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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt. Hon. the Viscount Whitelaw, CH, MC,
Lord President of the Council,
Privy Council Office,
70 Whitehall,
London, SW1

13th June 1986

Prime Minister!
Are you content with these proposals?
DRN
13/6.

Dear Willie.

SOCIAL SECURITY BILL: HANDLING IN THE HOUSE OF LORDS

Tony Newton, Jean Trumpington and I came to see you yesterday about the handling of the Social Security Bill in the House of Lords. We identified three areas where we are likely to come under particular pressure in Committee

- the 2 per cent incentive for people leaving employers' pension schemes to take a personal pension

- the payment mechanism for family credit

- the social fund, particularly reviews of adverse decisions and the mixture of loans and grants.

I thought that you and other colleagues concerned would find it helpful if I recorded the conclusions which we reached.

On the 2 per cent incentive, our main intention has always been that it should be available to everybody not in a pension scheme, as part of our major aim of increasing the number of people with a pension from their job. It should not therefore be a sticking point to pay the incentive to everyone, regardless of whether they are already in a scheme: the argument for doing so rests only on administrative simplicity. Although I do not share the fears of the pension world that extending the 2 per cent incentive to scheme members would encourage young people to opt out in significant numbers, I recognise that those fears are strongly and widely held; you and Jean were both convinced that we would lose a vote on the amendment that has been put down to withhold the 2 per cent from existing scheme members. I therefore propose that we should ourselves bring forward an amendment at Report Stage to exclude people who have been in a scheme for a reasonable time from the 2 per cent incentive. Jean Trumpington would then be in a position to announce in reply to the debate in Committee that this is our intention.

On Family Credit, you indicated that the Committee was likely to vote to change our current proposals for payment with wages. As you know, we have consulted further with the CBI, National Federation of Self-Employed, the Equal Opportunities Commission and the Women's National Commission on this. They strongly reaffirmed their objections to the proposed payment mechanism. And David Young has recently stressed his concern about the possible implications for employers.

In the light of these worries - which are clearly shared by many of our own supporters - we recognised that simply to stick to our present position runs a real risk of defeat. We therefore have two main options: to offer a degree of choice as to method of payment; or to maintain our commitment in the longer term to the principle of payment with wages when technological and other changes make it easier, but to pay the credit direct in the interim.

Offering a choice of payment method has some attractions. It might defuse some of the criticism from the women's organisations; and it was in fact the proposal put forward in an official Opposition amendment during Report Stage in the Commons. But in practice it would create a confusing and administratively difficult situation:

- all employers would still need to be geared up to cope with payment of the credit, even if very few recipients were actually paid in that way. Their payroll computers, clerical systems, payslips and other documentation would still have to be amended. It seems clear that employers would not see such a concession as meeting their concerns;

- we could not operate the same rules for those paid by employers as for those who chose to receive the credit direct. For example, someone paid direct could not have the credit stopped automatically if she (or her husband) changed jobs or went on strike, whereas for someone paid through the employer that would be essential.

- it would be administratively complex for DHSS, and Inland Revenue, to be geared to handle two entirely separate systems: for instance, the tax deduction cards and the book-keeping systems would still need to be adjusted for payment by employers but we would need in addition the existing systems for payment direct.

Choice would not even fully meet the concerns of the women's organisations. The WNC and EOC both argued that the most vulnerable families could be open to manipulation by the husband under such a system.

The alternative approach would be to maintain the principle that the credit should be paid with wages when that can be done in a more simple and straightforward manner; but to agree not to proceed with this element when the credit is introduced in 1988.

Mr Fowler favours this.

We would need to make it clear that the Government had not abandoned the broad objective of linking the credit directly with pay; but that we had concluded, in the light of representations about the specific mechanisms in the Bill, that it would not be right to proceed until computerisation was further advanced and the possibility of fuller integration with PAYE had been assessed in the light of responses to the Green Paper on the Reform of Personal Taxation. This reflects the undertaking in that Green Paper to look particularly closely at the possibility of integrating the assessment element of family credit with PAYE.

On balance, I think that only the second approach is likely to meet the concern expressed and ensure that we have an efficient system in 1988. I propose, therefore, that Jean Trumpington should respond accordingly on this issue and undertake to bring forward the necesssary amendments at Report. She would, of course, stress that none of this affects the basic features of family credit itself - the better targetting of help on families with children, the improvements in the poverty and unemployment traps and the closer alignment of the assessment rules with the tax system. As the CBI and others have stressed, these core features of the reformed scheme stand independently of the mechanism for actually paying it.

