

PREM 19/144

32/63

PART 1

Confidential Filing

# Pay and Pensions

Report by the Government Actuary's Department  
on the Superannuation Deductions.

Report by the CS. Pay Research Unit (PRU)

CIVIL SERVICE

Pt 1:

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
24.5.79							
31.5.79							
5.6.79							
<del>28.6.79</del>							
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Material used by  
official Historian  
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Some correspondence concerning pay relating to  
Mamponer savings is filed on  
CIVIL SERVICE #3 - FREEZE on Civil Service Mamponer.

PART 1 ends:-

PRV to TL 15.5.80

~~TL to LPO 20/5/80~~

PART 2 begins:-

CSD to TL 16.5.80

**TO BE RETAINED AS TOP ENCLOSURE**

**Cabinet / Cabinet Committee Documents**

Reference	Date
E (EA) (79) 10	25.6.79
E (EA) (79) 5 <sup>th</sup> Meeting, Minute 3	28.6.79
E (79) 14	5.7.79
E (79) 5 <sup>th</sup> Meeting, Minute 4	17.7.79
E (79) 60	26.10.79
Limited Circulation Annex to E (79) 14 <sup>th</sup> Meeting, Minute 4	30.10.79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *W. Dayland*

Date 12 January 2010

**PREM Records Team**

Top Doc



10 DOWNING STREET

NOTE FOR FILE

PAPERS ON THE 1980  
CIVIL SERVICE PAY SETTLEMENT  
ARE FILED

CIVIL SERVICE Pts 3 & 4  
(Freeze on C.S. Manpower)



CIVIL SERVICE PAY RESEARCH UNIT BOARD  
 Queen Anne's Chambers  
 41 Tothill Street, LONDON SW1H 9JX  
 Telephone: 01-273 4465

*Civil Service*

CHAIRMAN  
 The Rt Hon Lord Shepherd P.C.

15 May 1980

T Lankester Esq  
 Private Secretary to the Prime Minister  
 10 Downing Street  
 London SW1

*CF*  
 ✓  
 Mr. M. H. is  
 in the  
 report  
 from  
 PL

Dear Mr Lankester

1980 REPORT OF THE CSPRU BOARD

We spoke. The tables which have been amended prior to publication are Appendix 9 tables 10.2a, 10.3a, 10.4a, 10.6a, 10.3b and 10.4b. A copy of the revised table is attached.

Yours sincerely

*Keith Hodgson*  
 KEITH HODGSON

*Amended report  
 16.5.80*

*PL*  
 PL  
 ..  
 CA/S

SECRET

PRIME MINISTER

*cc. A. Duguid*  
*Topic copy filed on: - Econ PD: Public Sector Pay: July 79*

Public Sector Pay Policy

The meeting will have before it three papers - one by the Chancellor on public sector pay policy, circulated under cover of a letter to Mr. Lankester of 15th May; one by the Minister of State, Civil Service Department, circulated under cover of a letter to Mr. Lankester dated 16th May and dealing with the Pay Research System; and a report by officials on the next pay round, which you commissioned as background material and which I sent to you under cover of my minute of 15th May. You also have a minute, dated 16th May, - and not copied to colleagues - from the Lord President firmly plumping for the continuation of Pay Research in settling Civil Service Pay.

2. The Chancellor's paper is very much his own work and represents his own conclusions following a more detailed study of the options prepared by officials. This fuller report has not been circulated.

3. You might also like to bear in mind Mr. Hoskyns's recent report to you on the history of the BSC pay negotiations.

4. Discussion should centre on the Chancellor's paper as covering the wider ground, with Mr. Channon's paper as the second focus. The issues are very complex, not only in themselves but in their link with a range of other problems e.g. nationalised industry EFLs - which are under separate consideration. They also impinge on, though the Chancellor's paper barely acknowledges this, nationalised industry prices. This discussion is therefore likely to be the first of several: in the nature of a Second Reading debate whose main purpose is to identify questions which need to be studied in greater detail before matters can be brought to the Cabinet.

5. One respect in which the Chancellor's paper is too summary is that it arrives at broad conclusions without considering all the practical details and constraints which in practice can determine the choice of policy options.



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6. To take an obvious example, the Government's commitment to the Armed Forces is quite specific. It is to "bring their pay up to full comparability with their civilian counterparts immediately and keep it there" (Manifesto, Page 29). The Chancellor's proposal - paragraph 9(c) of his paper - is to "dethrone comparability so that it survived as only one limited consideration in pay determination. The Government would take it into account in negotiations but would not be bound by the results". This paper does not make it clear that his proposal would mean reneging on the promise to the Armed Forces.

7. Similarly the Government has very specific commitments to the Police and the Fire Service which go beyond comparability to index-linking. It is not enough to say, as the Chancellor does in paragraph 12(d) that "Some sort of special treatment may still be appropriate for the Police and the Firemen". What special treatment? And can the Government defend and maintain it against those who do not get special treatment? Colleagues need specific suggestions so that they can come to a political judgment.

8. Ministers will need to assess whether, if the Chancellor's proposals were accepted, the end result would be an improvement on the present position. It is all very well to say that we must set a cash limit - as the Chancellor does in paragraph 5 - below the levels of 1979-80 for Central and Local Government and then assume that they can be made to stick. But it takes two to make a bargain, and if that bargain is not struck by disciplined comparability it risks being struck by force. This may be a perfectly acceptable route for the Government to follow; but before embarking on it the Government needs to have thoroughly assessed the cost of the struggle, the chances of success and the penalties of failure (notably the breaking of the cash limit system). The essential message of John Hoskyns's piece on the British Steel negotiations was that the Government took some critical decisions in advance without fully realising their consequences and was lucky to emerge as the apparent winners - and that even then, greater thought in preparation could have led to a cheaper result more quickly. The report by officials on the prospects for the next pay

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round carries, in its final paragraph, the same message. As the penultimate sentence puts it, "the common thread in these groups is that in each case it is prior decisions by Government, whether on pay-bargaining machinery or EFLs or cash limits, which will determine the climate in which decisions on industrial action will be taken". If the Government does decide that economic circumstances require a determined effort to "dethrone comparability" and to achieve a step-change downward in public service pay, it needs a worked-out strategy which extends not only forwards, to the chances of success and the penalties of failure, but also back to these critical prior decisions - so that they can be taken in the clear knowledge of the likely consequences.

9. There are two other points which might be made:-

(a) The first graph attached to the Chancellor's paper, while designed for a different purpose, shows that throughout the seventies local authority non-manual employees did rather better in relation to their private sector counterparts than did non-manual Government employees. But over this period, and within the constraints of pay policy when applicable, local government employees bargained for their pay while those of central Government relied on comparability. While only a rough comparison, this does not support the notion that free collective bargaining will give a lower result in cash terms than comparability. The graph at Annex C of Mr. Channon's paper makes the same point even more forcibly. We think of pay research as an engine of inflation; but we do not know what result an alternative would produce, and it is likely that Civil Service pay may have gone up by less than it might otherwise have done under a system in which the Civil Service unions, with their ability to disrupt the flow of Government revenues, the flow of benefits to the sick, the old and the needy and the vital role they play in supporting the Armed Forces, were tempted to exert the potential strength of their bargaining position.

(b) There are some important differences between a Government (or public service management) bargaining with its own employees and a private employer

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bargaining with his. One is that Government cannot go out of business. When the dust has settled Government has to go on: it still needs to collect taxes, pay benefits, defend the realm, nurse the sick, and so on. Another is that in carrying out these tasks, the Government has no alternative source of labour to that it already employs. There is no separate pool of Tax Inspectors, Post Office engineers, nurses or whatever to replace the existing staff. At the end of the day a bargain has to be struck with the existing group of employees.

10. I am not seeking to suggest that the Government can do nothing but accept the status quo. But I do think that the Chancellor's present paper is not an adequate basis on which to take decisions. A lot more work is needed before that point is reached. You could usefully commission further papers on:-

- (a) An analysis of the results of comparability where it has been applied to public service pay over a period with the results of pay for similar groups determined by other methods, so that the results of a change in the system can be assessed, at least in terms of historical experience.
- (b) A set of scenarios for the coming 12 months for pay, cash limits and manning in the main public service groups (Civil Service, local government and NHS) which would seek to explore the magnitudes of the numbers underlying the Chancellor's concern and the future choices for Ministers.
- (c) A similar set of scenarios seeking to establish the costs, results and likely course of pay disputes in the public sector as a whole (including nationalised industries) as a guide to colleagues in deciding whether, and if so which, pay negotiations they would be prepared to push to the point of outright confrontation.
- (d) Very important: A timetable of the critical dates on cash limits, EFLs and so on. This would be useful, not only for its own sake, but as a means of enabling Ministers to decide whether any alterations in the critical dates would enable them to exercise better control of events.

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11. Of course colleagues may be prepared to say now that they accept Mr. Channon's - and the Lord President's - arguments. This would clear a major uncertainty out of the way. But the Chancellor for one may jib at losing the weapon of cash limits entirely in settling Civil Service pay next year, and unless he is isolated it might be better to let all of the issues wait for decisions until all of the work has been done and further discussion taken place.

12. In order to get this work carried out - in the great secrecy which would be necessary - you might care to entrust it to a small group of senior officials from the Departments principally concerned led perhaps by the Cabinet Office.

HANDLING

13. You will want to invite the Chancellor to speak first followed perhaps by Mr. Channon, Mr. Ibbs, Mr. Prior and then other colleagues at choice. In introducing the subject it would probably be enough to say that the occasion was essentially one for a Second Reading debate, as a basis for putting further more detailed work in hand; and that it will be necessary for the group to meet again on one or more occasions before conclusions can be put to colleagues.

CONCLUSIONS

14. Subject to the course of the discussion, you will wish to commission whatever further work seems appropriate.

D. J. WRIGHT  
(Robert Armstrong)

15th May 1980

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FILE

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bc Mr. Hoskyns  
Mr. Wolfson  
Master

10 DOWNING STREET

From the Private Secretary

14 May 1980

Dear Jim,

Lord Shepherd, the Chairman of the Pay Research Unit Board, and his deputy, Sir Derek Rayner, called on the Prime Minister this morning. The Chancellor of the Exchequer, the Lord President, Mr. Channon and Sir Robert Armstrong were also present.

Although there was some discussion of the PRU system as a whole, Lord Shepherd concentrated mainly on the role of the PRU Board. He said that he had no quarrel with the PRU system as such, which he believed was the best way of settling Civil Service pay; but he was concerned about the very restricted role of the Board. The Board's recent report had expressed its satisfaction at the PRU's competence and impartiality; but they were precluded under their terms of reference from commenting on the range and type of information produced for the negotiating parties, how the information is used and interpreted, and on the validity of the final settlement. It was widely believed that the Board should have more of a watchdog role than this; alternatively, there were many people who thought the Board was responsible for the choice of analogues and the negotiated rates etc., which was of course not the case. In any case, he felt there would be greater public confidence in the PRU system if the Board were to play a fuller part. He had in mind, in particular, that the Board should advise on the choice of analogues, and on the value of pensions and job security; and comment on the way in which the analogue salaries were adjusted and averaged to reach the true rates for Civil Servants. The Board's sole task at present was to check whether the PRU surveys were carried out properly: this, in his view, was wholly inadequate.

The Prime Minister said that she was very concerned that the PRU arrangements did not at present seem to take into account comparative performance as between Civil Servants and their outside analogues. She was also concerned that supply and demand factors seemed to be ignored, and that no account was taken of comparative job security. It was essential that Civil Servants should be paid the "right pay for the job", and in many cases she felt that the PRU arrangements produced excessive salary levels. One other factor which was not sufficiently taken into account was regional differences in the salary levels that were required to fill the relevant Civil Service posts - even though she understood that the PRU surveys were supposed to have a reasonable regional balance. The PRU arrangements would certainly need to be looked at again, and one way of achieving better results might possibly be, as

/Lord Shepherd

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Lord Shepherd had suggested, to give the Board an expanded role. She asked Lord Shepherd if he would set out his views further in writing.

Lord Shepherd also referred to the need for improved internal audit arrangements in the Civil Service. From his experience as Lord Privy Seal, departmental staff inspectors were on the whole of good quality; but too often their suggestions were not implemented. He suggested that perhaps the PRU Board should be given some responsibility for overseeing this work. Mr. Channon said that staff inspection was basically the responsibility of departments; but the CSD needed to play a bigger role.

I am sending copies of this letter to Geoffrey Green (Civil Service Department), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

*W. W.*

*Tim Laker.*

Jim Buckley, Esq.,  
Lord President's Office.

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Ref. A02165

PRIME MINISTER

*Primitivist*  
*Lord Shepherd's letter is at*  
*Flg B; CSD brief at Flg C.*  
*Lord Soames and Mr. Hamon are*  
*coming at 9.45 for a preliminary*  
*chat.*

Pay Research: Meeting with Lord Shepherd

*Pl. 13/5*

This note is to supplement the brief provided by the Civil Service Department.

2. The main object of the meeting is to listen to Lord Shepherd's views, rather than to try out on him options for other methods than pay research of settling Civil Service pay: it would be premature to do that in advance of the meeting which ~~the Prime Minister is~~ <sup>you are</sup> to have next week, and Lord Shepherd might conceivably draw - and pass on - the wrong conclusions from cockshys thrown out in the course of discussion.

