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NOTE OF A MEETING ON THURSDAY 11 SEPTEMBER IN THE CHIEF SECRETARY'S OFFICE TO DISCUSS THE 1986 PUBLIC EXPENDITURE SURVEY: SOCIAL SECURITY

Present:

Chief Secretary	Secretary of State for Social Services
Mr F E R Butler	Minister of State for Social Security
Miss Peirson	Mr France
Mr C D Butler	Mr Mayne
Miss Noble	Mr Chislett
Mr P Gray	Mr Wallace
Mr Gibson	Mr Laurance
Miss Rutter	

The Chief Secretary said that since he had written to the Secretary of State on 25 July expenditure on the social security programme during the Survey period was now projected to be much higher. He had been faced in June with economic and estimating additions of £800 million in 1987-88 rising to £1800 million in 1989-90; now the latest revisions meant that the additions were £1,400 million in 1987-88 rising to £2,500 million by 1989-90. These higher totals had come as a severe blow. In his July letter he had described the estimating changes as enormous and had made clear that he was only prepared to agree to additions where they were unavoidable and to the extent that they could not be met by the most vigorous search for savings. After the latest substantial increases, the same message had to be repeated more strongly.

2. The Secretary of State for Social Services said that forecasts of social security expenditure varied from month to month; he understood that the latest forecast for 1986-87 was £200 million lower than last month. So the estimating increase could come down, though he accepted that there were clearly going to be higher figures than he had predicted when he wrote to the Chief



Secretary in June. The Secretary of State for Social Services also drew attention to the unrealistic unemployment assumption (3 million) on which the Survey figures were based; this was producing a higher estimating and lower economic change figure than would be the case with a realistic unemployment assumption. Other factors underlying the latest estimating increase were higher rents and higher take up of disability benefits both of which were clearly unavoidable.

3. The Chief Secretary said that he agreed that there was a need for a full understanding of the reasons for the latest increase. However, whatever the explanation the latest figures were most unwelcome news. Their size had meant that he had been obliged to take an even tougher attitude towards other programmes, so it would not be possible for him to entertain any increases on the social security programme which were at all avoidable.

4. The Chief Secretary then proposed that the meeting should consider the Secretary of State's policy bids and the note by officials on Severe Disablement Allowance, and then look at the possible savings packages identified by officials.

#### PROPOSED ADDITIONS TO PROGRAMME

5. The Chief Secretary accepted the following bids (references are to the attached updated version of the table accompanying the Chief Secretary's letter of 25 July):

B1; Extension of Invalid Care Allowance;

B2; Effect of Economic Assumptions;

B3; Estimating Changes;

B4; Housing Benefit Start Up Costs.

B7; Extension of Severe Disablement Allowance (SDA).

6. The Secretary of State for Social Services said that the costs here depended on the timing of the ruling by the European Court of Justice (ECJ), which was expected in the first half of next year. The issue was whether the discrimination inherent in



the former Housewives Non-Contributory Invalidity Pension (HNCIP) had been repeated in the transitional arrangements for SDA. The judgement only affected past cases (those who had been unable to satisfy the discriminatory housewife's duties test for HNCIP); it would not widen the rules of entitlement for SDA. It was very unlikely that the UK would win the case. The Chief Secretary said that he was prepared to make provision now for the likely loss of this case on three conditions. First, it should be clearly agreed now that there was no question of going beyond "contingency 1" in the note by officials unless there was a clear legal requirement. Secondly, if the court case was won, DHSS would not claim the savings. Thirdly, nothing should be said before the judgement had been given to suggest that provision had been made for it. The Secretary of State for Social Services said that he could accept the second condition but would need to consider the first carefully. Regarding the third condition, he drew attention to the credit which the Government had earned for announcing extra provision for invalid care allowance the day before the European Court had given its judgement in the recent Drake case. The Chief Secretary said that his concern was that there should be no announcement till it was absolutely certain what the judgement was going to be. The Secretary of State for Social Services asked if the Chief Secretary could write setting out the proposed conditions; he had not yet been able to consider fully the note by officials.

B5; Social Fund Start Up Costs.

