Effects of Reform

- 5. To encourage the spread of occupational pensions, particularly in sectors with poor coverage.
- 6. To give employees the right to take out personal pensions, instead of being members of occupational schemes, if they so wish.

7. To give more choice to future governments about how resources should be used. It will enable governments to concentrate on providing as good a basic pension as possible and on assisting those who need extra help in retirement. At the same time, others can be encouraged to concentrate on providing additional pensions.

8. To give more choice to the employee by enabling him to have more say in what form of additional pension he should have and in what happens to his pension savings that are building up.

FAMILY BENEFITS

Proposals for reform

1. A new Family Credit for low-income working families to replace Family Income Supplement. This will be part of a new and more coherent system of income-related benefits. The credit will:

- * have a similar structure to the new Income Support scheme (Note 3) with higher rates for older children and a premium for all families;
- * be based on a similar net income test to the simplified housing benefit and income support schemes;
- * be paid by employers as an offset to tax and national insurance;
- * provide higher rates of cash support instead of benefits in kind such as free school meals and milk.

2. Child benefit will continue to be paid to all children as at present and one-parent benefit will be unchanged.

Case for reform

3. Many working families with children are among the poorest in this country. Family Income Supplement has not been successful in meeting their needs:

- it is based on gross earnings. This means that some families can face a reduction in total income if their gross earnings rise over significant ranges of earnings;
- it gives relatively less help to larger families and those with older children who can find themselves worse off in work than unemployed.

Objectives and effects of reform

4. To lessen the effect of the poverty trap: because family credit is based on net income (and is taken into account for housing benefit), it will be impossible for families to face marginal tax rates of over 100 per cent. They will always be sure of getting an increase in total family income when their earnings increase.

5. To give equivalent help for those in and out of work: family credit will act as an offset to tax and national insurance; and, if it exceeds deductions from pay, will provide a boost to gross earnings. It will bring closer together the impact of the tax and benefit systems on the income of working families.

SUPPLEMENTARY BENEFIT

Proposals for Reform

1. To replace supplementary benefit by:
 - * a new income support scheme, giving a guaranteed weekly income with higher rates for pensioners, disabled people and those with children; and with more generous earnings and capital rules to encourage people to save and to take part-time work.
 - * a new social fund to help those in special need, operated on a discretionary basis by specially trained staff within an annual budget.

Case for Reform

2. Complexity: The present scheme is far too complicated to be workable. One third of claimants have no idea how their weekly payments are calculated, and most have never heard of the extra payments they might be entitled to. Staff have to cope with 16,000 paragraphs of instructions and a 42 page index.
3. Poor targetting: Despite all the detailed provisions the present scheme does not meet need effectively. It is inflexible, undignified and poorly targetted. There is also evidence that families with children have greater difficulty in managing on supplementary benefit levels than other claimants.
4. Incentives: The present earnings and capital rules discourage people from helping themselves.

Objectives and Effects of Reform

5. Simplification: The new income support scheme will end the present distinctions between householders and non-householders, and between long- and short-term rates; it will also end the complicated system of additional payments related to individual circumstances. These resources will be built into the basic rates which people will be free to manage as they choose.
6. Flexibility and Sensitivity of Response: The new social fund will provide a more flexible and sensitive way of responding to claimants' inescapable special difficulties. It will also help promote the Government's wider community care objectives.
7. Better Targetting: The new arrangements will give most help to those facing the greatest needs, through special premiums paid to families, disabled people, pensioners etc. And there will be a more effective safety net for the minority of claimants with exceptional needs who cannot cope.
8. To encourage incentives: The new capital and earnings rules will give more encouragement for people to save and to take part-time work.
9. Wider reform: The new arrangements underpin the housing benefit and family credit reforms, thus paving the way for the abolition of the housing benefit supplement and for fairer treatment between poor people in and out of work.

HOUSING BENEFIT

Proposals for Reform

1. The main proposals are:

- * housing benefit will be aligned with the new income support scheme, using the same rules to assess resources and levels of need;
- * households on income support and equivalent levels of net income will receive 100 per cent help with rent and around 80 per cent help with rates;
- * households above income support levels will have their benefit withdrawn by means of a single taper related solely to income and applied to rent and rates combined;
- * local authorities will be reimbursed directly for 80 per cent of benefit costs. The remainder, including administration costs, will be included in Rate Support Grant.

Case for Reform

2. Inequity: Under the current scheme, those receiving supplementary benefit are treated differently from those not; help with rates goes further up the income scale than help with rents; different groups (eg. pensioners) are treated differently.

3. Complexity: The scheme is widely criticised as being hard to understand and administer. Housing benefit supplement is particularly complex.

4. Cost and Caseload: One in three households now get housing benefit (7½ million in 1984/85); costs have risen from £1.24 billion 1979/80 to £4.16 billion in 1984/85.

5. Administration: Existing subsidy arrangements for both benefit and administration costs do not give local authorities sufficient incentive to monitor and control costs. The Public Accounts Committee have drawn attention to the inadequacy of existing monitoring arrangements.

Objectives and Effects of Reform

6. To create a simple, unified structure which is easy to understand and administer. The proposals will enable housing benefit supplement and high rent schemes to be abolished.

7. To improve incentives: Households paying rent and rates will be treated in the same way, whether in work or not. This will remove a disincentive to take work.

8. To target help on those most in need: Help will be concentrated more on those at or near income support levels, and families with unavoidably high rents.

9. To provide tighter controls: Revised subsidy arrangements will give local authorities a greater responsibility and incentive to ensure that the scheme is run efficiently and does not encourage unjustified increases in housing costs.

10. To improve local accountability: The future of help with rates depends on other studies the Government has in mind; but it is proposed that all households should pay a contribution, possibly of 20 per cent towards their domestic rates.

WIDOWS BENEFITS

1. Proposals for reform. The main proposals (mainly affecting widows under 60) are:

- * to provide a £1,000 lump sum at the time of bereavement instead of the weekly widow's allowance which now runs for six months;
- * to provide the weekly widowed mother's allowance from the start (rather than after six months) to all widows with children in addition to the lump sum;
- * to concentrate widow's pension (also to be payable from the time of bereavement) on older widows, aged over 45 rather than 40 as at present, in addition to the lump sum.

2. Case for reform. The basic structure of the benefits as entitlements within the national insurance system is still valid. But the pattern of need has changed since the benefits were brought in. Many more women now have jobs; and many more widows receive occupational pensions. The main areas of need are immediate, flexible help at the time of bereavement; and continuing help for those with children or older widows who are less likely to be able to return to work.

3. Objectives and effects of reform. To give greater help when it is most needed, at the time of bereavement, and in a form - a lump sum - which gives greatest flexibility. Continuing help will be focussed on those older widows and widows with children who need it most.

MATERNITY ALLOWANCE

4. Proposals for reform. To base eligibility more on regular recent employment; and to increase flexibility about the period over which the allowance can be paid.

5. Case for reform. The purpose of the allowance is to help replace earnings when women give up work to have a baby. But the contribution test can relate to periods up to two years before the birth. Some women who have not worked for some time receive the allowance while others who give up work to have a baby do not qualify for the allowance. The rigid period over which the allowance can be paid - 11 weeks before and 6 weeks after confinement - is also an unnecessary restriction on women's freedom.

