

PO-CH/NL/0407

PART A

Part A.

**CONFIDENTIAL**

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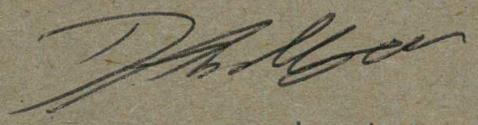
Begins : 15/12/87.  
Ends : 22/12/87.

  
 PO -CH /NL/0407  
  
 PART A

Chancellor's (Lawson) Papers:

**ERROR IN THE RETAIL  
PRICE INDEX: THE COST TO  
SOCIAL SECURITY**

DD's: 25 years



18/12/95

PO -CH /NL/0407  
PART A

FROM: J P MCINTYRE  
DATE: 15 December 1987

CHIEF SECRETARY

cc Chancellor ✓  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Miss Peirson  
Mr Luce  
Mr Turnbull  
Mr Gieve  
Mr Gibson  
Mr Tyrie  
Mr Call

RPI ERROR: SOCIAL SECURITY

I saw DHSS officials this afternoon, and they handed over the attached minute to Mr Scott together with a draft letter for him to send to the PM, copied to you. This sets out proposals for compensating social security beneficiaries.

2. The plan is for Mr Scott to make a statement to the House on Thursday; we will see a draft of this (and Q & A briefing), once DHSS have reactions to the proposals from the PM and yourself.

3. You will see that the main proposal is for a flat rate payment of £8 to be made to virtually all recipients of the pledged benefits, plus those in receipt of Mobility Allowance. There is a total of 12½ million people in these categories, so the Cost would be £100 million; the payment would be made by the Post Office, probably at the end of January.

4. In addition, £5 million would be spent on "topping up" payments of £15 to some "high losers", among severely disabled war pensioners and industrial injuries pensioners. This would be paid out next Summer by DHSS directly.

5. In principle, there are several ways of cutting this cost:
- a. Exclude recipients of Mob A, as this is not pledged - £4 million. But DHSS claim this would be difficult in administrative terms (Mob A is paid from the same kind of order book as war pension) and presentationally difficult.
  - b. Deduct payments to married women pensioners, as they have not actually lost out because of the error - £16 million. Again, DHSS argue administrative difficulty and bad politics.
  - c. Cut the flat rate payment from £8 to £7.80, which is the average amount actually lost by pensioners. Saving: £2.5 million (assuming 12½ million payments). DHSS argue that going for the precise figure looks mean.
  - d. Eliminate the "topping up" payments - saving £5 million - on the grounds that this could encourage pressure for higher payments to other categories.

5. If we pursued all of these options, something like £25 million could be saved. However, against this, the figure of £105 million for total compensation has been used in the press, together with the principle that the Exchequer would not gain from the social security result of the error. (The basis of the £105 million is the effect of uprating all benefits, except child benefit, by 0.1 per cent in each of the two affected years.)

6. There is one other issue. Administration costs (mainly payments to the PO) are likely to be £5½ million. DHSS want this to be funded from outside the £105 million. We have reserved your position on this: we could argue that the Exchequer was not meant to lose as a result of this exercise.

7. You may wish to discuss. (This was done before we knew the outcome of the Chancellor's meeting this afternoon.)

J P MCINTYRE

Mr Kelly PS/MS(SS)

From: D V Chislett FC  
Date: 15 December 1987

Copy: Mr R Clark APS/SofS  
Mrs Rookes PS/PS(SS)  
Mr Slater PS/PS/1 PS  
Mrs Bowtell DS/SSP  
Mr Mayne PEFO  
Miss Perkins RD  
Mr Wailes NCO  
Mr Heaney NCO  
Mr Adeane A4  
Mr Andrew Turner  
Mrs Evans C2  
Miss Moore C2A  
Mr Caddick NFO  
Mr Whippman FC1  
Mr Hughes FC1A  
Mr Simpson FC2/3

**UPRATING: ERROR IN RPI: EX GRATIA PAYMENTS**

Introduction

1. At the meeting with MS(SS) on 11 December, it was decided that benefit rates should not be corrected until April 1989, but that a scheme of ex gratia payments for the recipients of pledged benefits should be drawn up, to compensate them for underpayments in 1987/88 and 1988/89. This submission outlines such a scheme.

The Broad Approach

2. I have consulted policy colleagues and operational colleagues in North Fylde, Newcastle and the Regional Organisation. I have also approached the Post Office. The scheme we recommend is a flat rate payment of £8 to all who are recipients of pledged benefits in week commencing 25 January; payment would be made on our behalf by the Post Office in order book cases and by central and local offices for those paid by payable order, by giro and by automated credit transfer (ACT).

3. Assuming that the rough costing of £105m stands (and this is being checked urgently) the £8 flat rate payment would use up £100m of the available sum. It would leave £5m for a top-up payment of £15 to the approximately 20,000 high losers amongst the industrial and war disabled, whom Minister was anxious to give further help. Such a top-up payment could not, however, be made until the summer.

4. This approach is inevitably broad brush. It gives no help to those, such as the unemployed or lone parents, whom it will be claimed need it most. And it under and over compensates those who either lose amounts greater than £8 or do not lose at all (such as 2million married women receiving retirement pension). But it is workable and payments could be made quickly. It is

doubtful whether waiting until the summer to devise a more sophisticated scheme, with greater involvement of local offices, would produce a much better or more cost effective result, given the relatively small sums involved.

#### Claimants Paid By Order Book

5. We propose to ask the Post Office to pay the following order book recipients

<u>Order Book Group Number</u>	<u>Benefit</u>
6	War Pensions, Mobility Allowance
11	Supplementary Pension, but not Supplementary Allowance
12	Industrial Injuries Benefits
13	Retirement Pension, Widows Benefits, Attendance Allowance Invalid Care Allowance, but not Maternity Allowance
14	Invalidity Benefit and Severe Disablement Allowance

6. These categories correspond exactly with the list of pledged benefits, other than for mobility allowance, guardians allowance and child's special allowance. Mobility allowance is payable by order book but is not pledged. It has, however, always been uprated in the same way as attendance allowance, which is pledged. It would not be desirable or practicable for the Post Office to distinguish mobility allowance cases from war pensions cases in order book category.

7. I have been promised a quotation from the Post Office today for their transaction fee. If it is excessive, we shall need to think again.

#### Claimants Paid By Other Means

8. Payable orders. It is estimated that about 350,000 people in the affected groups are paid by payable order. Arrangements will be made to pay them in the last week in January, at an approximate cost of 5p per case.

9. Giro payments. Local offices will simply add the appropriate amount in the relevant giro order. This will be done by the last week in January.

10. Automated Credit Transfer. A special program can be prepared to enable the Newcastle computer to pay claimants using ACT, again by the last week in January.

11. 'Grad-only' Cases. The programs can be written in such a way as to exclude from payment those receiving only small amounts of retirement pension by virtue of graduated contributions.

12. Pensions Paid Overseas. Approximately 300,000 pensions are paid overseas, by a mixture of payable orders and ACT. We shall need to distinguish between those whose retirement pension is frozen and those whose pension is uprated in line with UK pensions. We shall also need to check the legal position, in case we fall foul of European law if we decide to exclude pensioners living in the EC from payment. It is unlikely that any payments could be made until the summer. In principle, however, we assume that Minister would like ex gratia payments to be made to pensioners living abroad whose pensions are uprated in line with UK pensions.

### Topping Up

13. Minister was anxious about "high losers", particularly among the war and industrially disabled. There is a powerful case against making any top up payments

- even losses of up to £55 (the maximum) are not very considerable when spread over two years
- there is no legal obligation on the Government to act, and that once an exception is made to the flat rate rule then pressure will mount for further 'hard cases' to be given the extra payment
- the basic rule of one payment per order book will act as an informal top-up in many of the worse affected cases, since for example an industrial disablement pensioner who receives mobility allowance and attendance allowance will have three order books and thus receive 3 x £8 = £24, against an actual loss of £26. This informal top-up will not, however, benefit those who have a combined order book, when only one payment will be made.

14. If, nevertheless, Minister wishes to make top-up payments, then we recommend a £15 flat rate payment to those war and industrial pensioners who are more than 80% disabled. This would cost approximately £3m. Payments could not be made until the summer.

### Administration Costs

15. Publicity will be required very much along the lines given to the ex gratia cold weather payments made in January last year. Quite apart from the Post Office fee, there will be stationery and handling costs in central and local offices. The total administrative budget for the exercise will be at least £5m and additional provision in this year's Administration Vote will be required. The Post Office fee is the critical figure.

Handling

16. Minister asked for the Prime Minister to be informed. The minute should, of course, be copied to the Chief Secretary. A draft is at Annex A. Ministers will need to decide whether a written or oral statement is to be made, probably on 17 December. A draft will be prepared in the light of the Prime Minister's and Chief Secretary's reactions.

Summary

17. Minister is asked:

to note the broad approach suggested in paras 2-4;

to agree that ex gratia payments be made to recipients of mobility allowance (para 6)

to note what is proposed for those paid by other means (paras 8-11)

to decide whether, in principle, he favours making payments to pensioners living abroad whose pensions are uprated in line with UK pensions (para 12)

to decide whether to make a £15 top up payments to the war and industrially disabled (paras 13-14)

to note that the administrative budget will be at least £5m (para 15)

to approve the draft minute to the Prime Minister (para 16 and Annex A).

*D V Chislett*

D V CHISLETT  
Room 441 FRH  
Ext 3915

Prime Minister

ERROR IN RETAIL PRICES INDEX: EX GRATIA PAYMENTS

I am writing to inform you of the arrangement which I propose to make to compensate certain groups of social security claimants for the benefit they have lost as a result of the under-recording of the RPI in 1987/88 and 1988/89. I plan to announce the details to the House on Thursday, 17 December.

We estimate the total amount underpaid over the two years to be £105m. This covers both pledged and unpledged benefits. Arrangements will be made to correct all benefit rates from April 1989. What is at issue is the appropriate way to distribute the £105m arrears. Norman Fowler has already announced to the House that the Exchequer will not gain from the underspend.

I propose to make an ex gratia payment of £8 to all recipients of pledged benefits, including mobility allowance. The latter is not formally pledged but it would be difficult on both policy and operational grounds to exclude it from payments. A list of pledged and unpledged benefits is attached to this letter.

This will, of course, result in rough justice. Some recipients will have lost more, or less, or not at all. But I have rejected the alternative of a scheme aimed at meeting individual losses more precisely since it would be very expensive to administer and could not be introduced before next summer. With the co-operation of the Post Office, we shall be able to make the flat-rate payments by the end of January and keep to a minimum the disruption in our local offices.

A rough and ready scheme is bound to be attacked for not meeting individual losses. The attack will probably focus on the exclusion of the unemployed and short-term recipients of supplementary benefit from the arrangements. In reply, we shall say that the average amounts lost are very small, that there is no legal obligation on the Government to make good the error and that the movement of short-term recipients on and off benefit

would make calculation of losses extremely complicated. Instead we have chosen to put the matter right as quickly and as economically as possible. Even then the administrative operation will cost at least £5m.

The flat-rate system I have outlined would cost £100m, which leaves a residue of £5m. We have a choice of whether to use this to top-up payments for those who will have lost considerably more than £8, or whether to use the money for some other purpose eg donations to charities such as Help the Aged as was discussed at your meeting of 8 December. My view is that we should be best advised to use all the money from the social security underspend for social security purposes. I would prefer to use the £5m balance to mitigate further the large losses which will be suffered by some severely disabled war and industrial injuries pensioners (perhaps as much as £55 over the period). This group attracts great sympathy and I propose to make a £15 top-up payment to them. The payment would be made by our offices next summer.

I am copying this letter to John Major, Norman Fowler and Tom King.

NICHOLAS SCOTT

Ch/ ~~\*~~ ~~\*~~  
A draft minute  
for PMG to send to PM,  
needs to go ASAP  
tomorrow, of course.

I have a copy

Minute from Mr Scott  
(behind) shows DHSS  
trying to use up all  
of their "pot."

unacceptable

Mr Shall we arrange for a  
planted PR on Thurs in  
case there are problems  
with Mr Scott's making  
"our" announcement?  
mpw 15/12

for pot

CONFIDENTIAL

Copy from CST's



DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522  
From the Minister of State for Social Security and the Disabled

*Handwritten notes in red ink:*  
\*  
This is unacceptable.  
76.65 up to 78.25 The very  
76.70.  
The 6 that only Mr. ...  
The ...  
76.65 up to 78.25  
76.70

Prime Minister

15/12/87.

