

2087/32

1. MR WATSON
2. CHIEF SECRETARY

The nub of the problem is  
in para 15 and 16. The tactics  
to getting over are complex.  
I am very much to discuss  
with us as early as possible  
next week.

J.H.C.

FROM: M T FOLGER  
DATE: 4 October 1985

copy to (5)  
Mr Willetts  
1h 10  
11/2 4.10  
cc  
Chancellor of the Exchequer  
Sir Peter Middleton  
Mr Bailey  
Mr Anson  
Mr Byatt  
Mr Scholar  
Mr Turnbull  
Miss Noble  
Mr P Hall  
.B38  
R44

#### SOCIAL SECURITY REVIEWS AND 1985 SURVEY: MR FOWLER'S 2 OCTOBER PACKAGE

We met DHSS officials yesterday to go through Mr Fowler's latest proposals, which he put orally to the Chancellor on 2 October. This note discusses their implications for the Survey and Review arithmetic. It discusses too the tactics to be adopted in any discussions with Mr Fowler in Blackpool next week and seeks your guidance on how to handle the paper which Mr Fowler will be circulating to MISC 111 on Friday 11 October, in preparation for the 15 October meeting of that Group.

2. Despite its length (which is I fear unavoidable) this submission does not cover the SERPs issues, on which we will submit a further note when we have something useful to tell you. Pensions will be discussed at MISC 111 but they have no direct bearing on Survey discussions of the social security programme.

3. All figures in this note are best estimates as of today, but are subject to minor revision as DHSS do further work. Costs and savings are quoted to the nearest £ million to keep the accounting straight but are not accurate to that degree.

#### Main Features of the package

4. Mr Fowler's main proposal is to implement Review measures in two stages:

(i) April 1987 implement just some useful, but relatively minor, savings measures (some restriction of benefit payments in respect of mortgage interest, cuts in benefits to students, introduction of capital rule in Housing Benefit).

(ii) April 1988 (ie 12 month delay compared with Green Paper plans) implement the rest of the Review measures (Family Credit (now with considerable net cost) Housing Benefit with its big saving in PSBR terms, Social Fund and (now more expensive) Income Support scheme, partially offset by savings on Supplementary Benefit single payments,



The breaking of step on uprating timings (interim uprating at July 1986, annual upratings from April 1987 onwards) would remain. On July economic assumptions, it throws up savings of about £300m in both 1987-88 and 1988-89.

5. It appears that Mr Fowler has settled on this two-stage approach mainly because he now accepts that local authorities will not be able to implement the new Housing Benefit system before April 1988. It also gives him more time to organise for the new system within DHSS (at what should be a more moderate transitional staff cost than we have guessed at hitherto) and means that the timetable is more robust to possible slippage of the Bill. Politically, he judges it better to wait for a April 1988 implementation of the main elements of the package rather than risk a botched job in 1987. The uprating (announcement of it in autumn 1987 or its implementation in 1988) could then get caught up with a General Election, but he does not see that as unacceptable.

6. A side effect of this retiming is that, because items with a big public expenditure cost are slipped to 1988-89, there would be a worthwhile public expenditure saving in 1987-88. Overall the 2 October package implies £456m less public spending on social security in 1987-88 than was implied by the latest costing of the package attached to Mr Fowler's 24 September letter. (Costings of the individual elements are at Annex B to this note.) But because the big Housing Benefit savings are also slipped by a year, the overall PSBR position in 1987-88 is improved by only £55m and for 1988-89 would be £105m worse.