3. The pay research system dates from the Priestley Royal Commission Report of the early 1950s. The theory is that the public service should follow wage and salary rates for comparable jobs in the private sector (and in some nationalised industries). The Pay Research Unit (PRU) does not choose the "analogues" - the outside firms etc. with which comparisons are drawn. It makes strict comparisons between the contents of jobs in the public service and in the private sector and collects the information about the quantifiable elements in the pay and conditions of service. The parties - the Official Side and the National Staff Side of the Whitley Council - choose the analogues and then negotiate on the figures produced by the PRU.

4. Neither the PRU nor the PRU Board chooses analogues. It is arguable that they should get involved in that. The theory is that, if the choice is made by the two sides, biases either way will cancel each other out. One cannot be absolutely sure about that. For one thing the Priestley Report said that the Government ought to be a good employer and should therefore look among good employers for its analogues. For another, the tendency is always to go for analogues in the large organisations - like ICI, for instance - which have organised grading and salary structures which lend themselves to comparison with the Civil Service.

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5. The major risk in the system has always seemed to me to be that of "circularity". It was probably not a danger which would have troubled the minds of the Priestley Commission, because rates of inflation were very low at that time. It is a more serious risk today. If a pay increase of, say, 10 per cent in ICI is reflected in the subsequent pay research increase for the Civil Service, there is then a danger that ICI will say that the Civil Service has put its rates up by 10 per cent, so that it must restore the old differential. The resultant increase will be played back into the Civil Service pay rates in the next pay research round. It is easier to identify this weakness than to know what one can do about it. But I think the danger remains: particularly in relation to the nationalised industries.

6. When all that has been said, one has to consider whether any possible alternative would be better than a PRU system as good as one could make it. This is something which Ministers will no doubt be discussing next week. Lord Shepherd's ideas for expanding the role of the PRU and its Board into the Civil Service pay negotiations - cp. for example the fourth paragraph of the note of his meeting with the Lord President last July - would go far to transform the Pay Research Unit and its Board from a technical provider of material on comparisons into a pay board or review body. The Government could decide - as it has done in the case of the Armed Forces and doctors and dentists - that some kind of review machinery would be a better method of settling Civil Service pay negotiations between the Official Side and the Staff Side; but previous experience does not prove that that would produce a better result, even though it would to some extent (though never completely) take decisions out of politics.

7. It is easy to think of the pay research system as an engine of inflation, and no doubt in some situations it is. But it can work the other way. Human nature being what it is, comparability is inevitably a subjective factor in what people think about fair rates of pay. The pay research system, even in its present form, takes a considerable amount of the subjectivity out of fair comparisons, and there have been occasions on which the resulting increases were almost certainly less than they would have been if they had been determined either by free collective bargaining without pay research or by a review body relating to more impressionistic material.

RIA

ROBERT ARMSTRONG

13th May, 1980

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CONFIDENTIAL





10 DOWNING STREET

THE PRIME MINISTER

13 May 1980

*Dear Lord Shepherd,*

Thank you for your letter of 1 May submitting the report of the Civil Service Pay Research Unit Board covering the 1979/80 pay research programme.

I understand that the arrangements for publication of your report are in hand. The Civil Service Department will be arranging simultaneous publication of it and of the Government Actuary's Report on the pension deduction as soon as possible before the Spring Bank Holiday.

Please convey to the Board my thanks to them and you for all the Board's work on this important subject.

*Yours sincerely  
Robert Shephard*

The Rt. Hon. Lord Shepherd

*12*  
*11 May 1980*  
*JS*

cc Mr Wright



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Minister of State

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

13 May 1980

Dear Mike

MEETING WITH LORD SHEPHERD: WEDNESDAY, 14 MAY

Further to our telephone conversation yesterday,  
... I attach a brief for the Prime Minister's use.  
... The Prime Minister may also care to see the  
attached copy of a note of a meeting between  
the Lord President and Lord Shepherd on 6 July  
1979.

Yours sincerely

G E T Green

G E T GREEN  
Private Secretary

BRIEF FOR THE PRIME MINISTER'S MEETING WITH LORD SHEPHERD  
ON 14 MAY 1980

Role of the Pay Research Unit (PRU)

The terms of reference of the Director of the PRU, showing his formal responsibilities, are at Annex A. The PRU's role is the collection of evidence about pay and conditions of service outside the Civil Service. It does not process the evidence or recommend pay rates.

Role of the Pay Research Unit Board (PRUB)

The PRUB's terms of reference, showing its formal responsibilities and the names of its members, are at Annex B. Its function is to audit the work of the PRU.

In brief, the PRUB's main responsibilities are to ensure the independence and impartiality of the PRU; to satisfy itself the PRU has acted properly and efficiently; and to submit to the Prime Minister an annual report for publication. PRUB's membership comprises independent voting members and non-voting members from CSD and the unions as well as the Director of the Unit ex officio.

Lord Shepherd's views

He is likely to cover the following:

- a PRUB's audit role: useful; he is satisfied with the professional standards and integrity of the PRU.
- b Need to extend PRUB's role: PRUB should be able to comment on the way pay research evidence is used by management and unions, and how fringe benefits are taken into account.
- c PRUB membership: should not include CSD and union representatives.

d Sir D Rayner: his resignation is a great loss; an early replacement will be needed.

Suggested response

- a The Government much appreciates the PRUB's work.
- b Lord Shepherd's views will be considered carefully: they are very much in line with how we think the PRUB might develop.
- c Sympathetic to idea of limiting right of CSD and union members to attend all PRUB's discussions. To exclude them altogether would involve difficult re-negotiation of the 1977 Pay Agreement: might be easier to give Lord Shepherd powers to exclude them from certain meetings.
- d We intend to replace Sir D Rayner as soon as possible. [Mr Trevor Holdsworth, Chairman of GKN is in mind: but he has not yet been approached.]

Comment

We have some sympathy with Lord Shepherd's views, but, as the system stands, we would have to negotiate with the Unions the sort of changes he has in mind. The Unions are very wary of PRUB and are unlikely to agree. They think that a wider role for PRUB will limit their ability to negotiate.

*CONFIDENTIAL* | In any case, we shall have to consider the whole future of the pay research system in the light of our forthcoming consideration of public sector pay generally. If pay research is retained it could well be useful for it to take on a wider role.

Pensions Inquiry

In case the matter should be raised, a note is attached, at Annex C, showing the present position.

## TERMS OF REFERENCE FOR THE DIRECTOR, CIVIL SERVICE PAY RESEARCH UNIT

With due regard to the agreed procedures for settling civil service pay, in particular as set out in paragraphs 5-23 of the 1974 Pay Agreement, and supplemented by the 1977 Agreement, the Director of the Pay Research Unit shall:

- a. carry out surveys of pay and conditions of service outside the Civil Service, as requested by the Official and Staff Sides of the Civil Service National Whitley Council, and report to the parties to each review the facts of outside remuneration for comparable work as defined by the Priestley Royal Commission;
- b. in discharging these functions, establish job comparability, making due allowance for differences in grading structure; and ascertain and report on the pay and conditions of service attaching to jobs regarded as comparable;
- c. establish and maintain impartial and independent operating practices for the above purposes;
- d. ensure that information about the rates paid by outside employers and all relevant conditions of service and fringe benefits is collected from within the chosen fields in the most accurate, comprehensive, effective, efficient, and impartial manner possible;
- e. establish and maintain links with a wide and representative range of outside organisations to enable comparisons to be made between civil service work and work in these organisations;
- f. be responsible for surveys of jobs inside and outside the Civil Service and discuss with the parties the extent of survey fields, given that the aim of the internal survey is to obtain an accurate and representative picture of the work performed by the Civil Service grades covered by the survey, having regard also to the likelihood of finding outside analogues for particular functions, and that the aim of the external survey is to obtain adequate evidence of rates paid for comparable work which is representative both in its geographical spread (where appropriate) and in the distribution of analogues in different industrial groupings; aim to proceed with the agreement of the parties as far as possible, but in the event of disagreement include areas of agreed comparison and wherever possible maintain an equal balance between the parties' proposals when drawing from disagreed areas; have the overriding responsibility, however, to ensure that the number and distribution of the organisations are such as to provide him with information as widely representative as possible for the purposes of a, b, and c above;
- g. keep the Civil Service Pay Research Unit Board, of which he shall be an ex-officio member, informed about the discharge of his responsibilities according to his terms of reference; and provide them with an annual report for their scrutiny, endorsement and publication;

h. subject to his duty to safeguard the independence and impartiality of the Unit in the conduct of its surveys, maintain appropriate contact with the Pay Research Steering Committee of the National Whitley Council, providing them simultaneously with copies of the reports he may make to the Pay Research Unit Board, so that he may consult them and obtain their advice on matters of general application relating to pay research, as indicated in the Steering Committee's terms of reference;

j. supply general information about pay research to organisations co-operating with the PRU and others subject to the guidance of the Civil Service Pay Research Unit Board.

## TERMS OF REFERENCE FOR THE CIVIL SERVICE PAY RESEARCH UNIT BOARD

The Board shall:

- a. safeguard the independence and impartiality of the Unit in all its work;
- b. receive an Annual Report from the Director about the work of the Unit and the discharge of the responsibilities laid upon the Unit and satisfy themselves that the Unit has exercised its responsibilities properly and efficiently;
- c. discuss with the Director from time to time as they judge necessary points arising on the work of the Unit;
- d. submit an Annual Report to the Prime Minister which would be published; and give guidance to the Director on the release of such information about the Unit's work and findings as is compatible with the effective operation of the system. In both contexts, the Board shall have a duty to take account of the need for confidentiality specified by co-operating organisations and the views of the National Whitley Council on the effect of disclosure on the subsequent confidential negotiations by the Official and Staff Sides on material provided by the Unit.

## COMPOSITION OF THE CIVIL SERVICE PAY RESEARCH UNIT BOARD

The Board shall be composed of a Chairman and nine members. The Chairman and the four voting members of the Board shall be independent and appointed from outside the Civil Service. Selection shall be made so that a broad spectrum of relevant experience is represented on the Board. The remaining members, while otherwise being full members of the Board, shall have no voting rights. For these seats, the Official and Staff Sides of the National Whitley Council shall each put forward two nominees, and the Director of the Pay Research Unit shall have ex-officio membership.

Membership

Chairman: Lord Shepherd  
 Deputy Chairman: Sir Derek Rayner  
 Members: Baroness Pike  
 George Russell (Managing Director Alcan Aluminium (UK))  
 Einion Holland (General Manager, Pearl Assurance)  
 Professor J R Crossley (Leeds University)  
 Leif Mills (Bank staff's union)  
 two non-voting members nominated by the Official Side  
 two non-voting members nominated by the Union Side  
 and, the Director of the Pay Research Unit  
 (ex officio)

## PENSIONS INQUIRY

Lord Shepherd may ask where matters stand on the proposed pensions inquiry. Although he had been told last autumn that the valuation of pensions and of job security would be referred to the PRUB, it was not until March that we were able to tell him that the Government were not now likely to make that reference but instead would probably set up a wider ranging inquiry. This intention was briefly mentioned in the Budget speech. Lord Shepherd can now be told that the membership and terms of reference are likely to be announced ~~early~~ next week.



ARLIP  
P. P. P.  
2/17/A

NOTE OF A MEETING BETWEEN LORD SHEPHERD AND THE LORD PRESIDENT OF THE COUNCIL ON FRIDAY 6 JULY 1979

Lord Shepherd came to see the Lord President to talk about the Pay Research Unit Board. During the discussion the Lord President made no commitments to any changes, nor did he intimate that any changes were being considered. This note therefore simply records the representations made by Lord Shepherd.

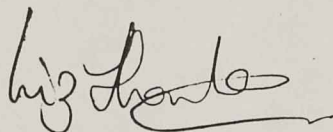
Lord Shepherd explained that Sir Derek Rayner had offered his resignation from the PRUB but had been persuaded not to press this until the Board could either be restructured or a suitable replacement found for him (or both). Lord Shepherd would be looking for a Board of 6 voting members plus Chairman - the present Board is not large enough for proper debate or to ensure that a clear consensus emerges. In particular, a member from the "employers' " side (from industry, with wide industrial relations experience) is required to counterbalance Leif Mills. Lord Shepherd would also like to remove the non-voting members from the Board altogether, because discussion is inhibited particularly by the presence of the union representatives. In his view Mr Kendall, at least, would be prepared to accept this providing the NSS continued to receive PRUB papers and had access to the Board where they felt it to be important.

Lord Shepherd emphasised that whatever is decided about the composition of the PRUB depends upon what view is taken of its and the PRU's roles. Currently the PRUB check the data produced by the PRU and pass that on to the negotiators. But surely Parliament and the public expected the Board to satisfy itself that the resulting settlement bears a proper relationship to the facts?

He therefore urged that the Unit's role should be widened to enable it to process the raw data which it had collected, ie to work out the range for a grade rather than leaving this to the negotiating parties. Without this, the PRUB could not be expected to vouch, for example, for the correctness or fairness of a median for a grade even though it could vouch for the material from which that median had been drawn.

(A further problem arose because the PRUB did not see the names of the employers used in a survey. How could it then be asked to satisfy itself that they were 'good' employers? Lord Shepherd did not suggest a specific solution to this one).