*Handwritten note:*  
Ch/ The "pot" disappears entirely  
and not clear if admin  
is included or not. Officials'  
report of meeting with DHSS  
behind. m.p.w.

ERROR IN RETAIL PRICES INDEX: EX GRATIA PAYMENTS

I am writing to inform you of the arrangement which I propose to make to compensate certain groups of social security claimants for the benefit they have lost as a result of the under-recording of the RPI in 1987/88 and 1988/89. I plan to announce the details to the House on Thursday, 17 December.

Arrangements will be made to correct all benefit rates from April 1989. For the two years 1987/88 and 1988/89, we estimate the total underspend on the pledged benefits to be £83m. But the Exchequer has also benefitted from a further £22m in respect of unpledged benefits. In the light of Norman Fowler's announcement to the House, what is at issue therefore is how to distribute the £105m.

I propose to make an ex gratia payment of £8 to all recipients of pledged benefits. I also propose to include mobility allowance recipients. The benefit is not pledged, but it will be difficult on both political and operational grounds to exclude these people, particularly, in view of Norman Fowler's statement that severely disabled people would be compensated. A list of pledged and unpledged benefits is attached to this minute.

This will, of course, result in rough justice. Some recipients will have lost more, or less, or not at all. But I have rejected the alternative of a scheme aimed at meeting individual losses more precisely since it would be expensive to administer and could not be introduced before next summer. With the co-operation of the Post Office, we shall be able to make the flat-rate payments by the end of January and keep to a minimum the disruption in our local offices.

E.R.

A rough and ready scheme is bound to be attacked for not meeting individual losses. The attack will probably focus on the exclusion of the unemployed and short-term recipients of supplementary benefit from the arrangements. In reply, we shall say that the average amounts lost are very small, that there is no legal obligation on the Government to make good the error and that the movement of short-term recipients on and off benefit would make calculation of losses extremely complicated. Instead we have chosen to put the matter right as quickly and as economically as possible. Even then the administrative operation will cost at least £5.5m.

(excl Admin?) The flat-rate system I have outlined would cost £100m, which leaves a residue of £5m. We have a choice of whether to use this to smooth out the roughest edges or whether to use the money for some other purpose eg donations to charities such as Help the Aged as was discussed at your meeting of 8 December. My view is that we should be best advised to use all the money from the social security underspend for social security purposes. The severely disabled war and industrial injuries pensioners are a group who attract great sympathy and some of them will have lost up to £55 over the period. I would propose to make a £15 top-up to them in the summer. This would leave a small balance which could be used to pay an appropriate amount for those people who retire in the course of the year.

I am copying this minute to John Major, Norman Fowler and Tom King.

NAS.

15/12.

NICHOLAS SCOTT

PLEDGED BENEFITS

Retirement pension

Widows benefits

Industrial death benefit

Industrial disablement benefit

War pensions

Invalid care allowance

Attendance allowance

Supplementary pension

Invalidity pension

Severe Disablement allowance

Guardians allowance

Childs special allowance (abolished from April 1987. Uprated for existing cases)

UNPLEDGED BENEFITS

Unemployment benefit

Sickness benefit

Maternity Allowance

Child benefit

One parent benefit

Family income supplement

Mobility allowance

Supplementary allowance (short and long-term)

Housing Benefits.



*Prp*

NOTE OF A MEETING HELD IN HM TREASURY ON  
TUESDAY 15 DECEMBER AT 2.45PM

Present      Chancellor  
                 Chief Secretary  
                 Paymaster General  
                 Mr Anson  
                 Miss Mueller  
                 Mr Kemp  
                 Mr Luce  
                 Miss Peirson  
                 Mr Dixon  
                 Mr Call  
  
                 Miss Wheldon - T.Sol.

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**RPI ERROR AND PUBLIC SERVICE PENSIONS**

The Chancellor said that those who had been affected by the RPI error could be divided into three groups: those whom the Government was going to compensate directly (eg pledged beneficiaries); those who were getting no direct compensation, but from whom the Government was "not going to make a profit" (eg unpledged beneficiaries); and cases where the Government was proposing to take no action (indexed savings, tax allowances etc). He would need a lot of persuading to see public service pensioners put in the first of these categories. Mr Anson agreed. Mr Luce said he was inclined to argue for public service pensioners to receive Group 1 treatment, because Group 2 treatment involved giving pensioners' money away to others, which would be seen as inequitable. In law and in policy public service pensions had always been linked to social security pensions. It would be difficult to explain why the link had been broken here but nowhere else. Mr Anson said that although it would be difficult to draw a line which excluded public service pensioners, he could think of no better dividing line. If the Government compensated its own



Be do  
contention

Mr Taylor

~~Mr Dixon.~~

Jonathan  
One query in para 3.  
Otherwise I think Moira  
has done a good job.

John.

J.D.  
23/12

Grateful if you could (consulting  
with Mr Luce + Miss Wheldon)  
cast your eyes over these  
minutes before they are promulgated.

Jf  
22/12



employees, then someone would have to compensate the teachers, university teachers etc. Mr Anson also pointed out that a decision must be reached quickly: if nothing was said on Thursday when the arrangements for social security beneficiaries were announced, it would be assumed that the Government was going to compensate those on public service pensions.

2. The Paymaster General said that he had mixed feelings. Wearing his Paymaster General hat he favoured a concession. But as a Treasury Minister he could be convinced by Group 2 treatment, although he added that the Government would need a very convincing case to fight off public criticism. The Chief Secretary said he was now minded to resist a concession. The line had to be drawn somewhere, and ideally beneath pledged social security benefits. He felt sure that on public service pensions the Government must be seen to have clean hands. He was, however, not sure that to give the money to, for example, the NHS was politically appropriate. Summing up, the Chancellor said there seemed to be a majority against Group 1 treatment. The meeting then discussed how Group 2 treatment would work in detail.

3. Mr Luce said he thought it would be necessary to check whether charities would be able to spend the amount of money the Government was now planning to give them within this financial year. Mr Call said he felt that, although the Government would have clean hands, the link between the losers and gainers was very tenuous, and the Government would get little thanks for it. The Chancellor said that although the Government might not get support from individuals who had lost out, the general public would see it as acting fairly. The Paymaster General was also sceptical about the likely public response to Group 2 treatment for public service pensioners. He received a great many letters from pensioners complaining about the level of their benefits - the standard response to the effect that pensions were calculated strictly in accordance with the RPI would sound rather less convincing now.



4. There was a brief discussion of how the public service pensions "pot" should be distributed. There were awkwardnesses in giving large amounts to public service pensioners benevolent funds, when the DHSS pot for distribution to families, children, and the working age unemployed was now quite small. Miss Peirson said that DHSS were now doing their best to distribute the bulk of the £100 million in lump sum payments to individuals. She wondered whether this was the right approach, as it would leave a very small remainder for distribution to charities, so the Government's generosity would leave it open to accusations of meanness to unpledged beneficiaries. The Chancellor said that DHSS should be restrained from generous rounding up of lump sums to pledged beneficiaries. The Chief Secretary said that he wondered whether some of the remaining sums on the social security side should be diverted to finance Mr Scott's plans to make ad hoc payments to the most deeply disabled, who lost out quite significantly under the new social security system. However, it was agreed that it would inevitably develop into a regular annual commitment, so generosity on this front would be very expensive in subsequent years. It was agreed that the details of which charities would benefit should be left vague in the statement, since final agreement on the precise details was most unlikely in the time available.

5. The Paymaster General raised one other political awkwardness. Forcing DHSS to finance the administration costs of lump sum payments out of the overall total of benefit "savings" would seem very mean. It was agreed that this should therefore count as a claim on the reserve.

6. It was agreed that the Paymaster General would minute the Prime Minister. The minute should say that, although this issue had not been discussed at the No.10 meeting, there was a need to cover it in Mr Scott's statement. The minute should stress the administrative cost and complication of making many payments of very small sums to public service pensioners. It should emphasise



that MPs would also benefit from any concession on this front. If possible, the Chancellor would clear the proposal with the Prime Minister in advance, so that the Paymaster General's minute could be copied to colleagues, to save time.

A handwritten signature in dark ink, appearing to be "M. Wallace".

A small handwritten mark or initials, possibly "MW".

MOIRA WALLACE

22 December 1987

PRESS BRIEFING

FINAL

*prp*

Q. What about official pensioners (eg civil servants, armed forces, MPs and so on)?

A. The effects on public service pensions are amongst the matters still under consideration. An announcement will be made as soon as possible.

Q. Number of official pensioners involved?

A. Over 2 million.

Q. When will the decision be announced?

A. As soon as possible.

Q. Scale of implications for public service pensions?

A. Very small indeed (for the very large majority in pence per week).

Q. Legal obligation to correct public service pensions?

A. ~~No legal obligation if present Social Security order stands. Issue of policy still under consideration.~~

*The position is*

CONFIDENTIAL

*pmf*



CH/EXCHEQUER	
REC.	16 DEC 1987
ACTION	PMG
COPIES TO	

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

16 December 1987

✓  
✓

*Dear Prime,*

THE RETAIL PRICE INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS

The Prime Minister has seen the Paymaster General's minute of today which proposed that no compensation for the RPI error should be paid to public service pensioners and that the consequential public expenditure saving should be included in any money made available to charities as a result of the error. The Prime Minister is content to proceed in this way, subject to an assurance that no public service pensioners on low incomes will have lost more than £5-10.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Chief Whip, the Minister for the Arts, the Minister for Social Security and to Trevor Woolley (Cabinet Office).

*Jm,*

*David*

DAVID NORGROVE

Simon Judge, Esq.,  
Paymaster General's Office.

CONFIDENTIAL

CONFIDENTIAL

*pm*



CH/EXCHEQUER	
REC.	16 DEC 1987
ACTION	CST
COPIES TO	

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

16 December 1987

*Dear Eamonn,*

✓  
✓

ERROR IN RETAIL PRICES INDEX: EX GRATIA PAYMENTS

The Prime Minister has seen your Minister's minute (undated), which set out the way he wishes to handle ex gratia payments to compensate social security claimants who have lost money as a result of the RPI error.

The Prime Minister does not think it would be right to give to recipients of pledged benefits money which has been lost by recipients of unpledged benefits. This money should, in her view, as earlier envisaged, go to suitable charities. It is of course open to you to explain why the proposal has been made in the way it has, but the Prime Minister remains to be convinced of its merits.

On the question of the timing of the announcement, the Prime Minister would still prefer this to be done tomorrow, Thursday, to avoid the question hanging over until the House returns after Christmas. But she is aware that a number of details will need to be settled if the announcement is to be made tomorrow and she would be willing to defer the announcement if that cannot be done in time. One of these more detailed questions which concerns her is the fact that some severely disabled war and industrial injuries pensioners may have lost up to £55. She believes that special action ought to be taken to compensate such people.

I am copying this letter to the Private Secretaries to the Chief Secretary, H.M. Treasury, the Secretary of State for Social Security and the Secretary of State for Northern Ireland.

*Yours,  
David*

DAVID NORGROVE

Eamonn Kelly, Esq.,  
Office of the Minister for Social Security.

CONFIDENTIAL

FROM: J P MCINTYRE  
DATE: 16 December 1987

CHIEF SECRETARY

cc Chancellor  
Paymaster General  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Miss Peirson  
Mr Luce  
Mr Turnbull  
Mr Gieve  
Mr Gibson  
Mr Tyrie  
Mr Call

**RPI ERROR: SOCIAL SECURITY**

I understand that Cabinet is to decide tomorrow whether Mr Scott should make an announcement later in the day or if it should be delayed to the New Year. On the basis that there may be an announcement, you will wish to respond quickly to Mr Scott's minute of yesterday to the PM.

2. In my minute of yesterday, I identified four ways in which the cost of the DHSS proposals could be reduced, enabling savings from the £105 million package or the creation of a separate pot for distribution to charities. I have since gone over some of the ground again with DHSS officials, in the light of your views and the Chancellor's on Mr Scott's proposals.

a. Mobility Allowance

3. I have now established that the administrative problem is not overriding. Although war pensions (which are pledged) and Mob A are paid from the same category of order book, war pensions are paid weekly and Mob A four-weekly, and the appropriate dates are shown in the order books. The PO could therefore be instructed to pay the lump sum compensation only to those in receipt of the weekly benefit. This would save £4 million and restrict the compensation package entirely to pledged beneficiaries.

