

MOST CONFIDENTIAL RECORD  
TO  
CC(83) 7th Conclusions, Minute 5  
Thursday 3 March 1983

OTHER  
BUSINESS  
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Public  
Expenditure:  
Up-rating of  
Pensions and  
Benefits  
  
Previous  
Reference:  
CC(82) 6th  
Conclusions,  
Minute 2

THE PRIME MINISTER said that the Cabinet had previously endorsed the principle of recovering the excess provision for inflation in the November 1982 uprating of social security benefits, up to a maximum of 2½ per cent. The need to recover an excess had once again demonstrated the unsatisfactoriness of the method of uprating based on forecasts of inflation. That method had been introduced by the previous Labour Administration in order to produce a once-for-all saving in public expenditure at a time of temporarily declining inflation. In the event, outturn had rarely coincided with forecasts. When the outturn exceeded the forecast, the Government was expected to make good the shortfall; when outturn fell short of forecast, it was politically difficult for the Government to recover excess provision. She and the Ministers most closely concerned had therefore agreed, subject to the approval of the Cabinet, that future upratings should be based on the actual increase in the Retail Prices Index (RPI) in the twelve-month period ending in the May before each November uprating. This increase was announced in June. It was the latest figure which it was feasible to use both because of administrative constraints and because of the need to allow time for Parliamentary debate on the statutory instruments giving effect to the uprating. The necessary legislation would be announced in the Chancellor of the Exchequer's Budget Statement and introduced immediately thereafter. The present year was a favourable time for making the change from forecasts to actual figures as the basis of upratings. Although it was likely that the increase in the RPI between May 1982 and May 1983 would be less than the forecast increase between November 1982 and November 1983, it was no longer proposed that any part of the excess provision for inflation in the November 1982 uprating should be recovered. The use of actual figures, unadjusted for the past excess provision, was likely to be more favourable to beneficiaries than the use of a forecast with full or near-full adjustment. It was proposed that increases in public service pensions, which were linked by statute to increases in State retirement pensions, should be dealt with in the same way. This made it unnecessary to pursue the possibility, raised in the Cabinet's previous discussion, of breaking the statutory link between increases in public service pensions and increases in State pensions: the problem of excess provision for inflation, and consequent unintended increases in the real value of pensions, which had been the cause of the Cabinet's previous concern, could no longer arise if pensions increase were based on actual increases in the RPI rather than forecasts.

Although the proposals were entirely logical, they would need careful presentation both in the Budget Statement and subsequently. The Government would be criticised for changing from forecasts to actual figures as the basis of upratings at a time when this change, in isolation, seemed likely to be less favourable to beneficiaries; but such criticism could be rebutted if, as was proposed, no adjustment was made in November 1983 for the excess provision for inflation in November 1982. It was

helpful that several organisations representing pensioners, including the influential National Federation of Old Age Pensioners Associations, had pressed for the change.

In discussion, there was general agreement with the proposals outlined by the Prime Minister. The following main points were also made -

- a. Using actual increases in the RPI rather than forecasts as the basis of uprating social security benefits would reduce the attention given to the forecasts of inflation which had to be published at the time of the Budget by virtue of the provisions of the Industry Act 1975. It was particularly undesirable in the context of pay bargaining to draw excessive attention to such forecasts.
- b. Although there were persuasive administrative and other reasons for using the May RPI figures as the basis of upratings, it would be desirable for the proposed legislation not to prevent the use of later figures if that should at some stage prove feasible.
- c. The proposals were fully consistent with the Government's pledge to maintain the real value of State retirement pensions during the lifetime of the present Parliament; it was, however, likely that the Government would be pressed during the Budget debate to make clear its policy towards maintaining the real value of pensions and other benefits after expiry of the present pledges.

The Cabinet -

1. Approved the proposals described by the Prime Minister relating to the future uprating of social security benefits and public service pensions, and in particular agreed:
  - i. that the excess provision for inflation in the November 1982 uprating of State retirement pensions and other social security benefits should not be recovered;
  - ii. that legislation should be introduced to provide that the November 1983 uprating and subsequent upratings should be based on the actual increase in the Retail Prices Index in the twelve-month period ending in the previous May;
  - iii. that public service pensions should be treated in the same way as State retirement pensions.
2. Invited the Secretary of State for Social Services to consider whether the legislation to give effect to the proposals should permit the use of increases in the Retail Prices Index over a twelve-month period ending in a month later than May as the basis of future upratings of social security benefits and public service pensions, if that should in due course prove to be administratively and politically feasible.



3. Took note that the Prime Minister would discuss further with the Chancellor of the Exchequer and the Secretary of State for Social Services how the Government's decisions could best be presented in the Chancellor of the Exchequer's forthcoming Budget Statement and subsequently.

Cabinet Office

7 March 1983