7. The Secretary of State for Social Services said that this bid was needed to get the Social Fund going in its first year of operation when repayments would be lower. Unless the Fund was pump-primed in this way it would be artificially constrained. The whole concept of the Social Fund demanded that it should be introduced in a smooth manner. The Chief Secretary said that he could not understand why this pump-priming had not been allowed for in the original social security review arithmetic. In discussion, it was pointed out that during the review the Social Fund costings were based on the concept of an on-going fund; this extra bid was merely a cash flow requirement in the first year of



the Fund's operation. Furthermore, it was offset by the saving offered on the uprating date. On the other hand, it was pointed out that the proposed saving was not linked in any way to the extra Social Fund costs and should not be used to justify them. The Treasury had not seen any calculations to justify the scale or profile of the extra expenditure proposed in 1988-89. The Secretary of State for Social Services agreed that the Treasury should have more detailed estimates. He added that the prize of achieving the successful introduction of the Social Fund was a major one. The bid represented an investment in the Fund, which was a means to bring current expenditure on single payments under control; otherwise, if the Fund was not successful, there would be an inevitable return to a highly regulated system of single payments on which expenditure would escalate. The Minister of State for Social Security pointed out that during the passage of the Social Security Bill the Social Fund had come in for particularly strong criticism. Concern had been expressed that the Social Fund might be exhausted before the end of the year and that the level of funding represented a sharp cut back on expenditure on single payments. It was essential that the Social Fund had a trouble free introduction and funding difficulties were avoided. The Chief Secretary said that he wholly agreed with the need for the Social Fund. However, he simply could not accept this extra bid on top of the massive estimating increase he was facing for all years of the Survey period. He was not prepared to consider any addition to the Social Fund for 1988-89 until the review measures had been fully recosted.

B6; Review Related Contingency Bid.

8. The Secretary of State for Social Services said that £11 million of this bid in each of the Survey years related to expenditure on funerals and maternity. Of this, £7 million was due to revised estimates of likely expenditure based on more up to date data; the remaining £4 million was made up of two elements of £2 million each for an increase in the amount of the maternity payment from £75 to £85 and the passporting of housing benefit recipients to the maternity payment grant. The Chief Secretary said that he understood the make-up of the bids. He might be



prepared to consider the extra £7 million for 1987-88 if a saving was offered for this year and it was agreed that the costs in the later Survey years were absorbed in the review recosting. As far as the two smaller bids were concerned, he was simply not in the business this year of accepting these sorts of avoidable increases. The Secretary of State for Social Services said that he noted the Chief Secretary's position and would consider each of the bids again.

B8; Minor Bids.

9. The Secretary of State for Social Services said that the bid to allow Easter school leavers to continue for 1987 to receive supplementary benefit was withdrawn. The other bids were; to uprate the pensions of British emigrants to Canada; to allow people reaching age 75 to retain mobility allowance at a frozen rate for 5 years; to allow arrears of supplementary benefit to be paid for more than 52 weeks where there had been an official error, and to provide for the continued funding after 1987-88 of voluntary sector insulation projects currently funded by single payments.

10. The Chief Secretary said that he had carefully considered the arguments for each of the other bids and had no doubt that a case could be made then. However, in the light of the enormous pressures he was facing in this Survey he simply could not entertain any of the proposed bids. He did not see how the bid for British emigrants to Canada could be justified when there were many demands on limited resources from deserving UK residents. The Canadian Government could improve the position of poorer UK emigrants itself by changing its lengthy residence qualification for means tested benefits. As far as mobility allowance was concerned, he again recognised the political difficulty, but everyone had been aware of the position since 1978, when the age limit of 75 had been introduced. There could also be significant long-term costs. Again, he could not agree to this bid. He wondered whether the arrears bid was really a high priority. On energy conservation grants, he recognised that Ministerial statements had been made about alternative arrangements once



provision for single payments had ended, and he would be prepared to consider this bid if a specific offsetting saving was offered. The Secretary of State for Social Services said that in effect the Chief Secretary's reply amounted to a nil response on all the bids. He would reconsider the bids in the light of this.

#### B9; Administration

11. It was agreed that the consideration of the administration bid should be remitted to officials for further work. Mr F E R Butler suggested that officials should look at the implications of reducing the running cost bid by £30 million. The scope for major reductions in the capital bid also needed to be considered.

