JAIAEP: ECON

10 DOWNING STREET

3 December 1985

From the Private Secretary

Dear Giles,

The Prime Minister has seen your Secretary of State's minute of 27 November, and the draft White Paper on Social Security.

The Prime Minister found the draft clear and well argued. She offers the following detailed comments.

Paragraph 2.31 discusses the need to make available to people the value of their pension rights. MISC 111 also concluded that members of contracted out schemes should have a right to information about the value of the overall pension fund.

The Prime Minister has noted the proposal in paragraph 2.52 that equal contributions to pension schemes should buy equal annuities for men and women at the same age on retirement. This seems to go against actuarial principles, and the Prime Minister has asked whether this is fully justified - it seems likely that there would be pressure on this point as the Bill goes through Parliament.

In paragraph 2.65 there should be a commitment to make the clearance arrangements which the Occupational Pensions Board will need in giving approval for personal pension schemes as flexible, simple and straightforward as possible.

The discussion in chapter 3 of benefits for young people, paragraphs 3.21 and 3.22, could point more explicitly to the labour market arguments for holding back benefit levels for childless younger people in favour of shifting resources towards poor families.

Paragraph 3.77 could also be more direct about housing benefit. It could point out that this has always been one of the least satisfactory benefits - even Beveridge found housing costs the most difficult to handle. It is wrong that housing benefit should go to almost one third of all households and that it stretches so far up the tax scale.

The Prime Minister suggests that it would be worth considering whether chapter 3 should point to the need to shift resources from Child Benefit towards poor working families. (This would come in around paragraph 3.88.) The draft could question the assumption that Child Benefit should be uprated in line with inflation, but it should also say that child benefit will continue at a generous level.

I am copying this letter to the Private Secretaries to members of the Cabinet, Murdo Maclean (Chief Whips Office) and Michael Stark (Cabinet Office).

Yours ever,

David.

David Norgrove

Giles Denham, Esq.,
Department of Health and Social Security.

cc DW

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Secretary of State for Trade and Industry

3 December 1985

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

NBPM

Dear Norman,

WHITE PAPER ON SOCIAL SECURITY

Your minute of 27 November to the Prime Minister invited colleagues' comments on the White Paper.

2 I have no major difficulties with the draft. The passage of most direct concern to my Department is paragraphs 2.63-65 describing the investor protection regime for pensions, and its relationship with the regime to be established under the Financial Services Hill, and I confirm that I am content with its drafting. There are however one or two other points which I might make. With one exception, they concern the passages in Chapters 1 and 2 on pensions.

3 In paragraph 1.7, the present draft describes the alternative of modifying SERPS as "one of the most significant alternative suggestions" made in response to our original proposal. This is perhaps a bit disingenuous since such an alternative was clearly identified in the Green Paper. The significant fact about industrial and other responses was not they identified such an option, but that having seen it they liked the look of it, and felt the Government had too quickly rejected it. Since all the signs are that the Government will gain credit for having heeded this response, we might do better to recognise it.

4 I am aware that paragraph 2.59 dealing with employers' obligations with respect to the personal pension option at least in part reflects the need to resolve potential problems for public service pension schemes. It will, however, also be welcome to the generality of occupational pension providers, who are of course no friends to our personal pensions proposals. They should be

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relieved that there will be no obligation on them to make contributions on their own account to an opted-out personal pensions scheme; they should also welcome the freedom which they are qiven to impose conditions on any such contribution, in a way which shculd reduce their concerns about their own schemes.

5 We have of course discussed on more than one occasion the timing of the pensions changes, confirmed in paraqraph 2.75 as April 1988. We have concluded that it is right to delay the changes in order to take full account of employers' and pensions interests' worries about the original date. I believe the ability to launch personal pensions against a firm Financial Services framework of investor protection, which we can do then but not in April 1987, is a significant additional benefit of this decision, and I am content with the terms in which it is expressed in this paragraph.