6. Objectives and effects of reform. To provide greater flexibility and freedom for women to choose when to give up work before having a baby; and to make the allowance more effective as a means of replacing income for those who give up work.

MATERNITY GRANT

1. Proposal for reform. To replace the £25 grant with a higher lump sum payment (about £75) available under the social fund to low-income families, whether in or out of work.
2. Case for reform. £25 is a small contribution. Maternity grant has not been increased for over 15 years. It makes an inadequate contribution to maternity costs. Most people can plan for and meet the cost of having a baby. Those who cannot need more help than £25 provides. The present system is also unfair in that only expectant mothers on supplementary benefit can receive extra help.
3. Objectives and effects of reform. To provide adequate help to those who need it most; and to give extra help to more people on low incomes not just those on supplementary benefit.

DEATH GRANT

1. Proposal for reform. To replace the £30 death grant with help, available from the new social fund, to anyone responsible for paying for a funeral who is unable to meet its cost.
2. Case for reform. £30 makes a tiny contribution: even a simple funeral costs £350 and the cost often exceeds £600. The grant contributes only £17 million to total costs of over £250 million a year. Unfairness: only people on supplementary benefit can get extra help on top of the £30 grant. Low-income families in work may also need help. The grant is not cost-effective: 700 staff are employed in administering it. Each £30 grant costs £20 to administer.
3. Objectives and effects of reform. To give adequate help to those who need it; the proposals will provide a genuine safety-net for the minority of people who need financial assistance with funeral costs. They will also be more flexible. Anybody in need can apply and access to the Social Fund will be available quickly and with the minimum of fuss to meet genuine need.

MANAGEMENT OF SOCIAL SECURITY

1. There will be a programme of change aimed at a more modern and radically improved service to the public. The main elements in this programme are:

- * to transform the administration of social security by the biggest computerisation programme in Europe.
- * to establish a new social security management board, including members from outside government.
- * to use the simplification of the social security structure to streamline the delivery of benefits.
- * to move towards better links between tax and benefits.

Computerisation

2. Computerisation will be introduced flexibly and in stages. There will be safeguards to protect privacy and security. Planning is well advanced:

- * the first phase, a local office microcomputer project, has already begun. Microcomputers will be introduced to all local offices this year to help with calculating benefit, finding claimants' files, and other special tasks.
- * Unemployment benefit offices are to get visual display units and keyboards linked to central computer records of claims of unemployed people. The changeover will be completed by 1987. Claimants will receive a quicker, more efficient service.
- * the central offices in Newcastle and North Fylde are to have new computer equipment and computerised records starting this year.
- * the local office project is the most important and ambitious. It will begin in 1988 and will be completed by the mid-1990's. It will create a national computer network, linking each local office to one of a number of mainframe computers. Authorised staff will be able to access and update information within a few seconds.

Social Security Management Board

3. A new Social Security Management Board will be set up under the policy direction of the Secretary of State for Social Services. It will be strengthened by the appointment of experienced managers from outside Government. Its first major responsibility will be to see that the computerisation of social security and the changes outlined in the Green Paper are carried through effectively and to time.

Streamline delivery of benefits

4. The simpler, more rational benefit structure proposed in the Green Paper and the Government's plans to computerise social security offer the prospect of a complete transformation of the benefit service.

5. Social security offices in the 1990's will look quite different from now:
- * the endless rows of filing cabinets with their bulky manilla files will largely disappear.
 - * in their place will be visual display units linked to central computers, allowing staff to deal quickly and accurately with claims and enquiries.
6. Taken together, these changes should enable benefits to be delivered quicker and more accurately.

Better links between tax and benefits

7. Benefit and tax years will be the same when, as is proposed in the Green Paper, benefits are uprated in April. This change will be a significant move towards aligning the tax and benefit systems.
8. The further possibilities for closer links between the tax and social security systems will be explored in the Government's forthcoming Green Paper on personal taxation.
9. Computerisation and simplification also hold out the prospect of better links between other areas of Government administration. In particular, the relationship between the office networks of the DHSS and the Department of Employment, which jointly employ over 100,000 staff in some 1,500 offices, will also be looked at. The aim will be to see whether the networks can be used to give the public a better and more efficient service in the light of the benefit reforms proposed and the computerisation of both networks.

books, papers and papers, and courses and courses upon it. They have not found the answer and they never will. I do not intend to ask for yet another inquiry.

Social Security Review

4.20 pm

The Secretary of State for Social Services (Mr. Norman Fowler): I will with permission, Mr. Speaker, make a statement on the review of social security.

During the last 18 months the Government have been examining the major areas of social security provision. In that time more than 40,000 consultation documents were issued, 4,500 pieces of evidence were received, and 62 organisations and individuals gave oral evidence at public sessions. The Government are today publishing a Green Paper which sets out their proposals. We will now be seeking comments on the proposals from interested organisations and will be providing an opportunity for the House to debate them.

The social security system in the United Kingdom owes a great deal to the report of Sir William Beveridge in 1942. Although much of what he proposed was changed when it came to implementation, and more has been changed since, many of the principles on which his proposals were founded remain sound. The Government remain 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 our tradition of state support for those in need is one which should be maintained and developed. However, social security is not a function of the state alone. It should be a partnership between the individual and the state—a system built on twin pillars.

Any review of social security must recognise its considerable achievements, but the review has shown that there are several major causes for concern. By common consent the social security system is too complex. That is to the disadvantage of both the public and the staff. In particular, the research evidence shows that substantial numbers of supplementary benefit claimants do not understand how their entitlement is worked out, in spite of the fact that 38,000 staff are now working exclusively on supplementary benefit. With the pressures now being faced there is a danger that some parts of the system will break down. It is, therefore, a matter of urgency that we devise a simpler and more coherent system.

The social security system also needs to be modernised. It is not properly co-ordinated with the tax system and operates with outdated equipment. We now need a major computerisation strategy for social security, which can link effectively with other Government systems, including that of the Inland Revenue.

In terms of spending, the cost of the social security system has increased fivefold in real terms since the war and now totals some £40 billion a year. That is over 30 per cent. of all public spending and represents over 11 per cent. of gross domestic product compared with only 4.7 per cent. after the war. Nor has the pressure for growth in spending ended. In the first part of the next century we need to provide for an extra 4 million pensioners. That, taken together with the state earnings-related pension scheme, means that spending on pensions will at least treble. We must ensure now that we have a soundly based social security system which the country can afford.

Above all, perhaps, the social security system does not always help those most in need. More than half of those living on the lowest incomes are in families with children. This affects not only the unemployed, but families where

[Mr. Norman Fowler]

the head is working met, under the present system, low income working families can face both the difficulty of escaping the poverty trap, where then may get no increase in total income when their earnings rise, and the unacceptable position that they can be better off out of work. That position must be changed.

To make 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 such families. Family income supplement will be abolished. Family credit will have three main features. First, it will be paid on the same basis as help to unemployed families, in that help will be related to the age of children. That means that families with children cannot generally be better off out of work than in work.

Secondly, family credit will be related to take-home pay, not to gross earnings, as is family income supplement. The worst effects of the poverty trap will be eliminated by making it impossible for people to face a marginal tax rate of more than 100 per cent. Thirdly, it will be paid by employers through the pay packet. Families will 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.

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 for all children, irrespective of the means of the family.