4. The counter argument from DHSS is that Mr Fowler has already announced that the severely disabled will be helped. Some people in receipt of Mob A get none of the pledged benefits and so would not receive any compensation if the package were restricted to the pledged benefits.

b. Married women pensioners on dependency rate

5. About £16 million could be saved by excluding this group. The problem is that there would be no easy means for the PO to distinguish between the 2 million married women pensioners whose pension depends on their husbands' contributions (the category which should get no compensation) and married women who get a pension in their own right. These are both in the same order book category. One possibility would be for DHSS to instruct the PO not to pay the lump sum to those in receipt of the £23.75 dependency rate. However, some of the 2 million are paid less than the full rate and so would get the compensation under this system.

6. DHSS argue this would be seen as unfair and confusing by pensioners. Why should some pensioners be compensated and not others? The PO might also press for higher fees in order to carry out a more complex operation.

c. Cut flat rate payment

7. The average amount actually lost by pensioners and most other groups of pledged beneficiaries is now calculated at £7.85 (this is 5p higher than yesterday's figure because DHSS have now remembered that 1987-88 is a 53 week year for benefit purposes). So the savings from paying exactly this amount rather than rounding up to £8 would be £2.5 million. However, this might well be offset to some extent by higher PO fees: it would be simpler to add on £8 to the varying amounts pensioners actually receive.

d. "Topping up" payments

8. These are now costed at only £0.5 million. They would go to 30,000 severely disabled war pensioners and industrial injuries pensioners who have lost considerably more than the average. The top up would be £15.

9. I gather that the PM is concerned that some people may have lost as much as £55. DHSS are sending us the calculations showing how this is possible. Relatively few people are so badly affected. A more generous top up scheme for the worst affected could be devised, for implementation next Summer. DHSS put the cost at £½-1 million.

New Pensioners

10. This is the only unexpected item in Mr Scott's package. The idea is to compensate those who will retire after the lump sum is paid out and before the end of 1988-89 ie the group affected by the error but not compensated by the lump sum. The cost, falling in 1989-90, would be roughly £1 million.

Overall Package

11. In summary, Mr Scott's proposals involve:

	<u>£ million</u>
Pensioners & other pledged	96
Mob A	4
Topping up	½
New pensioners	<u>1</u>
	<u>101½</u>

12. If, in addition, there is further topping up for the worst affected war pensioners and industrially injured (costing an extra £½-1 million), around £2½-3 million could therefore be left over for distribution to charities. This would be in addition to the £7 million or so available from public sector pensions.

13. If you feel that a total sum of £9-10 million for charities meets the bill, you may not wish to press DHSS any further on the details of the social security package. If, however, you think a larger total sum is necessary (with a better balance between the contributions from social security and public sector pensions), you will need to press Mr Scott on at least one of the four elements in paragraphs 3 to 9 above.

14. The top up payments to the severely disabled look untouchable for this purpose. Excluding Mob A would be in line with the pledge and produce the right sort of money (£4 million). But, again, it may be difficult to deprive the disabled. The best solution may be to trim the flat rate compensation to £7.85 and take a hard line with the PO on fees. This would save £2½ million.

#### Conclusions

15. Mr Scott's package leaves a little room for disbursements to charities but not much. If you want to secure more, within the £105 million envelope, it may be best to try to speak to Mr Scott later today so that the matter can be resolved before Cabinet. We are working on a draft letter on the basis that you may still prefer to write.

*Jm*

J P MCINTYRE

CONFIDENTIAL

FROM T R H LUCE  
 16 December 1987  
 Room 55/G  
 Ext 4544

PAYMASTER GENERAL

cc Chancellor  
 Chief Secretary  
 Sir P Middleton  
 Mr Anson  
 Miss Mueller  
 Mr Kemp  
 Mr Gilmore  
 Mr Hawtin  
 Mr Dixon  
 Mr R I G Allen  
 Mr P McIntyre  
 Mr D Pain  
 Mr Sheridan  
 File A  
 File B

Note for cabinet  
 flagged

RPI: PUBLIC SERVICE PENSIONERS ETC

1 I understand that, on present plans, a DHSS Minister will on Friday make an oral statement on social security compensation payments and that the public service pensioner decision is to be announced simultaneously by written answer.

2 I gather that the question whether there will be any residue of Social Security "savings" to finance payments to charities is still unresolved.

3 I attach at 'A' the draft of a Parliamentary question and answer on the public service pensioner point. It is in two versions, differing in the second paragraph. The first version assumes that there will be Social Security savings and that the DHSS Minister will on Friday announce a charities scheme. The second is for use if there is no Social Security charities scheme, or it is not announced on Friday.

4 I suggest that you ask your office to send copies of the drafts to Ministers in the DHSS and other public service departments requesting comments by close tomorrow. A draft letter is at 'B'.



Ch

You may find  
Mr Moore & Mr  
Wakeham seeking to  
have a word with you  
& CST in margins of  
Cabinet about letter  
Mr Scott's statement on  
Friday should cover  
public service pensions  
(or letter separate under  
PQ).

*ATA*

CONFIDENTIAL

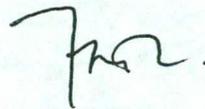
Cabinet

5 At 'C' is a note for Treasury Ministers' use at Cabinet tomorrow.

6 Our contacts with officials in other public service departments suggest that the decision not to make compensatory payments to public service pensioners will not be challenged by most Ministers, though we are unsure about Defence.

7 We think it likely that some Ministers may say that giving money to public service charities will be difficult. In some cases (e.g. the NHS), there are apparently few if any national charities that serve the staff groups concerned. The Home Secretary is, we understand, writing to say that he would not want to have to select charities in the fields for which he is responsible.

8 If there is difficulty about the charities' point at Cabinet tomorrow, Treasury Ministers may wish to say that though the announcement of the decision not to pay compensatory payments must be made on Friday (if only because there are three Parliamentary questions on the issue already down for answer), the announcement does not have to cover the charities point. (It would be the second version of the draft answer. This says that the Exchequer will not gain, but leaves for subsequent announcement the means to secure that objective).



T R H LUCE

'B'  
'A' (1)

To ask Mr Chancellor of the Exchequer what will be the effects of the Retail Price Index error on occupational and public service pensioners, and if he will make a statement

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the order made in November uprating social security benefits from 11 April next. As for the statutory social security uprating, the rate of increase in these official pensions will be 4.2%. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from 1 April 1989 will be what they would have been if the ~~small~~ error in the index had not occurred. ~~The Government will not be making any extra-statutory payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned.~~

The Government will not be making any extra-statutory payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned.

#### Version 1

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on public service pensions - a sum in the region of £5m-£10m This sum will therefore be made available to

suitable charities, including the main public service benevolent associations active in support of retired or needy members of the public services. [This sum is in addition to the sum of [£Ym] that will be made available to charities as a result of the effects of the error on social security expenditure.]

To ask Mr Chancellor of the Exchequer what will be the effects of the Retail Price Index error on occupational and public service pensioners, and if he will make a statement

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the order made in November uprating social security benefits from 11 April next. As for the statutory social security uprating, the rate of increase in these official pensions will be 4.2%. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from 1 April 1989 will be what they would have been if the small error in the index had not occurred. ~~In respect of the error in the index,~~ The Government will not be making any extra-statutory payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned.

#### Version 2

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on public service pensions - a sum in the region

of £5m-£10m. Arrangements to achieve this objective will be announced in due course.

CONFIDENTIAL

PS/MR SCOTT

**RPI ERROR: PUBLIC SERVICE PENSIONERS**

I attach a draft of the Parliamentary answer on public service pensioners that Treasury Ministers intend to give on Friday morning, simultaneously with Mr Scott's oral statement.

It is in two versions - the first for use if Mr Scott announces that social security expenditure savings will be used to help suitable charities, and the second for use if he does not.

I should be grateful for comments by close tomorrow (Thursday).

I am sending copies of his letter and its enclosure to David Norgrove at No 10, and to [the Private Secretaries of the Secretaries of State for Scotland, Wales, Northern Ireland, Defence, Environment, Education and the Home Office].

SPEAKING  
NOTE FOR  
C/S/INT

'C'

SPEAKING NOTE

## RPI ERROR

The decision that we have taken to compensate national insurance retirement and supplementary pensioners and the severely disabled for the RPI error leads us on to the issue of public service pensioners, whose pensions are index-linked.

As the Paymaster General has proposed to the Prime Minister, we think that we should not make such compensation to public service pensioners in the schemes administered centrally (the Parliamentary scheme, Judges, Civil Servants, NHS, Armed Forces and Teachers). For the other schemes - e.g. local government, fire, police - the decision would be for their employers.

This is because:

- (a) people on unemployment benefit and certain other social security benefits are not being compensated;
- (b) holders of index-linked gilts and indexed National Savings certificates are not receiving any compensation;
- (c) it would be difficult, if not impossible, in administrative terms, to compensate only those on low pensions.

There are bound to be objections from public service pensioner lobbies and from individuals. I judge that these can be ridden out.

The Prime Minister has asked for an assurance (her Private Secretary's letter of 16 December) that the loss to public service pensioners on low incomes can be held below £5 to £10.

If we take an occupational pension of £40 a week, that would mean a loss of about £8.

There are a large number of public service pensioners with pensions of less than £40 a week - about half a million in the Civil Service, NHS and Teachers schemes alone.

They and all other pensioners will be entitled to the National Insurance retirement pension if 65 (male) or 60 (female); and will receive £8 compensation under the Social Security arrangements. And the smaller their occupational pensions, the smaller their cash losses from the RPI error.

In his first announcement of the RPI error, Norman Fowler said that the Exchequer would not benefit from the effect on Social Security expenditure. We have in mind that the Social Security saving left after compensation payments to beneficiaries - about £4m - should be paid to suitable charities. The saving from our decision not to compensate public service pensioners in centrally administered schemes should be some £5m-£10m. I suggest that we should announce that this should be added to the sum available for charities, giving a total of rather more than £10m. It seems to us desirable for public service charities to be included amongst those who benefit, where suitable charities exist and can be identified.

for v-accounts.  
get more money for

CONFIDENTIAL

*pmf*



CHIEF SECRETARY	
REC.	16 DEC 1987
ACTION	Sec P. Middleton
COPIES TO	Mr. Anderson,
	Mr. Baker, Mr. Cassell
	Mr. T. ...
	Mr. ...
	Mr. ...
	Mr. ...

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

*Mr. ... Mr. ...*

*Dear Eamonn,*

ERROR IN RETAIL PRICES INDEX: EX GRATIA PAYMENTS

The Prime Minister has seen your Minister's minute (undated), which set out the way he wishes to handle ex gratia payments to compensate social security claimants who have lost money as a result of the RPI error.

The Prime Minister does not think it would be right to give to recipients of pledged benefits money which has been lost by recipients of unpledged benefits. This money should, in her view, as earlier envisaged, go to suitable charities. It is of course open to you to explain why the proposal has been made in the way it has, but the Prime Minister remains to be convinced of its merits.

On the question of the timing of the announcement, the Prime Minister would still prefer this to be done tomorrow, Thursday, to avoid the question hanging over until the House returns after Christmas. But she is aware that a number of details will need to be settled if the announcement is to be made tomorrow and she would be willing to defer the announcement if that cannot be done in time. One of these more detailed questions which concerns her is the fact that some severely disabled war and industrial injuries pensioners may have lost up to £55. She believes that special action ought to be taken to compensate such people.

I am copying this letter to the Private Secretaries to the Chief Secretary, H.M. Treasury, the Secretary of State for Social Security and the Secretary of State for Northern Ireland.

*Jns,*  
*David*

DAVID NORGROVE

Eamonn Kelly, Esq.,  
Office of the Minister for Social Security.

CONFIDENTIAL



FROM: MOIRA WALLACE

DATE: 16 December 1987

PS/CHIEF SECRETARY

cc PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Miss Peirson  
Mr Luce  
Mr Turnbull  
Mr Gieve  
Mr McIntyre  
Mr Gibson  
Mr Tyrie  
Mr Call

**ERROR IN RPI: EX GRATIA PAYMENTS**

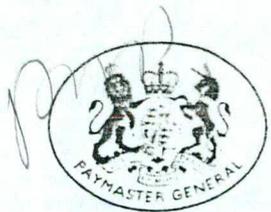
The Chancellor has seen Mr McIntyre's minute of 15 December, and Mr Scott's minute to the Prime Minister of the same date. He has commented that the DHSS proposal is unacceptable, and that the very most we could accept is rounding up to the nearest 10p.

2. As we agreed, I spoke to David Norgrove at No.10 this morning. He confirms that there has been no retreat from the decision reached at the Prime Minister's meeting. No.10 are still expecting DHSS to produce proposals which do not over-compensate the pledged beneficiaries, and which leave a residual "pot" for distribution to charities etc. DHSS will be asked to withdraw the minute, and come up with more acceptable proposals.