#### **PROPOSED REDUCTIONS TO PROGRAMME**

12. The Chief Secretary said that he accepted the reductions proposed by the Secretary of State - C1; Uprating Date Saving and C2; Minor Savings - though he noted that no specific measures had yet been identified to produce the minor savings. In discussion, it was noted that the reductions were linked to the minor bids; if the Treasury had been willing to accept these then savings would have been offered. The Secretary of State for Social Services said, however, that he had no definite proposals to make.

#### **FURTHER SPECIFIC PROPOSALS BY CHIEF SECRETARY**

#### C3; Deferral of Abolition of the Earnings Rule for Pensioners

13. The Chief Secretary said that the Government was committed to abolishing the limit as soon as it could, but without any timetable. The limit had been raised to £75 while the Government was in office, so its record was defensible. In view of the pressures he was under as a result of the Secretary of State's demand-led bids, it was essential that this bid was deferred. The Secretary of State for Social Services said he would reconsider this bid.



C4; Extending to 12 months Benefit deduction for Voluntary Unemployment.

14. The Secretary of State for Social Services said that the benefit deduction had just been extended from 6 weeks to 13 weeks; he could not see how a further extension could possibly be justified. Furthermore, the savings quoted in the table (£160 million) were exaggerated; he believed the figure was more in the range of £70 to 90 million. Mr Wallace pointed out that the savings could be as low as £50 million. The Chief Secretary said that the enormous increase in the social security programme was itself a justification for savings measures. The Minister of State for Social Security said that if the penalty for voluntary unemployment was too severe it was likely that the adjudicating authorities would determine that shorter periods were more appropriate. To achieve the deduction for the full period, discretion would need to be taken away from the adjudicating authorities. The extension from 6 to 13 weeks had been criticised by both the Opposition and Government backbenchers during the Committee stage of the Social Security Bill and a further extension would lead to even greater criticism. The Chief Secretary replied that the Government would face even greater criticism if its commitment to controlling public expenditure appeared to have gone astray.

C5; Further Policy Savings.

15. The Secretary of State for Social Services asked whether the Chief Secretary was seeking savings only for 1989-90, or was anxious also to achieve reductions in the early years and particularly 1988-89. He did not see that it made sense to get into a major political row in the run-up period to an Election to secure savings in the early years. The Chief Secretary said that he was concerned about all years in the Survey period; when the Public Expenditure White Paper was published all three years of the Survey would be closely examined. He added that since July there had been major estimating increases in all three years; there was no question of only being concerned about large savings



in 1989-90. He required large savings in 1988-89 as well. It was confirmed that the savings packages had been constructed on the basis of requiring primary legislation only during the 1987-88 session, with the measures to take effect from January 1989.

15. The Chief Secretary then asked about outstanding measures from the 1985 Survey: the proposed six month 50 per cent reduction in mortgage interest eligible for supplementary benefit and the introduction of a capital cut off (£6000) for eligibility for housing benefit. The Secretary of State for Social Services said that on mortgage interest the report of the Social Security Advisory Committee (SSAC) had now been received. He did not think that he would be able to get the full 6 months period for supplementary benefit savings through the House. It would be possible to go down from 6 months to 3 months and still secure £20 million savings rather than the £30 million hoped for. The Chief Secretary said that the SSAC report was entirely predictable and no basis on which to move away from the original intention. It would probably be necessary to consider this with colleagues.

16. The Secretary of State for Social Services said that the housing benefit capital cut off was a difficult issue. There was no difficulty about introducing the cut off for April 1988, but he now understood that there was a doubt as to whether the Social Security Act allowed for introduction of the cut off from April 1987. The other problem related to the local authorities. At present they were close to walking out from negotiations over the changes involved in the reformed housing benefit scheme and the introduction of the capital rule at short notice could trigger a walk out. It would be necessary to announce the measure, send it to SSAC, get the regulations through the House, issue instructions to local authorities and so on; he doubted if it was now administratively feasible. Furthermore, the politics of the capital cut off were bad; it would result in losses for 320,000 pensioners. He would write to the Chief Secretary and fully explain the problems in the next few days.

