cc N/LW

cc GOVT MACH: Presentation of Govt. Policies NOV 83

PRIME MINISTER

As you know, I was very concerned about the timing of the DHSS announcement last Thursday about the change in the treatment of mortgage interest in the payment of supplementary benefit to unemployed people. We suspect that we have a difficult period ahead on unemployment figures for the next few months and we have been doing our best to ensure that unemployment is not the main item on the agenda. We have been doing reasonably well, and although the April figures were the worst since 1981 they were not perceived in that way. The May figures were in fact neutral but because of the coincidence of the British Shipbuilders and British Caledonian redundancies they were perceived as bad. Unfortunately, because the DHSS announcement was made on the same day, we gave the impression that we were uncaring about unemployment and unemployed people and we are now suffering from that.

I do not want to dwell on past events but had I been consulted in advance about the DHSS announcement I would have argued strenuously for postponement even if we had to make sacrifices on other programmes. For the future, we must have a system which will ensure that the Lord President and I are consulted in advance on all Government announcements which could have a bearing on employment, unemployment, or on unemployed people whether the news is good or bad. That would give us the opportunity to co-ordinate and ensure that we get the right message across.

SECRETARY OF STATE FOR EMPLOYMENT

A second issue which last week's announcement raises again is the relationship between DHSS and my Department which, as you know, causes me concern. Our new Restart programme which will be operating nationally by July, and under which with the present pilots some 15% of those approached are leaving the count, will make it all the more important that we co-ordinate effectively our arrangements for helping unemployed people who need help and at the same time driving off people from the unemployment count who should not be there. I believe strongly that we need to bring together all responsibility for payments, help, and fraud work for unemployed people into my Department and I will be minuting you separately later about this. In the meantime I hope we can institute immediately the new arrangements for clearing announcements with the Lord President and me which I have proposed.

I am sending a copy of this minute to the Lord President.

D Y

19 May 1986

MR2BYE

File

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

You may wish to be aware of the Secretary of State for Employment's minute of 19 May to the Prime Minister in which he says, among other things, that he is developing proposals to bring together all responsibility for payments, help and fraud work for unemployed people into his Department. I would not want you to let DHSS know that this work is afoot (though they may already be aware) but the MPO machinery of Government people may wish to know what is being developed.

N.L. Wicks

21 May 1986

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Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

*Minister for Housing,
Urban Affairs and Construction*

NBPM

7th May 1986

Dear Tony

SUPPLEMENTARY BENEFITS AND MORTGAGE INTEREST PAYMENTS

Thank you for sending Kenneth Baker a copy of your letter of 1 May to Willie Whitelaw.

I have seen the response of the Building Societies Association to your proposals. As you know, we have been prepared to acquiesce in them, in spite of their possibly unhelpful effects on housing policy, on the grounds that the BSA were prepared to accept them, though they could be expected to oppose them in public. The BSA's official response, therefore, does not come as a surpirse.

I appreciate the point you make about timing. The BSA accompanied their official response with an unsigned note on the political impact of the proposals, a copy of which I am enclosing for colleagues' benefit. This underlines the need to consider carefully the implementation of this decision.

I am copying this letter, as you did yours, to the Prime Minister, Norman Tebbit, John Biffen, John MacGregor and John Wakeham.

Yrs ever, John

JOHN PATTEN

Tony Newton Esq MP
DHSS

Confidential 17 April 1986

THE POLITICAL REACTION TO CUTTING SUPPLEMENTARY BENEFIT ON MORTGAGE INTEREST

Introduction

Owner-occupiers who otherwise qualify for supplementary benefit can obtain benefit to meet, in full, their mortgage interest payments. This may be seen as analogous to housing benefit which meets the entire rent, and indeed most other housing costs, of tenants who otherwise qualify for benefit. Supplementary benefit is paid to the individual owner-occupier and it is for him to make the payments to the building society. The building society may have no certain way of knowing that a borrower is on benefit.

Concern With the Present Arrangements

There is genuine concern that the present arrangements are inequitable between those in work and those out of work. There is also concern, therefore, that they may deter people from returning to work. However, the arguments on this would seem no different from those applying to housing benefit and the poverty trap generally.

