

Confidential

10 DOWNING STREET

Prime Minister

You will not want to talk details and numbers with Mr Fowler. The need is to fire him off in the right direction.

I have seen the letter, attached, on a personal basis. Please do not indicate that you have seen it. The last paragraph shows what the Treasury is up against, and illustrates why David Willetts' proposal is important.

DBV

30/9.

PRIME MINISTERMEETING WITH NORMAN FOWLER: SOCIAL SECURITY SAVINGS

The Treasury and DHSS are arguing about how much was promised when by whom. The Treasury interpretation of the learned texts is closer to the truth. But it misses the real issue. The real reason why Norman Fowler is trying to escape from the MISC 111 deal is his concern about losers. We saw his rough and ready assessment of gains and losses during the MISC 111 discussions. But if he has some new worries he should bring them out into the open by allowing us and the Treasury full access to his internal modelling of the effects of the MISC 111 decisions and of any revised proposals he may have. This is anyway bound to come up at MISC 111 on 15 October.

Please could you therefore ask Norman Fowler to instruct his officials to co-operate urgently and fully with the Treasury in assessing gainers and losers under the MISC 111 proposals. Summary tables aren't enough.

David Willetts

David Willetts

30 September 1985



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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From the Secretary of State for Social Services

The Rt Hon John MacGregor OBE MP
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24 September 1985

PES 1985: SAVINGS FROM THE REVIEW

I attach, as background for our discussion this afternoon, a table showing how I envisage finding savings of £800 million in 1987/88 and £1 billion in 1988/89 from the structural changes in social security which will be brought about by my review. I must emphasise that the figures are in broad terms and that most of them are likely to vary somewhat, up or down, as the details of the various measures are worked out and the eventual benefit rates are set. I cannot be committed by them to deliver the savings in exactly this form. But together you will see that they yield sums of the order to which I am committed

Also attached is a table showing the numbers of gainers and losers from the changes which I am preparing in the income-related schemes (supplementary and housing benefit and family credit/FIS). These demonstrate that there will be substantial numbers of people out of pocket as a result of this restructuring with many of them, including pensioners, losing quite large sums. Indeed, the overall picture will be somewhat worse than is shown here because we have not yet added in the effects of either the uprating changes or of any further reduction in the real value of child benefit below this year's £7 level.

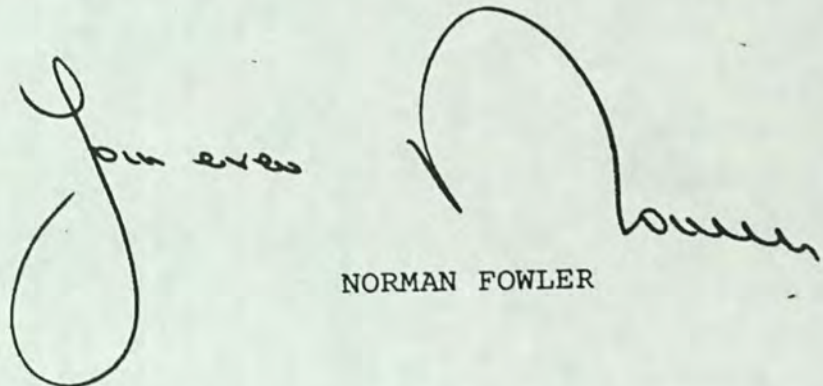
In preparing these figures I have taken as my starting point the Cabinet decision that £800 million and £1 billion were the maximum amounts by which it was reasonable to depress the purchasing power of poor people in the first two years of our new scheme. Those figures have therefore to be measured against the position when that decision was taken, in the spring of this year. Changes decided upon since then in order to modify the structure of social security in the directions required for the Review - the withholding of a full

E.R.

uprating in the £6.85 child benefit, the raising of the rates taper from 9 per cent to 13 per cent, the cessation of awards of central heating addition - are all steps towards the achievement of those cash targets and should therefore be counted towards them. The same will be true in due course of the lessening of the value of the uprating which we shall achieve by changing its date in 1986 and again in 1987. I really cannot accept the suggestion in your letter of 23 September that these changes, and the holding down of universal child benefit in order to free resources for income-related help, are in some way not "structural". I actually used that word to describe the uprating shift in my minute to the Prime Minister of 15 May, and I would have thought it was self-evident that these parts of the design were just as "structural" and integral parts of the Review as, for example, the replacement of FIS by family credit or of single payments by the Social Fund.

The tables therefore show what I can offer towards public expenditure savings (together with a healthy non-PE contribution on the rates side) in 1987/88 and 1988/89. As regards 1986/87, the first year in the cycle, the measures which I took towards meeting the current year's PES targets have overshoot those targets by £118 million. This has resulted from the holding down of child benefit which, in later years, will go towards meeting the cost of family credit. It accordingly represents a useful pre-Review saving in 1986/87, such as will go a long way towards delivering the £150 million of such savings to which I am committed for that year; I should be grateful if you would leave it in my hands, at this stage, where the remaining £32 million is to come from. In 1986/87 I shall also be delivering a further £164 million from the change in the uprating cycle.

I am sorry not to have got these detailed figures to you more quickly, but hope they will nonetheless form a useful basis for our discussion in a few hours' time.

A large, stylized handwritten signature in black ink, appearing to read 'Norman Fowler'. The signature is written in a cursive, flowing style with a large loop at the end.

NORMAN FOWLER

Miss 195 found this in 1987 - did not say this in 1987

	Em cash	
	1987/88	1988/89
A. <u>Savings</u>		
Housing benefit (PE/non-PE)	430 (5/425)	445 (5/440)
Single payments	240	240
Mortgage relief	30	30
Maternity and death grants	50	50
Students measures	25	25
Child benefit - excess on 1984 PES	150	175
- further savings	50	50
No new awards of CHAs	72	75
Single payment restrictions	55	55
Increasing HB rates taper	57	60
Ending old awards of CHAs	40	30
Uprating savings	285	305
<u>Total savings</u>	1,484	1,540
B. <u>Costs</u>		
Income support	190	195
Family credit	205	210
Social Fund (including maternity and death provision)	125	125
Widowhood	25	- 5
Transitional protection	150	75
<u>Total costs</u>	695	600
C. <u>Total net savings</u>		
	789	940

PEAC 1984
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1984

1984: review savings 'on account' effective in 1985

350

190

380

390

10 net cost of Rev

-540
-35
-9

SECRET AND CMO

GAINS AND LOSSES FROM CHANGES IN ALL INCOME RELATED BENEFITS (000)

Client Group	Gainers				No Change	Losers				Total Gainers	Total Losers
	£5+	£3-5	£1-3	<£1		<£1	£1-3	£3-5	£5+		
Pensioners	100	140	625	800	0	1240	1215	225	170	1665	2860
Sick or Disabled	75	60	50	20	0	25	20	10	5	205	55
Lone parents	220	20	20	65	0	100	205	85	80	320	470
Couples with children	375	195	285	110	0	90	100	45	135	965	370
Others	55	180	25	115	375	225	320	290	305	370	1145
Total	825	595	1000	1105	375	1680	1865	660	690	3525	4895

Notes:

1. Due to rounding totals may not tally.
2. November 1985 benefit rates, and all November 1985 changes assumed to have been made.
3. Child benefit assumed to be £7 in real terms.
4. No account taken of effect of switching to April uprating.
5. Housing benefit assumed to be on separate assessment: 55% rent taper; 25% rates taper.

SECRET AND CMO