So far as the social fund is concerned, I am convinced that we must hold the line on both review procedures and loans. The amendment which we made to the Bill at Report Stage introduces a new element of independence into reviews of adverse decisions by making them the function of a new inspectorate outside the normal chain of DHSS management. To go further, as some of our supporters suggested, and subject social fund decisions to formal outside adjudication would make no sense. Adjudication may be appropriate to the present system of single payments based on regulated entitlements; but it is because of the notorious flaws in that system that we are introducing a discretionary social fund in place of single payments. Formal adjudication cannot exist alongside such discretion.

On loans, we have made it clear that payments from the social fund for maternity and funeral expenses will be grants, so also will be payments under the general heading of community care. We cannot go further than this: a central feature of our proposals on the income-related benefit is to introduce greater equity between people on low incomes in and out of work. We have recognised that everybody has to budget expenditure, and that balancing needs is more difficult for people on modest incomes. But there is no reason to give people on income support grants to help with such budgeting which would be denied to those on comparable incomes in work.

Some of these issues will be reached by the Committee next Tuesday and they may all be reached in the course of next week. We therefore need to reach a conclusion on these proposals very quickly. If you or colleagues feel that a meeting is essential, we will need to arrange this as a matter of urgency.

I am copying this to the Prime Minister, members of MISC 111, Tom King and Sir Robert Armstrong.

Yours ever,
Norman

NORMAN FOWLER

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MISC 111:
Lord President
Ch Ex
Ch Sec HMT
S/S DHSS
Home Sec,
Min/Soc Sec (Mr. Newton)
CDL
Emp
Chief Whip

bc BG

10 DOWNING STREET

From the Private Secretary

16 June 1986

Dear Tony

SOCIAL SECURITY BILL: HANDLING IN THE HOUSE OF LORDS

The Prime Minister has seen your Secretary of State's letter to the Lord President of 13 June which discussed the handling of the Social Security Bill in the House of Lords.

The Prime Minister has noted the proposal that when family credit is introduced in 1988 it should be paid direct rather than with wages. The Prime Minister has asked how the costs of the two methods compare and how direct payment is to be made.

The Prime Minister would I believe wish to consider this information before any change in the proposed method of payment is announced.

I am copying this letter to the Private Secretaries to the members of MISC 111, to Jim Daniell (Northern Ireland Office) and Michael Stark (Cabinet Office).

Yours

David

(DAVID NORGROVE)

Tony Laurance, Esq.,
Department of Health and Social Security

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Privy Council Office

WHITEHALL, LONDON SW1A 2AT

16 June 1986

Dear Norman

NBPM.

SOCIAL SECURITY BILL: HANDLING IN THE HOUSE OF LORDS

Thank you for your letter of ~~13~~ 15 June. I am content with the proposals for handling the 2 per cent incentive to people to take out personal pensions. On family credit, I have also seen the letter from the Prime Minister's Private Secretary asking for further information on the relative costs of the direct and payment with wages methods of payment. I do trust that some response can be made to this request in time to enable a decision to be reached before Thursday, which - depending on other developments in the House of Lords - is when this issue is likely to be reached.

I do not personally have any strong view one way or the other as to the merits of the two possible methods of payment. I am concerned, however, that it may become clear we are certain to be defeated if this issue were to be pressed to a Division. If it is Jean Trumpington's judgement of the mood of the House on the day that that is the case, I would hope she can have authority to promise to consider the point in such a way as to avoid a vote, though we must recognise that this may well entail at the very least an implied commitment to change our proposed approach. But I think the alternative is even less attractive - our experience shows that to be defeated in this House at that stage of the Bill could have very unfortunate consequences for the outcome of later votes on other issues.

I note the constraints you outline in relation to the details of the social fund. We shall just have to see how things turn out during the proceedings on the Bill.

I am sending a copy of this letter to the Prime Minister, to the members of MISC 111, to the Secretary of State for Northern Ireland, and to Sir Robert Armstrong.

Yours
Willie

The Rt Hon Norman Fowler MP

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SOCIAL SERVICES REVIEW PT 4

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SECRETARY OF STATE FOR EMPLOYMENT

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

NBPM.

17 June 1986

Dear Norman,

SOCIAL SECURITY BILL

You copied me your letter of 13 June to Willie Whitelaw about the handling of this Bill in the House of Lords. I am content with your proposal for handling the 2 per cent incentive and agree that we should hold the line on both review procedures and loans under the Social Fund.