A handwritten signature in blue ink, appearing to be 'mpw.' with a period at the end.

MOIRA WALLACE

*Handwritten initials*



FROM: S P JUDGE  
DATE: 16 December 1987

PARLIAMENTARY CLERK

cc APS/Chancellor  
PS/Chief Secretary  
Miss Mueller  
Mr Luce  
Miss Peirson  
Mr R I G Allen  
Mr Sheridan

RPI: PUBLIC SERVICE OCCUPATIONAL PENSIONS

I would be grateful if you could arrange for the following PQ to be put down today - not by Tim Boswell MP - for answer tomorrow:

"To ask Mr Chancellor of the Exchequer, what will be the effects of the Retail Price Index error on occupational and public service pensioners; and if he will make a statement".

I suggest the answers due on Friday to Questions 63 and 155 (Boswell and Graham Allen respectively) should refer to the Answer to the above PQ. I will let you have this tomorrow.

*Handwritten signature*

S P JUDGE  
Private Secretary

pmj



FROM: S P JUDGE  
DATE: 16 December 1987

PARLIAMENTARY CLERK

cc APS/Chancellor  
PS/Chief Secretary  
Miss Mueller  
Mr Luce  
Miss Peirson  
Mr R I G Allen  
Mr Sheridan

**RPI: PUBLIC SERVICE OCCUPATIONAL PENSIONS**

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"To ask Mr Chancellor of the Exchequer, what will be the effects of the Retail Price Index error on occupational and public service pensioners; and if he will make a statement".

I suggest the answers due on Friday to Questions 63 and 155 (Boswell and Graham Allen respectively) should refer to the Answer to the above PQ. I will let you have this tomorrow.

S P JUDGE  
Private Secretary

EST

CONFIDENTIAL



DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY  
 Telephone 01-407 5522

*From the Minister of State for Social Security and the Disabled*

CH/EXCHEQUER	
REC.	17 DEC 1987
ACTION	CST
COPIES TO	

Miss Jill Rutter  
 Private Secretary to the  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON

Dear Jill

17<sup>th</sup> December 1987

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY BENEFICIARIES

I attach the first draft of the statement on payments to Social Security beneficiaries resulting from the RPI error. This assumes payments will be made to all married women pensioners which, as you know, is still subject to consideration by Ministers. As I explained, we have been looking at how we could exclude this group. In short, we would have to instruct the Post Office not to make the special payments to any pensioner in receipt of a pension of £23.75 per week (the married woman's rate) or less. But this approach would have some considerable deficiencies because:

- 1 million of the 2 million married woman pensioners receive also small amounts of Graduated and SERPS pension and are therefore receiving more than £23.75 per week;
- we would also be excluding some pensioners who although getting £23.75 or less have lost as a result of the error (because they have a pension based on their own contributions which is subject to different rounding). This would include 50,000 widows and about 1/2 million married women.

I am copying this letter and attachment to David Norgrove, Alex Allen, Nick Wilson (Department of Employment) and David Watkins (Northern Ireland Office).

Yours ever,

Eamonn

EAMONN KELLY  
 Private Secretary

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY  
BENEFICIARIES

With permission, Mr Speaker, I should like to make a statement about the Government's proposals to make extra payments to social security claimants following the recent discovery of the error in the Retail Price Index.

The House will know that the effect of the error has been to understate the annual inflation rate on average by about one tenth of one per cent in most months since February 1986. As a result, the rates of retirement pension and other long-term benefits should, in general, have been 5 pence higher than they are this year and 10 pence higher than the rates that will come into effect next April. Several benefits including Child Benefit are unaffected.

The House will know that we have already made it clear that the Exchequer will not benefit from the effects of the error on social security expenditure.

In line with this principle we intend to make special payments to the following social security recipients: retirement pensioners, supplementary pensioners, those receiving widows benefits, industrial injuries benefits, war pensions, invalid care allowance, invalidity benefit, mobility allowance, attendance allowance and severe disablement allowance. This will be followed by action to correct benefit rates for all recipients at the April 1989 uprating.

These special extra payments will be made on an ex gratia basis and a Supplementary Estimate to seek authority for this expenditure will be laid before the House in due course. The payments will be at a flat rate of £8 - slightly more than the standard £7.85 loss to retirement pensioners - and in line with their actual loss, £5 for mobility allowance recipients. We have arranged with the Post Office that payments will be made in the first week of February for those paid by order book. Action will be taken by the Department's local and central offices to ensure that those paid by other means, for example through credit transfer, will also receive their money at that time.

There are a few severely disabled war and industrially injured pensioners who will lose significantly more than £8. Because this affects a comparatively small group it will be possible to make special arrangements to assess their individual losses and to ensure that they are fully compensated. Inevitably these calculations will take more time, but payments will be made as soon as is practicable. I also propose, to pay an additional amount to those who retire between January next year and April 1989.

Overall we estimate that as a result of the error £105 million will have been underspent. The arrangements which I have described will cost rather more than £100 million. In order to fulfill our commitment that there should be no gain to Exchequer, the remainder will be allocated to suitable charities.

Mr Speaker, you will recognise that with nearly a billion social security payments a year it would be a disproportionately complex and time consuming operation to calculate and pay exactly what each individual has lost. I feel confident that the House would wish to see this mistake corrected in a way which combined as far as possible speed of payment and fairness. I believe our plans provide a sensible and effective way of doing this.

*pmp*



FROM: JILL RUTTER  
DATE: 17 December 1987

MR CROPPER

cc:  
PS/Chancellor -2

CENTRAL COUNCIL

The Chief Secretary has seen your minute 16 December.

2 I am sorry that amid the chaos on the Health Service and the RPI we failed to find you a suitable slot - I am afraid I did not know that you were asking to see the Chief Secretary otherwise one would have been created from nothing! Nonetheless the Chief Secretary is entirely content with the motions proposed.

*Jill Rutter*

JILL RUTTER  
Private Secretary

JP6234p



*pmj*

DEPARTMENT OF HEALTH & SOCIAL SECURITY  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY  
 Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

Miss Jill Rutter  
 Private Secretary to the  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON

CHIEF SECRETARY	
REC.	17 DEC 1987
ACTION	Mr Wace / Mr McIntyre
COPIES TO	CX, PMG, Sir Peter Middleton, Miss Threlker
	Mr Anson, Mr Kemp, Miss
	Re Miss Reiston, Mr Beasdale, Mr Richardson, Mr Dixon

*Dear Jill,*

*17<sup>th</sup> December 1987*

STATEMENT ON THE ERROR IN THE RPI

I attach a revised copy of the statement on the special payments to social security beneficiaries resulting from the error in the RPI.

Mr Scott wants to take in the first of your suggested amendments as a new paragraph 7, rather than subsume it within a new paragraph 8. I hope this is acceptable to you.

As you know, the new paragraph on public service occupational pensioners includes the Statement that the total amount available for disbursement to charities is 'over £10m'. I understand that your latest estimate of the underspend on public service pensions is £7m. Taken together, with the sum available from social security benefits, the total allocation therefore will probably be about £15m. If possible, Mr Scott would like to use this figure.

Copies also go to David Norgrove, and the Private Secretaries to the Secretary of State for Employment, the Lord Privy Seal, the Chief Whip and the Secretary of State for Northern Ireland.

*Yours ever*

*Eamonn*

EAMONN KELLY  
 Private Secretary

AR6183p

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY  
BENEFICIARIES

With permission, Mr Speaker, I should like to make a statement about the Government's proposals to make extra payments to social security claimants following the recent discovery of the error in the Retail Price Index. My Hon Friend the Paymaster-General has made a separate written statement about the effects on public services occupational pensioners.

The House will know that the effect of the error has been to understate the annual inflation rate on average by about one tenth of one per cent in most months since February 1986. As a result, the rates of retirement pension and other long-term benefits should, in general, have been 5 pence higher than they are this year and 10 pence higher than the rates that will come into effect next April. Several benefits including Child Benefit are unaffected.

The House will know that we have already made it clear that the Exchequer will not benefit from the effects of the error on social security expenditure.

In line with this principle we intend to make special payments to the following social security recipients: retirement pensioners, supplementary pensioners, those receiving widows benefits, industrial injuries benefits, war pensions, invalid care allowance, invalidity benefit, mobility allowance, attendance allowance and severe disablement allowance. This will be followed by action to correct benefit rates for all recipients at the April 1989 uprating.

The payments will be at a flat rate of £8 - slightly more than the standard £7.85 loss to retirement pensioners - and in line with their actual loss, £5 for mobility allowance recipients. We have arranged with the Post Office that payments will be made from the first week of February for those paid by order book. Action will be taken by the Department's local and central offices to ensure that those paid by other means, for example through credit transfer, will also receive their money at that time.

There are a few severely disabled war and industrially injured pensioners who will lose significantly more than £8. Because this affects a comparatively small group it will be possible to make special arrangements to ensure that they are given extra compensation. Inevitably this will take more time, but payments will be made as soon as is practicable. I also propose, to pay an additional amount to those who retire or become widowed between the time the special payments are made and April 1989.

These special payments will be made on an ex gratia basis, and Parliamentary approval will be sought in a Supplementary Estimate. Pending that approval, urgent expenditure will be met by repayable advances from the Contingencies Fund.

Overall we estimate that as a result of the error £109 million will have been underspent. The arrangements which I have described will cost rather more than £100 million. In order to fulfill our commitment that there should be no gain to Exchequer, the remainder will be allocated to suitable charities.

My Hon Friend, the Paymaster General is making it known today by Written Answer that no extra statutory payments will be made to pensioners of public service occupational schemes administered by central government. The savings to the Exchequer arising from this decision will be added to the sum available for disbursement to charities as a result of the underspend on social security benefits and will bring it to over £10 million. We shall ensure that charities and benevolent associations active in support of retired public servants will be amongst those with an opportunity to benefit from this arrangement.

Mr Speaker, you will recognise that with nearly a billion social security payments a year it would be a disproportionately complex and time consuming operation to calculate and pay exactly what each individual has lost. I feel confident that the House would wish to see this mistake corrected in a way which combined as far as possible speed of payment and fairness. I believe our plans provide a sensible and effective way of doing this.

CONFIDENTIAL

pmp

FROM T R H LUCE  
17 December 1987  
Room 55/G  
Ext 4544

MR S P JUDGE

cc PS/Chancellor  
PS/Chief Secretary  
Sir Peter Middleton  
Mr Anson  
Miss Mueller  
Mr Kemp  
Mr Gilmore  
Mr Hawtin  
Miss Peirson  
Mr R I G Allen  
Mr P McIntyre  
Mr D Pain  
Mr Sheridan  
File A  
File B

RPI: PUBLIC SERVICE PENSIONERS

Draft Answer

1 I attach a revision of tomorrow's Parliamentary answer.  
The main changes are:

- to introduce a reason for the Government's decision (beginning of second paragraph)
- to change the "savings" estimate from "£5m-£10m" to "£5m or more". (The best figure we can at present produce is £7m).
- to add, on non-central government schemes (end of paragraph 1), a reference to consultation between the public authorities concerned (local authorities etc) and the relevant central Government departments. This may help to stave off pressure from those departments to have the whole sentence removed. We should resist that if possible.

- in the final paragraph to link the charities "money" more clearly with the social security scheme.

Press Material

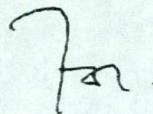
2 Also attached is Q & A material for use in IDT here and in departments; and the draft of a Press statement to go out with the answer.

DHSS Oral Announcement

3 If Mr Scott's oral statement is to include a cross-reference to the Paymaster General's written answer I suggest it should come at the end of paragraph 2 of the draft circulated by the Chief Secretary's Office today, thus:

"My hon Friend the Paymaster General is this morning giving a written answer covering the position of public service pensioners."

Better here than at the end of the statement which is somewhat bullish in tone and could therefore mislead people into thinking that the public service pensioner decision is on all fours with the social security decision.



T R H LUCE

WRITTEN  
THURSDAY 17 DECEMBER

SIR WILLIAM CLARK

To ask Mr Chancellor of the Exchequer, what will be the effects of the Retail Price Index error on occupational and public service pensioners, and if he will make a statement.

PAYMASTER GENERAL

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the Recess be laying an Order which will reflect in the normal way the Order made in November uprating social security benefits from 11 April next. As for the statutory social security uprating, the rate of increase in these official pensions will be 4.2 per cent. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from 1 April 1989 will be what they would have been if the error in the index had not occurred.

