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PRIME MINISTER

26 JUNE 1984

BENEFIT REVIEW: BRIEF FOR MEETING WITH NORMAN FOWLER

AT YOUR MEETING WITH NORMAN FOWLER, YOU COULD DISCUSS WITH HIM THE PRINCIPLES TO BE ADOPTED IN THE BENEFIT REVIEWS, AND A FEW OF THE OPTIONS.

GENERAL PRINCIPLES

THE CONTRIBUTORY PRINCIPLE. PEOPLE SHOULD FEEL THE COST OF PROVIDING BENEFITS DIRECTLY IN THEIR PAY PACKETS. WHERE POSSIBLE, WHEN BENEFITS ARE PAID BY THE STATE THEY SHOULD BE RELATED TO CONTRIBUTIONS. PEOPLE SHOULD BE ENCOURAGED TO INSURE THEMSELVES FOR INCOME ABOVE THE BASIC STATE PROVISION. THE PRINCIPLE IS EASIEST TO ADOPT FOR PENSIONS, WHERE MORE OF THE BURDEN ABOVE THE BASIC STATE PENSION COULD BE SUPPLIED BY OCCUPATIONAL AND PRIVATE FUNDS.

TARGETING BENEFITS. BASIC BENEFITS SHOULD PROVIDE A SAFETY NET FOR THOSE IN NEED. NON-CONTRIBUTORY BENEFITS COULD BE MEANS-TESTED AND TAPERED SO THAT THOSE WHO DO NOT NEED THEM DO NOT GET THEM. CHILD BENEFIT NOW GOES EVEN TO MILLIONAIRES, AND THE AVERAGE HOUSEHOLDER IN THE TOP ONE-FIFTH OF INCOME-EARNERS GETS £540 A YEAR IN CASH BENEFITS. ??

THE UNEMPLOYMENT AND POVERTY TRAPS. PEOPLE SHOULD ALWAYS BE BETTER OFF IN WORK THAN OUT OF WORK. PART OF OUR STRATEGY

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FOR JOBS IS TO REMOVE THE CASH BARRIERS TO SEEKING EMPLOYMENT. RAISING THRESHOLDS FOR TAX IS HALF THE ANSWER. THE OTHER HALF IS TO HAVE A REALISTIC TAPERED REDUCTION IN BENEFITS AS INCOME RISES. PEOPLE SHOULD BE AT LEAST 30P BETTER OFF FOR EACH EXTRA POUND THEY EARN.

SAVINGS. ANY REFORM SHOULD YIELD PUBLIC EXPENDITURE SAVINGS SO THAT PEOPLE CAN BE TAKEN OUT OF TAX.

LOSERS. THERE WILL BE SOME LOSERS IN ANY MAJOR REFORM OF TAXES AND BENEFITS, BUT THE POOREST SHOULD NOT BE MADE POORER BY THAT REFORM; NOR SHOULD ANY GROUP OF LOSERS FIND THEMSELVES DRAMATICALLY WORSE OFF.

SIMPLICITY. THE TAX-BENEFIT SYSTEM SHOULD BE AS SIMPLE AS POSSIBLE, AND SHOULD BE EASY FOR ADMINISTRATORS AND BENEFICIARIES TO UNDERSTAND. THERE ARE 77,000 DHSS SOCIAL SECURITY ADMINISTRATORS, AND ANOTHER 58,000 HANDLING PERSONAL TAX IN THE INLAND REVENUE. REDUCING THE NUMBER OF BENEFITS AND REMOVING PEOPLE FROM TAX COULD LEAD TO MAJOR ADMINISTRATIVE SAVINGS.

Co-ORDINATING UNIT

THE Co-ORDINATING UNIT HAS THE TASK OF SEEING THAT SUFFICIENT OPTIONS ARE EXAMINED AND THAT THE DIFFERENT REVIEWS DO NOT TRIP OVER EACH OTHER.