6 My last point on the treatment of pensions concerns figures. The Green Paper was critisised in some quarters for its lack of illustrative figures, on which commentators could base their responses. I am not entirely clear whether you currently propose to incorporate such figures in the White Paper when it is published. Unless there are overriding difficulties of which I am unaware, my own firm preference would be to do so, to avoid similar criticism this time round. We could hardly argue that we had not done the sums, and we must he prepared to defend the levels of public and occupational pension provision which we see arising from the system we are adopting.

7 Finally, one point on income related benefits. While my Department has had only a limited involvement in this area, we have long been conscious, as you have, that employers will not welcome the additional burdens which payment of family credit through the wage packet will impose upon them. There are telling reasons why this is the right course to adopt. I nonetheless welcome the reference in paragraph 3.112 to the Government's concern to minimise cash-f]ow and administrative difficulties for employers in the operation of the scheme, and the proposal to consult further with those closely affected on its detailed adminstration. We need to be able to meet any remaininq criticism of this burden as inconsistent with our approach to deregulation more generally, and I should be grateful if my officials could be involved in this work.

8 I am copying this letter to the Prime Minister, other Cabinet colleagues and the Chief Whip, and to Sir Robert Armstrong.

Yours, Leon

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LEON BRITTAN

SOCIAL SERVICES
REVIEW

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COPY NO 1 OF 7

CC DW

2

SECRETARY OF STATE FOR THE ENVIRONMENT

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My ref:

Your ref:

N.BPM.

3 December 1985

Dear Norman,

WHITE PAPER ON SOCIAL SECURITY

ATTACHED

Thank you for sending me a copy of your minute of 27 November to the Prime Minister covering a draft of the White Paper on social security.

It was agreed at Cabinet that you would consult me and other colleagues on the presentation in the White Paper of the interaction with the proposals for local government finance reform. In advance of that it may help if I register that I believe that para 3.73 needs amendment along the following lines:

> "3.73. The initial effects of the proposals on rates, within the framework of the present local government finance system, are shown in [reference to appropriate annex]. This picture will however also be affected by wider proposals on local government finance. A consultative paper which will examine options for further widening the scope of proper local accountability within a clearer and more enhanced financial framework will be published shortly."

I should also register one point on the chapter on pensions. Paragraphs 2.69 to 2.71 of that chapter explain how the arrangements for personal pensions will work, with the minimum contributions being sent to DHSS to pass on to the pension provider. In my letter of 27 November to Nigel Lawson, I made two suggestions in order to simplify the position where local authorities, and other employers, wish to make additional contributions matching additional ones made by employees. To avoid employers having to make continual and regular checks with the pension provider that the employee was still making his additional contributions, I suggested that the employer should be able to deduct these from pay. Also, I suggested that the administrative burdens on employers would be eased if they sent both the minimum and the additional contributions to DHSS for onward transmission to the pension provider. You may wish to give these suggestions further thought. Provided their consideration is not prejudiced by the wording in the White Paper, I am content.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, George Younger, Nick Edwards, Tom King and Sir Robert Armstrong.

Yours ever
Kenneth

KENNETH BAKER

The Rt Hon Norman Fowler MP

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

The Rt Hon Norman Fowler PC MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
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London
SE1 6BY

NBPM

4 December 1985

Dear Norman,

SOCIAL SECURITY REVIEWS: DRAFT WHITE PAPER

FILE WITH DRN

1. Your minute of 27 November invited comments on your draft White Paper. I was not, I regret, able to see this in time for the discussion of your outline proposals in Cabinet last week.

2. Subject to the point about co-operation from local authorities in paragraph 6 below, I have no textual amendments to suggest but your proposals impinge on my field of responsibilities in several respects and it may be helpful if I list these first. I will not however go over the ground again on personal pensions, on which I commented in my letter of 27 November to Nigel Lawson which was copied to you.

3. My main concern in the proposals relate to the possible impact on local authority social work services both as regards their general concern with families in financial straits and the particular powers which they have in Scotland for providing financial assistance in specially defined circumstances to certain categories of person in need.

4. I appreciate that the outcome will in practice depend largely on the scale of benefits which become available and the way in which these are targetted and I was glad to note the broad indications provided in the tables which you circulated with C(85)27 that gainers are expected to outnumber losers quite substantially. However, the draft White Paper appears to play down the importance of the proposed Social Fund, and the single payments which it is designed to replace, in relation to the social security system as a whole. I believe that your proposals in this regard could have substantial repercussions in Scotland given the relative frequency and extent of single payments at present.

