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MR NORGROVE - No 10

SOCIAL SECURITY REVIEW: INCOME RELATED BENEFITS

In view of the overnight minutes by the Chief Secretary and Mr Fowler, a short supplement to my MISC 111 brief of yesterday may be helpful.

2. Although the underlying arithmetic is still far from clear (largely because DHSS have never really come clean on it), the essential issue of substance before the Group remains the same. This is whether, on whatever presentation, it is worth spending another £300 million to reduce the (still very large) number of losers and improve incentives. The essence of the Chief Secretary's case is that a large number of losers was an essential and intended part of the reform; spending another £300 million would not change the picture all that much, and could in any case be better presented; and that the extra spend on Family Credit could actually in some respects worsen the incentives problem. So the Chief Secretary is urging the Group to have the courage of their previous convictions and not now concede concessions that would add some £200 million to the social security autumn statement planning total for 1988-89.

3. On presentation, the issue is whether it is better to present the distributional effects net of the likely April 1988 uprating and transitional provisions (as Mr Fowler has done) or (as the Chief Secretary recommends) to build those effects into the cash arithmetic.

4. The advantage of the Chief Secretary's course is that it reduces the number of losers (I attach a summary table showing the main loser categories under Options 1 and 2 with and without the uprating and transitional protection effects). The disadvantage of this is that it would still show large numbers of losers; there would be no further cards to play; and Mr Fowler would feel bound to produce the figures on his basis also (if he refused, others would do them).



5. The disadvantage of Mr Fowler's net presentation is, of course, the very much larger number of losers. The advantage, however, is that it would be possible, without attaching specific numbers, to accompany this with a statement about the mitigating effects of the April 1988 uprating and the transitional protection provisions. The April 1988 main uprating is assumed to be some 3.25 per cent; the main transitional protection will consist of freezing the level of Supplementary Benefit payments for those who would otherwise lose until their cash entitlement under the replacement income support scheme catches up (although they would be required separately to meet at least 20 per cent of their rates bill).

6. I see no reason why the Chief Secretary's presentation should not be accepted so as to avoid offering from the start the very large number of losers under the net presentation. But the Group will wish to make up their own minds on the political and presentational aspects of this.

7. I also attach a summary note on the costs of the alternative proposals.

This is ambiguous. The idea should be to produce the Treasury ~~table~~ table and the DHSS table, and others if possible.

J B UNWIN

20 November 1985
Cabinet Office

LOSERS

	Option 1	Option 1*	Option 2	Option 2*
Pensioners	3490	1980	2300	1020
Couples with children	230	140	200	120
Overall Total (including other categories)	5210	2920	3850	1910

* Taking account of transitional protection and upratings

COSTS OF ALTERNATIVE PROPOSALS

	<u>Option 1</u>	<u>Option 2</u>
Public Expenditure*	- 80 million	+ 200 million

* These are net figures after allowing for transitional protection of £200 million under Option 1 and £150 million under Option 2.

The breakdown of the £280 million cost of option 2 over the cost of option 1 is as follows.

£200 million to reduce losers amongst pensioners.

£50 million to improve Family Credit.

£30 million (knock on effects on other benefits, etc)