#### Survey arithmetic

7. Taking account of Mr Fowler's revised offer the Survey figuring on the social security programme would now be:

	1986-87	1987-88	1988-89
£m savings (-) from:			
pure "Review" measures including Family Credit	-32	-89	+370
holding Child Benefit to £7 at Nov 85		-150	-171
further Child Benefit savings		-50	-50
<u>total savings from new policy measures</u>	<u>-32</u>	<u>-289</u>	<u>+149</u>

Remembering also the estimated savings from changing the uprating timing:

	-164	-285	-305
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and other adjustments, as listed at annex A, this means total 1985 PESC savings in relation to the social security baseline of:

-322	-585	-169
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8. The net additional bids from Mr Fowler would then be:

1199	1144	1880
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Compared with net additional bids implied by the 24 September package of:

1199	1600	1775
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So although the 1987-88 picture is improved by £456m that for 1988-89 worsens by £105m. (mainly because more transitional relief would arise in that year.) Expenditure in 1989-90 will also be worse, by £100m, because some transitional relief would continue into that year and some extra spending on widows would not now come through until then.

#### PSBR arithmetic and Review target savings

9. Review measures, strictly defined, would now reduce the 1987-88 PSBR by an estimated £132m (as against a £77m reduction previously). In 1988-89 the PSBR would fall by £89m (as against a £194m reduction previously). Slippage of that big element of the Housing Benefit savings which helps only the PSBR picture is the main reason why the PSBR picture is not really helped by Mr Fowler's proposed rephasing.

10. Where Mr Fowler may be deemed to stand on the Review commitments, to PSBR savings of £800m in 1987-88 and £1000m in 1988-89, depends partly on what view is now taken about the 1987-88 savings of £150m estimated to flow from the decision to hold Child Benefit at £7 in the November 1985 uprating. By agreement with Mr Fowler, we have been allowing him to score these savings (and the corresponding £171m in 1988-89) against the net costs of introducing Family Credit. The Child Benefit savings nevertheless reflect 1984 Survey decisions, taken well before Mr Fowler's Green Paper was published. And so, arguably, if Family Credit is not now to be implemented until 1988-89 the £150m of 1987-88 Child Benefit savings should no longer feature as part of the Review arithmetic. It should instead be used to offset Mr Fowler's demand-determined bids (analogously with our position on the £118m of excess savings in 1986-87).



11. In practice, it will be difficult for you to sustain that argument, especially as the £150m definitely helps in the Survey context. Scoring the £150m as a Review saving and treating the £50m of further Child Benefit savings in the same way, the overall Review picture then becomes:

£m PSBR savings (-)	1987-88	1988-89
from strict "Review" measures, including Family Credit and consequential savings on other programmes	-132	-89
excess savings from 1984 PESC (mainly from 1985 Child Benefit uprating)	-150	-171
further savings from Child Benefit	-50	-50
<hr/>	<hr/>	<hr/>
Totals	-332	-310

On this basis, the shortfalls compared with the Review targets are:

468	690
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12. Mr Fowler of course has a different view of the Review savings accounting. He argues for additional factors to be taken into account:

£m PSBR savings (-)		
a Treasury view of net Review and Child Benefit savings	-332	-310
plus:		
uprating timing savings	-285	-305
savings "on account of Review" from 1984 PESC, already in 1985 Survey baseline	-184	-190
<hr/>	<hr/>	<hr/>
Mr Fowler's totals	-801	-805

13. On this basis, Mr Fowler sees himself as delivering his 1987-88 commitment in full and 80 per cent of his 1988-89 commitment. But we regard both his adjustments as unacceptable: the uprating timing change was decided well after Cabinet endorsed the Review package of structural measures on benefits and the savings from it are to be found additionally. And 1984 PESC is a closed book.



### Red herrings

14. Mr Fowler may drag two red herrings across the path. Both relate to transactions irrelevant to the 1985 Survey figuring and the MISC 111 PSBR savings commitment:

- (i) £100m of "public service pension costs no longer incurred" in 1987-88 [because the SERPS proposals have changed]. Arithmetically, this estimate is correct. But it does not help to close the gap in the Survey. The £100m would arise across a whole variety of programmes and Departments have not generally bid for it in the 1985 Survey. And the (adverse) impact of the Green Paper SERPs proposals on the public sector accounts has not been reckoned as part of the Review arithmetic. It cannot be so scored now simply because it suits Mr Fowler.
- (ii) possible changes in the balance of the National Insurance Fund as a result of the changed proposals on SERPs. As a first round effect, the change could mean a tendency for the Fund balance to grow but on the usual assumptions (ie that NIC rates are set to avoid a rising surplus) it is unlikely there would be any significant benefit to the PSBR.

