



SECRET

3

P.01486

PRIME MINISTER

Report on the Review of Social Security  
(MISC 111(85)1)

FLAG A

BACKGROUND

The reviews of provision for retirement, supplementary benefit, housing benefit and benefits for children and young people, initiated by the Secretary of State for Social Services last year have been completed, and the document circulated under cover of MISC 111(85)1 contains his proposals for new arrangements for all aspects of social security. His hope is to publish a Green Paper before Easter with a White Paper and legislation following later in the year (Session 1985/86). The draft of Volume I of the Green Paper, which has just been circulated for background information rather than discussion at this stage, illustrates the main thrust of the proposed presentation.

2. The Secretary of State's proposals amount to a very wide-ranging reform of the social security system in all its aspects. The underlying principles are set out in Section 3 and the proposals in Section 4 of his paper. The political and public expenditure implications as well as the effect on individuals will need to be carefully assessed. A great deal of work will be needed to prepare legislation for the next Session.

COLLECTIVE CONSIDERATION

3. You have agreed to the establishment of MISC 111 to consider the proposals. There are at present four meetings arranged over the next month. I suggest that the work might be divided up between them as follows:

First meeting (6 February)	- "Second reading" consideration of the programme as a whole; the timetable.
-------------------------------	--



SECRET

- Second meeting - The major elements, ie pensions; supplementary  
(13 February) benefit; housing benefit; and family support.
- Third meeting - The remaining elements, ie 16-18 year olds and  
(25 February) students; unemployment benefit; death grant,  
maternity and widows' benefits; industrial  
injuries; restructuring of contributions.
- Fourth meeting - Final consideration of the draft Green Paper,  
(5 March) presentation and handling.

If this scheme proves too ambitious, we will arrange further meetings as necessary.

4. Given the importance of the subject, you will wish to give the Cabinet an opportunity to discuss at least the main issues before matters become too far advanced. If the timetable in paragraph 3 is adopted, Cabinet discussion on 28 February would be convenient. MISC 111 would have gone over all the ground and the Cabinet's views would be available to influence the drafting of the Green Paper and guide the final MISC 111 discussion.

#### MAIN ISSUES

5. On this basis, the main issues for the first meeting of MISC 111 are:
- i. what is the Group's assessment of the proposals as a whole;
  - ii. are there any particular proposals about which members of the Group have major reservations;
  - iii. what should be the timetable.

#### The objectives of reform

6. Section 3 of the paper sets out the principles of reform:



SECRET

i. The "twin pillars", ie the State providing a basic level of support, with individuals supplementing that level through working, saving and occupational arrangements.

ii. Helping those most in need.

iii. Helping people to help themselves, by encouraging employment.

iv. Simplification so that the system can be more easily understood and run more economically.

7. The Group may not find it difficult to endorse these general principles, which sound attractive. There are however two basic questions which need to be asked at this stage about the package:

- does it go far enough in reducing public expenditure?
- will it command support from Parliament and the public?

#### Financial effects

8. The financial effects are summarised on pages 21 to 23. The abolition of SERPS provides a very large saving in the longer term (£22 billion by 2033) but nothing significant until the 1990s. The remaining proposals appear to be at best cost-neutral. Any savings from withdrawing supplementary benefit from 16 and 17 year olds is likely to be more than offset by the proposed expansion of youth training. The family credit scheme appears to have a net additional cost, unless there are to be offsetting savings by holding down child benefit or reductions as yet unspecified. There appear to be only modest savings (around £100 million) on housing benefit expenditure of over £4 billion.

←  
Presumably  
the rate of  
credit could  
lower.

9. Bearing in mind the pressures likely to arise in the remaining public expenditure surveys of this Parliament, the Group will wish to consider whether the proposals should be reworked within more



SECRET

demanding cost constraints. Such radical proposals are bound (see below) to arouse considerable opposition in any case. Would greater savings significantly increase that opposition?

Likely support for the proposal

10. Support for the proposals will inevitably be influenced to some extent by the numbers of gainers and losers, on which information is provided in the Appendices. Most of the proposals have direct losers, eg Supplementary Benefit: 250,000 claimants will lose entitlement to benefit altogether, 80 per cent of pensioners will get less help; Housing Benefit: up to 200,000 people will lose all help with rents (and 1,000,000 with rates). Others will gain, but it is the losers and their lobbies who will make a fuss. As the Group discuss the detailed changes they will need to make a judgement as to whether the benefits are worth the inevitable controversy.

Particular proposals: first reactions

11. You will wish to avoid getting into details of the proposals at this first meeting. But it would be helpful if members of the Group could register now any major reservations about particular proposals. This will assist in judging how realistic the timetable is, and how to plan the business for future meetings. You may find it convenient to run over the main headings as follows:

i. abolition of SERPS

ii. index linking of public sector pensions limited to 5 per cent for new entrants

iii. supplementary benefit - switch away from special payments to simplified income support, with cash limited discretionary "social-aid" fund

iv. housing benefit - rent and rates to be met in full for all with net income at supplementary benefit level (not just those receiving Supplementary Benefit); tapered support above that level



SECRET

- v. two-tier family support - universal child benefit plus family credits to replace family income supplement and benefits such as free school meals.
- vi. withdrawal of means-tested benefits from 16-18 year olds and students
- vii. unemployment benefit - for six months only but at a higher rate
- viii. minor proposals (death grant, maternity grant, widows' benefits, industrial injuries)
- ix. restructuring national insurance contributions.

#### Timetable

12. Mr Fowler's aim is to publish the Green Paper before Easter and to legislate next session. On both counts this is a very tight timetable allowing very little time, taking account of the scope of the proposals, for Ministerial discussion before the Green Paper, or for consultation and detailed work on proposals before legislation has to be drafted. Depending on the discussion so far, you may wish either to confirm Mr Fowler's timetable as a working target, or to revise it. It seems inevitable that any delay in publishing the Green Paper will effectively close off the option of legislating next Session.

#### HANDLING

13. You may wish to begin by saying that the purpose of this meeting is to have a "second reading" discussion and to look at the timetable. Subsequent meetings will go into the elements in more detail. The Secretary of State for Social Services should then introduce his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury will wish to contribute on the public expenditure aspects, and the Lord President, the Chief Whip and the Paymaster General on the public and Parliamentary impact. The Secretary of State for the Environment will have particular comments on Housing Benefit, the



SECRET

Secretary of State for Education and Science on young people and the Secretary of State for Employment and the Minister without Portfolio on unemployment and supplementary benefit. On the timetable, the Lord President and the Chief Whip may in particular have views on the Parliamentary aspects.

#### CONCLUSIONS

14. You will wish to reach conclusions on:

- i. how far the Group are prepared to endorse the overall scope and balance of Mr Fowler's proposals;
- ii. whether there are any particular proposals on which members of the Group wish to register major reservations at this stage;
- iii. whether the proposed timetable is approved (Green Paper by Easter, legislation next Session).

15. Depending on progress, you may wish to say that the next meeting will consider in more detail the proposals on pensions, supplementary benefit, housing benefit and family support, that the remaining proposals will be taken at a subsequent meeting and that it would be sensible to plan for a Cabinet discussion of the broad principles at its meeting on 28 February.

P L GREGSON

5 February 1985