17. The Secretary of State for Social Services then asked whether the Chief Secretary had considered the timing of the statement



giving details of the April 1987 uprating in relation to his search for savings on the social security programme. The uprating announcement would be made early in the week beginning Monday 20 October, after the September RPI was announced on 17 October. This meant it would be necessary to agree measures affecting the uprating in advance of the final Cabinet discussion of public expenditure. Some of the measures in the packages identified by officials were very controversial, for example, the proposal not to increase child benefit in 1987-88. The Chief Secretary said he was fully aware of the timing problem. Obviously it would be necessary to settle any savings measures relating to the uprating early on, but there were many measures in the savings packages identified by officials which were not related to the uprating.

18. There was then a brief discussion about some of the savings measures identified by officials. The Secretary of State for Social Services said that the politics of introducing an earnings rule for widows were very difficult, even though he acknowledged that their present treatment was generous. Proposals to restrict widows benefit had been considered during the reviews and abandoned as being politically impossible. All the other measures in the packages had been rejected in the past and presented great political difficulties. The increase in the housing benefit taper would affect many pensioners; the proposal to only increase the housing benefit needs allowance in line with retirement pension offered a small return for a measure which would be strongly criticised. He also noted the high administrative costs associated with the proposal to remove entitlement to unemployment benefit for period covered by holiday pay. The Chief Secretary said that it was easy to reject the measures as being politically difficult but the plain fact was that large savings were essential. For a measure like the housing benefit needs allowance proposal there would be no cash losers. And there were arguments in favour of the other measures. He thought that there was a good case for offsetting occupational pensions above £35 against unemployment benefit, even though he recognised the sort of people it would particularly affect. The Secretary of State for Social Services said that he had not considered the measures in any detail but would now do so. He added that he thought a more



defensible way of achieving saving was to do something about those people claiming unemployment and supplementary benefit but who were not really searching for jobs. The Chief Secretary said that they would need to discuss the report by officials on fraud and abuse; this showed that substantial benefit savings were clearly being lost. The Secretary of State for Social Services said that this was because the posts had not been properly ring fenced.

19. It was agreed that there would be a further bilateral consideration of outstanding issues on the social security programme, probably at the same time as the further bilateral on health issues.

*Jim Bull*

HM TREASURY

16 September 1986

Circulation: PS/Secretary of State for Social Services  
 PS/Minister of State for Social Security  
 Officials present  
 Principal Private Secretary  
 PS/Sir Peter Middleton  
 Mr Anson  
 Mr Turnbull  
 Miss King  
 Mr Tyrie





**SECRET**

**DHSS: SOCIAL SECURITY**  
(£ million except where stated)

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<b>A. Expenditure Baseline*</b>				
A1. Benefit expenditure	40969	42458	43834	44930
A2. Administration -				
- running costs	1634	1586	1612	1653
- other	177	153	171	175
Total baseline (excluding LA relevant current and IFR items)	42780	44197	45617	46758
<b>B. Proposed Additions</b>				
B1. Extension of ICA (already agreed)		55	55	51
B2. Effect of economic assumptions		333	392	734
B3. Estimating changes		1052	1124	1747
B4. Housing benefit start up costs		25	-	-
B5. Social Fund starting costs		-	25	-
B6. Review related contingency bid		11	40	40
B7. Extension of SDA		41	11	9
B8. Minor Bids		5	7	11
B9. Administration				
- normal work		147	156	169
- operational strategy		32	68	43
- reform implementation		97	-6	-21
(of which running costs)		(215)	(152)	(156)
Total		1798	1872	2783
<b>C. Proposed Reductions</b>				
(i) Identified by Departmental Minister				
C1. Delay 1988 uprating by 1 week		-	-25	-
C2. Other minor reductions		-5	-7	-11
Sub-total		-5	-32	-11
(ii) Further specific proposals by Chief Secretary				
C3. Defer earnings rule abolition of pensioners				-100
C4. Extend to 12 months benefit deduction for voluntary unemployment from Autumn 1987			-160	-160
C5. Further policy savings				-500
<b>TOTAL</b>				-771