5. Better targetting of benefits could lead to reduction in the need for local authorities to involve themselves in the affairs of persons and families in financial straits, and this would be helpful for hard pressed local services. As against this, the ending of single payments may produce additional

referrals to social work departments which will in any case, be required to extend their casework commitments if they are to assist your specialist officers in handling applications for assistance from the Social Fund.

6. I am aware of the unsympathetic response which these proposals have received from local authority interests. I am therefore concerned that the wording of the White Paper should not fuel opposition by the apparent assumption that the services of local authority staff will readily be made available to assist in administering the Fund. It would, in my view, be desirable at the minimum to add a paragraph to the effect that further consultations with local authority interests will be necessary before detailed arrangements can emerge. It should also be borne in mind that, except where children in care are concerned, local authorities will have no statutory responsibility for cases where payments from the Social Fund may be in question so that co-operation between staff of social work departments and your specialist officers will depend on a measure of goodwill on both sides.

7. I should also remind you of two issues in relation to single payments which came to my attention in the responses offered in Scotland to the proposals in your consultative document. One concerns the future of sheltered workshops for blind and disabled persons in Scotland, whose output of beds stands to be affected by the termination of single payments. I know you have had representations direct from the Scottish interests concerned in this area. What you may not know is that these workshops currently give employment to some 160 disabled persons in Scotland. There is a strong case for seeking to ensure that they are not adversely affected.

8. The ending of single payments in respect of insulation materials is another issue of much the same kind though the employment implications are much less. Insulation schemes of the kind which are operated in Scotland were originally inspired by grants from the Department of Energy. They confer considerable benefits on elderly and disabled persons and give practical effect to our policy on energy conservation. I hope that further thought can be given to means of continuing schemes of this kind.

9. Finally, I think it very likely that there will be considerable hostility to the proposal that (except for the unemployed) families currently eligible for free school meals and welfare milk and vitamins should in future receive payments in cash through child credits. The fact that this will be paid to wage earners rather than direct to the mother in all cases will not make acceptance of this proposal any easier; nor will the decision to withdraw local authorities' discretionary powers to provide free or cheap meals. I therefore think it essential that the child credits should be set at a level which will involve no reduction in the assistance given to these families, both for presentational reasons and also to avoid any adverse impact on child health. Your present proposals do not seem to achieve this in all cases. I should be grateful therefore if the figures could be reviewed again before publication. My officials will be ready to discuss my concerns with yours.

10. I should record also that my medical advisers are seriously concerned about the possible effects on the health of pre-school children if the cash is less wisely spent nutritionally or diverted away from food. I believe that this will continue to be a controversial issue during the passage of the legislation and that we may have to give an undertaking to monitor the effect on child health over the years.

11. I found incidentally the drafting of paragraph 3.101 a little confusing largely because of the apparent conflict between the statement that welfare milk and vitamins will continue to be available under the income support scheme and the subsequent statement that "the Government have therefore decided to end the low-income scheme for milk and vitamins": it is not easily apparent to the uninitiated that the latter refers only to the "other" low income families who currently get milk and vitamins. You may want to look at the drafting.

12. Reverting to presentation, I am concerned that the proposals for setting a budget for the Social Fund will, even though they make reference to the need for regional distribution based on the uptake of single payments, be received with some scepticism in Scotland. I believe that single payments in 1984/85 accounted for some 19% of all such payments made in the United Kingdom and the amount paid out some 22% of the corresponding total. I can see that it might be difficult to apportion a share of the Fund for one part of the country based on a single historic figure of this kind but we must, I think, accept that your proposals will be examined very critically in Scotland. I must, therefore, ask that there should be consultation with the Secretaries of State with territorial responsibilities before decisions are reached on how the Fund is to be controlled in practice and how this control is to be described in public. If you see any difficulty in this proposal perhaps you would let me know right away since I would wish to discuss the principle further before you proceed to publication.

13. I am copying this letter to Cabinet colleagues.

Yours ever,

George.

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