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FROM: CHIEF SECRETARY
DATE: 19 November 1985

PRIME MINISTER

SOCIAL SECURITY REVIEWS: INCOME RELATED BENEFITS

The proposals which Norman Fowler is recommending (Option 2 in MISC 111 (85) 17) cost nearly £300 million more than those we agreed as the basis for the Green Paper (Option 1 in his paper). There were arguments put forward earlier in MISC 111 for a tougher approach than Option 1. On balance, however, it was decided to publish the Green Paper on that basis. I do not seek to re-open that compromise. But I think we must stick to our decision then and go no further than Option 1. This minute explains why.

2 This is the last chance we have to make a substantial change in the scale of the social security programme. If we get it wrong now, we will have to cope with the consequences for public spending not just in the Survey period but long into the next decade. We must not throw this chance away because of the transitional problems.

Pensioners

200m

3 Norman argues that we must spend £200 million more to reduce losers among pensioners. The major factor creating these losers is our decision that everyone should pay 20 per cent of their rates. Over 800,000 lose solely on that account. We decided that this was an essential part of our policy to increase awareness of the cost of local authority services and to influence local authority rating decisions. It would weaken the aims of this policy if we took separate steps to protect those affected.

4 Another large section of pensioner losers - almost 400,000 - are the result of our decision to introduce to housing benefit the same £6,000 capital cut-off as we are proposing for the new income support system. This is the result of a deliberate decision taken by MISC 111 earlier this year to target housing benefit more effectively. It was agreed in MISC 120 that this should be implemented in April 1987 in advance of the main review changes to meet our expenditure targets for that year. So those affected will already have suffered losses before 1988 when Norman proposes to implement his main proposals. I see no point in seeking to restore losses so long after the event.

5 The remaining losers arise as a consequence of the conclusion of the social security reviews that pensioners now are relatively favoured by the social security system compared with other groups and, following from that, the decisions we took to target resources more effectively within the housing benefit and income support schemes. We knew when we took those decisions that it would mean losers.

6. We also knew that in cash terms the losses would be mitigated by upratings; and we built generous transitional protection into the proposals - Option 1 provides for £200 million of transitional protection. Norman's paper and in particular the Tables at Annexes 2 and 3 make no allowance for the effect of upratings; or the effect of transitional protection.

7 I attach the same tables reworked on a cash basis. They take account of upratings and of transitional protection. Not only is the number of losers greatly reduced. Just as important, the size of loss faced by most individuals is much smaller. These tables show what the real position will be. I think they reveal a position which can be explained and justified to the public.

Family Credit

8 Norman also proposes to spend some £50 million more on working families with children, to improve incentives. When first discussed in MISC 111, Norman's proposals were costed at £170 million. In Option 1, the cost has increased to £195 million. I do not think a further £50 million is justified.

9 The additional £50 million will not improve the poverty trap. In one important respect it will make it worse. There will be more people facing marginal rates of over 70 per cent - the definition of the poverty trap which will be used by outside commentators. The limited improvement for the smaller numbers of people facing marginal rates above 90 per cent will not in my view make it easier to defend this result.

10 There are other problems which moving to Option 2 would exacerbate. First, on incentives, under Norman's proposals family credit will be extended well up the income scale. I understand that two child families earning between £120-£140 a week could gain an additional £10-12. I am concerned about the reaction to these gains of those earning significantly more in gross terms - say £180. Under Norman's proposals, the difference in net income between a man on £180 and one on £120 would be reduced from £30 to £18.

Option 1 30 to 20.

11 Second, we are in danger of recreating some of the problems we have faced with housing benefit reaching too far up the income scale, with a repeat in due course of all the difficulties we are confronting in putting this right. Under Norman's proposals, income support will be extended to over £160 a week for 2 child families and over £180 a week for 4 child families. These income levels are close to average male manual earnings. Option 1 is also preferable in this respect.

Conclusion

12 Norman's earlier proposals, discussed and agreed in MISC 111, involved about 3.9 million pensioner losers. Option 1 involves fewer pensioner losers than we were prepared to envisage then - some 3.5 million. In reality, allowing for upratings and transitional protection, the number of pensioner losers will be lower still - about 2 million. Many of these remaining losers will be those who stand to gain most from our policies on rate reform. This is a presentable package. Option 2 goes further than is necessary, and certainly further than is desirable.

