



SECRET

Social Security 21

PRIME MINISTER

---

1983 Social Security Up-rating

INTRODUCTION

At yesterday's meeting of the Cabinet the Secretary of State for Social Services raised orally the 1983 up-rating of social security benefits. You will recall that, following changes in the up-rating system agreed at the time of the Budget, this year's up-rating should be based on the increase in the retail prices index (RPI) between May 1982 and May 1983, which will be published in the middle of June. The current estimate is that the figure is likely to lie in the range 3½ to 4 per cent, with the mid point, 3¾ per cent, as the most likely single figure. The Secretary of State proposed yesterday that the Government should announce forthwith that the up-rating will be 4½ per cent.

In Action Folder  
under Michael Scholar  
note.

2. We understand from Mr Fowler's Private Office that he is likely to minute you this evening setting out his views. But we have not been told precisely what that minute will say.

BACKGROUND

3. When they discussed public expenditure in November 1982, the Cabinet agreed that savings of £180 million in 1983-84 should be found from the social security programme; and this figure was mentioned in the Public Expenditure White Paper. It took account of the fact that the November 1982 up-rating (based on a forecast made at the time of the 1982 Budget) made too large an allowance for inflation; but it allowed that not all the excess provision might be recovered, and that improvements might be made in social security benefits in order to make recovery of the excess politically more acceptable (CC(82)46th Conclusions, Minute 2).

4. In the event, the Cabinet decided later to proceed rather differently, by changing the basis of up-rating from forecasts to actuals.



SECRET

This was regarded as having the twin advantages of:

- (a) securing the agreed savings in 1983-84; while
- (b) avoiding all future difficulties about overshoot and the so-called 'ratchet', whereby under-provision for inflation must always be made good while over-provision for inflation can never, in practice, be recovered.

5. This change was announced during the Budget debates. At the same time, Mr Fowler announced concessions in other aspects of the social security system costing £120 million.

6. We understand that the additional cost of an uprating of  $4\frac{1}{2}$  per cent, compared with  $3\frac{3}{4}$  per cent, would be £75 million in 1983-84 and £220 million in a full year. The Treasury say that this is equivalent to 0.2 per cent on total National Insurance contributions, or to 1.4 per cent on income tax thresholds.

#### MAIN ISSUE

7. The main issue before the Cabinet will be whether the Government should commit itself now to a particular figure for the 1983 uprating; and if so, what the figure should be. Mr Fowler's main argument is likely to be purely political; and this is a matter solely for Ministers' judgement. But he may also argue one or both of the following:

- (a) that statements by Ministers at the time of the Budget have aroused expectations which cannot be disappointed; and
- (b) that beneficiaries need immediate assurance.

#### Expectations

8. The Budget arithmetic was based on an assumption that the increase in the RPI in the 12 months to May 1983 would be  $4\frac{1}{4}$  per cent. In his



SECRET

Budget speech the Chancellor of the Exchequer said that it might be 'around 4 per cent'. Mr Fowler, in debates on the Social Security Bill, referred (incorrectly) to the 'Budget forecast' of  $4\frac{1}{4}$  per cent. It is therefore true that those who follow these things could reasonably have expected an uprating of 4 to  $4\frac{1}{4}$  per cent (so far as we know, a figure as high as  $4\frac{1}{2}$  per cent was never mentioned).

9. On the other hand, these remarks must clearly be subject to Ministers' statements of intent to base the uprating on actuals. To prefer informal indications to actual figures would be to create a new 'ratchet' - and arguably a worse one than before, since at least the old one was based on a single, carefully considered forecast, and not the highest out of a range of informal indications in Ministerial speeches.

10. Moreover, if the uprating is less than previously indicated it will be because inflation is lower than expected. That helps social security beneficiaries: it is not somehow a reason for compensating them.

Reassurances

11. Any suggestion that beneficiaries need reassurance now would have little merit. It is inherent in the new system that the benefit rates from November will not be known until the preceding June. One would have thought that gave beneficiaries adequate time to arrange their affairs. If it is not adequate, that is a point that should have been made before the system was changed.

Other possibilities

12. We understand that uprating at different levels would provide the following rates of retirement pension (in £ a week):

	Present	After uprating at			
		3.75%	4%	4.25%	4.5%
Single	32.85	34.10	<u>34.15</u>	34.25	34.35
Married	52.55	54.50	<u>54.65</u>	54.80	54.90



SECRET

If the Cabinet should decide that Government spokesmen must have something definite to say, and not only that the uprating would be based on the May RPI, a possibility that they might wish to consider would be an assurance that the married couple's retirement pension will be increased by at least £2 a week (which would imply an uprating of between  $3\frac{3}{4}$  and 4 per cent). Even this, of course, carries the risk that if the May RPI increase is  $3\frac{3}{4}$  per cent or less, the Government will have departed at the very outset of the new system from strict use of actuals.

#### HANDLING

13. The Secretary of State for Social Services will no doubt outline his proposals. You might then invite either the Chancellor of the Exchequer or the Chief Secretary, Treasury to comment. These Ministers have the main departmental interests; but other Ministers are likely to want to speak from a general political standpoint.

#### CONCLUSIONS

14. You will wish the Cabinet to reach conclusions on a form of words on the 1983 uprating for use by Government spokesmen in the Election campaign.

PJG

P L GREGSON  
Cabinet Office.  
11 May 1983