Lord Shepherd said that the work which the Unit had undertaken for the Clegg Commission demonstrated that it could process the raw data. He argued that the PRU's expertise in the field of pay comparability and the contacts with outside employers it had established should be utilised in other fields, for example local authorities, so that decisions on pay rates across the board could be taken on data procured on the same basis. The PRU would thus become a 'statistical office', collecting and processing data which would be published as it was passed to the relevant negotiating parties.



MS E A THORNTON  
APS/Lord President  
9 July 1979

Circulation:

PS/Minister of State  
PS/Permanent Secretary  
PS/2nd Permanent Secretary  
Mr Burrett  
Mr Pestell  
Mr Morgan  
ET



CIVIL SERVICE DEPARTMENT  
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Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service*

T P Lankester Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

12 May 1980

*Dear Tim,*

PAY RESEARCH ANALOGUES

You asked me for figures showing the distribution between industrial sectors of the analogues used in Civil Service pay research.

I enclose a table giving these figures for the Administration Group surveys which I assume are those of most interest to you. These surveys cover the grades from Clerical Assistant to Assistant Secretary. The figures shown are analysed by industrial order, together with the statistics from the 1971 Population census giving the distribution of outside staff engaged on comparable work. You will see that the outside organisations are selected so that their distribution between industrial orders is closely in line with that shown in the Census statistics. The external survey fields for the other grades in pay research are constructed in a similar manner.

The selection of the individual outside organisations is a matter solely for the Pay Research Unit. The number chosen and their distribution over industrial orders is the subject of discussions between unions, management and the Unit, but since the 1977 Pay Agreement the Director of the Unit has had the final say in all these matters.

*Yours sincerely  
Tef Churchill*

*for*  
DAVID LAUGHRIN  
Private Secretary

## CLERICAL GRADES

## ADMIN GRADES - E.O - A.S

		Population Distribution (Note 1) %	1.4.79 Settlement No of Orgs. in External Field.	1.4.80 Settlement No of Orgs. in External Field.	Population Distribution (Note 2) %	1.4.79 Settlement No. of Orgs. in External Field.	1.4.80 Settlement No of Orgs. in External Field.
	Industrial Order						
I	Agriculture, Fisheries, Fishing	0.4	-	-	0.5	-	-
II	Mining and Quarrying	1.0	1	1	0.9	-	-
III	Food, Drink and Tobacco	3.5	2	2	4.8	2	2
IV	Coal & Petroleum Products	0.3	-	-	0.4	-	-
V	Chemical & Allied Industries	2.5	1	1	3.9	2	2
VI	Metal Manufacture	2.2	1	1	1.8	1	1
VII	Mechanical Engineering	5.2	3	3	6.0	3	3
VIII	Instrument Engineering	0.8	-	1	1.0	-	1
IX	Electrical Engineering	4.1	2	2	4.6	2	2
X	Shipbuilding & Marine Engineering	0.4	-	-	0.3	-	-
XI	Vehicles	3.4	2	2	2.6	1	1
XII	Other Metal Trades	2.2	1	1	2.5	1	1
XIII	Textiles	1.9	1	1	2.0	1	1
XIV	Leather, Leather Goods and Fur	0.1	-	-	0.2	-	-
XV	Clothing and Footwear	1.2	1	1	1.1	-	1

(1)

continued..

XVI	Bricks, Pottery, Glass Cement	1.2	1	1	1.4	1	1
XVII	Timber, Furniture etc	1.0	-	1	1.2	1	1
XVIII	Paper, Printing, Publishing	3.5	2	2	2.6	1	2
XIX	Other Manufacturing Industry	1.2	1	1	2.0	1	1
XX	Construction	3.4	2	2	2.2	1	1
XXI	Gas, Electricity, Water	3.7	2	2	2.8	1	1
XXII	Transport and Communi- cations	11.6	6	6	11.4	5	6
*XXIII	Distributive Trades	14.4	7	8	12.8	5	6
XXIV	Insurance, Banking etc	20.2	10	11	16.2	7	8
*XXV	Professional & Scientific Services	2.6	1	1	2.3	1	1
*XXVI	Miscellaneous Services	1.9	1	1	3.3	1	2
*XXVII	Public Admin and Defence	6.1	3	3	9.2	4	5
	TOTAL	<u>100.0</u>	<u>51</u>	<u>55</u>	<u>100.0</u>	<u>42</u>	<u>50</u>
* Not 3.							

Notes:

1. Figures from 1971 Census analysis of Economic Activity: Occupation Unit Group No 139 (Clerks, cashiers).
2. 1971 Census figures. An aggregate of five management categories including "office managers", "personnel managers", etc.
3. The percentage figures have been adjusted by the Pay Research Unit to exclude numbers employed in National Government Service from Order XXVII, and to exclude areas which clearly do not provide relevant sources of comparison from Orders XXIII, XXV and XXVI.

CSD  
May 1980



13 MAY 1980

FRANCIS



Minister of State

*at the by hand*

Civil Service Department  
Whitehall London SW1A 2AZ  
Telephone 01-273 3000

T P Lankester Esq  
10 Downing Street  
LONDON SW1

*Prime Minister*

*Content for the Pay Board report and the Actuary's report to be published on 22 May?*

12 May 1980

*Dear Tim,*

*Mr Play is a letter for you to send to Lord Shepherd.*

PAY RESEARCH UNIT BOARD REPORT

Thank you for your letter of 6 May.

*TL. n/s*

The Government is committed to publish the Pay Research Unit Board's Report as well as that of the Government Actuary on the pension deduction. We would therefore recommend that both reports should be published simultaneously as soon as possible. The Government Actuary is keen that his report should be published before the pensions enquiry starts its work, and we would agree with him. This points to publication just before Spring Bank Holiday. If the Prime Minister is content with this timetable we will therefore arrange the publication of both reports on 22 May. As requested, I enclose a draft reply from the Prime Minister to Lord Shepherd's letter. Since Lord Shepherd is now due to meet the Prime Minister on 14 May to discuss the personal comments he has made on the work of the Board, we have made no reference to this in our draft reply.

I am copying this letter to the recipients of yours.

*Yours sincerely  
G D Rogers*

G D ROGERS  
Assistant Private Secretary

*we will need to consider whether to announce the pensions enquiry on the same day : it might be sensible.*

*TL.*

...  
↓



DRAFT LETTER FROM THE PRIME MINISTER TO:

SR.  
M. H. M.

The Rt Hon Lord Shepherd PC  
Chairman  
Civil Service Pay Research  
Unit Board  
Queen Anne's Chambers  
41 Tothill Street  
LONDON SW1H 9JX

Thank you for your letter of 1 May submitting the report of the Civil Service Pay Research Unit Board covering the 1979/80 pay research programme.

I understand that the arrangements for publication of your report are in hand. The Civil Service Department will be arranging simultaneous publication of it and of the Government Actuary's Report on the pension deduction as soon as possible before the Spring Bank Holiday.

Please convey to the Board my thanks to them and you for all the Board's work on this important subject.



12 MAY 1980

010

CP. P.M.M.

Reference.....

Civil Service 2

CONFIDENTIAL

Prime Minister  
To note: (no need  
to read the  
report)

Our Ref. 6056/1

Mr C A Whitmore  
Principal Private Secretary to the Prime Minister  
Prime Minister's Office

My report on the new assessment of the Superannuation Deduction is attached, for submission to the Prime Minister. This stands alongside but is independent of the report by the Pay Research Unit Board.

It was intended that the report should be published as soon as possible after the pay settlement was reached. It is of course confidential until published.

Edward Johnston

Government Actuary

6 May 1980

copies to: Private Secretary to the Lord Privy Seal,  
Private Secretary to Minister of State,  
Civil Service Department,  
Mr F G Burrett, Civil Service Department

Submit to  
Chancellor's Office

Enc

The Government Actuary has produced a figure of 3.8% for the pension deduction compared with 2.6% last year. He seems have taken notice of your criticisms, though the need for an Enquiry still remains. P.S.

1-6 MAY 1960



## CIVIL SERVICE PAY RESEARCH

### THE 1980 REVIEW OF THE ADJUSTMENT FOR DIFFERENCES IN SUPERANNUATION BENEFITS

Report by the Government Actuary

1.1 As requested by both Sides of the Civil Service National Whitley Council, I have made and quoted to them a new assessment of the adjustment for differences in superannuation benefits (called the Deduction). My advice to the two Sides is reproduced in full in Appendix 1. This review of the Deduction is provided in accordance with Article 7 of Annex C to the 1974 Civil Service Agreement on Pay; Hours and Leave which is also reproduced in Appendix 1. As a result of calculations carried out in the Government Actuary's Department (GAD), based on data supplied by the Pay Research Unit (PRU), I have certified that the Deduction should be 3.8 per cent for an operative date of 1 April 1980.

## 2 THE NATURE OF THE ADJUSTMENT

2.1 In 1955 the Priestley Commission recommended (Cmnd 9613) that Civil Service pay should be determined according to the pay research process of "fair comparisons" process. As a result of that report PRU was set up, to ensure that appropriate information was available to enable this process to be followed. PRU establishes comparisons between individual jobs inside and outside the Civil Service and collects information on the total remuneration and other conditions of service of the outside analogues including superannuation and other fringe benefits. The PRU reports provide the negotiating parties with the raw data which have to be analysed and adjusted to take account of differences in all conditions of service including pension arrangements. A key part of this process is the calculation of True Money Rates (TMRs) which adjust the analogue pay rates for certain differences between analogue and Civil Service terms of service. The detailed procedures are set out in the Civil Service Pay Agreement.

2.2 The only role of GAD in this is to advise the two Sides on the evaluation of superannuation items. Superannuation is allowed for in several different ways, of which the Deduction is only one. The difference between analogue employees' superannuation contributions and those in the Civil Service is taken into account in the calculation of each TMR; for example, where the superannuation contribution in an analogue employment is 6 per cent of pay, a reduction of  $4\frac{1}{2}$  per cent of pay (the excess of the analogue's contribution over the male civil servant's contribution of  $1\frac{1}{2}$  per cent for family benefits) is made.

2.3 Two other adjustments relating to superannuation are made in calculating TMRs. The first concerns the few analogue employments which, unlike the Civil Service, have not been contracted-out of the upper tier of the State pension scheme. In such cases an addition has been made to the TMR equal to the amount of the employer's extra National Insurance contributions, ie  $4\frac{1}{2}$  per cent of earnings between the lower and upper earnings limits. This I consider to be a reasonable measure of the extra State scheme benefits an analogue employee who is not contracted-out will receive and which he will not have paid for by his own contributions. The second matter concerns quantifiable fringe benefits. My proposal that the money value to be included in the TMR should be reduced when the benefit is non-superannuable was accepted by the two Sides. The reduction was  $11\frac{1}{2}$  per cent of the money value of the benefit and I am satisfied that this makes proper allowance for its being non-superannuable. Appendix 2 illustrates the effect of these adjustments in a typical TMR calculation.

2.4 After the TMRs have been calculated, a further adjustment is necessary to allow for differences in superannuation benefits between civil servants and their analogues. This adjustment is the Deduction which I have been asked to assess. It must be emphasised that the Deduction is a difference item. It is not a measure of the total value of a civil servant's superannuation benefits, nor is it the value of index-linking. Further, it does not cover differences in contribution rates, for these have already been taken into account in calculating the TMRs; the Deduction allows only for differences in benefits between civil servants and their analogues.

2.5 Since the pay research process relates to those now in service, I have taken account of the superannuation benefits accruing to <sup>servicing</sup> civil servants and their outside analogues as a result of their current service, not the benefits being paid to present pensioners. Thus, the effect of the Deduction is to withhold from the pay of the civil servants concerned an amount of money which is equivalent to the extra superannuation benefits they may expect in the future in respect of their present service, as compared with those to be received by their outside analogues.

2.6 I have, as for previous Pay Research exercises, calculated a weighted average Deduction which should be applied to all civil servants covered by the pay research procedure and have not attempted to find separate Deductions for individual pay groups or grades.

### 3 DATA AVAILABLE

3.1 The calculation of the Deduction was based on information supplied to GAD by PRU. This comprised particulars of the superannuation arrangements applicable to each analogue employment and included details of all the main benefits of the

scheme concerned and of the provisions and practice of the scheme in relation to increases of pensions in payment. Information was supplied for 600 analogue employments and was of extremely good quality, the only important gaps being 19 employments where it was indicated that there was provision for discretionary pensions increases but the increases actually awarded in recent years were not stated and one employment where no information was provided on pensions increase. I understand that there are, in fact, another 7 analogue employments, but no details for these were available in time for their inclusion in this report. It is very unlikely that the missing data would have any significant effect on the Deduction of 3.8 per cent.

3.2 Civil servants are divided for the purposes of pay research into several pay groups. For each pay group information was provided for every separate analogue organisation's pension scheme. Some organisations provided analogue employments for more than one pay group and in such cases the pension scheme appeared more than once in the data. It is understood that the 607 analogue employments including those 7 for which data were not supplied represented 328 separate organisations.

3.3 GAD did not in general have any knowledge of the identity of the employer, these having been selected, in accordance with the 1977 Civil Service Pay Agreement, by the Director of PRU. It is known, however, that, as recommended by the Priestley Commission, the analogue employments were not restricted to the private sector; 48 of them were in one or other of the main public service pension schemes (in such cases, exceptionally, the name of the scheme was given to GAD) and a further number, unknown to GAD, will have been in the wider public sector, such as the nationalised industries. The responsibilities of the Director in selecting the employers included are fully set out in the 1977 Pay Agreement. The superannuation schemes on which my assessment was based were the schemes attaching to the analogue employments chosen by PRU and, taken by themselves, are not necessarily representative of the generality of all schemes.

