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Ref. A085/1242

PRIME MINISTER

Social Security Review

(C(85) 9)

FLAG A 1. The Ministerial Group on Social Security (MISC 111) completed its consideration of the outcome of Mr Fowler's Social Security Review on 1 April after seven meetings. C(85) 9 reports the outcome to Cabinet for its agreement. The Minister for Social Security, Mr Newton, has been invited to attend for this item.

2. In addition to the memorandum, Mr Fowler is providing a presentation for Cabinet colleagues in the Cabinet Room immediately before tomorrow's Cabinet meeting. This will be an occasion for setting the background and explaining the proposals to colleagues. Substantive discussion should be left until the item is reached on the Cabinet agenda.

3. Bearing in mind the other items on the agenda and the time of your departure for the Economic Summit, it is unlikely that the whole package can be dealt with in the Cabinet. There is in any case a difference of view between the Chancellor of the Exchequer and the Secretary of State for Social Services about the abolition of the State Earnings Retired Pension (SERPS) which was discussed at your meeting on Monday evening. You will probably wish to put that proposal on one side until the next Cabinet and deal with as many as possible of the other proposals.



MAIN ISSUES

4. On the assumption that the pensions proposals are dealt with next week the main issues for the Cabinet are:

- a. whether the major proposals are agreed on
 - i. Family Support
 - ii. Supplementary benefit and housing benefit
- b. whether the remaining, lesser proposals are agreed
- c. whether (apart from pensions) the package as a whole is acceptable, in particular the total cost savings and the overall impact in terms of gainers and losers.
- d. whether Mr Fowler's proposals for a Green Paper later this month, legislation next session and implementation from April 1987 are agreed, subject to subsequent discussion of action on pensions.

The proposals agreed by MISC 111 are summarised in the Annex to this brief.

Family Support

5. The main proposal on family support is to make a major improvement in the effectiveness of support for families by replacing Family Income Supplement (FIS) with a Family Credit scheme. This will run alongside universal child benefit, be paid through the wage packet, with eligibility assessed on the same lines as supplementary benefit, and comprise a flat amount



plus additions per child. MISC 111 was concerned about the likely level of take-up. It concluded that take-up was unlikely to be much above 70 per cent at which there would be a net cost of £100 million a year.

6. This cost will be met by holding down increases in Child Benefit (CB) though without making any changes in the basis of child benefit entitlement. MISC 111 favoured a CB of £7.00 per week from the present year, with adjustments in FIS to avoid widening the unemployment trap, and limited upratings thereafter (not necessarily every year).

7. MISC 111 also agreed to withdraw benefit in kind (free school meals and free milk), except for formula milk, from those on family credit.

Supplementary Benefit and Housing Benefit

Income Support

8. The existing supplementary benefit (SB) scheme is too complex and over-regulated. Mr Fowler proposes to replace it with a simpler income support scheme, providing assistance at set rates to a limited number of different categories of claimant, and a cash-limited, fallback social aid scheme for emergencies and those with special problems. This is a radical simplification. Changes in the capital disregard and the earnings rule for the long-term unemployed were also agreed by MISC 111. The new scheme will not include extra payments related to a detailed assessment of individual circumstances. Some aspects of this, eg heating allowances, are likely to be controversial.

9. For housing benefit (HB) the proposal is to bring the tests and entitlements for those in and out of work into line (and to have the same tests as for the new supplementary benefit income support scheme) and to withdraw entitlements on a combined taper for rent and rates. MISC 111 discussed at some length the



principle of 100 per cent assistance with rent and rates. On rates it concluded that the maximum level of assistance should be restricted initially to 80 per cent so that all ratepayers would have to make a personal contribution to their rates. On rents it considered whether maximum levels of rent should be set above which benefit would not be paid. It concluded that this would be too complicated. The Chancellor of the Exchequer then urged a maximum level of rent assistance of, say 95 per cent. I understand he is not pursuing this. Control of housing benefit rent expenditure will therefore rest on reimbursing directly only 80 per cent of local authorities housing benefit expenditure, on streamlining and strengthening their powers to act on unreasonable rents, and by taking a reserve power to impose a rent cap on local authorities which are judged to behave unreasonably.

11. The Secretary of State for the Environment may question the proposal not to provide SB recipients with assistance with mortgage interest payments for their first six months out of work (he wrote to Mr Fowler about this on 26 April).

