



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

CONFIDENTIAL

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London  
SW1

*MBM*  
*ALG*  
*26/5*  
25 May 1989

PES 1989: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

I am writing to give you my proposals for expenditure on social security benefits and administration for the 1989 Survey. The principal figures are set out in the attached scorecard. My officials are writing to yours with further details.

SOCIAL SECURITY BENEFIT EXPENDITURE

Opening position. My opening position incorporates the changes that have been agreed and announced since the last Survey. These are summarised at section 2 of the scorecard. The two largest are extra help for poorer pensioners and the abolition of the pensioners' earnings rule. The abolition of the earnings rule was, as you know, announced by the Chancellor in his Budget statement. A substantial part of the cost of this measure will be offset by additional income tax revenue. As to the two more minor measures, we have agreed upon savings to offset the cost of extra help for 16-17 year olds who are forced to live independently and I can confirm that I shall be bringing forward proposals later in the Survey to meet the cost of the widows changes.

Forecasting changes. These are set out in section 4 of the scorecard. I am pleased to say that I can propose a net reduction of some £50 million in the first Survey year and a further reduction in the following year. This net reduction involves a substantial downward revision, for the first time in many years, in the Government Actuary's and my statisticians' estimates of future expenditure. This includes a decrease in forecast spending on benefits for the disabled and on housing benefit. Fresh forecasts will be available in August. The overall forecasting reduction would be still greater but for the need to reflect revised economic assumptions, notably on prices, a factor which may lead to further adjustments later in the Survey.



Policy bids. Section 5 of the scorecard summarises my proposals for policy changes. They include a number of potential savings as well as bids. I would simply say at this stage that they amount to a very small net addition to my programme - one half of one per cent; that they are carefully targeted on the poorest groups; and that even including them, and assuming no increase in other departments' spending above baseline, social security is projected to remain static as a proportion of public expenditure. We now have figures, and will sooner or later be forced to go public on them, which show that benefit rates are lower now in real terms than when we took office. In particular, our economists have estimated that in 1989 the average real value of basic pension will be 5% lower than in 1986. I am convinced that, with inflation nudging upwards, the highly-focussed bids I am putting forward are the very minimum we will need to assure an effective defence of our social security strategy.

Poorer families and pensioner premiums. My first two bids exemplify my approach. The first would give extra help to the poorest families, with proportionately more being directed to poorer families in work. Families receiving family credit would receive an extra £2 a week; families receiving other income-related benefits an extra £1 a week. The second bid builds on the approach adopted in this October's poorer pensioners package by providing for an extra £1 a week to all pensioners receiving income-related benefits. It would have the further advantage of halving the number of pensioners who would, because of transitional protection, get no increase in overall benefit at the 1990 uprating.

Disability benefits. We are due to meet on 6 June. I would stress here that the package I have proposed offers substantial net public expenditure savings in the long term but that, to achieve these savings, Nick Scott and I believe that politically it is essential to make some short-term improvements, leading to additional costs over the Survey period.

Independent Living Fund (item 5.4). This fund was set up to facilitate the introduction of the 1988 reforms by providing extra help to very severely disabled people on low incomes who were not on supplementary benefit when it was replaced by income support and who were therefore ineligible for transitional protection. Now that the scale of legitimate demand for help from the fund is apparent, it is clear that - despite tightened management controls - the provision in last year's Survey was inadequate. In the medium term I hope that the fund's activities can be transferred from my programme as part of the wider reforms currently under discussion on community care. But in any event I believe that an increase in provision for the fund is inescapable.



Lone parents (item 5.5). You will be aware that my Department and others have been reviewing welfare provision generally for lone parents and I shall shortly be minuting the Prime Minister. My officials have given you details of what we propose as regards social security benefits. This is a self-contained package which involves overall net savings. Within that, there are a number of relatively modest increases in provision - in particular in relation to earnings disregards - which are carefully designed to ensure that lone parents reduce their overall dependence on the State. The costs of these increases would be more than offset by my proposals to increase payment of maintenance by liable relatives. There would also be additional administrative costs of just over £1 million a year from the extra liable relative work, but again these costs would be outweighed by the savings involved. In my judgement, the expenditure would represent excellent value for money.