13 I am copying this minute to members of MISC 111 and to Sir Robert Armstrong.

John MacGregor

JOHN MacGREGOR

OPTION 1: SCHEME WITH UPDATED FIGURES ON LINES PREVIOUSLY CONSIDERED BY MISC 111, ALLOWING FOR UPRATING AND TRANSITIONAL PROTECTION

SECRET CMO

COMBINED EFFECT OF STRUCTURAL REFORM OF INCOME-RELATED BENEFITS AND CONTRIBUTION TO RATES

ALL INCOME RELATED BENEFITS: GAINS AND LOSSES BY CLIENT GROUP (000)

Client Group	Gain £5+	Gain £4-5	Gain £3-4	Gain £2-3	Gain £1-2	Gain <£1	No Change	Loss <£1	Loss £1-2	Loss £2-3	Loss £3-4	Loss £4-5	Loss £5+	Total Gainers	Total Losers
Pensioners age 80+	20	10	30	70	150	100	120	240	50	10	10	10	10	370	330
Pensioners age 60-79	60	30	30	100	270	240	940	930	400	120	80	20	100	720	1640
Sick or Disabled	110	10	40	40	50	20	30	10	20	*	*	*	10	260	30
Single parents	220	10	10	30	20	110	50	40	90	10	*	*	40	390	190
Couples with children															
- in full-time work	180	30	30	30	40	20	20	10	20	10	10	*	20	310	80
- not in full-time work	50	130	60	180	50	20	20	10	30	*	*	*	10	470	60
Others															
- in full-time work	10	*	*	*	10	*	10	20	50	50	10	20	40	20	190
- not in full-time work	20	160	10	20	370	160	460	120	170	10	10	20	60	730	390
Total	650	370	200	450	950	680	1640	1370	840	220	120	80	290	3290	2920
All pensioners	70	40	60	160	420	340	1060	1170	450	130	80	30	110	1100	1980
All couples with children	230	160	80	200	80	30	40	20	50	20	10	10	30	780	140

Note

Gains/Losses up to 50p included in 'No Change' column.

OPTION 2: SCHEME WITH IMPROVEMENTS TO FAMILY CREDIT AND TO PENSIONER PREMIUM IN INCOME SUPPORT PROPOSED IN MAIN PAPER ; ALLOWING FOR UPRATING AND TRANSITIONAL PROTECTION

SECRET CMO

COMBINED EFFECT OF STRUCTURAL REFORM OF INCOME-RELATED BENEFITS AND CONTRIBUTION TO RATES

ALL INCOME RELATED BENEFITS: GAINS AND LOSSES BY CLIENT GROUP (000)

Client Group	Gain £5+	Gain £4-5	Gain £3-4	Gain £2-3	Gain £1-2	Gain <£1	No Change	Loss <£1	Loss £1-2	Loss £2-3	Loss £3-4	Loss £4-5	Loss £5+	Total Gainers	Total Losers
Pensioners age 80+	50	40	60	130	170	70	80	170	30	10	10	10	10	530	230
Pensioners age 60-79	110	40	150	390	640	600	610	380	200	60	40	30	90	1930	800
Sick or Disabled	150	30	40	30	50	10	20	*	10	*	*	*	*	290	20
Single parents	230	10	10	30	20	110	50	40	90	10	*	10	40	410	180
Couples with children															
- in full-time work	230	20	40	30	40	10	10	10	20	10	10	*	20	370	70
- not in full-time work	100	100	50	190	30	20	20	10	30	*	*	*	10	480	50
Others															
- in full-time work	10	*	*	*	10	*	10	20	50	50	10	20	40	20	190
- not in full-time work	20	150	10	20	370	160	460	120	170	10	10	20	60	730	390
Total	880	390	350	820	1320	990	1250	750	580	150	80	90	270	4750	1910
All pensioners	160	80	210	530	810	670	690	550	220	70	40	30	110	2460	1020
All couples with children	330	120	80	220	70	30	30	20	40	10	10	10	20	840	120

Note

Gains/Losses up to 50p included in 'No Change' column.

SECRET

average earnings.

Males.

manual	£163·60
non-manual.	£225·00
all	£192·40.

April 1985 (published in New Earnings Survey Oct 85)

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action please.

SECRET AND CMO

SECRETARY OF STATE FOR SOCIAL SERVICES

Prime Minister

SOCIAL SECURITY REVIEW: INCOME RELATED BENEFITS

It will be helpful to our discussion tomorrow to clarify some of the points that arise in John MacGregor's minute to you earlier today.

There is one central point about John's minute. Clearly it is helpful to put the figures of gainers and losers in cash terms. Equally we should be under no illusions that the White Paper will have to make the real position clear as well. This of course is the basis on which every outside body has produced its figures and it is also the basis on which the Select Committee on Social Services have carried out their own analysis. There is no prospect therefore of not publishing the real effect of the structural changes. I should add that even on John's cash figures there are two million pensioners who will be worse off in cash terms following implementation.

There are a number of other points that I will clearly wish to raise at our meeting. But there are several that I should correct immediately. There is no question (as paragraph 3 of John's minute perhaps suggests) of pensioners being relieved of the obligation to pay rates. Nor do my proposals have any effect on our decision to introduce a £6000 capital cut off for housing benefit. That proposal is entirely unaffected by my proposition.

On family credit I think the most important test is on the incentive to work which my preferred option improves. We should also be clear about how far family credit does extend up the income scale. Three quarters of the beneficiaries would be earning below £120 a week: 98 per cent of recipients (under either option) would be earning below £160 a week. As I think John will know, the reason for the gain for two child families earning between £120 and £140 a week (paragraph 10) is because of the indefensible present position. These are precisely the families who do particularly badly under FIS, sometimes receiving less net income than those on much lower gross earnings.

I am copying this minute to the members of MISC 111.

19 November 1985

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