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*New Zealand,*

BUDGET SPEECH: UPRATING OF PENSIONS AND  
OTHER SOCIAL SECURITY BENEFITS

... I attach a copy of the Budget speech passage on pensions and other social security benefits on which the Chancellor and the Secretary of State for Social Services have now agreed. You will note that it is slightly different from the previous versions which you already have.

*Yours ever,*

*J. O. Kerr*  
J O KERR

cc - PS/Secretary of State for  
Social Services

PS/Sir Robert Armstrong

## BUDGET SECRET

## SOCIAL SECURITY AND CHARITIES

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total.

About half of social security expenditure is on benefits for pensioners. The costs are borne mainly by contributors; and we had in November to announce further increases in National Insurance contribution payments, which take effect from next month.

The House will remember that, because prices have been falling faster than expected, last November's uprating of social security benefits, which was meant to be in line with the rate of inflation, in fact exceeded it by 2.7 per cent.

The forecast method of uprating, which gave rise to this situation, has never worked well. For a forecast made at Budget-time of what the rate of inflation will be at the time the uprating takes place in the following November is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others, such

/as 1980



as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of the previous year could be corrected.

The system of trying to forecast inflation, introduced in 1976 is a fragile basis for calculations of such importance to millions of our fellow citizens. Given the experience of the past seven years, the Government believes that it would now be right to restore the more certain system that prevailed before 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future - if we got our forecast right.

From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

The uprating this November will be based on the rise in prices in the twelve months to May of this year. That figure will be announced by the Department of Employment in the usual way, and will be the basis for the uprating statement as soon as possible after that. We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

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The uprating will be based on whatever the May figure turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

It seems likely, however, to be in the region of 4 per cent. Of course, in November, as I have already told the House, the annual rate of inflation may temporarily be running at about 6 per cent. But if we had retained the old system, and taken full account of last year's 2.7 per cent overpayment, the increase in benefits would have been significantly smaller.

There will of course be no question of asking pensioners to return any of the pension money they have already received; no question of any so-called "clawback". Beneficiaries will retain the full benefit of the extra payment they are now receiving. And part of it is likely to continue into 1984.

Linked public service pensions will be raised in November by the same percentage as benefits. For unemployment benefit, the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

On the basis I have described, the position for pensioners over the life-time of this Government is this. Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.

/Our pledge to



Our pledge to maintain the value of the pension over the life-time of this Parliament will thus have been more than fulfilled.

There is of course one other social security benefit to which we attach no less significance. It plays a major part in easing the unemployment trap, and so in our strategy of improving incentives for everyone. It is important for families, and particularly for the low-paid. Indeed, it is the benefit which provides the greatest help to many of the poorest families in the country. I refer, of course, to child benefit.

I am glad to be able to tell the House that from November 1983 the rate of child benefit will be increased from £5.85 to £6.50. One-parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast, both benefits will then be worth more than ever before. I know that the House, and the country, will welcome this news very warmly.

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