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IT COULD LOOK AT:

PRIVATE PROVISION. PRIVATE SAVINGS OR INSURANCE WOULD BE WELL-SUITED FOR TOPPING UP A BASIC STATE PROVISION (THAT IS WHY SERPS IS UNNECESSARY) OR FOR COVERING SPECIFIC AND FORESEEABLE COSTS (SUCH AS FUNERAL OR MATERNITY EXPENSES). FOR THE POOREST, SUPPLEMENTARY BENEFIT WOULD MEET THESE COSTS; FOR EARNERS, PRIVATE INSURANCE WOULD BE BEST.

OTHER CANDIDATES FOR PRIVATE PROVISION ARE SICKNESS BENEFIT AND THE CONTRIBUTORY INDUSTRIAL INJURIES SCHEME.

RAISING INCOME TAX THRESHOLDS. THE OTHER SIDE OF THE BENEFITS COIN IS TAXATION. THE ADMINISTRATIVE AND BENEFIT SAVINGS OUTLINED ABOVE COULD HELP TO FINANCE A FURTHER INCREASE IN TAX THRESHOLDS, WHICH WOULD TAKE MORE PEOPLE OUT OF TAX AND FURTHER WEAKEN THE POVERTY TRAP.

SIMPLER ADMINISTRATION. IT IS POSSIBLE TO SIMPLIFY THE TAX-BENEFIT SYSTEM WITHOUT DESTROYING ITS SENSITIVITY TO INDIVIDUAL NEEDS. THE OPTIONS BELOW ALLOW THE NUMBER AND COMPLEXITY OF BENEFITS TO BE REDUCED. AT THIS STAGE, WE SHOULD ENCOURAGE THINKING ABOUT WAYS OF MAKING A SUBSTANTIAL REDUCTION IN THE COMPLEXITY AND COSTS OF ADMINISTRATION.

EXISTING BENEFITS COULD BE HANDLED BY A SINGLE OFFICE RATHER THAN BY A MULTIPLICITY. UNEMPLOYMENT BENEFIT COULD BE HANDLED IN DHSS OFFICES RATHER THAN SEPARATELY. IN DUE

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COURSE, HOUSING BENEFIT COULD ALSO COME BACK TO BENEFIT OFFICES; AND PERSONAL TAXATION COULD EVENTUALLY BE HANDLED THROUGH COMPATIBLE TREASURY/DHSS COMPUTER SYSTEMS.

THE WIDER OPTION. THERE ARE MORE FUNDAMENTAL WAYS OF SIMPLIFYING THE SYSTEM AND REDUCING ITS COSTS, WHILE FOCUSSED ON POOR PEOPLE IN PARTICULAR. THE CONSOLIDATION OF CHILD SUPPORT SUGGESTED IN THE ANNEX COULD BE EXTENDED TO COVER ALL BASIC BENEFITS, INCLUDING SUPPLEMENTARY BENEFIT, UNEMPLOYMENT BENEFIT, HOUSING BENEFIT AND LESSER BENEFITS. IT WOULD BE A FULLY MEANS-TESTED SUPPLEMENTARY BENEFIT COVERING PEOPLE IN AND OUT OF WORK, TAPERING OFF AT, SAY, 35-50P FOR EACH POUND EARNED. THE ADVANTAGES OF THE SINGLE COMPUTATION WOULD BE IN SAVING ADMINISTRATION COSTS, IN MAKING SURE THAT PEOPLE GET THEIR DUE WITHOUT DIFFICULTY, AND IN GIVING PEOPLE GREATER INCENTIVE TO EARN.

CONCLUSION

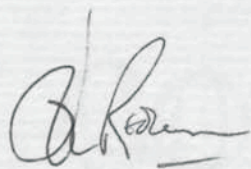
AT THIS PRELIMINARY MEETING, IT MAY BE BEST TO CONCENTRATE ON THE GENERAL PRINCIPLES SET OUT AT THE BEGINNING OF THIS PAPER (WHICH REFLECT OUR UNDERSTANDING OF YOUR THINKING) AND TO CONCENTRATE ON ONE OR TWO OF THE OPTIONS WE HAVE SUGGESTED IN THE LIGHT OF THOSE PRINCIPLES. WE SUGGEST CONCENTRATING ON:

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- ENDING SERPS
- ENDING ABUSES IN YOUNG PEOPLE'S BENEFIT
- MAKING HOUSING BENEFIT MUCH SIMPLER AND CHEAPER.
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YOU MAY ALSO WANT TO EXAMINE THE CASE FOR A FUNDAMENTAL
RETHINK, AIMED AT A MORE UNIFORM MEANS-TESTED BENEFIT
FOCUSSING ON THE POOR.