The rates of pension received by retired public servants vary very widely according to their length of service and final salary when in employment. Flat rate compensation for the index error would be inappropriate. Precise compensation would have administrative costs out of proportion to the sums concerned. Many public service pensioners are also National Insurance Retirement pensioners and will therefore receive compensation on that account. The Government will not, therefore, be making any

ex gratia payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned in consultation with the relevant Government departments.

In informing the House of the error in the Index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on the public service pensions the Government administers - a sum of £5m or more. Like the comparable sum arising on social security, this will be available for allocation to suitable charities, including those active in support of retired or needy members of the public services. Details of the arrangements will be announced later.

1 Who are the public service pensioners?

Those defined by the Pensions (Increase) Act 1971 as amended. They include retired civil servants, overseas service personnel, NHS staff, members of the Armed Forces, Judges, Members of Parliament, and teachers whose schemes are centrally administered. They also include local government, the police and fire service whose schemes are administered locally.

2 Will public service pensioners be compensated?

There will be no compensation payments to those public sector pensioners in schemes administered by central government.

3 What about schemes not centrally administered?

The decision will be for the public authorities concerned [in consultation with the relevant Government departments.]

4 How many are involved?

About 1½ million in the centrally administered schemes (including 460,000 Civil Service pensioners, 250,000 retired teachers, 300,000 NHS pensioners, 290,000 Armed Forces pensioners). Also 700,000 in locally administered schemes (including 95,000 retired police, 30,000 fire services staff and 570,000 local government pensioners).

5 Public service pension rates?

Very variable as in all occupational schemes. Rates depend on length of service and final salary. A large range of rates, not sensible to give any averages. But where individuals have very low pension, usually because of short service. A Civil Service Clerical Officer who retired in 1987 with 40 years service would have a pension of about £3,500 p.a., for example.

6 Legal obligation?

There is no legal obligation to correct the error for public service pensioners. The only requirement is that we must make matching payments to public service pensioners when upratings to social security beneficiaries have been made under the relevant Orders. That is not the case here. We are not obliged to match, for public service pensioners, extra statutory payments the DHSS have announced for some social security beneficiaries.

7 Inequitable not to pay?

No. It would be wrong to extend any compensation arrangements to all public service pensioners, when the Government have decided to select national insurance retirement and supplementary pensioners and the severely disabled.

8 Why not restrict compensation to public service pensioners with low pension?

Too costly and cumbersome administratively. Majority likely to have NIRP (and hence compensation).

9 Will official pensioners lose out permanently?

No. Once the retail price index is fully corrected they will suffer no long-term loss because the index - and hence their rates of pension - will be restored to full value in due course.

10 How much is involved for individuals?

No precise estimates are available but for the vast majority of pensioners the impact will be very small - a few pence a week.

11 Exchequer profiting from error?

No. [As with Social Security, Government will make available

expenditure savings on centrally administered public service schemes to suitable charities including the main public service benevolent associations.]

12 Which charities?

This is for consultation with the Ministers concerned.

13 First step to de-indexing of public service pensions?

No. Legislation requiring indexation of public service pensions remains in force. No plans for change.

14 How many private sector occupational schemes have guaranteed index-linked inflation-proofing?

5% of schemes, representing 14% of pensioners. [National Association of Pension Fund figures for 1985]

15 How many private sector occupational schemes guarantee any post-retirement benefit increases?

Under half, most of which guarantee benefit increases which are normally below the rate of inflation.

16 Who decides about compensation for private sector schemes?

The scheme trustees or managers. No responsibility of Government.

DRAFT PRESS NOTICERetail Price Index: Public Service Pensioners

The Government has today confirmed that the pensions of retired public servants will be uprated next April in line with the Retail price Index for the 12 months to September 1987 - i.e. by 4.2%.

Pensioners in public service schemes administered by central government will not receive compensation for the RPI understatement. Such compensation is to be concentrated on certain social security beneficiaries.

Details of the Government's decision are in the attached Parliamentary answer given today by the Hon Peter Brooke MP, Paymaster General, HM Treasury.

BACKGROUND NOTE (For Internal Use)

1 Norman Fowler announced on 11 December that a computer error had affected the monthly RPI from February 1986 to October 1987, with the result that annual inflation was underestimated by 0.1% in most months during the period. In consequence, the DHSS is to make special payments to National Insurance retirement and supplementary pensioners and severely disabled people.

2 For public service official pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the Order made in November uprating social security benefits from 11 April next. As in the case of the statutory social security uprating, the rate of increase in these official pensions will be 4.2%. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from April 1989 will be what they would have been if the small error in the index had not occurred. The Government will not be making any extra-statutory payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned.

3 Ministers have taken the decision because:

- (a) people on unemployment benefit and certain other social security benefits are not being compensated;
- (b) holders of index-linked gilts and indexed National Savings certificates are not receiving any compensation;
- (c) it would be difficult, if not impossible, in administrative terms, to compensate only those on low pensions.

CONFIDENTIAL

*[Handwritten signature]*

- 411-2-17-1  
2/5/87
1. MR HAWTIN *[Handwritten: HAWTIN 17/12]*
  2. MR LUCE

FROM: R FELLGETT

Date: 17 December 1987

cc: PS/Chancellor ✓  
PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Miss Mueller  
Mr Kemp  
Mr Gilmore  
Mr Dixon  
Mr R I G Allen  
Mr P McIntyre  
Mr D Pain  
Mr Sheridan

RPI: PUBLIC SERVICE PENSIONERS ETC

Your minute of 16 December to the Paymaster General, which we discussed.

2. We have only one small change to suggest to the drafting of the proposed Parliamentary Answer. The second sentence of the second paragraph, in both versions, would be clearer if it read "... of the error on the public service pensions that the Government administers - a sum ...". The meaning of "administers" is effectively defined in the previous paragraph.

3. For the record, we are content with the drafting of the distinction between those public service schemes whose costs fall on the Exchequer, and those that do not, in the last two sentences of the first paragraph. So long as the main schemes in each category are listed, as you propose, there should be no ambiguity in a distinction based on who administers the scheme, rather than one based on financial responsibility. We would not, however, wish to see the lists deleted at any stage, because without them there is scope for debate about the meaning of "administers", when sponsoring Government Departments set the rules and regulations for local government, police and fire schemes, although the cost (specific grant for the police apart) does not fall on the Exchequer.

4. We also discussed the sentence at the end of the first paragraph suggesting that for local government, including police and fire, a decision about extra statutory payments to pensioners, or possibly to a charity, would be for the authorities concerned. (I assume incidentally that there is no doubt that the authorities concerned would have powers to make extra statutory payments.) We expect pressure for a co-ordinated approach, not least from the Home Office because the Home Secretary is the police authority in London as well as a member of the Government. It would be difficult for him to take a decision about the Metropolitan Police which was different to the Government's. There will then be pressure for other policemen to be treated equally. If the Home Office should press this point, you were thinking of adding something like "in consultation with sponsoring Government Departments" at the end of the sentence. We would have no difficulty with a phrase like this.

*Rob. Fellgett*

R FELLGETT

17 DEC 1987 -15

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434



*PWP*

My ref:  
Your ref:

S P Judge Esq  
Private Secretary to  
The Paymaster General  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

17 December 1987

*Dear Simon,*

RETAIL PRICES INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS

You sent me a copy of your letter of 16 December to Eamonn Kelly enclosing two draft Answers about the above. Subject to the following, we have no comments on the drafts.

The final sentence in the second paragraph of the drafts indicates it will be for other public service pension schemes to decide what to do about the RPI error in the light of the Government's decision. As far as local government is concerned, and Treasury officials were so advised earlier this week, that sentence is unacceptable. Benefits payable under the Local Government Superannuation Scheme are determined by Regulations made by the Secretary of State. However deserving, those Regulations do not permit, for example, the payment of monies from local government pension funds to charities. The draft Answers should not therefore indicate, albeit indirectly, that such payments might be considered, particularly in the light of the recent misuse of these pension funds by some local authorities which Ministers are now considering. Accordingly, we would like the above sentence to be omitted from the drafts. If, subsequently, the position in local government is raised, we shall then have the opportunity to give a fuller answer drawing attention to the legal position etc. A full explanation about local government, which in our view is unnecessary at this stage, would detract from the present two drafts.

I am copying this letter to the recipients of yours.

*Yours*  
*Simon*

A D RING  
Private Secretary

PAYMASTER GENERAL	
REC	17 DEC 1987
	Mr Lugg
	Bl chl ex. SECT
	Sir P Middleton
	Mr Anson
	Miss Mueller
	Mr Kemp

- Mr Hamlin
- Mr Dixon
- Mr Nick Allen
- Mr P McIntyre
- Mr O'Pain
- Mr Shendan
- Mr Kellogg

*pmg*



CONFIDENTIAL



APS/CX

pnp

Treasury Chambers, Parliament Street, SW1P 3AG

Eamonn Kelly Esq  
 Private Secretary to  
 Nicholas Scott Esq MBE JP MP  
 Minister of State for Social Security  
 Department of Health & Social Security  
 Alexander Fleming House  
 Elephant and Castle  
 LONDON SE1 6BY

17 December 1987

Dear Eamonn

**THE RETAIL PRICES INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS**

Further to my letter of yesterday, I now attach a revised version of the Paymaster General's PQ. It was agreed at Cabinet this morning that Mr Scott would refer to it in his statement, and Jill Rutter in the Chief Secretary's office is writing to you separately about this.

I also attach Q&A briefing which has been prepared for our Press Office, which I hope will be of use to Mr Scott in dealing with Supplementary questions.

*behind* I have seen Alan Ring's letter of today, which refers to the legality of making payments from local authority pension funds to charities. But the last sentence in the second paragraph refers to compensating payments to individuals, which would be made from local authorities' rate fund revenue accounts. I hope that, with the added caveat ("in consultation with the relevant Government departments") this sentence can now stand. We will need to sort this out very early tomorrow.

I am copying this letter to David Norgrove, Mark Addison and Bernard Ingham (No 10) and the Private Secretaries to the Home, Environment and Education Secretaries, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

Yours ever  
 Simon.

S P JUDGE  
 Private Secretary

WRITTEN  
THURSDAY 17 DECEMBER

SIR WILLIAM CLARK

To ask Mr Chancellor of the Exchequer, what will be the effects of the Retail Price Index error on occupational and public service pensioners, and if he will make a statement.

PAYMASTER GENERAL

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the Recess be laying an Order which will reflect in the normal way the Order made in November uprating social security benefits from 11 April next. As for the statutory social security uprating, the rate of increase in these official pensions will be 4.2 per cent. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from 1 April 1989 will be what they would have been if the error in the index had not occurred.

The rates of pension received by retired public servants vary very widely according to their length of service and final salary when in employment. Flat rate compensation for the index error would be inappropriate. Precise compensation would have administrative costs out of proportion to the sums concerned. Many public service pensioners are also National Insurance Retirement pensioners and will therefore receive compensation on that account. The Government will not, therefore, be making any

ex gratia payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned in consultation with the relevant Government departments.

In informing the House of the error in the Index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on the public service pensions the Government administers - a sum of £5m or more. Like the comparable sum arising on social security, this will be available for allocation to suitable charities, including those active in support of retired or needy members of the public services. Details of the arrangements will be announced later.

1 Who are the public service pensioners?

Those defined by the Pensions (Increase) Act 1971 as amended. They include retired civil servants, overseas service personnel, NHS staff, members of the Armed Forces, Judges, Members of Parliament, and teachers whose schemes are centrally administered. They also include local government, the police and fire service whose schemes are administered locally.

2 Will public service pensioners be compensated?

There will be no compensation payments to those public sector pensioners in schemes administered by central government.

3 What about schemes not centrally administered?

The decision will be for the public authorities concerned [in consultation with the relevant Government departments.]

4 How many are involved?

About 1½ million in the centrally administered schemes (including 460,000 Civil Service pensioners, 250,000 retired teachers, 300,000 NHS pensioners, 290,000 Armed Forces pensioners). Also 700,000 in locally administered schemes (including 95,000 retired police, 30,000 fire services staff and 570,000 local government pensioners).

5 Public service pension rates?

Very variable as in all occupational schemes. Rates depend on length of service and final salary. A large range of rates, not sensible to give any averages. But where individuals have very low pension, usually because of short service. A Civil Service Clerical Officer who retired in 1987 with 40 years service would have a pension of about £3,500 p.a., for example.

6 Legal obligation?

There is no legal obligation to correct the error for public service pensioners. The only requirement is that we must make matching payments to public service pensioners when upratings to social security beneficiaries have been made under the relevant Orders. That is not the case here. We are not obliged to match, for public service pensioners, extra statutory payments the DHSS have announced for some social security beneficiaries.