Family credit will be part of a coherent system of income-related benefits. That system, covering basic income support, assistance with housing costs and help for low income families, will be based on a common income test and a common structure. It will be simpler, fairer and easier to administer, and it will provide the same level of help at the same level of income for those in and out of work.

We propose to replace supplementary benefit with a new income support system. The central concept of the income support scheme is that the regular extra payments, now made on the basis of detailed individual assessment, should be absorbed into the main rates of benefit. Those rates will provide a special higher level of benefit for pensioners, the long-term sick and disabled and lone parents. Families with children will not only receive assistance for each child, but a premium to reflect the extra pressures that they must cope with. At the same time, the capital rule will be eased by introducing a taper between £3,000 and £6,000, instead of the present inflexible £3,000 cut-off. We shall also ease the earnings rule for the long-term unemployed and the disabled.

The income support scheme should provide for the needs of almost all claimants, but we recognise that the system must be ready to cope flexibly and quickly with particular problems. Instead of the present single payments system, we propose to set up a social fund which will be operated on a discretionary basis by specially trained staff at Department of Health and Social Security local offices. It will provide emergency help where needed, and help those who face particular difficulties. We also expect that

the social fund will, in time, provide a better basis for contributing cash help to enable people to be cared for in the community rather than in institutions.

Today I am also publishing the report of the housing benefit review team, and have accepted most of its recommendations. The review team found that housing benefit was excessively complicated, involving six different tapers applied to different groups at different income levels. It is also expensive and poorly targeted, with more than one third of all households, some with incomes up to average earnings, receiving benefit.

We intend to move to a simpler and 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.

For the poorest families, housing benefit will meet 100 per cent. of rent. At present 100 per cent. help goes only to those on supplementary benefit. In future, it will apply equally to those in and out of work.

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. As a result, a large proportion 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. The whole structure of rates is currently under review, but the Government believe that, so long as domestic rates remain, all householders should be directly responsible for making some payment towards them. The Government have in mind a figure of the order of 20 per cent.

The review also examined the contributory national insurance benefits for unemployment, maternity and widowhood. As I have already made clear, the Government remain committed to the principle of basic provision for these contingencies organised by the state through the national insurance system. We propose no change in unemployment benefit, which will continue to be paid for 12 months.

For widows under 60, we propose to replace the widow's allowance currently payable for the first six months after bereavement by a single lump sum payment of £1,000 to give them more help when it is most needed. In addition, widowed mother's allowance will now be paid from the time of bereavement rather than after six months as at present. Widow's pension will also be paid from the time of bereavement, but the rules of eligibility will be modified to concentrate help more on older widows who are least likely to be able to 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 babies.

The maternity grant and the death grant 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 10 times as much as the death grant, and it costs £20 in administration to pay out each £30 grant. We propose instead a new maternity grant of £75—three times the level of the present grant

available to all low income families. Help with the full cost of funerals will also be made available more widely than at present to anybody who has responsibility for a funeral and lacks 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 inquiry. 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.

The largest single area of social security spending is on pensions. The basic pension alone accounts for over £15 billion a year 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. It is, and must remain, the basis on which individuals can build additional pension provision. The question is how that extra provision should be made.

At present only about half the working population belong to occupational pension schemes. 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 hoped would follow the Social Security Pensions Act 1975 has not taken place. Nor has the forecast of cost on which the 1975 scheme was based proved sound. The analysis undertaken during the review has shown that the number of pensioners for whom he will eventually need to provide is 3 million greater than was recognised in 1974 and 4 million higher than it is today. It is clear, therefore, that the long-term costs of state pensions are set to rise steeply in the first 30 years of the next century. If the basic pension was uprated in line with prices, its cost would increase in real terms by half to £22 billion. If it kept pace with earnings, the cost would treble to nearly £45 billion. On top of that, the cost of the state earnings-related scheme will add another £23 billion. Thus, the total pensions bill will at least treble and could increase by over four times. At the same time the ratio of contributors to pensioners will worsen, and it is estimated that there will be only 1.6 contributors for each pensioner compared with 2.3 now.

As a country we cannot ignore these emerging costs. If the best estimates available to us lead us to question whether we will be able to afford the promises we are making, we have a duty to re-examine the position. It would be an abdication of responsibility to hand down obligations to our children which we believe they cannot fulfil.

The real question is not whether action should be taken on the state earnings-related scheme, but what action. There are those who argue that we should restrict the emerging cost of the state scheme by changing its provisions. The difficulty of that course is that contributions would remain the same while benefits would be reduced. There is no reason to believe that there would be any increase in occupational pensions to fill that gap. The Government have concluded that it would be better to adopt a different approach. This would be based on the aim of ensuring that in addition to the basic pension everyone has his own pension with his job—whether it be an occupational pension, membership of an industry-wide scheme or a personal pension. In all cases every employee would have the right to a contribution from his employer.

We recognise, however, that relatively older workers would have difficulty in building up adequate occupational pension cover. We have decided, therefore, not to make any changes for those within 15 years of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation, the existing state earnings related arrangements will continue. This means that no one retiring during the rest of this century will be affected by the change and neither will any existing pensioner.

All rights built up in the state scheme at the time of the change will be honoured. In addition, we also intend to give a special enhancement of rights for men aged between 40 and 49 and women aged 35 to 44. They will be given a bonus of added years of entitlement, which will give them higher pensions when they eventually retire.

For those to be covered by the new arrangements the Government will lay down a minimum contribution level of 4 per cent. of earnings, at least half of which must be provided by the employer. The new arrangements will be phased in over three years. These changes will mean that in due course all employees will be contributing to their own additional pension through their jobs. This will represent the biggest ever extension of occupational pension coverage in this country and will add to the reforms of occupational pensions, involving improved rights for early leavers and transfer of pensions, currently in legislation before Parliament.

The Government must also ensure that the social security system is managed as effectively as possible to provide the best possible service to the public. The Government's benefit proposals will in themselves make the system simpler, but we are now to embark on the largest programme of computerisation ever undertaken in this country to modernise and improve its operation.

The benefit changes and the computerisation both of my Department and the Inland Revenue will 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 will be considering this further in the context of the Green Paper on personal taxation.

Meanwhile, we have decided to take a major 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 means that all tax and benefit changes will be implemented at the same time. It will also be of considerable assistance to local authorities which at present have to reassess housing benefit cases twice a year.

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 in 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. It would clearly be wrong to allow such a gap between upratings, but it would not be practicable to have upratings both in November 1986 and April 1987. Accordingly, the Government have decided that, following the November 1985 uprating, there will be two upratings at eight-month intervals, the first in July 1986 and the second in April 1987.

The programme of reform that I have announced will provide a system which is easier to understand and simpler to administer. It will mean the most substantial changes in income-related support for 50 years, and for the first time give equal support for those in and out of work. It will

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provide more help for low income families with children. It will establish a better partnership between state and individual provision, especially in pensions; giving everyone the right to his own pension with his job. Above all, the reforms will provide a modern social security system to take us into the next century.

Mr. Michael Meacher (Oldham, West): Is the Secretary of State aware that, behind all the rhetoric about restructuring, this statement represents the erosion of the fundamental principle of a welfare state for all citizens? [Interruption.]

Mr. Speaker: Order. The Secretary of State was given a fair hearing.