#### 4 CIVIL SERVICE AND ANALOGUE SCHEMES

4.1 Civil servants are pensionable under the Principal Civil Service Pension Scheme, details of which are given in Appendix 3. Basically, it provides a pension on retirement at or after age 60 of one-eightieth of the final year's salary for each year of service, together with a lump sum of three years' pension and a widow's pension of one-half the man's pension. Under the Pensions (Increase) Acts, the benefits are protected against price inflation after award. An analysis of the schemes applicable to the analogue employments (hereinafter called "the analogue schemes") is given in Appendix 4, but the main features are discussed briefly in the following paragraphs.

4.2 As the table below shows, almost all the analogues had superannuation schemes, 1 of which provided pensions linked to final salary, ie the salary at or shortly before retirement.

Type of superannuation provision	Number of analogue schemes
No information available (see paragraph 3.1)	7
No scheme* ... ..	25
Life assurance scheme only ... ..	4
Lump sum scheme only ... ..	2
Scheme with pension based on final salary ...	<u>569</u>
	<u>607</u>

4.3 Of the 569 analogue schemes based on final salary, 420 provided pensions based on 60ths of pay (or better) for each year of service, often with an option to commute part of the pension into a lump sum at retirement. The remaining 149 had a lower rate of accrual, usually 80ths, but 106 of these provided lump sums on retirement in addition to the pension. If these lump sums are converted into equivalent pensions, it appears that there were 515 schemes (or about 90 per cent of the final salary schemes) providing at least 60ths or the equivalent.

4.4 Of the 569 final-salary schemes, the large majority (496) had a widow's pension of one-half the husband's pension. A further 19 schemes had a widow's pension of two-thirds the husband's pension and the rest had various provisions such as pensions at a one-third rate, or a widow's pension only by allocation.

4.5 Nearly one-half of these final-salary schemes (266) offset benefits by an amount linked to National Insurance basic pensions - 188 by a disregard of part of the salary for pension purposes and 78 by a direct reduction from pension.

4.6 Particular interest attaches to the pensions increase provisions of the analogue schemes. The following table summarises these provisions:

Type of pensions increase provision	Number of analogue schemes
Linked to cost of living or Pensions (Increase) Acts:	
Identified as public service schemes ...	48
Other ... ..	65
Linked to cost of living less $1\frac{1}{2}\%$ ... ..	5
Fixed increases only ... ..	65
Fixed increases plus provision for discretionary extra increases ... ..	90
Discretionary increases only ... ..	251
No provision for increases ... ..	44
No information ... ..	<u>1</u>
	<u>569</u>

\* This includes cases where the analogue employee(s) were part-time and excluded from the employer's scheme.



The average fixed increase was 2.9 per cent a year with the great majority giving 3 per cent.

4.7 The table below analyses the pensions increases actually awarded in recent years in schemes where the provision is at least in part discretionary. The actual increases have been expressed as a percentage of the increase in the cost of living over the period for which information was given (usually the last 5 years).

Level of increases as percentage of cost of living increases	Number of schemes with provision for discretionary pensions increases	
	With fixed increases	Without fixed increases
0	0	2
1-19	9	27
20-39	14	51
40-59	24	50
60-79	28	60
80-99	8	43
100	1	5
No information on actual practice	6	13
Total	90	251

4.8 The average percentages of cost of living increases for the schemes analysed in paragraph 4.7, weighted according to salary as described in paragraph 7.2, are 52 per cent for those with fixed increases and 55 per cent for those without. Unweighted averages were quoted in 1979; for comparison the 1980 unweighted averages are 54 per cent and 57 per cent respectively (57 per cent and 60 per cent in 1979).

## 5 METHOD OF COMPARISON

5.1 To compare the benefits of different superannuation schemes a value has to be put on those benefits. The value to an individual member of a particular scheme depends on very many factors, some known, like his age and present salary, and some unknown, like the salary at which he will retire. An older member of the scheme will receive his pension sooner than a younger member and a member with good career prospects can expect his pension, if it is linked to final pay, to be larger than that of a colleague with poorer career prospects. The relative value of two different schemes also depends on many factors; for example, whether or not a scheme giving cost of living increases in pension after retirement is worth more to a member than a scheme giving a larger initial pension with lower increases will depend on how long the member lives after retirement. The comparison has necessarily been made on the basis of the expected average value of superannuation benefits to an average scheme member.

5.2 Since those serving at any time are at various stages of their career it seems appropriate to measure the value of the benefits over a whole career. Accordingly the value of superannuation benefits has been expressed, for the purposes of this exercise, as the "normal" contribution rate. This is the rate, expressed as a level percentage of pay, that, if paid into a fund and accumulated throughout the career of the average member, would just suffice to provide his benefits if the assumptions made as to interest, inflation, mortality, pay scales etc. were exactly realised. Furthermore, the same basis (one deemed appropriate for a civil servant) has been used for obtaining the extra value of the benefits of each scheme; in effect the comparison measures the value to a civil servant of his being a member of the Civil Service/<sup>scheme</sup>as compared to having the benefits of the average analogue scheme.

5.3 The normal contribution calculated for the benefits of a particular analogue scheme may well differ from the contributions that are now being paid to the scheme by the employer and employee together. The actual contributions depend on factors not directly related to the level of benefits of the scheme; for example, they will depend on the method of funding and past surpluses or deficiencies. Additional contributions may be in payment where previous service has been credited. It is thought that the actual level of contributions is not usually taken account of in determining pay levels in the analogue employments; if it is, the salaries so affected will be reported to the PRU and used in the pay comparisons. In either case, the contributions actually in payment would not form a suitable basis for the comparison of pension benefits.

5.4 For most pay groups, I have been informed that the analogue employees are assumed to be male. Accordingly the superannuation benefits to male members of the Civil Service and analogue schemes have been evaluated in these cases. I have, however, been told that two pay groups, the Secretarial and Data Processing groups, are assumed to be female and in these cases benefits to female members have been evaluated.

## 6. BASIS OF CALCULATIONS

6.1 The basis to be adopted for calculating the contribution rates referred to in Section 5 must cover a long period of time. The results of the calculations are to be expressed as a Deduction to be applied in determining the pay of present

non-industrial civil servants, who will be retiring at all times up to 40 years or more from today and who may draw pensions for a good deal longer, so that it is necessary to look not just at the immediate future but also far ahead. For this purpose the experience of the immediate past taken by itself cannot be regarded as a reliable guide.

6.2 Of particular importance in the calculations are the assumptions regarding the yield on investments and the rates of increase in prices and earnings. I have assumed that, over the long-term, the yields on investments (including capital appreciation as well as interest) will on average exceed increases in the general level of earnings by  $1\frac{1}{2}$  per cent per annum and increases in prices by 3 per cent per annum. (Separate allowance was made for career increases in earnings with increasing age and responsibility.) I have also assumed that the rate of increase in prices will average 7 per cent per annum. Taken together, these assumptions imply that the yield on investments will be about 10 per cent per annum and that there will be an annual increase in the general level of earnings of about  $8\frac{1}{2}$  per cent per annum. They also imply an increase in real earnings of about  $1\frac{1}{2}$  per cent a year.

6.3 The rest of the basis ( apart from pensions increases which are dealt with in paragraphs 6.5 to 6.10 below) is essentially an attempt to define an average career during service and also after retirement. Assumptions about entry ages, rates of mortality (both during service and after retirement) ill-health retirement and withdrawal from service, career salary progression (as distinct from general increases in the level of earnings) age at retirement and proportion married, etc. are needed. In line with the method set out in Section 5 above, the assumptions I have used have been based on an analysis of the experience of civil servants, including the experience of retired civil servants and their widows. I have assumed entry into service at age 25; the other assumptions are set out for specimen ages in Appendix 5.

6.4 Retirement on the grounds of age has been assumed to occur, on average, at a little above the minimum retiring age in each scheme, as the evidence is that deferment of retirement is quite common. For instance, in the Civil Service the average age at retirement for men has been about  $63\frac{1}{2}$  which is well above the minimum retiring age of 60, but many of those retiring at the later ages are late entrants with only short service. For those who entered under age 30 the average age at retirement has been about  $62\frac{1}{2}$  and this average has been assumed for the future for the Civil Service and for other public service schemes. The minimum

retiring age for men in the majority of analogue schemes is 65; in such schemes an average age at retirement of  $65\frac{3}{4}$  has been assumed. Where the minimum retiring age is 60 an average age at retirement of  $61\frac{1}{2}$  has been assumed except for public service schemes. This might appear inconsistent with the average age of  $62\frac{1}{2}$  assumed for civil servants, who also have a minimum retirement age of 60. The Civil Service scheme, however, covers a wide range of staff groups, many of which have in practice a retirement age much nearer 65 than 60 and this feature tends to make the average retirement age in the Civil Service higher than it would otherwise be. Because of the preponderance of analogue schemes with a retirement age of 65, the average retirement age assumed for analogue schemes as a whole is significantly higher than the  $62\frac{1}{2}$  assumed for civil servants.

6.5 Paragraphs 4.6 to 4.8 above describe the provisions and past practice of the analogue schemes in regard to increases in pensions in payment. The assumptions to be made for the future are affected by the Social Security Pensions Act which came into force on 1 April 1978. The majority of analogue schemes have been contracted-out of the upper tier of the State pension scheme; for such schemes full price protection for the guaranteed minimum pension (GMP) forming part of the scheme benefits will be provided by the State scheme. I have therefore assumed that the schemes themselves will not provide any increase on the GMP.

6.6 Recent years have been years of very high inflation, sometimes accompanied by poor investment performance. The increases in pension that have been given therefore reflect the achievements of analogue schemes at a time of great difficulty and it would perhaps be reasonable to expect a higher degree of price protection in easier times. The new State scheme, which provides cost of living increases on the GMP part of occupational pensions, will have an important effect on the position, but in a less straightforward way. Employers may feel that the need for pensions increases has diminished, since the State scheme is providing some protection. On the other hand, they might wish to provide as much by way of increases from their own resources as they did before; this would imply a higher increase than before on the pension in excess of the GMP.

6.7 Taking all these considerations into account, the following assumptions were made as regards the pension in excess of the GMP (and for the whole pension in schemes that are not contracted out):-

- (i) where the rules of a scheme provide for increases linked to cost-of-living, either through the Pensions (Increase) Acts or in some other way, such increases will continue to be given;
- (ii) where fixed-rate increases (usually 3 per cent a year) are provided increases at that rate will continue;
- (iii) where increases are discretionary only, the scheme will continue to give increases that represent the same proportion of full cost of living protection as in the recent past, subject to a limit of 95 per cent;
- (iv) where both fixed-rate and discretionary increases are provided, the scheme will in future provide the fixed-rate increase plus discretionary increases that represent the same proportion of the excess of increases in the cost of living over the fixed-rate as has applied in the recent past, subject to a limit of 95 per cent;
- (v) Where it is known that discretionary increases are given, but the actual amounts given in the past are not known, and also where no information

has been provided on pensions increase, increases a little below the average for all schemes giving discretionary increases will be provided.

6.8 If these assumptions are realised, then analogue schemes will in future, as in the past, provide a considerable degree of protection. With price increases of 7 per cent a year, protection against 62 per cent of price increases would be given on pensions in excess of the GMP if the analogues are weighted by salary as described in paragraph 7.2. For comparison with my 1979 report the average, if not weighted by salary, would be 61% (65% in 1979). If all increases, including the full protection given to GMPs through the State scheme, are taken into account, the average degree of protection on the whole pension becomes 70 per cent.

6.9 For civil servants, it has been assumed that the Pensions (Increase) Acts will continue to provide full protection against price increases on the pension in excess of the GMP; increases on the GMP will be provided by the State scheme and not by the occupational scheme.

6.10 For the first time the information supplied by PRU contained details of increases provided on deferred pensions. This information is summarised in Appendix 4. It is evident that increases on deferred pensions are granted at a lower level than the average assumed, in the absence of any data, for the 1979 survey. The assumptions I have made concerning future increases in deferred pensions are as in paragraph 6.7, applying the assumptions to the whole deferred pension including any GMP, and having regard to the current treatment of deferred pensions.

6.11 I consider the above assumptions, taken together, to be appropriate for the assessment of benefits currently accruing to scheme members.

## 7 RESULTS

7.1 On the basis used, the value of the benefits of the Principal Civil Service Pension Scheme to a non-industrial civil servant is 16.8 per cent of salary. If the value of pensions increases were excluded, this would fall to 11.1 per cent; if the State scheme had not taken over the liability for pensions increases on GMPs it would have been 18.5 per cent.\*

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\*For an average civil servant, the GMP payable from the State pension age is, on the assumptions made, about 33 per cent of the total pension at that age.