Flag B

Mr Jenkin's concern is that such action will deter first time house buyers and be criticised by the building societies as adding to their "social responsibilities". The argument in favour of the proposal, on the other hand, is that it partially simplifies the unemployment trap and will save £60 million a year. The only logical alternative would be to provide mortgage interest assistance through housing benefit for both those in work and those out of work. This would be much more costly. (Mr Jenkin's letter also raised with Mr Fowler an issue about the level of SB assistance with water rates. I understand that this has been settled between them, in favour of Mr Fowler's approach.)

Mr Fowler
has replied
Flag C



Other Proposals

12. MISC 111 also agreed proposals on unemployment benefit, students and young people, widow benefit, death and maternity grants, and maternity allowance (see C(85) 9, paragraph 21, and Annex to this brief). They also agreed to make no change in the scheme of industrial injuries benefits. Saving of £50 million a year and upwards will accrue.

The Package: Savings and Impact

13. Even without taking account of action on pensions, the proposals taken as a whole amount to a radical and significant restructuring of the social security system. The main resistance will come from those who perceive themselves as losing from the changes (see Annex) including:

changes in supplementary benefit will produce about 2 million losers (and 1½ million gainers);

changes in housing benefits will produce 7 million losers (because of the loss of entitlements to 100 per cent reimbursement of rates; 5 million of the losers will lose less than £2 a week);

abolition of death and maternity grants will affect 500,000 or so people a year in each case;

Undoubtedly much will be made of hard cases.

14. The savings likely to be made will be very relevant to whether the controversy is worthwhile. As proposed, the structural changes also save £800 million in 1987/88 and £1 billion in 1988/89. They will also save 3,000-4,000 staff and £20 million in administrative costs. During the course of MISC 111 discussions, the Chancellor of the Exchequer and the



Chief Secretary argued for even greater savings in the early years (the Chancellor argued at one stage for up to £2 billion) and it is the case that savings not made now may be very difficult to achieve for a number of years. Against this Mr Fowler argued that greater savings should be discussed separately in the public expenditure round and that, in any case, to attempt to achieve too great savings would arouse too great controversy and jeopardise the whole exercise. The Chancellor's present view, as you know, is that he is not disposed to press for savings greater than those already identified, but that he is concerned that, in PSRB terms, the savings will offset the short term costs of abolishing SERPS.

Next Steps

15. Mr Fowler proposes that, following Cabinet's decisions, he should publish the proposals in a Green Paper before Whitsun. (A draft of volume one of the Green Paper is attached to C(85) 9). The intention is then to legislate next session and to implement proposals from April 1987. An earlier implementation (eg November 1986) would not allow adequate time to prepare instructions and guidance. Even to meet the April 1987 date, legislation next session is vital and there is already much less time than is desirable to develop and draft considered legislation.

HANDLING

16. You will wish the Secretary of State for Social Services to introduce his memorandum very briefly, given the presentation earlier in the morning. There is potentially a lot to discuss and you may like to suggest that, putting pensions on one side, the Cabinet should consider the major proposals on family support, supplementary benefit and housing benefit, other proposals, the overall package and presentation and next steps in that order. The Chancellor of the Exchequer will wish to



contribute on overall savings in particular and the Lord President on presentational and legislative implications. Otherwise you may wish in particular to let those Ministers who have not been on MISC III contribute (ie the Lord Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Energy, Defence, Scotland, Wales, Transport and Northern Ireland, the Lord Privy Seal, and the Chancellor of the Duchy of Lancaster).

CONCLUSIONS

17. You will wish the Cabinet to reach conclusions on:
- a. the major proposals on family support, supplementary and housing benefits;
 - b. the other lesser proposals;
 - c. the acceptability of the package as a whole; subject to subsequent discussion of pensions;
 - d. presentation - including in particular the publication of the Green Paper, and public announcement;
 - e. legislation and implementation.

Robert Armstrong

(agreed by)

ROBERT ARMSTRONG

and signed in his absence)

1 May 1985



CDW

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From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/1234

1 May 1985

Dear Robert

Social Security Review: Presentation to Ministers
Before Cabinet on Thursday 2 May

I wrote to you on 19 April about the presentation before Cabinet by the Secretary of State for Social Services on the outcome of the Social Security Review, which was to take place on Thursday 25 April.

That presentation will now take place before Cabinet at 8.45 am on Thursday 2 May in the Cabinet Room. All members of the Cabinet are expected to attend.

I am sending copies of this letter to the Private Secretaries to all members of the Cabinet, the Chief Whip, the Paymaster General and the Minister for Social Services.

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[Signature]

(R P Hatfield)
Private Secretary

R C Stoate Esq

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