Mr. Meacher: Is the Secretary of State further aware that the statement represents the reintroduction, for the first time this century of Victorian values, in an invidious distinction between deserving and undeserving poor? Is he also aware that this package as a whole will bring about a net loss in the next few years to pensioners and the unemployed of at least £1,000 million a year even before the huge losses from the abolition of SERPS begin, and that the main beneficiaries, whom he did not mention, will be the rich, who will receive even bigger tax handouts in future Tory budgets?

We welcome the Government's limited reprieve on SERPS, in response to our demand. [Interruption.]

Mr. Speaker: Order. We have a full day ahead of us.

Mr. Meacher: It is patently clear that the Government lost their nerve after their original intention had been made clear in repeated leaks. Is the Secretary of State aware that the Government's longer-term abolition of SERPS, which is the central arch of the welfare state, is still a betrayal of an unequivocal pledge by the Prime Minister three weeks before the last general election, when she said: "nor are there any plans to change the earnings-related component of the State pension."

Is the Secretary of State aware that if SERPS were to continue it would roughly double the pension in the next 13 years, and that if it is abolished millions who would have enjoyed dignity and security without a means test in retirement will be forced into poverty? How does the Secretary of State justify the fact that women, low-paid workers, and the longer-term sick and disabled and the millions of carers who look after them will be shifted compulsorily into private schemes to which they will be forced to make higher contributions for less benefit?

Is the Secretary of State aware that there can be no justification for claiming that SERPS cannot be afforded in the next century, when the Government's own Social Security Advisory Committee said explicitly less than two years ago:

"At this distance of time we do not think there can be solid grounds for altering the scheme now for fear of all the worst outcomes occurring steadily for 40 years."

Is the Secretary of State aware that any allegations that SERPS cannot be afforded reflect not adverse demographic trends but an admission that the Government's policies will lead to longer-term economic stagnation?

Secondly, is the Secretary of State aware that the huge cuts in the housing benefit package will bring a loss to tenants of about £750 million a year, forcing up rents for

tens of thousands by £7 to £12 a week? Is he aware that the poverty trap will be enormously intensified by his decision to increase the loss of housing benefit as wages rise from 38p in the pound to 70p in the pound? Is it not harshly unjust that the 7 million people receiving housing benefit of whom 4 million are pensioners, will for the first time have to pay 20 per cent. of their rates and all of their water rates? Is he aware that nearly 2 million households now receiving housing benefit, of which the great majority are owner-occupier pensioners, especially widows with small occupational pensions, will lose it altogether?

Thirdly, this statement virtually makes the unemployed into the outcasts of society—the new undeserving poor in the Prime Minister's vision of this new Victorian poor law. Not content with clawing back £650 million a year from the unemployed by taxing unemployment benefit for the first time over the past three years, and not content with ending, three years ago, the earnings-related supplement to unemployment benefit, worth £16 a week to an average paid worker, the Government are now proposing to force the unemployed on to the lowest rate of the new income support scheme. Is the Secretary of State aware that that will take about £5 a week from those who are 25 or younger, will deprive them of all help with heating bills and of single payments for clothing and furniture, will force them, for the first time, to pay 20 per cent. of their rates and all of their water rates, and will replace the present basic benefit safety net by a discretionary and recoverable loan? The Government have trebled unemployment. With these cuts, they are now gratuitously twisting the knife into their victims.

Fourthly, families across the nation will be hit. Will the Secretary of State confirm that child benefit will be frozen or uprated by less than inflation, so that the benefit for 7 million mothers and 12 million children will begin to decline in real value? Will he confirm, too, that the new, vaunted family credit will begin to be phased out when earnings exceed £40 a week, which is lower than for the family income supplement, and that the rate of withdrawal will be 60p in the pound, which is higher than the 50p in the pound under FIS, so that the poverty trap will be worsened? Will he also confirm that benefit will be transferred from the woman to the man, which is not publicly supported, and that entitlement to free school meals and school milk will be ended?

The Prime Minister has not only become the pensions snatcher—she remains the milk snatcher that she always was. Changes such as this will not strengthen family life, but will undermine it.

Fifthly, will the Secretary of State confirm that the death grant will be abolished and that the discretionary help will be available to the deceased's relatives only on the basis of a means test? Is he aware that this means bringing back for hundreds of thousands of our poor elderly the shame and indignity of a pauper's funeral, which no civilised society should inflict on its citizens?

This is a black day for the people of Britain—a monument to six harsh years of Thatcherite rule. The themes of this statement are more means testing, bigger cuts, penalising pensioners, the unemployed and low-paid in order to enrich still further the already rich, and the privatisation of the welfare state on the American model, which the people of this country want no more than they want the Prime Minister's fancy for the Americanising of our hospital management. There is no shred of political mandate for the proposals, since they derive from partisan

committees hand-picked by a partisan Government for pre-determined ends. Today's statement opens up the central issue which will dominate the next general election and, because the Government have profoundly misunderstood the commitment of the British people to the welfare state, it will pave the way for the election of the next Labour Government.

Mr. Fowler: Not on anything that we have heard from the hon. Gentleman today will it pave the way for the election of any Labour Government. We have had from the hon. Gentleman a typically hysterical response. He cannot even get his shadow Cabinet to back his own proposals, and it was clear from the response of his Back Benchers that he could get very few of them to back what he was saying.

However, I am grateful for what I took to be the endorsement of my proposals on the state earnings-related pension scheme for the rest of this century. I am grateful to the hon. Gentleman for the generous way in which he endorsed them.

The hon. Gentleman asked about the overall cost of pensions. The 1975 Act was based on the assumptions, which the then Labour Government were making, of 3 per cent. growth and 2.5 per cent. unemployment and, above all, that there would not be an appreciable increase in the number of pensioners. It is now clear that between 2010 and 2035 we shall see an increase of about 3 million in the number of pensioners, and that over the period to 2035 there will be an increase of about 4 million pensioners. In 1975 the Labour Government did not have that information, or, if they had it, they ignored it. The question before the House is whether to ignore the best advice and the best estimates that can be made today of the emerging costs of pensions.

As for the case for change, it is clear that the cost of the state earnings-related pension will increase very substantially.

In terms of income support, the new system gives a guaranteed weekly income, with higher rates for disabled people, pensioners and children. The hon. Gentleman is wrong about families, because, in addition, there will be a family premium, which families with children do not get at the moment.

At present, one in three households receives housing benefit—7.5 million households altogether. Costs have risen from £1.2 billion in 1979 to £4.2 billion today. I have made it clear, and I do so again, that we shall be looking to housing benefits to make significant reductions in the social security budget.

The hon. Gentleman asked about the social fund. I am sure that in his calmer moments he will agree that the present system of supplementary benefit is not serving well those who need special help and special care. One of the ways in which I hope that the social fund will be able to develop is to give special grants to people coming from institutions into the community, but also to pay to keep people at home and to support them, rather than their going into institutions.

The hon. Gentleman's comments on the death grant were a total travesty of our proposals. The death grant was last increased in 1967. It has remained a £30 since then. Surely no one will claim that that is adequate. The choice that has to be made is whether the country is prepared to go on with a token gesture of that kind or whether it makes

more sense to give help directly to those who need it—to give full help and better help. That is what the Government want to do.

