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MR NORGROVE

The Prime Minister is seeing Mr Fowler tomorrow afternoon. This minute seeks briefly to identify the key points that it would be useful to raise with him. These relate to the Green Paper on Reform of Social Security and the forthcoming public expenditure discussions.

Green Paper on Reform of Social Security

2. The Green Paper was published in June. The period of formal consultation is now over. A meeting of MISC 111 has been arranged for 15 October when Mr Fowler is due to report the outcome of the consultations.

3. We do not yet know what Mr Fowler will recommend. The main Green Paper proposals may be summarised as:

- abolition of SERPS;
- new family credit scheme paid through pay packets and based on net income;
- replacement of supplementary benefit by new income support scheme;
- new cash limited "social fund" for special needs;
- simplified housing benefit scheme covering 100% of rent but only 80% of rates;
- replacement of death, maternity etc grants.

4. The signs are that the package is running into considerable difficulties. For example, abolition of SERPS is widely opposed (by the insurance industry and CBI as well as the poverty lobbies); and



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DHSS are said to be having second thoughts on such matters as the rates of benefit for income support, the family credits scheme, and the practicability of the simplified (single taper) housing benefit scheme. Apart from the political dimension, any major changes could have serious implications for the timetable of legislation and implementation, and for the savings expected from the reforms. In brief:-

- On timetable, implementation in April 1987 requires publication of a White Paper and Bill in November, Second Reading before Christmas, and Royal Assent by next June;
- on savings, MISC 111 agreed the following (part public expenditure, part PSBR)

1986-87

£150m

1987-88

£800m

1988-89

£1,000m

5. The Prime Minister may, therefore care to ask Mr Fowler, in view of the very tight timetable for decisions ahead, whether he can give her some indication now of:-

(i) his likely conclusions and recommendations on the main Green Paper proposals in the light of the consultations (eg is he likely to want to recommend any major changes on SERPS and on the income and family support and housing benefit schemes?);

(ii) the implications of his likely recommendations for the timetable (is implementation in April 1987 still feasible?) and public expenditure and PSBR savings.

The Prime Minister may also wish to confirm that Mr Fowler will be able to circulate a paper on his proposals in good time for the MISC 111 meeting on 15 October (any slippage will make the timetable problems even more acute).



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Public Expenditure Discussions

5. As indicated above, any changes in the Green Paper proposals could reduce the savings Mr Fowler contracted to deliver, and so add to the problems facing the Treasury on the public expenditure Survey. On the latest count, the Treasury reckon that the additional bids on social security alone (ie the amounts claimed by Mr Fowler above the agreed baseline) amount to some:-

£ billion		
1986-87	1987-88	1988-89
<u>1.2</u>	<u>1.6</u>	<u>1.8</u>

6. The precise position reached between the Treasury and DHSS is not clear. The Treasury believe that Mr Fowler (eg by proposing more generous arrangements for the income and family support schemes) will not deliver the promised Green Paper savings in full; but will (illegitimately) count towards them other savings agreed last year (eg from changing the uprating date) which were always intended to be separate from, and additional to, the Green Paper review. Mr Fowler, on the other hand, will no doubt argue that the Treasury's interpretation is incorrect and that he still intends to deliver the review savings to which he is committed.

7. Both the numbers, and the correct interpretation of the various earlier agreements, are complex and unresolved and I do not advise the Prime Minister to try to get into any detail at this stage. The detailed arguments and unpicking must fall to the Star Chamber. But whatever the precise rights and wrongs, the fact is that Mr Fowler's present additional bids are a very large element of the problem facing Ministers in validating their July decisions on the Survey. In the three Survey years they account for some 40%, 32%, and 33% respectively of total additional bids from all Departments.



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8. The Prime Minister may, therefore, wish to indicate to Mr Fowler that:-

- she is most concerned at the size of what she understands to be the likely additional bids on the social security programme (which are, of course, additional to the large bids also likely on the health programme);
- she very much hopes that Mr Fowler will contribute constructively to reducing these in the forthcoming Star Chamber discussions and in particular that there will be no question of not delivering both the Green Paper review and other social security savings that have been agreed over the past year.

J B UNWIN

30 September 1985
Cabinet Office