7.2 The value of the benefits of each analogue scheme was calculated. (For the method see Appendix 8 to my 1979 report). The results were then averaged but equal weights were not appropriate. The Deduction is to be applied to the pay of civil servants in the various pay groups and thus the total weight assigned to the analogues in each pay group should be the total salary of the civil servants concerned. Within each pay group each analogue scheme has been given equal weight. Using this weighting, the average value of the benefits of analogue schemes is 12.2 per cent of salary. If analogue schemes granted no pensions increases at all, this average would have fallen to 9.2 per cent; if they had all given increases on the lines of the Pensions (Increase) Acts, the average would be 14.5 per cent. These figures all exclude the value of the extra State scheme benefits enjoyed by analogue employees who are not contracted-out of the upper tier of the State pension scheme. The allowance made for these benefits is described in paragraph 2.3, and the value of these extra benefits averaged over all the analogues is 0.4 per cent of salary.

7.3 The value of a civil servant's superannuation benefits is thus worth 4.6 per cent of salary more than the average value of the analogues' superannuation benefits excluding the extra State scheme benefits, for which appropriate allowance is made in the TMRs. Of this difference, 2.3 per cent is due to the lower pensions increases assumed in analogue schemes. A further 1.0 per cent of the difference is due to the substantial reductions (either of pensionable salary or of benefits) made by many analogue schemes to take account of National Insurance benefits. The balance of the difference is due mainly to a few very poor analogue schemes and to the rather higher average retirement age in analogue schemes offset by lump sum benefits on death higher, on average, than those under the Civil Service scheme.

7.4 The 4.6 per cent difference brought out above is nkt, however, the appropriate Deduction to be made from the TMR, since the civil servant's benefits will be calculated on a lower salary than the analogue salary because of the adjustment for differences in employee contributions made to the latter in obtaining the TMR and because of the Deduction. The process of converting the benefit difference to a Deduction is set out below.

7.5 For each £1000 of analogue money pay:-

	£.
Pay in analogue scheme ... ..	1000
Average analogue employee contribution is 4.3 per cent of pay and average civil servant's family benefit contribution allowed for in TMR is 1.5 per cent of pay so average adjustment in calculation of TMRs is $(4.3 - 1.5) \times \frac{1000}{100}$ ... ..	28.0
Value of extra State scheme benefits allowed for in TMR is $0.4 \times 1000/100$ ... ..	4.0
Adjusted rate for TMR is $1000 - 28.0 + 4.0$ ... ..	976.0
Value of average analogue superannuation benefits is 12.2 per cent of pay and average analogue employee contribution is 4.3 per cent of pay so net value to employee of superannuation is $(12.2 - 4.3) \times \frac{1000}{100}$ ... ..	79.0
Value of extra State scheme benefits, as allowed for in TMR	4.0
Total value of analogue pay plus superannuation ... ..	1083.0
Value of Civil Service superannuation benefits is 16.8 per cent of pay and average family benefit contribution is 1.4 per cent of pay so total value of civil servant's pay plus superannuation per 100 pay is $(100 + 16.8 - 1.4) = 115.4$	
Civil servant's pay giving same total value as analogue is $1083.0 \times \frac{100}{115.4}$ ... ..	938.5
Deduction needed from TMR is $976.0 - 938.5$ ... ..	37.5
Deduction from TMR as a percentage of TMR is $\frac{37.5}{976.0} \times 100$	

= 3.8 per cent

Note: In the above calculations the average family benefit contribution of 1.4 per cent for civil servants allows for nil contribution in female-only pay groups. However, I understand that in calculating the TMRs almost all civil servants are assumed to pay  $1\frac{1}{2}$  per cent. I have consequently allowed for a 1.5 per cent contribution in that part of the above calculations.

7.6 Thus the calculated value of the Deduction to be applied to TMRs on account of differences in superannuation benefits is 3.8 per cent and accordingly this is the figure I have given to the two Sides of the National Whitley Council.

7.7 The differences between this figure of 3.8 per cent and the corresponding figure which I provided for the 1979 Review (i.e. 2.6 per cent) are analysed in Appendix 6.

*Edward Johnston*  
Government Actuary's Department



APPENDIX 1

Circumstances Leading to the Review

1. The adjustment for differences in superannuation benefits, and its review from time to time, is provided for in Article 7 of Annex C of the 1974 Civil Service Agreement on Pay, Hours and Leave, which is as follows:

"Superannuation Benefits

After true money rates have been established, a deduction of 1.75 per cent will be made to take account of differences between the superannuation benefits of the Civil Service grades and of their outside analogues. This assessment will be reviewed with effect from a given operative date if one Side so proposes at least 6 months before that operative date, and if it is confirmed that no major change of Civil Service superannuation benefits is in prospect. In that case, for that and subsequent operative dates the account to be taken of differences in superannuation benefits will be a new assessment of the difference for the time being current between the benefits of the analogues in all current surveys and of the Civil Service grades in question, to be made for each operative date by the Government Actuary's Department from an actuarial comparison taking account of all relevant factors."

2. On 1 October 1979, I was asked to review the assessment for an operative date of 1 April 1980. Data for this review were provided by the Pay Research Unit between November 1979 and April 1980 and in my letters of 14 February 1980 and 1 May 1980 I certified that the deduction should be 3.8 per cent for this operative date. My letters of 14 February and 1 May are reproduced below.

(i) Letter of 14 February 1980 to Mr Morgan of the Civil Service Department from the Government Actuary

"1974 CIVIL SERVICE AGREEMENT ON PAY, HOURS AND LEAVE

You wrote to me on 1 October 1979 on behalf of both Sides of the Civil Service National Whitley Council asking me to review, for an operative date of 1 April 1980, the adjustment for differences in superannuation benefits referred to in Article 7 of Annex C of the above Agreement.

I have based my calculations on information supplied to me regarding the superannuation arrangements for 506 analogue employments. I understand that this represents about 95 per cent of all analogue employments weighted by salaries. It seems unlikely that the data for the remaining analogues when received will significantly affect the results that have been obtained from the information already received, but if they should I will of course let the two Sides know at once.

I have been advised that the matters set out below, which enter into the TMR calculations, are being dealt with as indicated:

Analogue Schemes not contracted-out: In calculating the TMR an addition is made equal to the employer's extra social security contribution of  $4\frac{1}{2}$  per cent of the employee's remuneration between the lower and upper earnings limits.

Fringe benefits: A deduction of  $11\frac{1}{2}$  per cent is made from the value of fringe benefits when calculating the TMR to allow for their being non-pensionable.

In my analysis of the difference in superannuation benefits between the Civil Service scheme and the analogue schemes account has been taken only of quantifiable items, as an actuarial comparison cannot take account of subjective factors.

My calculations show that the superannuation benefits of a civil servant are, on average, worth 4.6 per cent of salary more than those of an analogue employee and that this difference can be allowed for by deducting 3.8 per cent from the True Money Rates for analogue employments.

Accordingly I certify that, on the information presently available to me, the adjustment for difference in superannuation benefits referred to in Article 7 of Annex C of the 1974 Civil Service Agreement on Pay, Hours and Leave should be 3.8 per cent for an operative date of 1 April 1980.

As you already know, it is my intention to prepare for publication a report on this reassessment of the superannuation adjustment.

I am writing in similar terms to the Secretary General of the National Staff Side."

(ii) Letter of 1 May 1980 to Mr Morgan from the Government Actuary

"1974 CIVIL SERVICE AGREEMENT ON PAY, HOURS AND LEAVE

In my letter of 14 February, I certified that, on the information then available, the adjustment for differences in superannuation benefits under the above Agreement should be 3.8 per cent for an operative date of 1 April 1980. This figure was based on information relating to 506 analogue employments.

I have since been provided with information for a further 94 analogue employments; my final calculations have therefore been based on a total of 600 analogue employments.

On the information relating to these 600 analogue employments, I confirm that the adjustment for differences in superannuation benefits referred to in Article 7 of Annex C of the 1974 Civil Service Agreement on Pay, Hours and Leave should be a deduction of 3.8 per cent of True Money Rates for an operative date of 1 April 1980.

I am writing in similar terms to the Secretary General of the Council of Civil Service Unions."

APPENDIX 2

The account taken of superannuation in calculating TMRs:  
an example

1. To clarify the various superannuation adjustments, an example of the calculation of a TMR is given, using purely illustrative figures.

	£	£
Survey rate (ie gross pay for the job) ... ..		4,500
Less: London Weighting, included in survey rate ...		- 400
		<hr/>
National rate ... ..		4,100
Less: adjustment for employee's superannuation contribution (para 2 below) ... ..		- 120
Plus: non-superannuable additions:		
Bonus ... ..	150	
Meals ... ..	80	
Car/Travel ... ..	400	
		<hr/>
	630	
Less: 11½ per cent (see para 3 below) ...	-72	
		<hr/>
		+ 558
Plus: adjustment for not being contracted-out (para 4 below) ... ..		+ 139
		<hr/>
TMR ... ..		4,677
		<hr/>

2. Employee's contribution is 5 per cent of pay less £470 disregard for State pension. The figure above has been reduced by 1½ per cent of pay on account of the civil servant's family benefit contribution,

$$.05 \times (4,100 - 470) - .015 \times 4,100 = \text{£}120$$

3. Supposing the figures given are money values, an allowance for their being non-superannuable has been made by reducing them by 11½ per cent.

4. Supposing the company's scheme is not contracted-out of the State scheme, an addition of 4½ per cent of pay above the lower earnings limit (£19.50 per week) would be added into the TMR, ie 4½ per cent of (4,100 - 1,017) = £139.

5. The deduction for differences in superannuation benefits is assessed at 3.8 per cent of the TMR, and is brought to account at a subsequent stage in the process.

### APPENDIX 3

#### The Principal Civil Service Pension Scheme

1. This Scheme is operated by means of Rules laid down under Sections 1 and 2 of the Superannuation Act 1972 by the Minister for the Civil Service. The present Rules are set out in the Principal Civil Service Pension Scheme 1974, as amended (mainly by the Principal Civil Service Pension Scheme (Amendment) Scheme 1978 which enabled members to be contracted-out under the Social Security Pensions Act 1975). The scheme is very complicated but the main provisions, as they affect benefits accruing for current service as a civil servant, are set out below.

2. Membership and Service. Almost all civil servants working over 18 hours a week are members, and all service as a member reckons for benefit, including part-years of service, subject to a limit of 40 years' reckonable service before age 60 and 45 years' total service.

3. Benefits on retirement at or over age 60. A pension of one-eightieth of final pay times the length of reckonable service in years plus a lump sum of three times the pension. Final pay is pay (defined as basic pay plus permanent emoluments only) in the best year of the last three years of service.

4. Benefits on ill-health retirement after at least 5 years' service. Immediate benefits calculated as for age retirement but with service enhanced as follows:

- (i) if it is less than 10 years, to double its length;
- (ii) if it is 10 years or more, to the better of
  - (a) 20 years
  - (b) actual service plus  $6\frac{2}{3}$  years.

However, enhanced service under (i) or (ii) (a) may not exceed potential service to age 65, and under (ii) (b) may not exceed potential service to age 60.

5. Benefits on withdrawal. If service is under 2 years, no benefit. If service is between 2 and 5 years, a gratuity of  $\frac{3}{80}$ ths of pay times the length of reckonable service (or a larger gratuity if withdrawal is on grounds of ill-health). If service is over 5 years, a preserved pension and lump sum calculated as in paragraph 3 above and coming into payment at age 60. In all cases, a transfer value may be paid under the public sector transfer arrangements to the new employer's scheme (whether that scheme is a public sector scheme or a private sector one).

6. Benefits on death in service. A lump sum of the greater of one year's pay or the lump sum that would have been payable on ill-health retirement - see paragraph 4 above.

7. Family benefits and contributions. Male civil servants pay family contributions of  $1\frac{1}{2}$  per cent of pay. A widow's benefit is payable at the rate of one-half of the husband's pension, if he dies after retirement, or one-half of the pension he would have received on ill-health retirement if he dies in service. A deduction of  $\frac{11}{80}$ ths of pay is made from the lump sum benefits of married men for each year of service for which family contributions have not been paid - this is mainly the enhancement of service mentioned in paragraph 4 - and contributions are returned on the retirement or death of a bachelor. A widow's benefit is at a higher rate for the first three months of payment (and this short-term pension is also paid in the event of the husband's death in service with less than 5 years' service) and there are additions of one-half of the widow's pension in respect of each dependent child (for up to two children). Widows' pension cease on remarriage before age 60.

8. There are other provisions of the scheme for premature retirement in certain circumstances and injury benefits. There is also optionally available to the member, at no cost to the scheme, allocation of pension in favour of a spouse or dependant and purchase at full cost of added years of service.

9. Pensions under the scheme are protected against price inflation after retirement under the Pensions (Increase) Acts.

APPENDIX 4

Analysis of final-salary analogue superannuation schemes

1. PRU provided information about the superannuation schemes, if any, of 600 analogue employments - see Section 3 of this report. Paragraph 4.2 shows that 569 of these schemes gave pension benefits based on salary at, or shortly before, retirement (final-salary schemes). In the remainder of this Appendix these final-salary schemes are analysed further, by expressing as a percentage of the total of 569 the number of schemes having various characteristics. To assist comparison with my 1979 report the corresponding percentages for 1979 are also given where available. Information on increases on pensions in payment is given in paragraphs 4.6 to 4.8 of the report.

