



DEPARTMENT OF HEALTH & SOCIAL SECURITY
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From the Secretary of State for Social Services

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
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21 August 1987

Dear Chief Secretary

PES 1987: OUTSTANDING SOCIAL SECURITY SAVINGS COMMITMENTS

I said in my letter of 2 July that I needed a little more time to construct the most appropriate package of savings measures to meet the outstanding commitments that I have inherited from Norman Fowler. I am now writing with my proposals.

The starting point is the measures already agreed between us. There have been three changes to the list included in my letter of 2 July. First, the Prime Minister's preference, as you know, is for retaining the 25p age addition for the over 80's. Our officials have been in touch and have agreed that the expected reduction in expenditure arising from the introduction of selective housing benefit subsidy incentives can be counted towards the savings targets. If you agree, this makes good the savings shortfall arising from the decision to retain the over 80's addition.

Second, the savings from tightening the contribution conditions for unemployment, sickness and invalidity benefits are now calculated to increase slightly in each survey year. Third, we have decided to legislate in the forthcoming Social Security Bill for one of the recommendations of the Liable Relative Efficiency Scrutiny: to extend liability to maintain to include 16-19 year olds still dependent on the claimant. My officials will provide yours with fuller details of the costings of these last two changes.

The present position therefore is:

	1988/89	1988/89	£m cash 1989/91
1. Increased fraud effort	-30		
2. Extend period of voluntary unemployment disqualification from 13 to 26 weeks	-27	-37	-38
3. Tighter contribution conditions for UB/SB/IVB	- 9	-53	-68.5
4. Selective housing benefit subsidy incentives	-25	-26	-27
5. Liability to maintain ¹⁶ 16-19 year olds dependent on the claimant	-0.6	- 2	- 3
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TOTAL	91.6	-118	-136.5*
Target	-100	-250	
Shortfall	-8.4	-132	

I propose two main measures to deliver the remaining shortfall. The first is to introduce a common earnings rule of £100 for pensioners and widows. This will be welcome to pensioners, whose existing earnings rule is set at £75, but will be bitterly opposed by the widows lobby as no earnings rule applies to widows at present. About 60,000 widows, mainly childless, will be affected. The maximum loss will be full widows pension, currently £39.50 for childless widows, more for those with children. Against this, we can point to the fact that widows benefit is a maintenance benefit, so there is no reason to pay it if the widow can in fact maintain herself; that no other contributory benefit permits unlimited earnings and that the introduction of a common earnings rule with retirement pension will promote consistency of treatment across benefit boundaries. Primary legislation would be needed and I propose to introduce the measure in January 1989.

Note:

* We do not think there is a formal 'target' for 1990-91: in setting the baseline for that year it was assumed that the promised savings would be achieved in 1989/90 and would carry forward into future years automatically.

The other measure I propose is to lower the age at which occupational pensions over £35 are offset £1 for £1 against unemployment benefit from age 60 to age 55. About 15,000 claimants aged between 55 and 60 would be affected, mainly those in professions with early retirement ages, such as the armed forces, police and airline pilots. There would again be substantial opposition from those affected and from some of our own supporters. It would need primary legislation and could not be introduced before April 1989.

The effect of these two measures would be as follows:

	1988/89/	1989/90	£m cash 1990/91
1. Common Earnings rule of £100 from January 1989	-20	-85	-91
2. Offset occupational pension against unemployment brought for 55-60 year olds	-	-30	-64

To this would be added the balance of the "reform scorecard" savings, which your officials know about, as follows:

3. Balance of reform scorecard	-	-27	-30
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The net position would therefore be:

<u>Total</u>	-20	-142	-185
<u>Surplus</u>	-11.6	-10	-

I would propose to use the surplus to offset any shortfall that might arise from the savings earmarked from the increased anti-fraud effort (the position is being assessed) and to offset some of the small bids included in my letter of 2 July.

It would be useful to have your reaction to the proposals before the bilateral on 9 September. I shall then need to seek H Committee clearance in the usual way. If the measures are agreed, I could either include them in the Social Security Bill which will be introduced in the autumn, or if this would prejudice Royal Assent by the end of February, I could seek a second Bill.

I am copying this letter to the Prime Minister and the Lord President.

Sma Calderwood

MP JOHN MOORE

Approved by the Secretary of State and