Other bids. The contingency bids (item 5.6) relate to expenditure which will be inescapable if legal proceedings on two cases involving the EC Equal Treatment Directive are not resolved in our favour. The other bids (item 5.7) are relatively minor in cost terms but represent worthwhile improvements responding to pressure for change in various areas. They include, for example, a rise in the social fund capital limit for elderly people, enabling them to benefit from the fund without jeopardising savings set aside for funerals; and an increase in the rates of income support and housing benefit payable after six weeks in hospital, to avoid problems of community charge and water rates arrears on discharge from hospital.

Other benefit issues.

Water and community charges. You will have seen my letter of 12 May to Nicholas Ridley commenting on his suggestion that income-related benefits should be increased to take account of prospective rises in water charges. As I indicated in that letter, there are a number of other housing costs, as well as water charges, which have to be met from people's income support but which are currently excluded from the relevant uprating formula - repairs, insurance, maintenance charges and the 20% contribution to rates/community charge. Later in the Survey, when we have more information on the expected rises in water charges, we shall need to review whether or not benefit rates need to be adjusted to take account of these various costs. I would expect however that any increase in social security expenditure arising from the policies of territorial Departments should be paid for by them rather than counting against my programme bids.



Social Fund. My policy bids include (item 5.7 in the scorecard) two specific bids on the social fund relating to maternity payments and the capital limit. I am not making any bid at this stage for a general increase in the social fund budget. But I should put up a marker that social fund applications and expenditure have picked up on the budget in the course of the year I may need to seek an increase, at least to keep it in line with its real value in the fund's first year of operation, as well as seeking any necessary administrative resources to cope with the increased demands on the fund.

Housing benefit. You wrote to me on 11 May about possible restrictions on benefit and subsidy on dwellings at the top end of the market. My officials will keep in touch with yours, during the Survey, on progress in assembling the necessary information on the newly deregulated market, identifying the best way to move forward, and implementing a system of controls, but this will clearly take time. It is too soon to commit ourselves to the introduction of controls from April next year. Meanwhile, our new guidelines to local authorities on the effective operation of local rent limits should provide an important new weapon in the control of benefit expenditure on over-expensive accommodation.

#### ADMINISTRATION.

Resulting from PES 88, we have an agreement on running costs which covers 1990/91 and 1991/92. Thus in this Survey the focus should be on requirements for running costs for 1992/93 and for capital and other expenditure for the three Survey years. In a Department of this size and structure, the major component of running costs is manpower. I am pleased to say that the downward trend in staff numbers begun last year is being continued. Indeed even after taking account of new work I am planning to reduce staff numbers well below the baseline assumed in PES. Overall, staffing at the start of the period will be about 84,000, a fall of 10,000 since it peaked at 94,000 in October 1987. Numbers will be reduced to about 74,000 by April 1993 and will then be lower than any time in the past decade and for some time before. Such reductions represent a major management achievement and a continuing challenge.

This is very much the direction in which we ought to be moving, and over the PES period we will be taking forward a number of initiatives which will improve the management of the Department's operations - notably the move towards agency status in all key areas. Our management plan demonstrates that we have already begun to secure striking efficiency improvements of 4.2%, 9.4% and 11.3% over the survey period, better than the targets set last year.

In spite of these significant advances, I believe we must look again at the settlement for 1990/91 and 1991/92. I am looking at whether we can increase our staff savings still further, but if this is possible at all it may only be at a cost in the short term, which I would need to discuss with you.



Salaries The major problem is average salaries. They are increasing significantly for two main reasons: the consequences of our rapid run-down (which mean staff in the lower - and cheaper - grades have left faster than others); and the effects of pay settlements. Because of the staffing structure of this Department, we have been particularly hard-hit by the effects of the 1988/89 pay awards, notably the award for NUCPS/CPSA grades. The settlement included changes to pay policy (notably the extension of performance pay) on top of the basic increases. Of the total £98m salaries bid in the first year of the survey, the knock on effects of the 88/89 pay award account for about £38m; a more realistic pay assumption would cost another £37m; with the effects of the rapid run-down described above contributing the remaining £23m. This follows through to later years. In the third year the costs of performance pay hit us particularly hard (some £32m).