2. Entry and retirement age

Table 1

Conditions of entry to pension scheme	<u>Percentage of schemes</u>	
	<u>1980</u>	<u>1979</u>
Minimum age:		
up to 21 ... ..	89.8	87.0
over 21 and below 25 ... ..	4.2	5.5
25 and over ... ..	6.0	7.5
Waiting period:		
none, or under 1 year ... ..	90.5	86.1
at least 1 year ... ..	9.5	13.9
Membership for full-time employees:		
voluntary for all ... ..	12.6	11.1
entry by invitation only ... ..	0.0	0.2
voluntary membership up to some age only ... ..	4.4	3.0
voluntary membership to women only up to age 30 ... ..	0.4	0.9
compulsory for all who are eligible ... ..	82.6	84.8

Table 2

<u>Normal retirement age</u>	<u>Percentage of schemes</u>			
	<u>Men</u>		<u>Women</u>	
	<u>1980</u>	<u>1979</u>	<u>1980</u>	<u>1979</u>
under 60 ... ..	0.0	0.0	2.0	1.4
60 ... ..	20.4	23.4	94.9	53.6
between 60 and 65 ... ..	5.8	8.9	0.5	0.0
65 ... ..	73.8	67.7	2.1	0.7
not known* ... ..	0.0	0.0	0.5	44.3

\* Where the analogue employee was a man, details of the benefits for women were often not recorded in 1979.

3. The calculation of benefits on normal retirement

Table 3

	<u>Percentage of schemes</u>	
	<u>1980</u>	<u>1979</u>
Reckoning of service:		
in complete years only ... ..	16.5	/
in complete years and quarter years ... ..	2.5	/
in complete years and months ... ..	59.2	/
in years and days ... ..	21.3	/
no information given ... ..	0.5	/
Type of pay which counts:		
all earnings including overtime ... ..	25.5	/
basic pay ... ..	35.8	/
Other ... ..	38.7	/
Period over which final pay is calculated*:		
at retirement ... ..	8.4	3.4
last year, or best year out of last few ... ..	44.0	51.4
between 1 and 3 years ... ..	2.3	3.4
over last 3 years ... ..	43.2	37.9
between 3 and 5 years ... ..	0.5	2.3
last 5 years ... ..	1.2	1.4
more than 5 years ... ..	0.4	0.2

/ No exactly comparable figures are available for 1979 because the information provided was less comprehensive in that year.

\* Where pay in years before the last year is dynamised before the choice of the best year(s) the scheme is treated as though final pay were based on the last year before retirement.

Table 4

	<u>Percentage of schemes</u>	
	<u>1980</u>	<u>1979</u>
Equivalent pension fraction:		
60ths or better ... ..	90.5	87.3
between 60th and 80ths ... ..	4.0	6.8
80ths ... ..	4.4	4.3
less than 80ths ... ..	1.1	1.6
Lump sum on retirement:		
none ... ..	11.7	( 78.2
by commutation of pension only ... ..	69.6	(
less than 3 years' pension ... ..	1.6	2.5
3 years' pension ... ..	16.7	19.3
greater than 3 years' pension ... ..	0.4	0.0

Note: For those schemes which provide lump sums on retirement (other than by commutation of pension only) in addition to pension, for comparison the lump sum has been converted to pension by assuming that it is equivalent to an annual pension of one-ninth of its amount. Thus the lump sums shown in the second half of the table are included in, not additional to, the benefits shown in the first half.

4. Enhancement of benefits for certain members

12.8 per cent (9.3 per cent in 1979) of the schemes stated that extra years of service were awarded to certain members at the employer's cost - usually only in special circumstances. 9.5 Per cent (5.7 per cent in 1979) of the schemes - stated that in some cases pensionable salary is increased above the actual salary - usually to compensate for the effects of pay restraint on the members concerned.



5. Modification on account of National Insurance benefit and contracting-out

5.1 Basic State pension

Table 5

Type of modification	Percentage of schemes	
	1980	1979
None ... ..	45.7	36.4
Reduction of salary for pension purposes:		
(i) by flat amount ... ..	6.2	4.8
(ii) by amount linked to level of State pension or State lower earnings limit ... ..	33.0	27.3
Reduction of pension directly:		
(iii) by flat amount per year of service ... ..	1.4	13.6
(iv) by amount linked to level of State pension	13.7	17.9
Average amounts of modifications:		
(i) flat reduction of salary	= £445	(£442 in 1979)
(ii) salary reduction linked to State pension	= 115 per cent of single person's State pension	(122 per cent in 1979)
(iii) flat pension reduction per year of service	= £1.70 per annum	(£2.12 in 1979)
(iv) pension reduction linked to State scheme	= 1.96 per cent of single person's State pension per year of service	(1.90 per cent in 1979)

5.2 Upper-tier State pension

Table 6

	Percentage of schemes	
	1980	1979
Contracted-out ... ..	88.0	90.9
Not contracted-out ... ..	12.0	9.1
of which:		
modified by State scheme Additional Component	12%	42 $\frac{1}{2}$ %
modified in another way ... ..	26%	37 $\frac{1}{2}$ %
not modified ... ..	62%	20%

6. Benefits on ill-health retirement

Table 7

Type of pension	<u>Percentage of schemes</u>	
	<u>1980</u>	<u>1979</u>
Deferred to normal retirement age or actuarially reduced if paid earlier ... ..	15.8	9.8
Immediate pension based on:		
actual service only ... ..	20.9	17.0
service enhanced but not by as much as in Civil Service scheme ... ..	18.8	24.6
service enhanced by as much as Civil Service scheme ... ..	14.2	19.3
potential service to normal retirement age ...	24.8	23.6
Separate disability benefits scheme ... ..	5.5	5.7

### 7. Benefits on withdrawal

Under the Social Security Act 1973, all schemes have to preserve accrued benefits for those withdrawing over age 26 and with at least 5 years' service. 52.0 per cent of the schemes gave no increases on pensions during deferment, 45.3 per cent gave the same increase as for pensions in payment, and 2.7 per cent gave increases but less than those for pensions in payment. For those withdrawing with under 5 years' service the benefit is usually a refund of the member's own contributions. 85.4 per cent (48.9 per cent in 1979) of the schemes stated that there was provision for transfer payments to other pension schemes as an alternative to other benefits.

### 8. Benefits on deferred retirement

34.6 per cent (45.7 per cent in 1979) of the schemes provided actuarially increased benefits if retirement is deferred beyond normal retirement age, and contributions by members normally cease at that age. In 2.3 per cent (0.7 per cent in 1979) of the schemes the level of benefits was "frozen" at normal retirement age and 2.3 per cent (2.7 per cent in 1979) of the schemes brought the pension into payment at normal retirement age even though the member had not retired. The remaining 60.8 per cent (50.9 per cent in 1979) either counted service after normal retirement age for benefits in the same way as earlier service or stated that members did not defer retirement.

### 9. Benefits on death after retirement

Table 8

Member's pension fraction\*

Widow's pension fraction	60ths or better	80ths or between 60ths and 80ths		Less than 80ths	Total
		Figure for 1979 are shown in brackets			
		Percentage of Schemes			
80th or better	1.2 (0.5)	- (-)	- (-)	- (-)	1.2 (0.5)
Between 80ths and 120ths	13.2 (15.0)	0.4 (-)	- (-)	- (-)	13.6 (15.0)
120ths	56.4 (50.0)	- (0.5)	- (-)	- (-)	56.4 (50.5)
Between 120th and 160ths	0.4 (-)	4.2 (6.1)	- (-)	- (-)	4.6 (6.1)
160ths	0.9 (1.4)	19.1 (22.5)	- (-)	- (-)	20.0 (23.9)
Less than 160ths	1.2 (-)	0.5 (1.3)	1.1 (1.6)	- (-)	2.8 (2.9)
None	0.5 (0.4)	0.9 (0.7)	- (-)	- (-)	1.4 (1.1)
	<u>73.8 (67.3)</u>	<u>25.1 (31.1)</u>	<u>1.1 (1.6)</u>	<u>100.0 (100)</u>	

\* In this table the member's pension fraction does not incorporate the equivalent value of lump sums

Table 9

Children's pension while widow's pension is being paid:	Percentage of schemes	
	1980	1979
None	39.5	36.1
Flat-rate pension per child ...	5.6	4.5
One-eighth of widow's pension per child for up to 4 children ...	5.0	9.1
<b>Better</b> than one-eighth, but less than one-half, of widow's pension per child ..	31.1	25.5
One-half of widow's pension per child for up to 2 children ...	18.6	24.8
No information available ...	0.2	0.0

50.2 per cent (38.6 per cent in 1979) of the schemes provided a payment on death, within 5 years after retirement, of the balance of 5 years' pension. Another 2.6 per cent (11.1 per cent) of the schemes also made such a balance payment but reduced it by the widow's pension, if any, payable over the period.

10. Benefits on death in service

Table 10

Type of lump sum:	Percentage of schemes	
	1980	1979
Multiple of salary:		
up to 2 years' pay ... ..	32.7	41.1
at least 2 but under 4 years' pay ...	53.2	45.7
at least 4 years' pay ... ..	12.0	13.2
No information available ... ..	2.1	0.0
Return of employee's contribution in addition to above ... ..	22.0	23.6

Table 11

Type of widow's benefit:	Percentage of schemes	
	1980	1979
None, except by sacrifice of lump sum ...	4.9	8.0
GMP only ... ..	2.6	3.6
Pension based on:		
actual service of husband only ... ..	16.3	8.9
service enhanced but not by as much as in Civil Service scheme ... ..	9.8	13.6
service enhanced by as much as Civil Service scheme ... ..	13.5	15.4
potential service to normal retirement age	52.9	50.5

Note: 11.1 per cent (13.4 per cent in 1979) of the schemes provide a higher rate of widow's pension for a limited period after the husband's death.

11. Contributions by members

Table 12

Rate of contribution	Percentage of schemes	
	1980	1979
0 per cent ... ..	15.1	14.8
Under 2 per cent ... ..	1.1	3.0
2 per cent but under 3 per cent ... ..	2.6	2.7
3 per cent but under 4 per cent ... ..	6.2	5.2
4 per cent but under 5 per cent ... ..	7.4	6.6
5 per cent but under 6 per cent ... ..	24.8	24.3
6 per cent but under 7 per cent ... ..	33.0	33.4
7 per cent and over ... ..	9.8	10.0

Notes: (a) Many schemes have different rates of contribution on different bands of members' earnings, for instance contributions are often based on pay less a deduction of 150 per cent of the State lower earnings limit. The rates of contribution given above are the rates on the main slice of members' earnings.  
 (b) The rates of contribution given above are for married male members.

APPENDIX 5

Mortality and other assumptions

Table (a): Life expectancy of pensioners and those withdrawing from service (men)

Ill-health pensions		Others	
Age at retirement	Life expectancy in years	Age at retirement or withdrawal	Life expectancy in years
25	30.7	25	47.9
30	27.8	30	43.2
35	24.6	35	38.5
40	21.3	40	33.9
45	18.0	45	29.4
50	14.9	50	25.0
55	12.3	55	20.9
60	10.1	60	17.1
65	8.3	65	13.7

Table (b): Probability of death in service, ill-health retirement, or withdrawal from service in the year following the age stated (men)

Age at beginning of year	Death in service	Ill-health retirement	Withdrawal from service
27	.0007	.0004	.0350
32	.0009	.0006	.0150
37	.0012	.0008	.0100
42	.0021	.0012	.0070
47	.0038	.0019	.0050
52	.0076	.0047	.0030
57	.0129	.0111	.0020

Table (c): Probability of retirement from service on grounds of age (men)

Age	Category of pension scheme		
	Civil Service and other public service schemes	Analogue (i)	Analogue (ii)
60	.3000	.5000	
61	.1429	.2000	
62	.1667	.2500	
63	.2000	.3300	
64	.2500	.5000	
65	1.0000	1.0000	.5000
66			.5000
67			1.0000

Notes:

Analogue (i) probabilities are those assumed for analogue schemes (other than public service schemes) with normal pension age 60.

Analogue (ii) probabilities are those assumed for analogue schemes with normal pension age 65.

Table (d): Rates of progression of pensionable remuneration with age, related to an index of 100 at age 25 (men)

Age	Index value	Age	Index value
25	100	45	193
30	135	50	202
35	158	55	207
40	177	60	209

Note: In addition to the above, salaries are assumed to increase with general inflation, see Section 6.

Table (e): Proportions of men married on leaving service

Age	Proportion	Age	Proportion
25	.34	50	.89
30	.63	55	.91
35	.75	60	.91
40	.81	65	.90
45	.85		

## APPENDIX 6

The main reasons for the increase in the Deduction from 2.6 per cent in 1979 to 3.8 per cent are set out below.

- (i) The assumptions made relating to the yield on investments and to the rate of increase in prices and earnings are explained in paragraph 6.2. For all these items I have assumed long-term levels about 1 per cent per annum higher than I assumed for my 1979 report, although I have not altered my assumptions as to yields net of prices and earnings increases. The revised assumptions tend to reduce the value of benefits, but the effect on analogue benefits is greater than that on Civil Service benefits with the consequence that the Deduction is increased by 0.4 per cent.
- (ii) I have assumed somewhat higher rates of withdrawal from service, and somewhat lower increases on pensions in deferment for analogue schemes, than in my 1979 report. Because Civil Service withdrawal benefits are better than those of most analogues, the changes in assumptions increase the Deduction by 0.25 per cent.
- (iii) The average protection given to pensions in payment has decreased for the analogue schemes, and this has been reflected by a reduction in the assumed future level of protection. Part of the reason for this worsening in the level of protection is the lower proportion of schemes giving full protection against price rises, presumably because there were relatively fewer public service and public sector analogues in 1980 than in 1979. The overall effect has been to increase the Deduction by 0.25 per cent.
- (iv) There has been a slight increase since 1979 in the proportion of analogue schemes where pensions are not based on final salary, a slight increase in the average normal retirement age of analogue schemes and a small increase in the average analogue pension fraction. The net result is an increase of 0.15 per cent in the Deduction.
- (v) Items (i) to (iv) account for 1.05 per cent out of the 1.2 per cent increase in the Deduction. The remaining 0.15 per cent is accounted for by minor changes in the method of calculation and in the data of analogue schemes.