JOHN REDWOOD

(WITH THE HELP OF CHRISTOPHER MONCKTON AND DAVID WILLETTS)

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Options

We have set out some options for each of the four reviews, though it is early to become involved in too much detail.

Pensions Review

The basic state retirement pension is a popular pledged benefit and will remain a central part of the National Insurance system. It should continue to be contributory, although the review could ask the question whether it should continue to be compulsory. People might be allowed to opt out if they were a member of an approved private pension plan.

The State Earnings-Related Pension Scheme (SERPS), introduced by Barbara Castle in 1975, should go. There are now about 9.3 million pensioners. Their numbers stay below 10 million until 2005, and then rise steeply to more than 11 million by 2015, and more than 12 million by 2025. This increase coincides with the maturity of SERPS as the "20 best years" rule begins to bite.

Options include:

1. Calculating the SERPS entitlement not on the basis of the best 20 years' earnings, but on the average real

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lifetime earnings multiplied by 20. This would make the scheme cheaper.

2. Discontinuing SERPS for everybody from an appointed date. The arrangements would be similar to the winding-up of the Graduated Pension: everyone would receive a written record of his entitlement, which could be updated annually in line with prices.
3. Discontinuing SERPS from an appointed date, and give everyone his entitlement as a capital receipt to be paid into his own personal pension fund once the portable pension scheme is running. This would extend personal wealth-ownership, but would cost the public sector a great deal on the appointed day. However, it would buy out the expensive entitlements early, rather than allowing them to continue building up.

We recommend option 2.

Supplementary Benefit Review

Supplementary Benefit costs well over £2 per benefit payment to administer. About 15 per cent of all benefit payments are Supplementary Benefit, but almost 40 per cent of staff work on it, because it is means-tested, and because the 15,000 paragraphs of regulations are complex.

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Options include:

1. Having simpler and fewer categories of need and fewer special payments. Savings will be in administration rather than in Benefit cuts.
2. At present, anyone with savings of more than £3,000 is not eligible for Supplementary Benefit. Therefore those who are now in work, but who fear they may one day find themselves on Social Security, have a disincentive to save. The reviews should look at the desirability of raising the savings disregards.
3. Supplementary Benefit could be combined with other non-contributory means-tested benefits (Housing, FIS) so that there is a single calculation of need and a single cheque.

Housing Benefit Review

Housing Benefit extends too far up the income scale and helps to force up house prices and rents. It makes people less worried about the level of council rents and rates, and encourages private landlords to overcharge in the knowledge that the state will pick up the bill. And, as central government squeezes the spending of councils, they put up their rents, and the DHSS automatically has to pay out extra Housing Benefit.

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Housing Benefit is complex and is a major contributor to the poverty trap. It is paid to more than one-third of all households, and therefore goes to many whose need is questionable. Of the £4 billion total annual cost of Housing Benefit, £2.5 billion goes to people on basic Supplementary Benefit, and they will need to go on having their full rent and rates paid. But savings could be made on the £1.5 billion paid to families not on Supplementary Benefit.

Options include:

1. Simplifying Housing Benefit by meeting the full housing costs of those without any non-state income, as now, and by withdrawing the benefit at a single, uniform rate. This single taper would replace the four existing tapers and the other complicated features of the system. And, if the taper were steep enough, public expenditure would be reduced.
2. A renewed drive to create a private rented sector delivering enough flats and houses at realistic prices.
3. Amalgamating with Supplementary Benefit as above.

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Benefits for Children and Young People Review

Young people. Supplementary and Housing Benefit to young people living away from home can be so generous as to deter them from finding work. At its extremes, it can allow young people to live together in seaside hotels at the public expense or allow families to swap their teenagers so that they can claim full Supplementary and Housing Benefit.