I suggest that our officials should discuss the detailed calculations which underlie the bid, which covers the 3 years from 1990-91. But I should emphasise that I consider it essential to adopt realistic assumptions about likely pay levels for future years.

Non-manpower Baseline non-manpower provision over the two remaining years of the settlement is also significantly below what is needed. The main issue here is that the assumptions do not reflect the trends in prices. I demand efficiency in all my operations: I have cut identified requirements significantly during our own internal discussions. This has been far from easy. But there are factors over which we do not have direct control. For example, a major element of our running costs provision goes to meet the costs of our arrangements with the Post Office. There is no way in which we can reduce in the short term the number of transactions. We negotiate for the best deal we can get: but realistically there are limits to what can be achieved. The same applies elsewhere - British Rail prices rising on average by 9%; water, gas and electricity charges expected to rise significantly. I appreciate the need to ensure that public services which do not operate in a true market context are subject to pressures for efficiency but we must take care that we do not simply transfer the burden from one public service to another. Paper costs, rent and rates are other areas where costs are rising well ahead of inflation, and the problem is compounded by the EC imposition of VAT on rents.

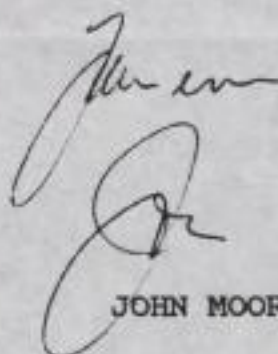
Because of all these factors I see no alternative but to base my bid on a revised price assumption.

Capital This bid covers the three Survey years: in the first year, we are looking largely for resources for our computer operations. By bringing forward some of the work on the operational strategy, we will be able to secure significant savings on capital in 1992/93.

Consequences of programme bids Some of the programme bids set out above have operational costs, which will need to be worked out in detail if the principle is agreed. Again, I am entering a 'marker' that the operational consequences of any programme bids accepted will need to be met.

Relocation of London HQ staff Work is continuing with the Department of Health on the possibility of moving a substantial area of HQ work away from London. A business case is being prepared. There could be significant advantages to such a move, but there may be transitional costs. I am simply entering a 'marker' at this stage that I may need to bid for such costs once we have the full picture.

I am copying this letter to the Prime Minister and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'John Moore', written in a cursive style.

JOHN MOORE



## CONFIDENTIAL

## 1989 SURVEY: DEPARTMENT OF SOCIAL SECURITY: SCORECARD

£ million cash

1990/91      1991/92      1992/93

A. Opening Position

<u>1. DSS Baseline</u>	54,935	58,103	59,556
<u>2. Agreed bids</u>			
2.1 Poorer pensioners	193	200	205
2.2 Widows	5	6	6
2.3 Savings to offset costs of 2.2	-5	-6	-6
2.4 16-17 year olds	4	4	4
2.5 Savings to offset costs of 2.4	-4	-4	-4
2.6 Pensioners' earnings rule	375	390	400
2.7 Total	568	590	605
<u>3. Total: Opening Position</u>	55,677	59,052	60,528

B. New Bids

<u>4. Forecasting changes</u>			
4.1 Economic	196	210	238
4.2 Estimating	-252	-235	1,211
4.3 Net forecasting change	-56	-25	1,449
<u>5. Policy Bids</u>			
5.1 Poorer families	105	109	112
5.2 Pensioner premiums	141	147	151
5.3 Disability package (net of savings) (1989/90 prices)	10	45	535
5.4 Independent Living Fund	18	29	30
5.5 Lone Parents (net of savings)	-23	-17	-19
5.6 Contingency bids	5	6	6
5.7 Minor bids	6	6	6
5.8 Total	262	325	821
<u>6. Administration bids</u>			
6.1 Salaries	98	91	162
6.2 Non-manpower running costs	36	44	83
6.3 Capital	41	20	-60
6.4 Other costs	5	6	2
6.5 Total	181	161	186
<u>7. Total new net bids</u>			
7.1 Benefits	206	300	2,270
7.2 Administration	181	161	186
7.3 Total	387	461	2,456

Notes 1. Table includes bids made by DSS on behalf of DoE/Welsh Office under the new financial regime.

2. Row 3 includes agreed adjustments of £175/358/367 million to take account of the effect of the New Planning Total on housing benefit subsidy.