It seems more likely that the political will to take action on this matter stemmed from the miners' strike. That the strike was able to continue for so long was perhaps partly a result of the social security system which ensured that both rents and mortgage interest could be met by a significant number of strikers. There was particular concern at a television programme which showed that some unemployed miners were obtaining supplementary benefit to meet their mortgage interest but were using the proceeds not for this purpose, but, rather, to meet living costs generally, bearing in mind that there was a £15 a week notional deduction for strike pay. Building societies were often put in a very difficult position here, when faced with a borrower who previously had been an excellent payer, who said that he had a simple choice between running up arrears on his mortgage which could be repaid as soon as the miner returned to work, and providing enough fuel and food for his family needs. Many managers took to them what was the obvious humane decision. The need to take such a decision would have been obviated had the government agreed to previous requests by building societies that supplementary benefit on mortgage interest should be paid direct to societies in the same way that housing benefit is paid to local authorities.

The Proposals

Press reports indicated that the original proposal was not to pay benefit at all for the first six months of benefit. It was felt that this would deal with the particular problem of strikers and also that it would lead to a significant reduction in the social security bill for mortgage interest. However, it rapidly became clear that this would have undesirable effects elsewhere and as a result the proposals have been watered down such that now benefit will be payable to meet half mortgage interest for six months. The saving to the social security budget is estimated at £33 million in 1983, the most recent year for which figures are available. (In passing it might be added that the government should not be relying on 1983 figures to take decisions in 1986.)

Political Reaction to the Proposals

The proposals are likely to be met with considerable opposition from both the government benches and the opposition benches as well as from outside Parliament. The opponents of the government will argue -

(a) Having led one million council tenants from renting to owner-occupation the government is now proceeding to pull the rug from under their feet.

(b) The government is far more concerned with the rich than the poor as is evidenced by the many volunteered statements from ministers that tax relief on mortgage interest, now costing £4.75 billion a year, is absolutely sacrosanct, and that savings at £33 million must be found from the ranks of the poorest owner-occupiers.

(c) It will be noted that the government's original intention was to reduce the disincentive to return to work, but the proposals, if anything, will achieve the precise opposite.

There will also be Conservative opposition to the proposal, very much in line with the Labour opposition. There will be particular concern at the effect on the government's low cost home ownership programme.

The housing pressure groups, such as Shelter, the Child Poverty Action Group and the London Housing Aid Centre will immediately criticize the proposal, in particular pointing to the sacrosanct nature of tax relief and yet another indication of the determination of the government to hit the poor when savings are needed.

The building societies will probably adopt a subdued response but their public view is very firmly stated in their response to the Green Paper on social security and this will be cited by all of those who seek to oppose the government.

Conclusion

One can well understand the chain of events that led to the present proposals. However, with any such major step it is wise to look at the final position afresh before announcing it to the world because that is precisely how the world at large will see it. The government has suffered an embarrassing series of reversals in recent years. Sometimes these may well be worth the price but, in this particular case, it must be asked whether the very small saving will justify the very hostile reaction which the proposal is bound to meet.

SOCIAL SERVICES: Review of Social Security: Pt 4

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CC BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Tony Newton Esq OBE MP
Minister of State for Social Security
and Minister for the Disabled
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

Prime Minister 2
DAS
7/5.

7 May 1986

Dear Tony,

SUPPLEMENTARY BENEFIT AND MORTGAGE INTEREST PAYMENTS

We discussed my letter of ~~6~~ at top May to Willie Whitelaw.

In view of the problems that would arise now in taking these proposals to the SSAC tomorrow, we agreed that it would be inappropriate to table these proposals at the 7 May meeting. You agreed that the proposals should be put to the SSAC at the earliest available opportunity next week. You also agreed to impress on the SSAC the need for urgency in view of the length of time which has elapsed since the proposals were aired in the White Paper. You agreed to use every endeavour to ensure that the new regulations were passed by the Summer Recess.

As always my concern was to ensure that the £6 million savings, which would be lost if the regulations did not take effect until November, were not prejudiced.

I am copying this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, Kenneth Baker, John Biffen, and John Wakeham.

Yours ever,

John

JOHN MacGREGOR

CONFIDENTIAL

SOCIAL SERVICES: Review PT4

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S E C R E T

FROM WICHKS PRIME MINISTER'S PARTY TO NORGROVE, NO. 10

THE PRIME MINISTER AGREES WITH THE LORD PRIVY SEAL AND CHANCELLOR OF THE DUCHY OF LANCASTER THAT THERE SHOULD BE A DEFERMENT OF THE SOCIAL SECURITY ADVISORY COMMITTEES'S DISCUSSION OF THE MORTGAGE INTEREST REGULATIONS.

THE COMMITTEE SHOULD NOT REPEAT NOT DISCUSS THE ISSUE ON 7 MAY.
GRS 00110
NNNN

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CCBG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
Privy Council Office
68 Whitehall
London
SW1A 2AT

6 May 1986

Dear Willie,

SUPPLEMENTARY BENEFIT AND MORTGAGE INTEREST PAYMENTS

with DN?