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Handwritten notes: "B/P B. 5. 80." and "u.c.o." with a red underline.

10 DOWNING STREET

*From the Private Secretary*

6 May 1980

I enclose two letters which the Prime Minister has received from Lord Shepherd - the first a formal letter forwarding the PRU Board's Annual Report, the second offering some personal comments on the work of the Board.

I would be grateful for a single draft reply for the Prime Minister to send to Lord Shepherd, and also for advice on the publication of the Report.

The Prime Minister has decided to invite Lord Shepherd and Sir Derek Rayner to a meeting to discuss the points in Lord Shepherd's second letter and the PRU system generally. There is no need, therefore, for the draft reply to deal with the substance of the letter. The Prime Minister would like the Chancellor and either Mr. Channon or Lord Soames to attend the meeting with Lord Shepherd and Sir Derek Rayner. We will be in touch to arrange a time and date.

I am sending a copy of this letter and its enclosures to John Wiggins (H.M. Treasury), Jim Buckley (Lord President's Office) and to Sir Derek Rayner.

T. P. LANKESTER

G. E. T. Green, Esq.,  
Civil Service Department.

CONFIDENTIAL

PRIME MINISTER

cc Mr Wolfson  
Mr Ingham  
Mr Duguid

Attached is:

- i) the annual report of the PRU Board - conclusions at Flag A - which is to be published.
- ii) a personal letter (Flag B) from the Chairman, Lord Shepherd, complaining that the Board's remit is too narrow - and implying that the PRU system is in need of reform.

We will need advice from CSD on the timing of publication of the report, and also a draft press notice.

The personal letter from Lord Shepherd is timely in that the paper on public sector pay which you have commissioned from the Chancellor will cover PRU - and more specifically, the question of whether the Board should have a wider remit. If you agree, I will send CSD and the Treasury a copy of the letter; and then let you have a draft reply. *Sheep RB.*

If you wished, we could ask Lord Shepherd and Derek Rayner, who is Deputy Chairman of the Board, to come in to explain their views. CSD doubt whether this would be worthwhile since - so they say - their Ministers are well aware of the Board's views. On the other hand, such a meeting might help you to focus on the PRU problem in advance of the public sector pay meeting; and I don't think you have ever discussed PRU with Derek Rayner in any detail. If you did have Shepherd and Rayner in, it would help to have Mr. Channon (or the Lord President) and the Chancellor as well.

*Sheep RB*

*RL*

2 May 1980

IN CONFIDENCE



CIVIL SERVICE PAY RESEARCH UNIT BOARD

Queen Anne's Chambers

41 Tothill Street, LONDON SW1H 9JX

Telephone: 01-273 4465

u C O

CHAIRMAN

The Rt Hon Lord Shepherd P.C.

1 May 1980

The Rt Hon Margaret Thatcher MP  
Prime Minister and  
Minister for the Civil Service  
No. 10 Downing Street  
London SW1

*Margaret Thatcher*

I have sent to you today the report of the Civil Service Pay Research Unit Board on the 1979/80 operations of the Civil Service Pay Research Unit. This letter is a brief personal comment in confidence.

My Board has a role stemming from the 1977 Civil Service National Pay Agreement to satisfy itself that the Unit is undertaking its responsibilities properly and efficiently, and for safeguarding the independence and impartiality of the Unit.

Our report sets out how we have discharged our responsibilities. We are satisfied with the professional approach of the Unit, impressed by the thoroughness with which it goes about its business, and by the high regard in which it is held by most of the organisations with which it deals. There are areas where we have suggested some changes or have asked for some investigations to be made, but we have little doubt about the overall soundness and validity of the Unit's surveys.

I have, over the past year, made clear to the Lord President of the Council and the Minister of State, Civil Service Department, the very restricted role of the Board. We are concerned with only one aspect of the pay research system; the integrity, impartiality and effectiveness of the Unit. We are precluded under our terms of reference from involving ourselves in, or commenting on, the range and type of information produced for the negotiating parties, how the Unit's data is used or interpreted, and on the validity and effectiveness of the pay research system as a whole.

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The Board's report is thus similarly limited in its scope and you will appreciate that it does not therefore review the whole of the operations of the pay research system. I feel it necessary to say that I, personally, have doubts on how long the independent members of the Board will remain satisfied with their current restricted role.

*Yours sincerely*  
*Malcolm Shepherd*

SHEPHERD



CIVIL SERVICE PAY RESEARCH UNIT BOARD  
Queen Anne's Chambers  
41 Tothill Street, LONDON SW1H 9JX  
Telephone: 01-273 4465

cc C.I.O.

CHAIRMAN  
The Rt Hon Lord Shepherd P.C.

1 May 1980

The Rt Hon Margaret Thatcher MP  
Prime Minister and  
Minister for the Civil Service  
No. 10 Downing Street  
London SW1

*Dear Prime Minister*

*report in  
Folder behind  
file.*

The terms of reference of the Civil Service Pay Research Unit Board require us to receive an annual report from the Director of the Pay Research Unit, and to submit to you an annual report for publication.

The Board has completed its examination of the work of the Unit for the period of the 1979/80 pay research programme, and I accordingly submit the annual report of the Board which incorporates that of the Director of the Unit.

*I am, Sir, sincerely,  
Yours faithfully,  
The Rt Hon Lord Shepherd*

SHEPHERD

# CIVIL SERVICE NATIONAL WHITLEY COUNCIL STAFF SIDE

---

19, Rochester Row,  
London, SW1P 1LB.  
Tel: 01 828 2727

## "THE TRUTH ABOUT CIVIL SERVICE PENSIONS

I enclose a copy of a leaflet we have produced which seeks to make a contribution to the current debate about Civil Service - and, inter alia, public service - pensions.

Civil servants and their retired colleagues are heartily fed up with the continuing series of unfair and uninformed attacks upon Civil Service pensions. This leaflet shows that, when the facts about what these pensions are and who pays for them are brought out into the open, a wholly different picture emerges.

It can be seen, for example, that serving civil servants are almost unique in meeting the lion's share of the pension costs - including index-linking - of their retired colleagues.

It also shows that the costs borne by the taxpayer are much less than some of our critics often claim.

I hope that you will read this leaflet.

I hope also that it will assist in maintaining a balanced view in any forthcoming discussion of this issue.

W. L. KENDALL  
Secretary General  
Civil Service National Whitley Council (Staff Side).

Civil Service

CIVIL SERVICE NATIONAL WHITLEY  
COUNCIL (STAFF SIDE)



12  
5

**THE TRUTH**

**ABOUT**

**CIVIL SERVICE**

**PENSIONS**



## THE TRUTH ABOUT CIVIL SERVICE PENSIONS

Question: Are Civil Service pensions excessive?

Answer: No — the Civil Service pension scheme is completely in line with other pension schemes in the public sector and with good occupational pensions schemes generally, and its benefits are within the limits of Inland Revenue approval.

Question: What is the basis of Civil Service Pensions?

Answer: The Civil Service pension is based upon 1/80th of retirement salary for each year of reckonable service, plus a lump sum of 3/80ths for each year of reckonable service.

Question: What does this amount to?

Answer: After 40 years' reckonable service, a civil servant will receive a half-pay pension and a lump sum of 1 ½ times his retirement salary. *But* few retiring civil servants actually qualify for this: the average Civil Service pension is only around £22 per week.

Question: How does this compare with other pension schemes?

Answer: The total of the two maximum payments of pension and lump sum is actuarially equivalent to 2/3rds of retirement salary, which is the usual provision in good occupational pensions schemes.



Question: How do civil servants pay for their pensions?

Answer: By deduction made *before new pay rates are agreed*. At present, the deduction made is around 8½% of salary.

Question: How does this compare with other pension schemes?

Answer: Most pension schemes require a deduction from pay in the region of 6%. We know of no other major scheme in the public or private sector where the contribution is as high as that paid by civil servants.

Question: What does the contribution mean in money terms?

Answer: In the current financial year the *total* cost of Civil Service pensions (including index-linking) is £579m. The current Civil Service wage bill is around £3900m, so a deduction of 8½% provides £330m, or 57% of the total cost.

Question: But do civil servants pay enough?

Answer: It is usual for the cost of a pension scheme to be *shared* between employer and employee. The Government Actuary (Fifth Survey of Occupational Pension Schemes) states that for every £1 contributed by the employee to their occupational schemes, £2.60 is contributed by the employer. In the Civil Service, *the reverse situation applies*: for every £1 contributed by the employer, the employee contributes £1.30.

Question: But what about index-linking — why should civil servants alone enjoy this?

Answer: They don't — the Government have admitted that

civil servants are only one-seventh of those pensioners covered either formally or informally by the pensions increase arrangements.

Question: Who else gets index-linking through Government provisions?

Answer: National Health Service employees (including doctors and nurses), policemen and firemen, members of the armed forces, judges, Members of Parliament and ministers, local government and university employees (including teachers). Employees of nationalised industries get increases by analogy.

Question: What is the total coverage of index-linked pensions?

Answer: According to the Secretary of State for Social Services (Hansard 13.11.79) 64% of *all* occupational pensions in payment are index-linked.

Question: What about other occupational pensioners?

Answer: Many other occupational pensioners get equivalent improvements, usually on a discretionary basis.

Question: What is the average increase in Civil Service pensions from index-linking?

Answer: Around £3 per week on the last occasion.

Question: But do civil servants really pay for index-linking?

Answer: Around one-third of the total pension bill is the cumulative cost of index-linking; 80% of this cost is met by *servicing* civil servants.

Question: Who assesses what civil servants pay?

Answer: Each year the Government Actuary makes an assessment of the value of Civil Service pension benefits and an appropriate deduction is made in the negotiations to settle Civil Service pay. The Government Actuary's report is published each year and is fully open for expert scrutiny.

Question: How much is deducted from pay this year for this reason?

Answer: For this year, the deduction is 3.8% — this will produce around £150m, ie. over double the cost of this year's increase in Civil Service pensions (£61m), and 80% of the cumulative cost (£190m).

Question: So *servicing* civil servants pay for their retired colleagues' pensions?

Answer: Yes; by any reasonable standard, the cost is more than shared between serving civil servants (£150m) and the Government (£40m).

Question: Are there other schemes with index-linked pensions whose employees make any special contribution for this provision?

Answer: Not so far as we are aware.

Question: Then why the attack on Civil Service pensions?

Answer: You may well ask, bearing in mind the facts revealed in this leaflet. We feel confident, however, that any fair-minded person reading this leaflet will recognise where the truth lies, and will see the equity of the case we can put forward.

Published by the Civil Service National Whitley Council (Staff Side),  
19 Rochester Row, London SW1P 1LB. On behalf of:

Civil and Public  
Services Association

Society of Civil and  
Public Servants

Institution of Professional  
Civil Servants

Inland Revenue Staff  
Federation

Civil Service Union

Prison Officers' Association

Association of Government  
Supervisors and Radio Officers

Association of First Division  
Civil Servants

Association of Her Majesty's  
Inspectors of Taxes

✓ *MSD Civil Service*2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/11603/80

Your ref:

29 FEB 1980

*De pl*

PROVISION FOR CIVIL SERVICE PAY INCREASE IN THE 1980-81  
ESTIMATES: REPORTS OF THE PAC AND OF THE TREASURY AND CIVIL  
SERVICE COMMITTEE

Thank you for sending me a copy of your minute of 19 February to the Prime Minister about the proposal to take initial provision for Civil Service pay increases in a single, central Vote.

For 1980-81 I agree with your recommendation to proceed with the central Vote in view of the difficulties that would arise by reverting to the 1979-80 arrangement. I do not share the Committee's opinions on the central Vote. The advantages identified by E Committee are real and I cannot think the change would adversely affect present Parliamentary control over this particular expenditure.

At all events, we must ensure that the complexities of the 1979-80 exercise are avoided. For the longer term I agree that we ought to keep our options open.

Copies go to the Prime Minister, Paul Channon, other members of E Committee and to Sir Robert Armstrong.

*yes* *ms*  
*[Signature]*

MICHAEL HESELTINE

The Rt Hon John Biffen MP

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10 DOWNING STREET

*Can file 18  
of Master Set*

*From the Private Secretary*

27 February 1980

Mr. Channon joined the Prime Minister for this morning's discussion with Messrs. Kendall and Gillman of the National Staff Side.

Mr. Kendall spoke at some length on the unions' firm belief in the importance of the National Pay Agreement. He argued that this policy had great advantages for Government; that 1980 was a water-shed on Civil Service industrial relations; and that reconciliation of PRU evidence and cash limits would have to be handled without breaching the Pay Agreement if trouble was to be avoided. Mr. Kendall also emphasised the importance of the arbitration provisions. Towards the end of his long presentation, Mr. Kendall recognised the problems of the economy, but stressed the need for staff loyalty in facing these problems for the foreseeable future. Mr. Gillman argued that Civil Servants were only pushed to extreme action when they felt unfairly treated. He stressed the flexibility with which the Civil Service unions had handled the introduction of more efficient working methods.