7 Inequitable not to pay?

No. It would be wrong to extend any compensation arrangements to all public service pensioners, when the Government have decided to select national insurance retirement and supplementary pensioners and the severely disabled.

8 Why not restrict compensation to public service pensioners with low pension?

Too costly and cumbersome administratively. Majority likely to have NIRP (and hence compensation).

9 Will official pensioners lose out permanently?

No. Once the retail price index is fully corrected they will suffer no long-term loss because the index - and hence their rates of pension - will be restored to full value in due course.

10 How much is involved for individuals?

No precise estimates are available but for the vast majority of pensioners the impact will be very small - a few pence a week.

11 Exchequer profiting from error?

No. [As with Social Security, Government will make available

expenditure savings on centrally administered public service schemes to suitable charities including the main public service benevolent associations.]

12 Which charities?

This is for consultation with the Ministers concerned.

13 First step to de-indexing of public service pensions?

No. Legislation requiring indexation of public service pensions remains in force. No plans for change.

14 How many private sector occupational schemes have guaranteed index-linked inflation-proofing?

5% of schemes, representing 14% of pensioners. [National Association of Pension Fund figures for 1985]

15 How many private sector occupational schemes guarantee any post-retirement benefit increases?

Under half, most of which guarantee benefit increases which are normally below the rate of inflation.

16 Who decides about compensation for private sector schemes?

The scheme trustees or managers. No responsibility of Government.

DRAFT PRESS NOTICERetail Price Index: Public Service Pensioners

The Government has today confirmed that the pensions of retired public servants will be uprated next April in line with the Retail price Index for the 12 months to September 1987 - i.e. by 4.2%.

Pensioners in public service schemes administered by central government will not receive compensation for the RPI understatement. Such compensation is to be concentrated on certain social security beneficiaries.

Details of the Government's decision are in the attached Parliamentary answer given today by the Hon Peter Brooke MP, Paymaster General, HM Treasury.

*mp*

CH/EXCHEQUER	
REC.	18 DEC 1987
ACTION	CST
COPIES TO	

JP6243p



**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Minister of State for Social Security and the Disabled*

Jill Rutter  
Private Secretary to  
Chief Secretary to  
the Treasury  
HM Treasury  
Parliament Street  
LONDON

Dear Jill,

17<sup>th</sup> December 1987

STATEMENT ON THE ERROR IN THE RPI

I attach a revised page 1 to the Statement deleting the ~~new~~ superfluous reference in paragraph 1 to the Paymaster General's written answer. Copies as before.

*Yours ever*

*Eamonn*

EAMONN KELLY  
Private Secretary

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY  
BENEFICIARIES

With permission, Mr Speaker, I should like to make a statement about the Government's proposals to make extra payments to social security claimants following the recent discovery of the error in the Retail Price Index.

The House will know that the effect of the error has been to understate the annual inflation rate on average by about one tenth of one per cent in most months since February 1986. As a result, the rates of retirement pension and other long-term benefits should, in general, have been 5 pence higher than they are this year and 10 pence higher than the rates that will come into effect next April. Several benefits including Child Benefit are unaffected.

The House will know that we have already made it clear that the Exchequer will not benefit from the effects of the error on social security expenditure.

In line with this principle we intend to make special payments to the following social security recipients: retirement pensioners, supplementary pensioners, those receiving widows benefits, industrial injuries benefits, war pensions, invalid care allowance, invalidity benefit, mobility allowance, attendance allowance and severe disablement allowance. This will be followed by action to correct benefit rates for all recipients at the April 1989 uprating.

JR6234p



DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Minister of State for Social Security and the Disabled*

Miss Jill Rutter  
Private Secretary to the  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON

*Dear Jill,*

*17<sup>th</sup> December 1978*

STATEMENT ON THE ERROR IN THE RPI

I attach a revised copy of the statement on the special payments to social security beneficiaries resulting from the error in the RPI.

Mr Scott wants to take in the first of your suggested amendments as a new paragraph 7, rather than subsume it within a new paragraph 8. I hope this is acceptable to you.

As you know, the new paragraph on public service occupational pensioners includes the Statement that the total amount available for disbursement to charities is 'over £10m'. I understand that your latest estimate of the underspend on public service pensions is £7m. Taken together, with the sum available from social security benefits, the total allocation therefore will probably be about £15m. If possible, Mr Scott would like to use this figure.

Copies also go to David Norgrove, and the Private Secretaries to the Secretary of State for Employment, the Lord Privy Seal, the Chief Whip and the Secretary of State for Northern Ireland.

*Yours ever*

*Eamonn*

EAMONN KELLY  
Private Secretary

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY BENEFICIARIES

With permission, Mr Speaker, I should like to make a statement about the Government's proposals to make extra payments to social security claimants following the recent discovery of the error in the Retail Price Index. ~~My Hon Friend the Paymaster-General has made a separate written statement about the effects on public services occupational pensioners.~~

Already removed - Snail covered below.

The House will know that the effect of the error has been to understate the annual inflation rate on average by about one tenth of one per cent in most months since February 1986. As a result, the rates of retirement pension and other long-term benefits should, in general, have been 5 pence higher than they are this year and 10 pence higher than the rates that will come into effect next April. Several benefits including Child Benefit are unaffected.

The House will know that we have already made it clear that the Exchequer will not benefit from the effects of the error on social security expenditure.

In line with this principle we intend to make special payments to the following social security recipients: retirement pensioners, supplementary pensioners, those receiving widows benefits, industrial injuries benefits, war pensions, invalid care allowance, invalidity benefit, mobility allowance, attendance allowance and severe disablement allowance. This will be followed by action to correct benefit rates for all recipients at the April 1989 uprating.

The payments will be at a flat rate of £8 - slightly more than the standard £7.85 loss to retirement pensioners - and in line with their actual loss, £5 for mobility allowance recipients. We have arranged with the Post Office that payments will be made from the first week of February for those paid by order book. Action will be taken by the Department's local and central offices to ensure that those paid by other means, for example through credit transfer, will also receive their money at that time.

There are a few severely disabled war and industrially injured pensioners who will lose significantly more than £8. Because this affects a comparatively small group it will be possible to make special arrangements to ensure that they are given extra compensation. Inevitably this will take more time, but payments will be made as soon as is practicable. I also propose, to pay an additional amount to those who retire or become widowed between the time the special payments are made and April 1989.

These special payments will be made on an ex gratia basis, and Parliamentary approval will be sought in a Supplementary Estimate. Pending that approval, urgent expenditure will be met by repayable advances from the Contingencies Fund.

Overall we estimate that as a result of the error £109 million will have been underspent. The arrangements which I have described will cost rather more than £100 million. In order to fulfill our commitment that there should be no gain to Exchequer, the remainder will be allocated to suitable charities.

My Hon Friend, the Paymaster General is making it known today by Written Answer that no extra statutory payments will be made to pensioners of public service occupational schemes administered by central government. The savings to the Exchequer arising from this decision will be added to the sum available for disbursement to charities as a result of the underspend on social security benefits and will bring it to ~~over £10~~ <sup>between £10 and £15</sup> million. We shall ensure that charities and benevolent associations active in support of retired public servants will be amongst those with an opportunity to benefit from this arrangement.

Mr Speaker, you will recognise that with nearly a billion social security payments a year it would be a disproportionately complex and time consuming operation to calculate and pay exactly what each individual has lost. I feel confident that the House would wish to see this mistake corrected in a way which combined as far as possible speed of payment and fairness. I believe our plans provide a sensible and effective way of doing this.

CONFIDENTIAL

CCCXI, PMG

Sir P. MIDDLETON, Mr Angus



Miss Maclellan, Mr Kemp

Mr Luce, Miss Pearson

Mr McIntyre, Mr Richardson

Mr Dixon, Mr Gibson

Treasury Chambers, Parliament Street, SW1P 3AG

McCall

Eamonn Kelly Esq  
 Private Secretary to the  
 Minister of State  
 Department of Health and Social Security  
 Alexander Fleming House  
 Elephant and Castle  
 London  
 SE1 6BY

paup

17 December 1987

Dear Eamonn,

**RPI ERROR: DRAFT STATEMENT**

We have two comments on the draft statement which you sent over earlier today.

We suggest that the reference to the need for a Supplementary Estimate is taken out of the fifth paragraph of the text and subsumed within a new eighth paragraph, as follows:

"These special payments will be made on an ex gratia basis, and Parliamentary approval will be sought in a Supplementary Estimate. Pending that approval, urgent expenditure will be met by repayable advances from the Contingencies Fund."

It was also agreed in the margins of Cabinet this morning that Mr Scott's statement should refer to the Paymaster General's Written Answer on public service pensions. We suggest the following for this purpose:

"My Hon Friend, the Paymaster General is making it known today by Written Answer that no extra statutory payments will be made to pensioners of public service occupational schemes administered by central government. The savings to the Exchequer arising from this decision will be added to the sum available for disbursement to charities as a result of the underspend on social security benefits and will bring it to over £10 million. We shall ensure that charities and benevolent associations active in support of retired public servants will be amongst those with an opportunity to benefit from this arrangement."

CONFIDENTIAL

I am copying this letter to David Norgrove, Nick Wilson and David Watkins.

Yows,

Jill

JILL RUTTER  
Private Secretary

*pmp*



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213...6460.....

Switchboard 01-213 3000 GTN Code 213

Facsimile 01-213 5465 Telex 915564

David Norgrove Esq  
10 Downing Street  
LONDON SW1

18 December 1987

*Dear David*

**RETAIL PRICE INDEX**

... I enclose a copy of our press release on the Index of Retail Prices which was released today.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

*Sincerely,*

*Beverley Evans*

**BEVERLEY EVANS**  
Private Secretary

# PRESS NOTICE

## Department of Employment

Caxton House, Tothill Street, London SW1H 9NF

Telephones: Direct lines — Press Office 01-213 7439 (24 hour answering service)

Public Enquiries 01-213 5551 Exchange — 01-213 3000

Telex 915564 DEPEMP Press Office Facsimile — 01-213 3892

287/67

December 15, 1987

### GENERAL INDEX OF RETAIL PRICES

#### NOVEMBER 1987

The general index of retail prices for all items for November 10, 1987 was 103.4 (January 13, 1987 = 100). This represents an increase of 0.5 per cent on October 1987 (102.9) and an increase of 4.1 per cent on November 1986 (99.1, January 1974 = 100).

There were a number of price increases between October and November across a range of goods and services. The most notable were for food with higher prices for bread and potatoes and seasonal increases in the prices of other fresh vegetables. In addition, part of the monthly increase resulted from the correction introduced to rectify an error in a computer program which affected the monthly index between February 1986 and October 1987 and which was announced on Friday 11 December.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items				All items except seasonal food			
	Index	Percentage change over			Index	Percentage change over		
	Jan 13 1987 = 100	1 month	6 months	12 months	Jan 13 1987 = 100	1 month	6 months	
1987								
June	101.9	+0.0	+2.3	+4.2	101.8	+0.1	+2.1	
July	101.8	-0.1	+1.8	+4.4	101.9	+0.1	+1.9	
August	102.1	+0.3	+1.7	+4.4	102.2	+0.3	+1.9	
September	102.4	+0.3	+1.8	+4.2	102.6	+0.4	+2.0	
October	102.9	+0.5	+1.1	+4.5	103.1	+0.5	+1.5	
November	103.4	+0.5	+1.5	+4.1	103.6	+0.5	+1.9	

TABLE 2

	Indices (13 January 1987 = 100)		Percentage change over the month
	October 13, 1987	November 10, 1987	
All items	102.9	103.4	0.5
All items excluding Food	103.3	103.8	0.5
All items excluding Housing	102.6	103.0	0.4
Food	101.1	101.6	+0.5
Seasonal Food	96.8	98.8	+2.1
Non seasonal Food	101.8	102.1	+0.3
Catering	104.7	105.3	+0.6
Alcoholic Drink	103.5	103.3	-0.2
Tobacco	100.5	101.1	+0.6
Housing	104.9	105.6	+0.7
Fuel and Light	98.0	98.3	+0.3
Household Goods	103.3	104.2	+0.9
Household Services	103.2	103.8	+0.6
Clothing and Footwear	102.3	102.9	+0.6
Personal Goods and Services	102.6	103.9	+1.3
Motoring Expenditure	105.4	105.4	+0.0
Fares and Other Travel Costs	102.6	103.1	+0.5
Leisure Goods	102.6	103.1	+0.5
Leisure Services	103.3	103.7	+0.4

**FOOTNOTE:**

The component indices for November have been corrected for an error in the computer programme. Further details are given in note 2 of Notes to Editors.