On family credit, I welcome your recognition that the essential benefits can be achieved without directly linking it with pay. I am therefore prepared to go along with the second of your two options, ie not to pay family credit with wages when it is introduced in 1988, but to maintain the principle that this should be done at a later stage when computerisation is further advanced. I hope, however, that you will not feel it necessary to close the door entirely on dropping the proposal later on if this seems the more sensible course. I am not clear how far computerisation might enable family credit to be paid through the wage packet without imposing an additional burden on employers, and we shall do little to reduce the concern that this proposal has understandably created among employers if we simply place them under suspended sentence.

I am copying this to the Prime Minister, members of MISC 111, Tom King and Sir Robert Armstrong.

Yours
David

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SOCIAL SERVICES
REVIEW
PT 4

CC GG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

NBPM.

18 June 1986

Dear Norman,

SOCIAL SECURITY BILL: HANDLING IN THE HOUSE OF LORDS

Thank you for the copy of your letter to Lord Whitelaw of 13 June. I have also seen the subsequent exchange between your private office and No. 10.

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I am content to go along with your judgment on the 2 per cent incentive. The full effect of this concession will clearly depend on the precise definition of "a reasonable time" and no doubt you will be consulting colleagues further before anything definite is said on this.

On family credit, I welcome the clear assurance in Mr Laurance's letter to Mr Norgrove of 16 June that there will be no net administrative cost. I understand there is, however, the risk of a net benefit cost because it will be harder to stop payment when the earner leaves his job. I would be grateful for your confirmation that any such costs will be absorbed within the totals already agreed for implementing the Review.

As to the Social Fund, I wholeheartedly endorse the line you propose on both review procedures and loans. I am particularly encouraged by the strong line you are taking against any extension of grants. This seems to me absolutely essential if we are going to contain costs, and it is important that you make our position on this quite clear to avoid building up exceptions which cannot be sustained within the resources earmarked for the Social Fund.

I am copying this letter to the Prime Minister, members of MISC 111, Tom King and Sir Robert Armstrong.

Yours,

JM

JOHN MacGREGOR

SOCIAL SERVICES Review PT4

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CC B/G.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

21 June 1986

NBPM.

Dear John.

SOCIAL SECURITY BILL: HANDLING IN THE HOUSE OF LORDS

Thank you for your letter of 18 June. I am grateful for your endorsement of my proposals. I can confirm that I do not propose to bid for additional benefit expenditure as a result of the change in the family credit payment mechanism: if any such costs result from the consequential changes in the operational rules, these would need to be taken into account when the actual benefit rates are set next year.

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I am copying this to the Prime Minister, members of MISC 111, Tom King and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN FOWLER

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SOCIAL SERVICES Review PT4

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Prime Minister 2

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

3 June 1986

Dear Norman,

When the Family Credit proposals ran into opposition in the Commons recently, you agreed to reconsider the payment mechanisms for the new credit, in consultation with key organisations. We amended my recent White Paper to reflect this situation. I am very anxious that your reconsideration should take full account of the burdens that Family Credit would place on employers.

I must say that I was not surprised at the opposition to payment through employers. This has been one of the major issues in my postbag for a while now.

As you know I fully share your concern over incentives for the low-paid, and would welcome closer integration of the tax and benefit systems. But I should not welcome "integration" achieved simply by burdening employers with extra work. Until we can devise a more effective integrated system (and I recognise that this cannot be achieved overnight) I believe we should stick with payment of family credit through your Department, not through employers.

I expect this will be the advice you receive from the rather unusual alliance which you will be consulting. But in any event I should like to be consulted before final decisions are taken.

Copies go to the Prime Minister, Nigel Lawson, John Biffen, Norman Tebbit and Paul Channon.

Yours,

David

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SBS

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JU521
Secretary of State for Trade and Industry

12 June 1986

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services
Department of Health
& Social Security
Alexander Fleming House
Elephant & Castle
London SE1

NBPM.

Dear Norman,

WILL REQUEST IF REQUIRED

I have seen David Young's letter to you of 3 June about your Family Credit proposals.

I share David Young's concern about the burden that payment through employers would place on industry, particularly on smaller firms. While I sympathise with your desire that the low paid should be able to associate their income with being employed, it seems to me that the advantages of the system are now outweighed by the disadvantages to employers which we have always recognised. I therefore join David in urging you to take this opportunity to reconsider your proposals, and should also like to be involved in final decisions.

Copies of this letter go to the Prime Minister, Nigel Lawson, John Biffen, Norman Tebbit and David Young.

Yours,

PAUL CHANNON

Paul

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