### Why Mr Fowler is in a jam

15. In discussions with DHSS officials, it has become clearer why Mr Fowler is in difficulty in delivering the commitments which we consider due. His evaluation of the consequences of the Family Credit regime proposed to MISC 111 seems to have been awry, possibly because of a faulty computer programme. To restrict the scale of losers to something like that presented to MISC 111 now necessitates a scheme about £100m more expensive. Mr Fowler now also seeks more generous treatment for pensioners under income support and Housing Benefit (a £2 rise in the weekly premium for the elderly).

16. DHSS officials have told us that, within the structure of benefits which Mr Fowler is likely to recommend to MISC 111, it would be technically possible to secure the full savings due. The numbers of losers would however be bigger than envisaged in the MISC 111 discussions, for the reasons discussed at paragraph 15 and bigger than those indicated in the attachment to Mr Fowler's 24 September letter. He would be bound to make a great deal of the political consequences.



### Recommended Tactics

17. There is probably little to be gained by any softening of the Treasury position in advance of the Star Chamber. But some discussion with Mr Fowler in Blackpool may be desirable to prevent his accusing us of not being constructive.

18. I therefore recommend that, drawing as necessary on the material sent by your Office to No.10 on 27 September, you continue to defend the current Treasury position on the following lines:

(i) grateful to him for showing some flexibility, which recognises our public expenditure problem but does not go far enough.

(ii) under previous Cabinet and other commitments, still require:

(a) 1986-87: £150m of measures (at July 1986 uprating or by other means if necessary) over and above £118m of "excess savings" from 1984 Survey measures.

(b) 1987-88: at least another £470m odd of measures to generate total £800m PSBR savings from 1985 PEWP baseline. [£620m of measures if the £150m of Child Benefit savings is not scored towards the Review]

(c) 1988-89: another £690m of PSBR savings to yield commitment of £1000m.

and (d) extra £100m costs in 1989-90 not acceptable.

(iii) grateful therefore if could look further at his proposals, to find requisite PSBR reductions - without scoring estimated uprating timing savings or savings agreed in 1984 PESC, long before MISC 111 began its work.

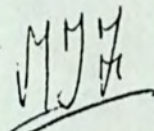
19. If Family Credit does slip to 1988-89 and we did then score the £150m of Child Benefit savings towards the Review savings for 1987-88, it will be more difficult to sustain the position that the £118m of excess savings from 1984 PESC should not score in 1986-87. Movement on one or both points could form part of an eventual deal but I recommend that you do not concede either in isolation.



MISC 111

20. If you agree with the tactics recommended above - ie no concessions to secure a deal at this stage - then Mr Fowler's MISC 111 paper, will pose some difficulties. We cannot stop him including at least illustrative benefit rates in the paper, with accompanying material on winners and losers. (Colleagues will demand as much.) But we should have to ensure, if necessary through a "Treasury paragraph" in the paper that the figuring is described as marking the upper limit of what he envisages. The actual levels of benefit will have to be decided with full regard to the coming public expenditure discussions in the Star Chamber and Cabinet. This may spur him to say how terrible are the distributional consequences of even his illustrative best case, but he will probably be doing that anyway.

21. Are you content with this way of handling the MISC 111 paper, please?



M T FOLGER



SECRET  
SOCIAL SECURITY AND DHSS ADMINISTRATIONMr Fowler's position at 2 October 1985

savings = -, additional spending = +, [ ] means item subject to amendment.