## NOTES TO EDITORS

1 As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

2 The component indices for November given in table 2, have been corrected to eliminate the effect of the bias, the impact of which was not uniform. For food, alcoholic drink, tobacco, fuel & light and leisure services there was no effect so that the monthly change only reflects increased prices. Among the other components the effect varied. It accounted for less than one fifth of the change in the housing component but for catering, household goods, clothing and footwear, and leisure goods it accounted for between two-thirds and four-fifths of the monthly change. The effect on the all-items index was relatively small and some four-fifths of the  $\frac{1}{2}$  per cent monthly change is the result of higher prices.

3 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

4 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

5 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around  $2\frac{1}{2}$  per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

6 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

7 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

The index for the later month (January 1987 = 100) is multiplied by the index for January 1987 (January 1974 = 100) and divided by the index for the earlier month (January 1974 = 100). 100 is subtracted to give the percentage change between the two months.

Using the all items index for example: take the index for November 1987 (103.4) and multiply it by the January index (394.5) then divide by the November 1986 index (391.7). Subtract 100 from the result which gives 4.1 as the percentage change in the index over the twelve months to November.

8 The index for November 1987, if translated to the old reference date (January 1974 = 100) would be 407.9.

9 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

10 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9648 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

11 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

12 The index is given in full in the Employment Gazette.

FROM: J P MCINTYRE  
DATE: 18 December 1987

*PWP*

MR R I G ALLEN

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Sir P Middleton  
Mr Anson  
Mr Kemp  
Miss Peirson  
Mr Luce  
Mr Turnbull  
Mr Dixon  
Mr Gibson

RPI ERROR: SOCIAL SECURITY

I attach the statement to be made in the House this morning by Mr Scott dealing with social security compensation, together with Q&A briefing. Any detailed questions on the arrangements for paying social security beneficiaries should, of course, be referred to DHSS.

*JM*

J P MCINTYRE

STATEMENT ON THE ERROR IN THE RPI: PAYMENTS TO SOCIAL SECURITY BENEFICIARIES

With permission, Mr Speaker, I should like to make a statement about the Government's proposals to make extra payments to social security claimants following the recent discovery of the error in the Retail Price Index. My Hon Friend the Paymaster-General has made a separate written statement about the effects on public services occupational pensioners.

The House will know that the effect of the error has been to understate the annual inflation rate on average by about one tenth of one per cent in most months since February 1986. As a result, the rates of retirement pension and other long-term benefits should, in general, have been 5 pence higher than they are this year and 10 pence higher than the rates that will come into effect next April. Several benefits including Child Benefit are unaffected.

The House will know that we have already made it clear that the Exchequer will not benefit from the effects of the error on social security expenditure.

In line with this principle we intend to make special payments to the following social security recipients: retirement pensioners, supplementary pensioners, those receiving widows benefits, industrial injuries benefits, war pensions, invalid care allowance, invalidity benefit, mobility allowance, attendance allowance and severe disablement allowance. This will be followed by action to correct benefit rates for all recipients at the April 1989 uprating.

The payments will be at a flat rate of £8 - slightly more than the standard £7.85 loss to retirement pensioners - and in line with their actual loss, £5 for mobility allowance recipients. We have arranged with the Post Office that payments will be made from the first week of February for those paid by order book. Action will be taken by the Department's local and central offices to ensure that those paid by other means, for example through credit transfer, will also receive their money at that time.

There are a few severely disabled war and industrially injured pensioners who will lose significantly more than £8. Because this affects a comparatively small group it will be possible to make special arrangements to ensure that they are given extra compensation. Inevitably this will take more time, but payments will be made as soon as is practicable. I also propose, to pay an additional amount to those who retire or become widowed between the time the special payments are made and April 1989.

These special payments will be made on an ex gratia basis, and Parliamentary approval will be sought in a Supplementary Estimate. Pending that approval, urgent expenditure will be met by repayable advances from the Contingencies Fund.

Overall we estimate that as a result of the error £109 million will have been underspent. The arrangements which I have described will cost rather more than £100 million. In order to fulfill our commitment that there should be no gain to Exchequer, the remainder will be allocated to suitable charities.

My Hon Friend, the Paymaster General is making it known today by Written Answer that no extra statutory payments will be made to pensioners of public service occupational schemes administered by central government. The savings to the Exchequer arising from this decision will be added to the sum available for disbursement to charities as a result of the underspend on social security benefits and will bring it to <sup>between</sup> £10-15 million. We shall ensure that charities and benevolent associations active in support of retired public servants will be amongst those with an opportunity to benefit from this arrangement.

Mr Speaker, you will recognise that with nearly a billion social security payments a year it would be a disproportionately complex and time consuming operation to calculate and pay exactly what each individual has lost. I feel confident that the House would wish to see this mistake corrected in a way which combined as far as possible speed of payment and fairness. I believe our plans provide a sensible and effective way of doing this.

RPI ERROR: BRIEFING

- A: Q and A's (with Hansard of 14 December P.M. debate attached)
- B: Publicity arrangements
- C: Administration
- D: Facts and Figures
- E: Schedule of Benefits affected or unaffected by the error, with amounts
- F: Labour record on uprating
- G: How mistake arose.

QUESTIONS AND ANSWERS

GROUPS NOT COVERED

1. Why no payments to the unemployed ?

People in this group come on and off benefit during the year. Most will have lost only a comparatively trivial amount. In any event, most of the loss lies in the future and it is clearly impossible to identify the relevant people at this stage.

2. What about single parents ?

It would be a very major task to identify the people affected and to estimate what they have lost - it could well cost more to make the payment than people in this group will have lost.

3. What about pensioners receiving much more than the basic rate because of heating additions or additional requirements ?

The error in the RPI does not, in fact, affect the rates of most heating additions and additional requirements.

4. Housing benefit

Because of the way this benefit works, almost no-one will have lost a substantial amount. It would involve the local authorities in a substantial amount of work to identify who was affected, at a time when they are all very busy preparing for the introduction of the new scheme next April.

OBLIGATIONS

5. What about interest on the underpayments ?

Interest is not paid on backpayments. But, in any event, only a quarter of the payment is in respect of past periods (and interest would be less than 10p). Most of the payment will actually be in advance and the actual underpayment will not occur until the next financial year.

6. Legal obligation ?

I am advised that there is no legal obligation to make good the underpayments.

7. Moral obligation ?

We recognise our moral obligation to honour our pledge to protect pensioners against price increases, and our proposals will ensure this.

8. Basis of Special Payments

The special payments will be purely ex gratia; we will seek Parliamentary authority for the expenditure by laying a Supplementary Estimate in the usual way. In the meantime, urgent expenditure will be financed by repayable advances from the Contingencies Fund.

## ADMINISTRATION

### 9. Cost of making the payments

We estimate it will cost £5.5m to make the extra payments, largely in payments to the Post Office.

## SPECIAL GROUPS

### 10. Overseas pensioners

We will make arrangements to make payments to pensioners living overseas in countries where they receive the benefit of the annual uprating.

### 11. People who come on to the books after January

We will provide an appropriate payment to people who become retirement pensioners or widows between next January and April 1989. The amount will reflect the average loss of this group, and will be added to one of their regular payments in due course. It is not feasible to make payments to other groups, though for most of them the loss will be very small.

### 12. People with more than one benefit

Most of those worst affected because they receive two different benefits will receive two special payments.

## SEVERELY DISABLED

### 13. Which groups have lost large amounts?

War or industrial disablement pensioners with a high degree of disability (over 80 per cent) who also have additions to benefit such as Constant Attendance Allowance or Exceptionally Severe Disablement Allowance.

### 14. What will you do for these groups?

They will all get the £8 payment in February. There will be a further payment during the course of next year: the details are still to be worked out but our aim will be to match the actual loss so far as is feasible.

## CORRECTION OF BENEFIT RATES

### 15. Benefit rates in future years

All benefit rates affected by the error will be corrected fully at the uprating in April 1989.

### 16. Why not adjust the 1988 rates

It is simply too late for this. Our staff are well underway on the mammoth task of converting millions of supplementary benefit cases to income support, and order books for payments after next April are already going out at the rates previously announced.

## CHARITIES

17. What charities will get the money ?

No decisions have yet been taken. We will be looking for bodies that provide effective services to the groups affected by the error. I would expect a wide range of organisations to benefit and I would, of course, welcome any suggestions from Hon Members.

18. Who will decide ?

We will choose the recipients drawing on the expertise within Government Departments. We will not be seeking applications.

19. Why give money to charity ?

We wished to ensure that there was no <sup>profit</sup> benefit to the Exchequer from the error, and donating the ~~comparatively small residue~~ to charity seemed to us a sensible - and, I would hope, a popular - way of doing this.

part of the underspend

20. Examples ?

Note to follow

21. How much given to charities?

Will depend on exact costings, but probably of the order of £3.4m, plus £7m available from decision not to make extra statutory <sup>£8m.</sup> payments to pensioners of public service occupational schemes - so about £15m in all.

~~The bulk of the money will be paid early in the New Year.~~

No decisions taken.

## PUBLIC SERVICE PENSIONERS

23. What will be done ?

Following the usual practice, public service pensions will be increased by the same factor as social security benefits next April. Once again, the pension levels will be fully corrected in April 1989 so that there will be no permanent loss as a result of the error.

The Government does not propose to make any ex gratia payments to members of public service pension schemes it administers. To avoid any gain to the Exchequer, a sum in the region of £5-10m <sup>£7m</sup> will be made available to the main public service benevolent associations and other suitable charities.

## EFFECT ON PUBLIC EXPENDITURE

24. Most of the additional expenditure will fall in 1987-88 and will be accommodated within the existing planning total.

effect of on social security benefits



*pnyp*

**FROM: MISS S J FEEST**  
**DATE: 21 December 1987**

**I FRASER IR**

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
Mr R I G Allen  
Miss Sinclair  
Mr Gibson  
Mr Sheridan  
Mr Lewis IR  
PS/IR

**MISTAKE IN RPI: PAYMENTS IN DHSS**

The Financial Secretary was very grateful for your minute of 16 December 1987 and has noted the comments therein.

*Susan Feest*

**SUSAN FEEST**  
**(Assistant Private Secretary)**



*mp*

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Minister of State for Social Security and the Disabled*

Rt Hon John Major MP  
Chief Secretary to the Treasury  
H M Treasury  
Parliament Street  
LONDON SW1

CHIEF SECRETARY	
REC.	2.1 DEC 1987
ACTION	Sir P M... 21 DEC 1987
COPIES	CAAG, Miss Mueller
	Mr Anson, Mr Kemp, Miss Pearson
	Mr L... Mr Turner, Mr McIntyre
	Mr ... Mr ... Mr Dixon

*2*

*See John,*

RPI ERROR: PRESENTATION IN PEWP

I believe we face a potential political problem over the correction of the RPI error unless we can make various changes to the figures in the next Public Expenditure White Paper.

We have agreed that benefit rates will be corrected in April 1989; this will add roughly £75m in 1989-90 and £80m in 1990-91 to the agreed PES totals. I consider it essential that these sums are included in the figures to be given in PEWP. Otherwise, as a result of the various changes we have agreed over the past few weeks, the rounded benefit total in each of these two years will be £100m lower than the figure published in the Autumn Statement. This would almost certainly lead to accusations that we had "fiddled" the figures and had clawed back the money with one hand before giving it with the other. Our defence would have to rest on a vague reference to estimating changes - which would not sound very convincing - or on a more detailed explanation of the reasons for the decreases since the Autumn Statement. Since the latter would involve revealing that the savings from the 50p/£1 reduction in benefit rates had been substantially larger than the figures quoted so far, we would end up in politically very unattractive territory.

We have acted entirely properly, and even generously in correcting the effects of the error, it would be foolish to dissipate the credit by giving the contrary impression. I recognise that it is far from a simple matter to correct all the summary tables in Volume 1 of PEWP, but I note from Jill Rutter's letter of 11

**E.R.**

November that changes to these tables will anyway be necessary. I  
hope, therefore, that you can agree to this change.

I am copying this to the Prime Minister, Norman Fowler and  
Sir Robert Armstrong.

*Yours wv,*

*Nick.*

NICHOLAS SCOTT

*R J T Watts*  
FROM: R J T WATTS  
DATE: 21 DECEMBER 1987

I agree.

*Jm* - 21/12.