Mrs. Jill Knight (Birmingham, Edgbaston): Bearing in mind that this is the most far-reaching and fundamental statement on social security benefits for many years and that its soundness and sense will be apparent to everyone once it is properly explained, will my right hon. Friend assure the House that he will make a similar statement to every sector of the media which makes itself available and even consider the production of leaflets for the separate groups of people involved? Will my right hon. Friend also shoot down the myth put forward once again by the hon. and boringly predictable Member for Oldham, West (Mr. Meacher) that means tests should not be employed, because unless we employ means tests we cannot be sure that the maximum benefit will go where the maximum need exists?

Mr. Fowler: We are not means testing, but seeking to test incomes. In addition, we are making help available to people on the basis of their income, and not according to whether they are in or out of work. That is a very significant change in approach. It means that the 100 per cent. marginal tax rates, which at the moment are a scandal, can come to an end. That is one of the most significant changes in the review.

Mr. Michael Foot (Blaenau, Gwent): In view of the far-reaching nature of the proposals, and in view also of the cuts and additional means tests which they impose on some of our poorest people, will the right hon. Gentleman say, first, when the proposals were forecast and explained by the Prime Minister at the time of the last general election, and, secondly, exactly what is the saving on the social security budget which he aims to secure by these measures?

Mr. Fowler: When the inquiry into social security was set up we made it absolutely clear that the Government intended to have a fundamental review of the social security system. That has been the position throughout.

The right hon. Gentleman asks about the savings. The emphasis in the Green Paper is on the new structure. Until that is settled it is impossible to provide a detailed analysis, because clearly it depends on the benefit rates set in April 1987. However, the main direction of savings is clear. The major savings will be the long-term savings in the next century resulting from the phasing out of the state earnings-related pension scheme.

Changes in supplementary benefit structure are not intended to reduce the overall help provided. As a result of the structural changes in supplementary benefit, we shall ensure that as far as possible there are no cash losers. Support for low-income families will be increased by family credit. The Green Paper makes it clear that we expect spending on housing benefit to be reduced considerably. This will not be at once. We expect spending to be reduced eventually by about £500 million.

Several Hon. Members rose—

Mr. Speaker: Order. I know that this is a statement of great interest to the House, but I have to bear in mind that there is another statement to follow it and that we are to have further debates in what will be a long day. The Secretary of State said that there would be a debate on this matter later. I shall allow questions to go on until 25

[Mr. Speaker]

minutes past five before we move to the next statement. If those who are called put short questions to the Secretary of State, I hope that I shall be able to include most hon. Members who are seeking to catch my eye.

Mr. David Howell (Guildford): Does my right hon. Friend agree that his proposals are skilfully targeted at the changing and future shape of society and that he should ignore the ridiculous cries from the past from the Opposition? Does he further agree that, whether we like it or not, there is an increasing trend towards part-time work, which inevitably means part-time incomes, and that his proposals, by concentrating on improved social provision as part of income for the low-paid, is in line with that trend and reinforces those who are most dispossessed by the trend towards part-time work? Does he agree that the change will make a major contribution to the expansion of occupation and employment?

Mr. Fowler: I am most grateful to my right hon. Friend. He is right. Family credit will bring direct help to low-paid families with children. It will prove a substantial base on which to build even further.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): Does the Secretary of State agree that it is difficult to form a detailed judgement without the figures? My colleagues and I cannot support his proposals on pensions, because they do not tackle the present problems. The pension is too low, and we would not countenance any change unless there was some recognition of that. As for supplementary benefit, we are worried that we are drifting away from the Beveridge system, which applies to all, to a service exclusively for the poor. That would be wholly wrong. We are worried that if the Green Paper is fully implemented it will fracture the all-party consensus. We must consider the detail before making final decisions.

Mr. Fowler: I accept that my documents are long and detailed, and also what the hon. Gentleman says about his party's view. Lord Banks, the Liberal spokesman on social security in the other place, has said that the Liberal party consistently opposed the introduction of an earnings-related state pension scheme. It is not clear from what the hon. Gentleman said whether that remains Liberal policy.

Sir David Price (Eastleigh): In view of my right hon. Friend's declared intention to modernise our social security system and to make it more responsive to changing social needs, will he introduce flexibility of retirement age and equality between men and women in eligibility? He will recall that that was proposed by the Select Committee and by me in a private Member's Bill in the previous Session of Parliament.

Mr. Fowler: My hon. Friend will find that in the Green Paper we deal with flexibility in retirement. I do not pretend that there are easy answers to that matter, but, like him, I should like there to be more flexibility. We invite comments on what we have set out in the Green Paper as a decade of retirement.

Mr. Frank Field (Birkenhead): As the Secretary of State has boasted that the four reviews will result in nothing less than a new Beveridge, will he give two pieces of information so that we can see to what extent the reviews live up to that self-imposed objective? If the Government enact all of these proposals, how many

people will cease to be poor? Secondly, as the hon. Gentleman acted as co-ordinator for all four reviews, can he say how many people will gain and how many people will lose? Will he give a commitment that those who bear unemployment will not have their benefits cut further?

Mr. Fowler: For various reasons, I cannot give the figures for which the hon. Gentleman asks. As I explained to the right hon. Member for Blaenau Gwent (Mr. Foot), no detailed analysis of cost can be made until benefit rates have been set in April 1987. [HON. MEMBERS: "How much will it cost?"] My answer is entirely frank and reasonable. As for help to the poor, family credit and other proposals in the review will reduce poverty. The social security system must be capable of coping with changes in the pattern of poverty. We have proposed family credit because we have considered the pattern of poverty in detail and it is clear that, in the past 15 years, families with children have been most in need.

Mr. Robert McCrindle (Brentwood and Ongar): Will my right hon. Friend accept from one who has expressed reservations that there is a great deal to commend in these proposals and much that is long overdue? Will he confirm that those who are most likely to be affected by changes in housing benefit include widows and occupational pensioners? Is my right hon. Friend open to some suggestions on that matter, because the changes in housing benefit seem to lie strangely with his commendation of occupational pension schemes? My right hon. Friend said that on the phasing out of the state earnings-related pension people would have a right to opt for a private pension scheme. What happens if people choose not to exercise that right and reach retirement age with nothing but the basic pension?

Mr. Fowler: I am grateful for my hon. Friend's comments about the review. I hope that the Green Paper will go some way to meet the issues that he has in mind. Housing benefit goes further up the income scale than any other benefit. On that basis, it is more reasonable to look for economies there, bearing in mind the scale of the increase in expenditure on housing benefit in the past six years. There will be minimum requirements for individual pensions. Employees and employers will be required to make provision. There is no question of people in work reaching pension age without having an additional occupational, personal or industry-wide pension.

Mr. Jack Ashley (Stoke-on-Trent, South): Is the right hon. Gentleman aware that the Government are making social security a scapegoat for the failure of their economic policies and that, instead of caring more for the growing number of casualties of their incompetence, they are planning to care less? That means that the Government are incompetent and insensitive to the poverty, degradation and suffering caused by the unemployment that they have created.

Mr. Fowler: I do not accept that for one moment. We all respect the right hon. Gentleman's knowledge and experience in these matters, and I hope to dissuade him from that view. Few people in the country or the House believe that the present social security system is capable of continuing without major change. This is the first Government to tackle that problem for 40 years. The Government and the country have a responsibility to

change the social security system to provide a modern system which can be sustained by present contributors and our children.