At present, a 16-17 year old on Supplementary Benefit of £16.45 a week is better off than a younger person who stays at school (because the parents get only £6.50 a week in Child Benefit). He is also better off than many young people on Government training schemes. This is one of the areas where basic Supplementary Benefit may be too generous. And it contributes to youth unemployment by holding up the wage levels which employers offer, so that they are higher than the value of the labour of large numbers of young people.

Options include:

1. Pay young people only the level of Supplementary Benefit which would apply if they were living at home, unless they have a good reason to be living elsewhere (eg parents dead or divorced).

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2. Extend the age-band for young people's reduced rate of Supplementary Benefit to 19 years, and cut the rate by £2 a week.

Child-related benefits. Child Benefit is £6.50 per week per child; FIS starts at £22 per week for the first child, with an addition of £2 per week per subsequent child, and is then tapered at a steep 50p per pound of earnings. The disadvantages are (a) that the FIS taper is the largest single cause of the family poverty trap; and (b) that the combination of FIS, Child benefit and the child elements in Supplementary Benefit is complex.

Options include:

1. Replacing Child Benefit, FIS and the child element in Supplementary Benefit with a consolidated, means-tested Child Benefit which preserves the financial position of the poorest, and is tapered at, say, 20-25p for each pound earned. This would reduce the effects of the poverty trap, and would yield significant savings by no longer paying Child Benefit to richer families. The savings could be passed on in higher tax thresholds.
2. Child Benefit could be abolished, with the resulting savings going in part to a beefed-up FIS for poor families and in part as tax relief.

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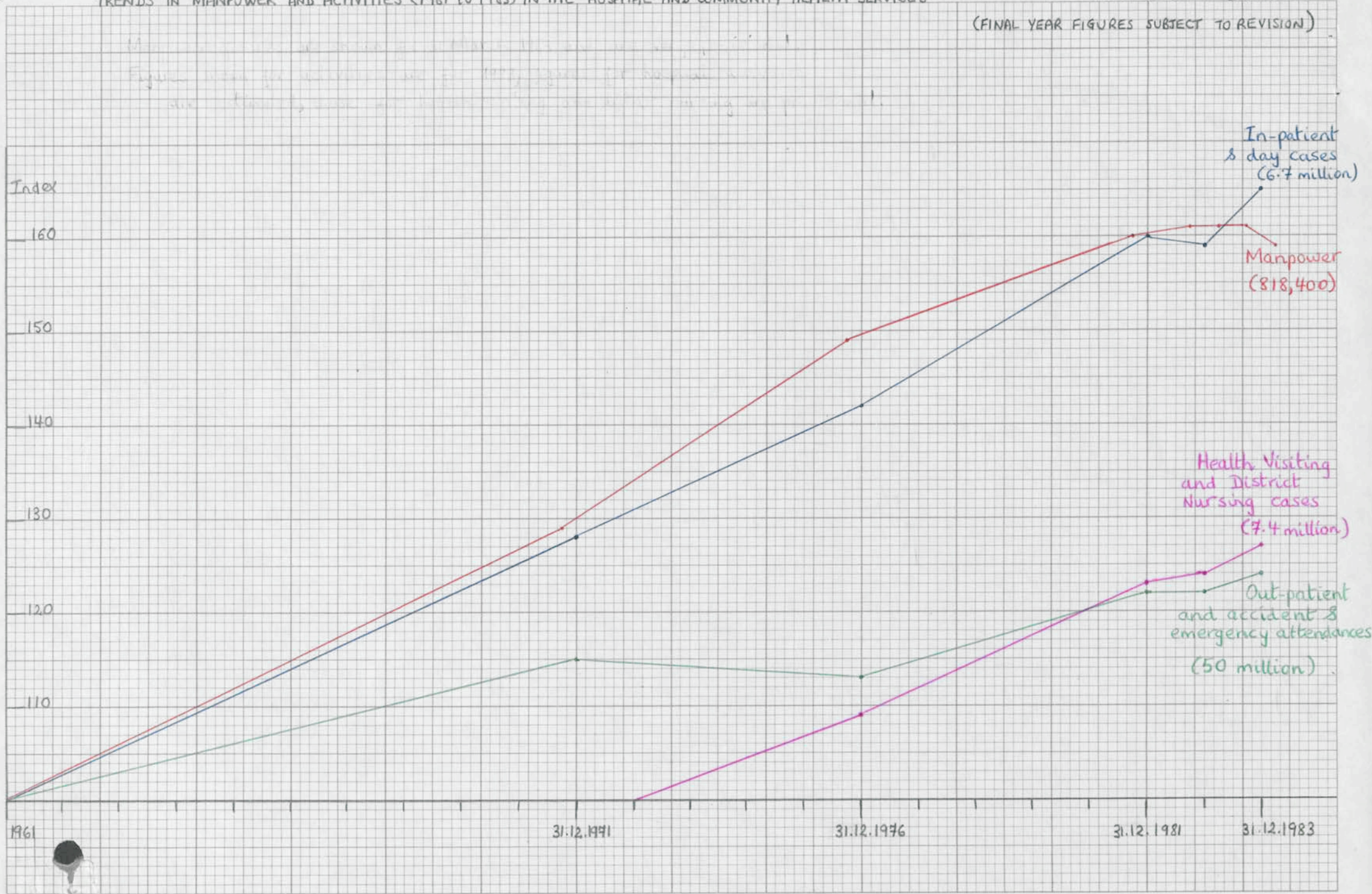
3. Child Benefit could be frozen in cash terms and allowed to wither like Maternity and Death Grants, the savings going to tax relief and better benefits for poor families.