I have seen Tony Newton's letter to you of 1 May. I am most unhappy about the suggestion that there should be further delay in referring this matter to SSAC.

We first announced our intention to legislate on this point last June in the Social Security Green Paper. We set out our reasons there and they remain completely valid and defensible. The present arrangements weaken incentives and raise questions of fairness between those in and out of work. And they are exceptionally generous compared to other countries - a point which I understand the Building Societies Association acknowledged in their response to the Green Paper. We confirmed our intention in the Social Security White Paper in December and promised consultation with the Building Societies Association and other interested bodies. Discussions with the Building Societies Association have been progressing for some months and the proposals have been significantly modified in the light of their comments.

Given all the other problems on the Social Security programme I am extremely reluctant to see the savings from this measure jeopardised by further delay. I understand Tony's concern about the timing and if it is possible to secure the agreed implementation date without referring the issue to SSAC tomorrow then that would obviously be ideal. But if there is no alternative, then I am afraid I must press for a referral tomorrow.

I am copying this to the Prime Minister, Norman Tebbit, Kenneth Baker, John Biffen, Tony Newton, and John Wakeham.

Yours ever,

John

JOHN MacGREGOR

CONFIDENTIAL

CC BG

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

6th May 1986

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1A 2AT

D Willie,

SUPPLEMENTARY BENEFITS AND MORTGAGE INTEREST PAYMENTS

– will request if req'd.

I have read with concern a copy of Tony Newton's letter to you of 1 May. While I am content with the conclusion which he and Norman Fowler have reached on the substance of the question, I regard it as most unhelpful that it should be proposed that these proposals should be made known on 7 May.

I hope that you and other colleagues will agree that this proposal should not be proceeded with until a later date. I recognise, however, that to defer the implementation date would have unacceptable consequences for John MacGregor in public expenditure terms. Much the better solution, therefore, would be if the arrangements of the Social Security Advisory Committee can be such that the necessary consultation take place, and the regulations can still be passed by the Summer recess. With £6m of savings at stake, I hope that we can impress sufficiently upon the SSAC the need for urgency.

I am sending a copy of this letter to the Prime Minister, John Biffen, Norman Fowler, John MacGregor, Kenneth Baker, John Wakeham and Tony Newton.

Yours
Norm

NORMAN TEBBIT

LW

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CONFIDENTIAL

cc BG

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

The Rt Hon Viscount Whitelaw PC CH MC

1 MAY 1986

Dear Willie,

SUPPLEMENTARY BENEFITS AND MORTGAGE INTEREST PAYMENTS

During the review of social security we agreed, and later carried into the public expenditure programme, a proposal to reduce the level of help with mortgage interest payments under the supplementary benefit scheme.

We decided to follow this course because of the rapid increase in expenditure over the last decade and because the immediate availability of state help for those out of work creates unfairness compared with the position of low income houseowners in work.

The exact way in which we should carry out this change was left to Norman and I to settle. We have decided that the best way would be to limit the payment of benefit to 50 per cent of the interest payable for the first six months on benefit for all claimants under pension age.

This proposal has been discussed informally with the Building Societies Association who have assured us that they will not embark on a campaign against it. They have, however, made it clear that they expect to be asked for their view and that when they are asked they will say that they are opposed in principle because of the effect on mortgage arrears. By contrast, the Local Authorities Associations can be expected to be openly hostile.

In the light of the earlier Ministerial discussions and discussions with the Building Societies Association, Norman and I believe that it is right to carry forward this proposal on mortgage interest. But there is an issue of timing. We are scored to make savings of £12 million in this part year and £30 million in a full year. To achieve this year's savings, we shall have to introduce the change in September. To meet this deadline, we need to pass regulations, by the recess, on which the Social Security Advisory Committee will have to be consulted first. This means that the draft regulations will have to be referred to the Committee at their next meeting, on 7 May. This in turn will mean the proposal entering public debate on that day.

CONFIDENTIAL

E.R.

In view of the potentially controversial nature of the proposal, I felt that collegues might wish to consider whether we should proceed at what may be thought to be a particularly sensitive time, or defer the implementation date. Deferment to November would reduce the savings in the present year by £6m, but with no loss in subseqent years.

I am copying this to the Prime Minister, Norman Tebbit, Ken Baker, John Biffen, John MacGregor and John Wakeham.

Yours ever
Tony

TONY NEWTON