Mr. Andrew Bowden (Brighton, Kemptown): I am delighted to support much in my right hon. Friend's statement, but will he confirm that the Green Paper is not a White Paper in disguise and that no decisions have been made? How will the income support system affect pensioners who do not claim a supplementary pension? As to housing benefit, may I stress the grave anxiety for pensioners, the value of whose savings has been destroyed and whose financial circumstances have been undermined by their not having inflation-proof pensions? They must not be worse off as a result of these proposals.

Mr. Fowler: This is a Green Paper. The purpose of the review has been to consult the public. We shall continue to consult the public and to listen to issues that are raised with us. The simplicity of the income support scheme will bring immeasurable benefit to all. I remind my hon. Friend of what we are doing to preserve the interests of people approaching pension age. Nobody who retires this century will be affected by the changes in the state earnings-related scheme. It goes without saying that rights which have accrued and which are in payment will be honoured fully. That includes inflation-proofing.

Mr. Gordon Brown (Dunfermline, East): Will the Secretary of State confirm that today he has praised the Beveridge report only to bury it, and that he is ratting on promises made not only about the state earnings-related pension scheme but about child benefit and help for the unemployed? Will he confirm that under these new poor laws 7 million people will receive less in housing benefit, and that 1.8 million people — 3,000 in every constituency — will lose help with rent and rates? Will the Secretary of State tell us by how much the basic pension and the supplementary pension will have to rise to compensate for the loss of heating, dietary and clothing additions and the death grant, and for his demand that the poor should pay 20 per cent. of the rates? Why is it that the poorest, the weakest and the most frail in our community have to pay the price for his Government's economic failure?

Mr. Fowler: That is not the case, and the hon. Gentleman is too intelligent to believe that it is. I have made it clear that there will be reductions in housing benefit, but I have to point out to the hon. Gentleman a fact which he probably knows well enough in any event — that housing benefit expenditure has increased from £1.2 billion in 1979 to £4.2 billion in 1985-86.

The hon. Gentleman also knows that housing benefit expenditure goes further up the income scale than any other benefit. We are spending £40 billion a year on social security. Furthermore, spending on social security by this Government has increased by about 30 per cent. The majority of that increase is spent not on unemployment benefit but on making improvements in real benefits. It helps absolutely nobody to believe that expenditure of this kind can continue in a totally uncontrolled manner. I believe that our proposals are fair to the public and will help to bring about the recovery of the economy that we all want.

Mr. Roy Galley (Halifax): My right hon. Friend will be aware of the wide welcome that there will be for the

better targeting of benefits, for the concentration of help on families in need and for basing benefit on take-home pay and reducing the poverty and unemployment traps. Does my right hon. Friend agree that one aspect of the poverty trap has been the way in which supplementary benefit has been the gateway to a plethora of other benefits? Will he elaborate upon how far these various additions will be consolidated into the income support system and upon how free school meals will be related to the family credit system?

Mr. Fowler: As a general aim, the Government are trying to make benefits available equally on the basis of income. In other words, rather than having the distinctions that exist now between those on supplementary benefit and those in work — as my hon. Friend points out, having passports which take one to particular benefits — we shall make the same benefits available on the basis of equality of income, whether people are in work or out of work. I should make it clear that we intend to include some of the extra benefits in family credits and to pay those benefits in cash rather than in kind.

Mr. Donald Stewart (Western Isles): Is the Secretary of State aware that the United Kingdom is lagging behind a number of other European countries in providing this type of benefit and that these proposals will push us further down the league? Is he also aware that some of the poorest people in our society will experience the rigours of the Victorian workhouse? As maternity and death grants will be means tested and paid for out of a so-called discretionary fund, does the Secretary of State not realise that people will be means tested literally from the cradle to the grave?

Mr. Fowler: There is a profound misunderstanding of the Government's proposals. They are based upon a test of net income. If one believes in trying to target help on those who need it most, it is impossible to devise any other way in which to bring that about. Therefore, I ask the right hon. Gentleman to study with greater care the proposals in the Green Paper. As for the social fund, I do not think that anybody would defend the present position under which additional payments are made. It does not work. It has not worked for some time. The social fund will enable us to provide a more sensitive and better targeted way of providing help for those in need.

Dr. Brian Mawhinney (Peterborough): Does my right hon. Friend accept that his concentration of help on families with children and the testing of incomes is very welcome and will be widely supported in the country? Can he confirm that the contributions to SERPS of those who will not be retiring this century will, nevertheless, be inflation-proofed against price rises, to cover the time when they will receive the benefit of the contributions that they have made?

Mr. Fowler: The position of any man over the age of 50 and of any woman over the age of 45 is preserved. The accrued rights of people generally are also preserved in the same way.

Mr. Derek Foster (Bishop Auckland): Is it not outrageous that the Secretary of State should come to the House this afternoon and claim to be proposing a new Beveridge and yet be quite unable or unwilling to tell us how many will gain and how many will lose under these proposals? Out of the many thousands of poor people who

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will lose under these proposals, will the right hon. Gentleman tell us how many pensioners with small occupational pensions will have their heating and dietary additions removed?

Mr. Fowler: I dealt with that question in some detail when I answered the right hon. Member for Blaenau Gwent. The purpose of the social security review is to put forward a new structure and to seek the views of the House and the public on that structure. It is impossible to provide a detailed analysis of the cost until the benefit rates have been set. I have been entirely frank in saying that we expect there to be significant savings in housing benefit. I gave that figure to the right hon. Gentleman.

Mrs. Edwina Currie (Derbyshire, South): Given the huge size of the social security budget—£40 billion a year—and given also the growth of that budget, its complexity and the muddle and confusion which appear to be rife within it, does my right hon. Friend agree that it would be a thoroughly irresponsible Government who did not undertake these long overdue reforms? Does he accept that we shall all benefit—taxpayers, recipients and particularly the less well-off—and that the people of this country will have cause to give thanks to my right hon. Friend, particularly after several upratings in 1987?

Mr. Fowler: There is no question but that a re-examination of the social security system was long overdue. There is also no question but that the majority of the public share that view. I believe that many Opposition Members secretly share that view, too. This Government have had the courage to undertake that review. The hon. Member for Derby, South (Mrs. Beckett) laughs, but the only thing that the last Labour Government did was to ask a team of officials to look at the supplementary benefit scheme. That is not the way to reform social security, and that is not the way in which this Government propose to reform it.

Mr. D. N. Campbell-Savours (Workington): Is it not clear that the Secretary of State is refusing to give these figures for singularly party political advantage? Has he forgotten what was contained in the Conservative party's manifesto at the last general election? The Conservative party gave a solemn undertaking to the British people that it would protect pensions and other linked long-term benefits against rising prices. Has not that solemn undertaking been broken today? Is it not clear that the Government do not have a mandate for pursuing this policy? Their only reason for pursuing it is that they cannot make their economic strategy work. They cannot make the nation pay the bill. They have failed.

Mr. Fowler: The hon. Gentleman has not understood a single word of what has been said today. We stand entirely by the words to which he referred. We have kept pensions up with prices, and we have also tackled inflation. Under the Labour Government inflation increased by 110 per cent., which was a cruel blow to pensioners.