1. MR. MCINTYRE
2. CHIEF SECRETARY

cc Chancellor ✓  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Mr Turnbull  
Miss Peirson  
Mr Gieve  
Mr Gibson  
Mr Tyrie  
Mr Call

**EFFECT OF RPI ERROR ON SOCIAL SECURITY: PRESENTATION IN PEWP**

(21 Dec.)

The Minister of State for Social Security (Mr Scott) has written seeking to persuade you that the social security totals in the PEWP should be increased in 1989-90 and 1990-91 to take account of the extra payments announced on Friday as compensation for the under recording of the retail price index. This is the issue raised in Mr McIntyre's minute to you (attached) of 15 December. You agreed that the figures for later years should be unchanged (Ms Everest-Phillips' minute of 16 December) particularly for reasons of consistency with the Autumn Statement.

2. The problem is that, as the figures now stand, the overall totals in the PEWP are to be the same as in the Autumn Statement, but the social security numbers for these years in the PEWP will be £100 million lower than in the Autumn Statement because of the subsequent recosting of savings measures. DHSS argue that if their figures in the PEWP are not increased to align with the Autumn Statement, the Government might be criticized for clawing back with one hand what it had given away with the other, in the RPI compensation.

We think that DHSS are exaggerating any presentational problem in order to get agreed figures into the PEWP now rather having them treated as bids in the 1988 PES round. We and GEP consider that it is not worth trying to make changes for this reason which could result in errors creeping into the fifty or more summary tables in the PEWP. GEP would also wish to avoid the increase in the overall planning totals for the later years and in the real rates of growth between years, compared with the Autumn Statement which Mr Scott's proposal would involve.

4. We recommend that you reply along the lines of the draft attached.

*M. Wilson*

*M. R J T WATTS*



**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522  
*From the Minister of State for Social Security and the Disabled*

Rt Hon John Major MP  
Chief Secretary to the Treasury  
H M Treasury  
Parliament Street  
LONDON SW1

21 DEC 1987

*Dear John,*

RPI ERROR: PRESENTATION IN PEWP

I believe we face a potential political problem over the correction of the RPI error unless we can make various changes to the figures in the next Public Expenditure White Paper.

We have agreed that benefit rates will be corrected in April 1989; this will add roughly £75m in 1989-90 and £80m in 1990-91 to the agreed PES totals. I consider it essential that these sums are included in the figures to be given in PEWP. Otherwise, as a result of the various changes we have agreed over the past few weeks, the rounded benefit total in each of these two years will be £100m lower than the figure published in the Autumn Statement. This would almost certainly lead to accusations that we had "fiddled" the figures and had clawed back the money with one hand before giving it with the other. Our defence would have to rest on a vague reference to estimating changes - which would not sound very convincing - or on a more detailed explanation of the reasons for the decreases since the Autumn Statement. Since the latter would involve revealing that the savings from the 50p/£1 reduction in benefit rates had been substantially larger than the figures quoted so far, we would end up in politically very unattractive territory.

We have acted entirely properly, and even generously in correcting the effects of the error, it would be foolish to dissipate the credit by giving the contrary impression. I recognise that it is far from a simple matter to correct all the summary tables in the PEWP but I note from Jill Rutter's letter of 11

november that changes to these tables will anyway be necessary. I hope, therefore, that you can agree to this change.

I am copying this to the Prime Minister, Norman Fowler and Sir Robert Armstrong.

Yours ever,

Nick.

NICHOLAS SCOTT

FROM: J P MCINTYRE  
DATE: 15 December 1987

CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr Gibson  
Mr Watts  
Mr Tyrie  
Mr Call

**PEWP: EFFECT OF RPI ERROR ON SOCIAL SECURITY**

DHSS officials have proposed to us that their programme should be increased, in both 1989-90 and 1990-91, to reflect the understatement of the RPI. The increases would be around £75 and £80 million respectively.

2. As things stand, DHSS provision is based on upratings assumptions for the RPI of 4.5 per cent in the year to September 1988 and 3.25 per cent in the year to September 1989. These numbers are, of course, unchanged by the discovery of the RPI error. However, DHSS point out that the base on which these upratings would take place will be slightly higher as a result of the error. This, in turn, means that provision for benefit expenditure should be higher in both 1989-90 and 1990-91.

3. DHSS' concern is that if the figures in the PEWP are not increased for the later years, they will be criticised and suspected of not planning to allow for the error in future upratings. Their concern is compounded by the fact that, as the figures now stand, the totals for social security in the PEWP will be £100 million lower than in the Autumn Statement because of the recosting of savings measures. Thus, rather than an increase in provision compared with the Autumn Statement, the PEWP will show a decrease unless we make an adjustment for the RPI error.

4. My own view is that we should not be bounced into increasing the later years' provision. The discovery of the RPI error happened after the completion of the Survey negotiations, and we have never accepted that DHSS should receive automatic compensation for changes in economic assumptions. There is also the point that provision in 1989-90 is actually based on a RPI uprating of 4.75 per cent; you will recall that the assumption was revised downwards to 4.5 per cent at a very late stage and that Departmental totals were not adjusted accordingly. Thus DHSS are already over-provided for.

5. More important, GEP would strongly prefer not to allow the increases. The likely result would be increases in the overall planning totals for the later years and in the real rates of growth between years, compared with the Autumn Statement. This they would obviously wish to avoid.

6. On the presentation, we think that DHSS' concern could probably be met by a footnote to their table in volume 2 of the PEWP, to the effect that the RPI error would be taken account of in the 1988 survey. If they are challenged about this, they can say that provision will be made to allow the pledged benefits to be uprated in line with inflation.

7. As far as the lump sum compensation is concerned, we await DHSS' confirmation that the £100 million can be disbursed in the current financial year, which would suit us from the point of view of the overall public expenditure position.

8. We would be grateful to know whether you are content with our approach on the PEWP figures for the later years.

JM

J P MCINTYRE

DRAFT REPLY TO

Nicholas Scott MP  
Minister of State for Social Security  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1 6BY

RPI ERROR : PRESENTATION IN PEWP

Thank you for your letter of 21 December.

The effect of your proposal would be to increase the overall planning totals compared with those in the Autumn Statement. I am afraid that I could not really contemplate either this or a reduction in the Reserve so soon after the Autumn Statement. In any event, it is now too late to make changes of this significance to the numbers in the White Paper without risking errors creeping in to the various cross-referenced summary tables. (My Private Secretary's letter, to which you refer, was written some weeks ago just as the lengthy checking process needed to avoid such as errors was being finalised).

It seems to me that the presentational point you make can be dealt with by the insertion of a simple footnote to the social security figures in Volume 2 along the lines:

"The figures in the White Paper do not take account of the extra payments to certain groups of social security claimants announced by the Minister of State for Social Security on 18 December 1987 as compensation for benefit lost as a result of the under recording of the retail price index from February 1986. *Nor have the figures for 1989-90 and 1990-91 been adjusted to take account of the error.*"

In addition, if it would help you, we could include a sentence to this effect in Volume 1 to give the point more prominence.

I should add that we make frequent policy changes and modify our assumptions about indicators such as the RPI during the year, but we do not publish revised totals. It is therefore standard practice not to take immediate account of the effect of small changes such as the RPI error on the totals until they are published again, in next year's Autumn Statement.

I can appreciate that this means that you may have to explain why the social security totals are £100 million lower than in the Autumn Statement, but this was implicit in your proposals for handling the outstanding issues from this year's Survey (your letter of 23 November, attached). I agreed to these. If we now add back the cost of the RPI error, people will still ask how the totals can remain the same as in the Autumn Statement, taking into account the extra cost.

I am always willing to be as helpful as possible over presentation, and I think my suggested wording, combined with your statement, <sup>on 18 December,</sup> make clear that extra resources have been found for the RPI error. However, I am sure that the balance of advantage lies in not changing the PEWP totals at this late stage.

I am copying this letter to the Prime Minister, Norman Fowler and Sir Robert Armstrong.

5214p/MTB



B 12  
1 M.P.E.  
2 M. Walk  
3 Re

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

SECRETARY  
11

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Mr McTear  
Mr A. ...  
Miss Pearson, Mr ...  
Mr A. White, Miss S. ...  
Mr ... Mr ... Mr ...  
23rd November 1987

Dear Chief Secretary.

PES 1987: OUTSTANDING ISSUES

We discussed the problems we are facing over the effect of the social security reforms on the most severely disabled people. As you will know, we have had lengthy discussions with the disablement lobby over the problems this group will face from the abolition of additional requirements. We have agreed that existing beneficiaries will receive full protection of their current entitlement, but a small number of people who become disabled or claim for the first time after April will receive significantly lower amounts. The problems of this group have attracted quite disproportionate attention during the debates on the regulations and on the Bill, and I consider it politically impossible to hold the line that nothing can be done for them pending the results of the OPCS Survey. I am equally convinced that it would be foolish to try to accommodate this particular problem within the new structure of benefits, and that the way forward lies through some arrangement involving the voluntary sector - perhaps on the lines of the Family Fund. We have still to work up detailed proposals, but before the PES figures are finally settled I would wish to set aside £5 million a year for this purpose. This money would be needed on the HPSS rather than the social security programme. To fund it, I can offer savings from our decisions on the uprating of the income support limits in residential homes; these are of very much the same order and have not yet been scored up in PES. I judge this to be politically imperative and hope you can agree, subject to the normal discussions of our final proposals.

E.R.

When we spoke about this, you indicated that before agreeing you would wish to know the position on the additional savings of £30 million from anti-fraud effort in 1988-89 promised in PES 86. I am afraid we now find ourselves facing a very different set of circumstances from those envisaged at the time. We were then expecting substantial computer assistance with the task of conversion from supplementary benefit to income support; as a consequence, surplus staff would have been available for a special drive on fraud before the run down in complements began. Now that we have been forced to carry out the conversion manually (because our plans to use computers were wrecked when the scheme was targeted by the Unions in the Civil Service pay strike) it is clear that this task will require "all hands to the pumps" in our local offices, with an inevitable build up in arrears of other work during the conversion process. To live within our cash provision, we shall also have to run down staff numbers faster during 1988-89 than originally planned. The result is that we see no realistic prospect of detaching any additional staff for a special fraud drive. We shall, of course, have our normal complement of fraud staff in place from 1 April 1988 delivering some £240 million in savings. We shall make every effort to do more, but to guarantee the extra £30 million now seems impossible.

I recognise the difficulties this will cause at this late stage. I am in a position to offer substitute savings of £12 million from the non-uprating of the limits for ordinary boarders, and from bringing forward the operative date for the offset of occupational pensions against UB. These items were originally put forward to meet the cost of the Moran judgement; on the latest costings they are no longer needed for that purpose. You will be only too well aware of the problems of finding additional "Policy" savings at this stage to cover the remaining gap; I understand, however, that as a result of the latest costings of the DE proposals on Benefit Plus, this can be accommodated within the original planning total for our programme in 1988-89. Since the fraud saving was only counted in 1988-89 while these other two items carry forward, the overall effect will be a significant saving in the later years. In fact, when one also takes account of the recosting of the PES decision on the rates of the income related benefits, our latest figures for the two last Survey years are some £60 million and £75 million respectively below the Autumn Statement totals. Your officials have seen all the detailed figures.

I hope that in view of this unusually favourable outcome from estimating changes, you will be able to agree to my proposals.

*Yours sincerely  
Eamonn Kelly*

NICHOLAS SCOTT

*[Agreed by the Minister and  
signed in his absence]*

CONFIDENTIAL



cc.  
Chancellor  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Mr Turnbull  
Miss Peirson  
Mr McIntyre  
Mr Watts  
Mr Gieve  
Mr Gibson  
Mr Tyrie  
Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

Nicholas Scott Esq MP  
Minister of State for Social Security and the Disabled  
Department of Health and Social Security  
Alexander Fleming House  
Elephant and Castle  
London  
SE1 6BY

*Dear Nick,*

*22<sup>nd</sup>* December 1987

RPI ERROR: PRESENTATION IN PEWP

Thank you for your letter of 21 December.

The effect of your proposal would be to increase the overall planning totals compared with those in the Autumn Statement. I am afraid that I could not really contemplate either this or a reduction in the Reserve so soon after the Autumn Statement. In any event, it is now too late to make changes of this significance to the numbers in the White Paper without risking errors creeping in to the various cross-referenced summary tables. (My Private Secretary's letter, to which you refer, was written just as the lengthy checking process needed to avoid such an error was being finalised).

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CONFIDENTIAL

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I am copying this letter to the Prime Minister, Norman Fowler and Sir Robert Armstrong.

Yours Ever,  
John

JOHN MAJOR