		£ million cash			
		1985-86	1986-87	1987-88	1988-89
a.	PESC report <u>baseline</u> (including pay and admin; excluding LA relevant current)	39962	41547	43553	44642
b.	<u>Further spending adjustments</u>				
	b.1 Excess saving from measures adopted to deliver Cmnd 9428 totals		-118 <sup>+</sup>	-150	-171
	additional cost of Family Credit			not applicable	+265
	b2. p.e.** Savings from Reviews (excluding admin savings £30m 1987-88 and 1988-89, and £50m in each of those years from cutting real level of Child Benefit, and all 1984 PESC measures)		-32 <sup>+</sup>	-89*	+110*
	Savings from cutting real value of Child Benefit somewhat (exact mechanism unclear)		nil	-50	-50
	b3. Estimating savings from New Up-rating Cycle		-164	-285	-305
	b4. Measures to meet additional cost of Nov 1985 board and lodging up-rating (promised by Secretary of State)		-8	-11	-13
	Total adjustments		-322	-585	-164
c.	<u>Additional Bids</u>				
	c1. Demand determined benefit bids		+1492	+1694	+2004
	<u>less potential benefit savings from extra DE anti-fraud staff and from extra DHSS UROs</u>		-13	-26	-26
			-15	-15	-15
	c2. Administration bids (excluding DE Admin element)		+57	+75.5	+85.6
	total bids		+1521	+1729	+2049
	<b>SO NET INCREASES MR FOWLER WANTS, OVER BASELINE</b>		+1199	+1144	+1885

(excluding claimed admin savings for 1987-88 and 1988-89, which will need to be set against further admin additional bids expected for Review implementation)



Treasury position on savings still due following previous decisions, taking account of consequentialia on other programmes.

- further pe savings due, leaving aside Family Credit excess (assuming total Review p.e. savings 150,300,500)	-118	-222	-605
- savings to offset extra spending now envisaged for Family Credit (ie excesses not met by savings from holding Nov 1985 CB uprating to £7)	n.a.	n.a.	-91
<hr/> totals	<hr/> -118	<hr/> -222	<hr/> -696

d. Options for further Reductions in Benefit spending

d1. Drop provision for abolition of RP earnings rule	-	-30	-105
d2. Maintain Child benefit at £7 cash (ie no upratings at all)	-35	-120	-230
d3. Other measures including additional Review savings in July 1986 uprating	-115	-200	-215
Total	<hr/> -150	<hr/> -350	<hr/> -550



Mr Fowler's 2 October package:

Effects of individual Review measures including Family Credit (excluding admin consequences, to be considered separately)

fm, savings = -

	1987-88		1988-89	
	(2 Oct package)	(24 Sept)	(2 Oct)	(24 Sept)
- Housing Benefit (p.e. element only)	-35	(-35)	-40	(-40)
- abolish single payments	0	(-240)	-240	(-240)
- restrict benefits for mortgage interest	-30	(-30)	-30	(-30)
- cut students benefits	-24	(-24)	-25	(-25)
- end maternity & death grants	0	(-25)	-25	(-25)
- end old awards of central heating additions	0	(-40)	-30	(-30)
- income support	0	(190)	195	(195)
- transitional protection	0	(150)	150	(75)
- family credit	0	(271)	265	(265)
- Social Fund	0	(125)	125	(125)
- widows	0	(25)	25	(-5)
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Social security				
p.e. savings from Review measures	-89	(367)	+370	(265)
health programme      welfare milk	0	(-15)	-15	(-15)
p.e. consequentials      increased free prescriptions	0	(+4)	+4	(+4)
education programme (student grants)	+11	(+11)	+11	(+11)
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total pe effects of Reviews	-78	(367)	370	(265)
add Housing Benefit rate rebate savings (including 9 each year from students measures)	-54	(-444)	-459	(-459)
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PSBR effects of Review measures	-132	(-77)	-89	(-194)

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4 October 1985