Sir Brandon Rhys Williams (Kensington): Will my right hon. Friend accept my warmest congratulations on his decision that occupational pensions should be based on real funding, and on his courage in slaying the Hydra of the state earnings-related scheme, which is not even an

honest system of repartition? With regard to benefits will still be based on a redistribution of the national income, would it not have been more logical and practical to integrate the income tax wholly with the contributory system, so that the residual welfare state, which is still concealed inside the income tax system, could be integrated into a logical new system of benefits?

Mr. Fowler: I have much sympathy with what my hon. Friend says, but we are still some distance from that position. First, we must computerise the DHSS system. We are taking several steps in a direction which my hon. Friend would support. The alignment of the tax and benefit years is a major improvement. Family credit will prove a natural system for bringing together social security and tax affairs, and computerisation will undoubtedly help. Some of the further points put forward by my hon. Friend can be examined in the Green Paper which my right hon. Friend the Chancellor of the Exchequer will introduce later this year.

Mr. Robert N. Wareing (Liverpool, West Derby): Is the Secretary of State aware that his statement is a kick in the teeth for all disabled people, especially for the non-industrial disabled, who do not receive disablement benefit? They depend for 20 per cent. of their incomes on the additional allowances, such as the heating allowance, which, at a stroke, he is abolishing. Have the Government considered compulsory euthanasia as a way of solving their monetary problems? It seems to me and to millions of disabled people that they are being sacrificed on the altar of Conservative monetarism.

Mr. Fowler: That is a very silly intervention. The hon. Gentleman must understand—if he does not, he had better read the document—that the income support scheme will include a special premium for the disabled. I advise the hon. Gentleman to look at that.

Dr. John G. Blackburn (Dudley, West): As someone who represents 70,000 pensioners, may I ask my right hon. Friend to accept that they will welcome his proposal for a review of the housing benefit scheme, which will be to their advantage? Does he further accept that the widow's grant of £1,000 will be widely welcomed? Will he, as he said earlier, accept further representations?

Mr. Fowler: Yes, indeed. On any of the proposals made in the Green Paper, the Government will wish to hear representations from interested organisations outside the House and from hon. Members. The widows' arrangements are more flexible and better targeted than the present ones, but I am open to suggestions on how to improve them.

Mr. Hugh Brown (Glasgow, Provan): Does the right hon. Gentleman accept that almost everyone in the House accepts the need for some reform—[*Interruption.*] I shall put my question in my own way. From so many proposals, there must be one or two that can be accepted by us all. Is not the real indictment that the Government seem to be incapable of creating a society without 4 million unemployed? In those circumstances, there is no possibility of obtaining a consensus on the broad approach to social reform. Will the right hon. Gentleman confirm that the poorest section of the community—those in receipt of supplementary benefit—will not be cash losers? He used the phrase. Can he explain what he means by it?

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this Treasury-dominated cuts exercise still has a long way to run and that given pressure from the Treasury, the overall cuts may turn out to be £2 billion or more?

Mr. Fowler: The hon. Gentleman is getting carried away again. I have already given the figure and, like everyone else, the hon. Gentleman listened to it. Since 1979 the majority of increased spending has gone on extra benefits and beneficiaries.

Mr. Meacher: Ah!

Mr. Fowler: I should point out to the hon. Gentleman — just in case he should have other ideas — that additional beneficiaries have to be paid for. I cannot commit my right hon. Friend the Leader of the House to a two-day debate. Certainly, we are committed to a debate. The hon. Gentleman made the classic dud point about the Phillips committee. I ask him to go back to the committee. The one figure that it was able to predict with almost total accuracy was the future number of pensioners. That is the great difference between the situation in 1975 and the situation now. On the best predictions that can be made, we shall need policies for dealing with between 3 million and 4 million more pensioners in the first half of the next century. That is the best estimate, and I advise the hon. Gentleman to accept it.

Sri Lankan Tamils

5.34 pm

The Secretary of State for the Home Department (Mr. Leon Brittan): With permission, Mr. Speaker, I wish to make a statement.

On 20 May, in reply to a question from my hon. Friend the Member for Lewisham, West (Mr. Maples), I announced my future policy towards Sri Lankan Tamils who expressed a fear of return to Sri Lanka. In the week following that statement, more than 500 Tamils arrived here seeking asylum. I decided that further measures were necessary to reduce the influx and, after consultation with my right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs, I announced on 29 May the imposition of a visa requirement for Sri Lankan citizens, to come into effect the following day. The need for such a measure was demonstrated by the fact that 244 Tamils arrived on 29 May.

A further 76 Tamils arrived shortly after the visas requirement came into effect, but there have been no further arrivals over the weekend or so far today.

The imposition of a visa requirement will not prevent the entry of those Sri Lankan citizens who qualify for admission in the normal way—for example, as visitors or students—although they will, of course, have to obtain visas before travelling. It will save the cost and disappointment of wasted journeys for those who would not be allowed to enter because they do not qualify under the immigration rules. If a Tamil not qualifying under the rules and seeking in present circumstances to leave Sri Lanka wishes to come to this country, he will be able to apply for a visa. Such applications will, however, be granted only if the individual can show that he is suffering severe hardship and the circumstances—including, for example, family links with this country—warrant the exercise of discretion in his favour outside the normal immigration rules.

The position of all the Tamils who have recently arrived will continue to be considered individually on the basis set out on 20 May. Where an application for asylum is refused, there will be an opportunity for the United Kingdom Immigrants Advisory Service of the United Nations High Commissioner for Refugees to consider the case and representations from Members of Parliament will continue to be considered.

It was only with great reluctance that I decided that it was necessary to impose a visa requirement on a fellow Commonwealth country. The need for it will be kept under review and I hope that it can be lifted in due course.

Mr. Alfred Dubs (Battersea): Is the Home Secretary aware that his statement represents a major departure from two important traditions? For the first time, Commonwealth citizens — albeit from only one Commonwealth country at the moment — will require a visa to enter this country. Secondly, the British tradition of offering haven and hospitality to those seeking asylum has been breached.

Does the Home Secretary agree that some Tamils who came here were very much in fear for their safety in Sri Lanka and that that was the motive which prompted them to seek asylum in this country, as it prompted many of their fellow countrymen to seek asylum in Germany and other countries in Europe? Is the Home Secretary aware



cc JTW

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From the Secretary of State for Social Services

Andrew Ingham
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Pa

3 June 1985

Dear Andrew

As discussed, I enclose a near-final draft of the social security review statement. We will take on board the points you gave me in the final version.

Yours

Steve

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DRAFT STATEMENT ON SOCIAL SECURITY REVIEW

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

Over the last 18 months the Government has been examining the major areas of social security provision. In that time over 4,000 consultation documents were issued, 4,500 pieces of evidence were received and 62 organisations and individuals gave oral evidence at public sessions. The Government is today publishing a Green Paper which sets out its conclusions 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.

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 opportunity for the House to debate them.

Mr Speaker, the social security system in this country owes a great deal to the work undertaken by Sir William Beveridge during the second world war. Although much of what he proposed was changed when it came to implementation and more has been changed since, 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. In other words, social security is not a function of the State alone. It should be a partnership between the individual and the State - a system built on twin pillars.