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TRENDS IN MANPOWER AND ACTIVITIES (1961 to 1983) IN THE HOSPITAL AND COMMUNITY HEALTH SERVICES

NOT FOR PUBLICATION

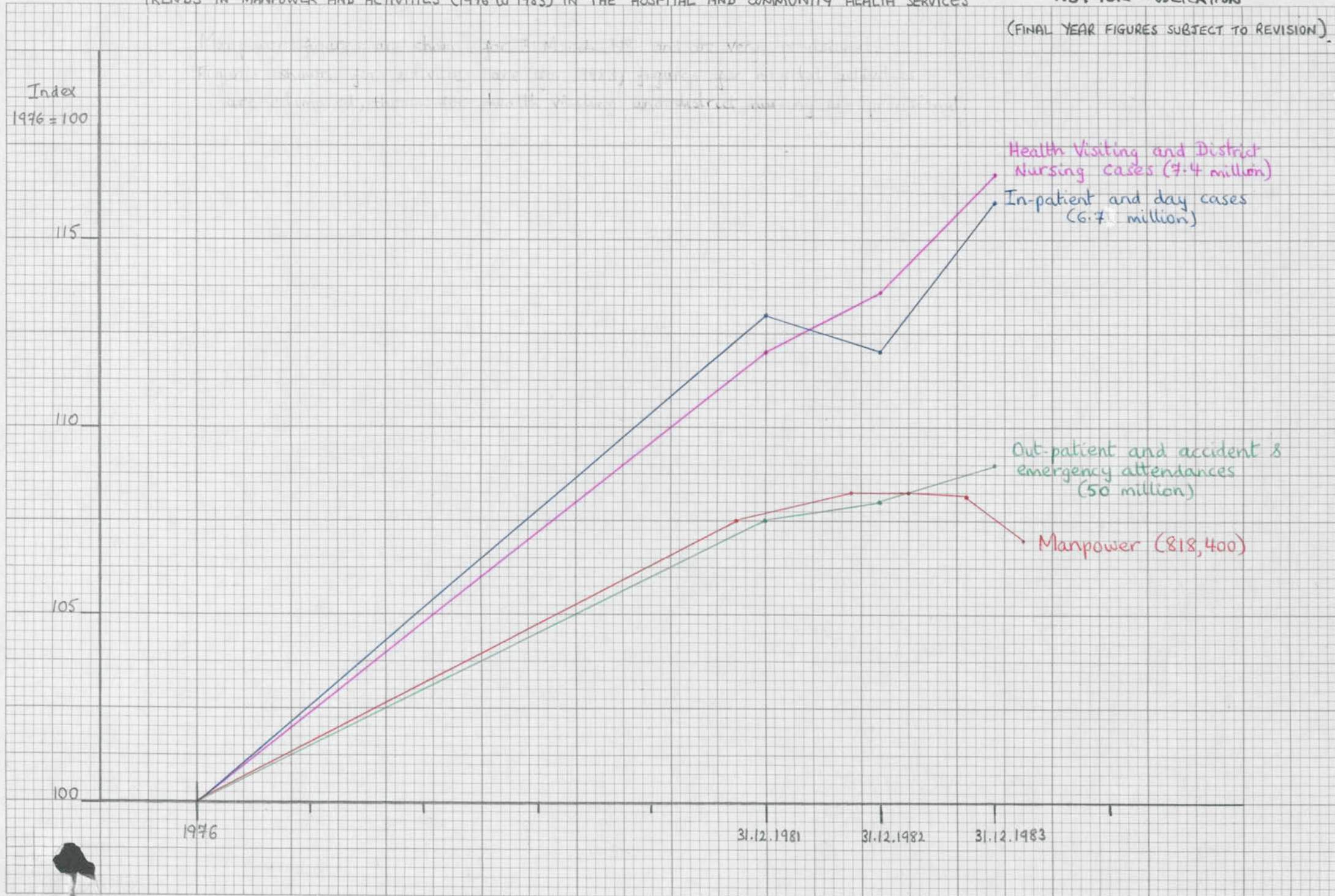
(FINAL YEAR FIGURES SUBJECT TO REVISION)



