

Ref. A083/0705

PRIME MINISTER

Cabinet: Uprating of Pensions and Benefits

FLAGA _____ You have it in mind to raise orally after the Industrial Affairs item the uprating of pensions and benefits, on the basis of the Chancellor of the Exchequer's minute to you of 1 March which has been copied only to the Secretary of State for Social Services. We understand that Mr Fowler is also minuting you today setting out the position more fully.

BACKGROUND

FLAG-13. _____ 2. In the course of its discussion of public expenditure on 2 November 1982 the Cabinet (CC(82) 46th Conclusions, Minute 2):

- (i) Endorsed the principle of recovering the excess provision for inflation in the November 1982 uprating of social security benefits, up to a maximum of 2½ per per cent.
- (ii) Agreed that, after allowing for the recovery and for any offsetting improvements in social security benefits, net savings should be made of £180 million in 1983-84, £530 million in 1984-85, and £600 million in 1985-86. (These figures were included in the Public Expenditure White Paper.)
- (iii) Took note that you would make arrangements for a group of Ministers to discuss the presentational aspects of these matters, and the possibility of breaking the existing statutory link between increases in state retirement pensions and index-linked pensions in the public services.

3. Two Ministerial Groups were set up. One (MISC 88), under the Lord President's chairmanship, had the task of considering, within the public expenditure constraints, how big the recovery should be, what offsetting improvements there should be in social security benefits, what the scope of the legislation should be,



and how the issues might best be presented. The other (MISC 89), under the Chancellor of the Exchequer's chairmanship, was to consider the desirability of breaking the link with public service pensions.

4. Neither Group has reported. As the Chairman of each Group is aware (but not most of its members), this is because we arranged for no further meetings to take place from the time when you began discussing with the Chancellor and the Secretary of State for Social Services a fundamentally different approach to the uprating from that envisaged by the Cabinet on 2 November 1982. The position which had been reached was that MISC 88 was likely to recommend a 2 per cent recovery of overshoot, with some offsetting improvements in benefits, notably the restoration of the 5 per cent abatement of unemployment benefit. It was also likely to recommend legislation to provide permanent powers to adjust for overshoot as well as undershoot. MISC 89 had agreed that there was a good case in principle for breaking the link with public service pensions, but had not decided whether to recommend legislating to this effect during the present Parliament.

HANDLING

5. You will not wish to encourage a lengthy discussion; but it will be necessary to explain to the members of MISC 88 and MISC 89 (who account for about half the Cabinet) that the work which they have been doing on the basis of the Cabinet's earlier remit has been overtaken. The main objective will be to reach new Cabinet conclusions which replace those of 2 November 1982.

6. After telling the Cabinet why you favour a new approach which does away with the need to recover overshoot this year and which re-establishes the historical basis for uprating, you may wish to invite the Chancellor of the Exchequer and the Secretary of State for Social Services to fill in the details as necessary.

CONCLUSIONS

7. You will wish to seek the Cabinet's endorsement of the following conclusions:

SECRET



- (i) That the excess provision for inflation in the November 1982 uprating of state retirement pensions and other social security benefits should not be recovered.
- (ii) That legislation should be introduced to provide that the November 1983 uprating and subsequent upratings should revert to the historic method; and that the Retail Price Index outturn for the twelve months to the previous May should be the basis for the November 1983 uprating.
- (iii) That public service pensions should be treated in the same way as state retirement pensions, ie. that there should be no recovery of the November 1982 overshoot and that they should be uprated in future by the historic method.
- (iv) That the 5 per cent abatement in unemployment benefit should be restored.

8. You will no doubt wish to stress the desirability of keeping these decisions secret until they are announced at the time of the Budget.

RTA

ROBERT ARMSTRONG

2 March 1983

SECRET

SECRET AND PERSONAL



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From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A083/0751

7 March 1983

The Cabinet Conclusions for Thursday 3 March (CC(83) 7th Conclusions) record that under Item 5 the Cabinet discussed certain other business. I attach a record of that discussion.

The Prime Minister has particularly asked that knowledge of the contents of that discussion should be confined to as few people as possible until 16 March. I should therefore be grateful if you would treat the attached record as purely for the personal information of the Chancellor of the Exchequer and it should not be shown to anyone outside the Private Office until after 16 March.

I am copying this letter and the attached record to David Clark in Mr Fowler's office and should be grateful if he would observe the same conditions. A copy also goes to Robin Butler at No. 10.

R. HATFIELD

(R P Hatfield)
Private Secretary

J O Kerr Esq.

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