Any review of social security in this country must recognise its considerable achievements. For example, the levels of major benefits like pensions and supplementary benefit have more than doubled in real terms since the war. In addition, the range of benefits has been extended to meet needs - particularly in the field of disability - which were not recognised at the outset. Against that, however, the Review has shown that there are several major causes for concern.

By common consent the social security system is too complex. That is to the disadvantage of both the public and the staff. In particular the research evidence shows that substantial numbers of supplementary benefit claimants do not understand how their entitlement is worked out - in spite of the fact that 38,000 staff are now working exclusively on supplementary benefit. With the pressures now being faced there is a danger that some parts of the system will breakdown. It is therefore a matter of urgency that we devise a simpler and more coherent system.

The social security system also needs to be modernised. It is not properly coordinated with the tax system and operates almost entirely with outdated equipment. We now need a major computerisation strategy for social security which can link effectively with other Government systems.

We should also be concerned about the cost of the system. It has increased five-fold in real terms since the War and now totals some £40 billion a year. That is over thirty per cent of all public spending and represents over 11 per cent of gross domestic product compared with only 4.7 per cent after the War. Nor has the pressure for growth in spending ended. In particular we have to provide for an extra 4 million pensioners - 40 per cent more than now - in the first part of the next century. That, taken together with the State earnings-related pension scheme, means that State spending on pensions would at least treble. We must ensure now that we have a soundly based social security system which the country can afford.

The system should also be able to respond to changing need. Almost half those living on the lowest incomes in this country are in families with children. This affects not only ~~the~~ unemployed but also families where the head is working. Low income working families can face both the difficulty of escaping the poverty trap - where they may get no increase in total income when their earnings rise - and also the unacceptable position that they can be better off out of work than remaining in their jobs. That position must be changed.

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 such families. 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, in that help will be related to the age of children. 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. The worst effects of the poverty trap will be eliminated by making it impossible for people to face a marginal tax rate of over 100 per cent.

- Third it will be paid by employers through the pay packet. Families will 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.

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.

We intend the family credit to be part of a coherent system of income-related benefits. That system, covering basic income support, assistance with housing costs and help for low-income families, will be based on a common income test and a common structure. It will be simpler, fairer and easier to administer; and it will provide the same level of help at the same level of income for those in and out of work.

We propose to replace supplementary benefit with a new Income Support system. The central concept of this income support scheme is that the regular extra payments now made on the basis of detailed individual assessment should be absorbed into the main rates of benefit. 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 specially trained staff at DHSS local offices. It will provide emergency help where needed and help those who face particular difficulties. We also expect that the social fund will, in time, provide a better basis for contributing cash help to enable people to be cared for in the community rather than in institutions.

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 found that Housing Benefit was excessively complicated, involving six different tapers applied to different groups at different income 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.

For the poorest families, housing benefit will meet 100 per cent of rent. For the first time this will apply equally to those in and out of work.

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 some contribution, perhaps a minimum of 20 per cent, towards them.

The Review also examined 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 change in unemployment benefit. But we do propose some modifications in benefits for widowhood and maternity to relate them better to today's needs.

For widows, we propose to replace the widows allowance currently payable to all widows for the first six months after bereavement by a single lump sum payment. This payment, probably of about £1,000 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. In addition widowed mothers' allowance will now be paid from the time of bereavement rather than after six months. Widows pension will also be paid from the time of bereavement but the rules of eligibility will be modified to concentrate help more on older widows who are least likely to be able to 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.

The maternity grant and the death grant 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 it costs £20 in administration to pay out each £30 grant.

We propose to replace both grants by arrangements which will give more realistic help to those who need it. A new maternity grant of £75 - three times the level of the present grant - will be introduced to provide adequate help to all low income families not just those on supplementary benefit as at present. Realistic help with the cost of funerals will also be made available more widely than at present to anybody who has responsibility for a funeral and lacks 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 a year 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. It is, and must remain, the basis on which individuals can build additional pension provision. The question is how that extra provision should be made.

At present only about half the working population belong to occupational pension schemes. 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 hoped would follow the 1975 Social Security Pensions Act has not taken place. About 11 million people are contracted in to the State Earnings-Related Pension scheme. This is funded on a pay-as-you-go basis which basically means that promises made now must be redeemed by future generations of contributors.

It is now clear that the long term costs resulting from the inevitable growth of some 4 million pensioners in the first thirty years of 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 by half to £22 billion at today's prices. If it kept pace with earnings the cost would treble to £45 billion. But on top of that the cost of the State earnings-related scheme will add another £23 billion. Thus the total pensions bill will at least treble and could increase by over four times, while at the same time the ratio of contributors to pensioners worsens so that there will be only 1.6 contributors for each pensioner compared with 2.3 now.

That is not a cost we can ignore. If the best estimates available to us lead us to question whether we will be able to afford the promises we are making then we have a duty to re-examine the position. It would be an abdication of responsibility to hand down obligations to our children which we believe they cannot fulfil.

The real question is not whether action should be taken on the State earnings-related scheme, but what action. There are those who argue that we should restrict the emerging cost of the State scheme by changing its provisions. The difficulty of that course is that contributions would remain the same while benefits would be reduced. There is no reason to believe that there would be any increase in occupational pensions to fill that gap.

The Government have concluded that it would be preferable to begin now in building a new system. This would be based on the aim of ensuring that in addition to the basic pension everyone had his own pension with his job - whether it be an occupational pension, membership of an industry wide scheme or a personal pension. In all cases every employee would have the right to a contribution from his employer.

We recognise however that relatively older workers would have difficulty in building up an adequate occupational pension. We have decided therefore not to make any changes for those now within 15 years of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation the existing State earnings-related arrangements will continue. Nobody retiring during the rest of this century will be affected by the change and neither will any existing pensioner.

We also intend to give a special enhancement of rights earned under the earnings-related scheme. Thus men aged between 40 and 49 and women aged 35 to 44 will be given a bonus of added years of entitlement which they will retain when the new arrangements come in. In addition all rights built up in the State scheme at the time of the change will be honoured.

For those to be covered by the new arrangements the Government will lay down a minimum contribution level of 4 per cent of earnings at least half of which must be provided by the employer. The new arrangements will be phased in over three years.

These changes will mean that in due course all employees will be contributing to their own additional pension through their jobs. They will represent the biggest ever extension of occupational pension coverage in this country and will add to the reforms of occupational pensions involving improved rights for early leavers and transfer of pensions currently in legislation before Parliament.

Mr Speaker, 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 to embark on the largest programme of computerisation ever undertaken in this country to modernise and improve its operation.

The benefit changes and the computerisation both of my Department and the Inland Revenue will 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 means that all tax benefit changes will be implemented at the same time. It will also be of considerable assistance to local authorities who at present have to reassess housing benefits cases twice a year.

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 in 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. It would clearly be wrong to allow such a gap between upratings but it would not be practicable to have upratings both in November 1986 and April 1987. Accordingly the government have decided that, following the 1985 uprating there will be an extra uprating in July 1986 and a further uprating in April 1987.

Mr Speaker, the proposals I have announced will amount to a major reform of the main framework of our social security system. They will produce a system of income-related benefits which is simpler to understand and to administer and fairer as between those in and out of work. The proposals will also establish a better partnership between State and individual provision particularly in pensions. A partnership in which the twin pillars of provision are in the right relationship. Above all the reforms are aimed at providing a modern social security system to take us into the next century.