TRENDS IN MANPOWER AND ACTIVITIES (1976 to 1983) IN THE HOSPITAL AND COMMUNITY HEALTH SERVICES

NOT FOR PUBLICATION

(FINAL YEAR FIGURES SUBJECT TO REVISION)



28 June 1984

26 JUNE 1984

IMPLEMENTATION OF GRIFFITHS

THERE ARE FOUR MAIN THINGS THE PRIME MINISTER COULD MENTION TO MR FOWLER.

- (i) THE APPOINTMENT OF THE CHIEF GENERAL MANAGER: WE NEED A GOOD MAN IN POST AS SOON AS POSSIBLE. ARE WE IN SIGHT OF THIS? ELABORATE PROCEDURES SHOULD NOW BE AVOIDED.

- (ii) THE AUTHORITY OF THE GENERAL MANAGER: THE GENERAL MANAGER HAS TO HAVE THE MAXIMUM POSSIBLE FREEDOM (USING THE SECRETARY OF STATE'S AUTHORITY) TO REFORM THE RUNNING OF THE HEALTH SERVICE. REGIONAL HEALTH AUTHORITIES SHOULD SEE HIM AND HIS MANAGEMENT BOARD AS THE SECRETARY OF STATE'S AGENT, AND NOT AS A STRANGE PERIPHERAL BODY TO WHICH THEY ARE NOT ACCOUNTABLE.

- (iii) THE CENTRAL ADMINISTRATION OF THE HEALTH SERVICE: THERE ARE 2,200 OFFICIALS IN THE DHSS ADVISING ON AND ADMINISTERING THE HEALTH SERVICE. THE NEW MANAGERS SHOULD NOT JUST SUPPLEMENT ALL THESE CIVIL SERVANTS, BUT SHOULD DISPLACE THEM. MR FOWLER (USING MR CLARKE TO IMPLEMENT THE POLICY) SHOULD RECOMMEND A RADICAL REDUCTION IN CENTRAL DHSS ADMINISTRATION. COULD IT BE ONE-TENTH ITS PRESENT SIZE? THE IBBS UNIT SHOULD BE ASSOCIATED WITH THIS WORK. THE PROPOSAL TO APPOINT A NEW PERSONNEL DIRECTOR WITHOUT ANY

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OFFSETTING REDUCTIONS IS AN EXAMPLE OF WHAT MUST NOT HAPPEN.

- (v) ACTION PLAN: IT WOULD BE HELPFUL FOR MEASURING PROGRESS IN FUTURE IF MR FOWLER COULD PROVIDE AN ACTION PLAN SETTING OUT WHAT WAS SUPPOSED TO BE DONE, WHEN AND BY WHOM.

David Willetts
DAVID WILLETTS

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