The Prime Minister listened to the presentations, and noted the stress placed by the Staff Side on the importance of maintaining the Pay Agreement, and on not closing off the arbitration option. For her part, she stressed the Government's need to find some manoeuvrability in order to reconcile PRU evidence and cash limits, and spoke of the paramount need for maximum efficiency in the use of resources. This implied a need to keep numbers down.

Mr. Kendall made it clear that the Staff Side would be most happy with a firm statement by the Prime Minister of commitment to the Pay Agreement. The Prime Minister made it clear that the meeting was an opportunity for her to listen to the Staff Side before she discussed all these problems with her colleagues.

I am sending a copy of this letter to David Wright (Cabinet Office).

G. E. T. Green, Esq.,  
Civil Service Department.

M. A. PATRICK

MANAGEMENT IN CONFIDENCE AND CONFIDENTIAL

*Master*  
~~Covering letter filed on Civil Service (May 77) 'Pay and Pensions'~~

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND REPRESENTATIVES  
OF THE CIVIL SERVICE NATIONAL STAFF SIDE HELD AT 10 DOWNING STREET  
AT 1130 HOURS ON 27 FEBRUARY 1980

---

PRESENT

Prime Minister

Mr. Paul Channon, M.P.,  
Minister of State,  
CSD

Mr. C. A. Whitmore

Mr. M. A. Pattison

Mr. W. L. Kendall, Secretary  
General, Civil Service  
National Whitley Council  
Staff Side

Mr. G. Gillman, National Staff  
Side Chairman

Mr. Kendall thanked the Prime Minister for seeing the Staff Side representatives, and apologised for adding to her burdens at a busy time. He and Mr. Gillman did not view this as a negotiating session. The Staff Side, as custodians of the National Pay Agreement, wanted to stress their interest in preserving orderly pay bargaining. He briefly reviewed the history of the National Pay Agreement. It was a comparability system, perhaps the most sophisticated one in operation. Recent criticisms of it reflected a failure to compare like with like. The Conservative Manifesto had given notice of the Government's intention to reconcile pay research with cash limits. The Staff Side wished to express their concern to the Prime Minister about this. It was possible that the package emerging from negotiations would present no problem. But if the Government intervened to breach the Pay Agreement, there would be real difficulties.

Mr. Kendall stressed that the Pay Agreement should be the only criterion. If cash limits were to assume greater importance than pay research, this would not be a reconciliation. The same would be true if the Pay Agreement were suspended in whole or part, for example by denying some element of the pay research figures or by deferring - staging - part of the award as in the past. Unions were frequently exhorted to respect their agreements. The Civil Service unions did so.

Mr. Kendall reminded the Prime Minister that the Pay Agreement included provision for arbitration. In the past, arbitration had been denied. The Staff Side were most concerned about this. He saw 1980 as a water-shed for industrial relations in the Civil Service.

/If the

If the Pay Agreement was breached, there would be long-term consequences as well as immediate action. The Agreement offered an orderly approach and a framework for sensible bargaining. It prevented huge claims unrelated to hard evidence. In negotiation, the differences between the two sides were not normally wide. It offered great advantages to the Government as an employer. There were some signs of disenchantment with the Agreement both inside and outside the Civil Service. But last year's difficulties had been the result of the previous Government's breach of the Agreement. Another breach would make industrial action inevitable. This was not the Staff Side's style, but just a statement of fact. If arbitration were to be circumscribed, this would add fuel to the flames.

Mr. Kendall stressed that the Pay Agreement had limited the aggravation and industrial action over the years. In handling the IPCS claim, Lord Soames had stressed the value of proceeding to arbitration. Civil Service militancy had grown in recent years as a result of Governments breaching the Pay Agreement. The long-term consequences of further disaffection would spill out from pay to all other issues. The Staff Side were not insensitive to national economic problems. But these would remain for some time, and the Government would require the co-operation of its staff in facing them. The Staff Side therefore hoped that the Agreement would be honoured. If it had to be changed, there were due processes: these could not, of course, be applied for the 1980 negotiations.

Mr. Gillman stressed that civil servants had a great sense of equality. Their limited displays of industrial action had been a response to a deep-seated sense of unfair treatment. In entering the Pay Agreement, the unions' side had given up the right to select their own basis for pay claims, and had agreed to base their bargaining on the independently collected and assessed PRU evidence. They had agreed never to lead in pay claims, only to follow national patterns. They had agreed not to seek more than others, and in return the Government had agreed not to offer less than others received. Explosive situations arose only when Civil Servants felt unfairly treated. For this reason, he hoped that the Government, unlike its predecessors, would honour the National Pay Agreement. They foresaw hard negotiations with the tough negotiators from CSD, but within the rules of the claim.

/The Prime Minister



The Prime Minister appreciated the co-operation which the Civil Service had shown the Government in the exceptionally busy period since the General Election. The Government hoped to get through the pay negotiations without industrial trouble. That would be the best basis for the future from all sides. There were always difficulties. She could not comment on the previous Government, which had had its own ways of tackling difficulties. She noted that the Staff Side put the maximum emphasis on the Pay Agreement, including the provisions for arbitration. The Government therefore had to seek some manoeuvrability elsewhere, given its cash limits policy. There was unfortunately no bottomless pit to meet the requirements. The negotiations would be tough, and the Government would have to find some way of maintaining its objectives.

Mr. Kendall said that the Staff Side had been informed that the PRU evidence would be reconciled with the cash limits. They expected the Government to see all the PRU evidence before setting its figure. The PAC and the Select Committee on the Civil Service had accepted this approach, while noting the possibility of difficulties in the future. If the sums were right, there would be no problem. Ideally, he would like to hear the Prime Minister say firmly that the Government would honour the Pay Agreement. The Prime Minister said that she would have to discuss these matters with her colleagues. She had therefore agreed to see Mr. Kendall and Mr. Gillman ahead of these discussions. It was essential that everyone should strive for greater efficiency in the use of resources. She had perhaps over-emphasised the need for harder work when she should have stressed the need to use existing resources with greater efficiency. Mr. Gillman believed that the Civil Service unions had a good record over the years on improved techniques, for example, for the introduction of ADP. The unions had taken the initiative on discussions of a new technology agreement. The Prime Minister welcomed this approach. Efficiency had to be maximised. She did not believe that this meant throwing people out of work. The most efficient organisations were generally the most successful. She recognised that the Staff Side regarded the Pay Agreement as paramount. They would have to recognise the Government's need to keep numbers down. She assured Mr. Kendall and Mr. Gillman that decisions would not be taken lightly. The meeting had been valuable to her.

/Mr. Kendall

Mr. Kendall said that they would not be seeking publicity for this informal meeting, but they would have to report to the union General Secretaries. If asked, they would say that they had seen the Prime Minister for a private and informal talk about current Civil Service problems. The Prime Minister confirmed that No. 10 would not publicise the meeting but would not deny it if asked. If asked whether pay had been discussed, she would confirm that it had been among the current problems.

MA

27 February 1980

Civil  
Service

PRIME MINISTER

You are seeing Mr. Kendall and Mr. Gillman, Secretary General and Chairman of the Civil Service National Staff Side, at 1130.

( They want to stress to you the Staff Side's strong views on the observance of the pay agreement, before Cabinet settles the basis for this year's pay negotiations.

Your meeting with colleagues earlier in the morning will give you a feel for the likely outcome of Thursday's Cabinet discussion. I attach a note by Mr. Channon (Flag A) and a background note (Flag B) by his officials.

The meeting is primarily for you to listen and take note: you will not want to anticipate the negotiations which are to come once Cabinet has reached decisions.

MP

26 February 1980

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PRIME MINISTER

I enclose a short brief on your meeting with the Chairman and Secretary General of the Staff Side tomorrow.

I suggest that the best course is to listen to them and say you will consider their points.

Since clearly it is going to be extraordinarily difficult to pay out the full amount under the Pay Research Agreement, it might be worth probing the strength of their feelings about (a) staging, if this should prove necessary, and (b) manpower cuts.

Of course, if they are speaking for quotation, they will be more discouraging about the solution than they really believe. My own belief is that if they can be persuaded to speak off the record, they will privately agree that if there is no prospect of the settlement being honoured in full without strings, then they would prefer a package with the maximum amount of manpower cuts and the minimum amount of staging. This solution, although not without difficulty, will probably avoid the worst industrial trouble.

If you feel like paying some tribute to the work of civil servants for this Administration, I know that this would be appreciated very much.

P.C.

PAUL CHANNON

26 February 1980

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BRIEF FOR THE PRIME MINISTER'S MEETING WITH REPRESENTATIVES  
OF THE NATIONAL STAFF SIDE: 27 FEBRUARY 1980

Mr Gillman and Mr Kendall of the National Staff Side (NSS) are coming to see the Prime Minister at 11.30 a.m. on Wednesday 27 February at their request. Mr Gillman is Chairman of the NSS, and also General Secretary of the Society of Civil and Public Servants (SCPS) which represents middle management grades. Mr Kendall is Secretary General of the NSS and a former General Secretary of the Civil and Public Services Association (CPSA) which represents clerks.

2. As foreshadowed in Mr Channon's minute of 20 February, Mr Gillman and Mr Kendall have asked for this meeting with the Prime Minister in her capacity as Minister for the Civil Service. They know that the Government will shortly be fixing the cash limit for Civil Service pay and are likely to stress the great importance that they attach to the Civil Service Pay and Arbitration Agreements being honoured and to warn of likely industrial action if they are dishonoured.

3. In particular, Mr Gillman and Mr Kendall are likely to argue:

a. the Government's election Manifesto said that it would reconcile cash limits with pay research in consultation with the unions - in their book breaking the Pay Agreement is no reconciliation;

b. the Government is committed to a formal Civil Service Pay Agreement which requires payment in full from 1 April of the amounts negotiated on the basis of the Pay Research evidence;

c. the Government is also committed to a formal Civil Service Arbitration Agreement which allows access to arbitration on all aspects of the Pay Agreement

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(unilaterally up to and including Principal level) - and they are likely to quote the Government's insistence on arbitration as the proper resolution of last year's dispute with the IPCS;

d. the Government has said in evidence to the PAC and the Treasury/CSD Select Committee that it will determine a global cash limit for the Civil Service when the Pay Research evidence has been assessed - and there must be a presumption that that evidence will influence the Government's decision;

e. the previous Administration unilaterally suspended Pay Research for three years and then staged last year's settlement, denying arbitration on this aspect - the Civil Service is looking to the present Administration for better treatment;

f. discontent on pay is more likely than anything else to unite the moderates behind the militant minority and to lead to industrial action.

Against this background, the burden of the NSS request is likely to be for an assurance that the Pay Agreement will be honoured in full and that there will be no denial of the right to arbitration. Unless the Agreements are honoured in this way, they are likely to argue, industrial action is virtually certain and could be widespread and severe. They may seek to say that a positive response from the Government would lay the foundations for building a new relationship of trust between the Civil Service and the Government as employer - a relationship which has been sadly lacking for some time now.

4. In reply the Prime Minister is unlikely to want to say more than that the Government have not yet taken any decisions and that she will have very much in mind what has been said to

CONFIDENTIAL

her, though there are, of course, other considerations to be weighed as well. But she welcomes the chance of consultation on this important issue. She may also wish to stress the need for pay settlements the country can afford and for the maximum improvements in efficiency and reductions in manpower costs to be made to help to offset the cost of pay increases.

5. Although the NSS recognise the inevitability of manpower cuts (and are both expecting and prepared for them), they are anxious to avoid being forced to sign up on a pay/manpower trade-off. The objective of achieving maximum manpower cuts is likely to be better realised by recognising their difficulty over this; but it could be helpful to press them to say whether they attach greater importance to pay or to manpower.

6. Finally, the Prime Minister may wish to assure Mr Gillman and Mr Kendall that decisions will not be taken lightly and that the CSD will be authorised to open final negotiations as soon as those decisions have been taken.

CB

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Folder please.  
[Papers are for Cabinet item  
on civil service pay +  
cash limits] HAD

PRIME MINISTER

Mr. Channon asked whether you would be prepared to meet the Civil Service Staff Side, if they sought a meeting before Cabinet discussed Civil Service pay and cash limits.

Mr. Kendall has now written asking if he and Mr. Gillman can see you.

This is a very bad week, but it would be possible to fit in half-an-hour on Wednesday, either just before lunch or in the afternoon. A refusal to see them would do nothing to help the atmosphere surrounding the forthcoming negotiations. Agree to a short meeting on Wednesday? *Yes*

+ Mr Channon *[Signature]*

Prime Minister.

25 February 1980

I suggest before lunch. This will leave the whole of the afternoon clear for Thursday's speech.

Set up for Wednesday 27 Feb: at 11.30. all parties informed. *[Signature]* 26/2



72-76 Wed.

**CIVIL SERVICE  
NATIONAL WHITLEY COUNCIL**  
STAFF SIDE

19, ROCHESTER ROW · LONDON SW1P 1LB · Tel: 01-828 2727-9

Secretary General  
W. L. KENDALL

Secretary:  
P. D. JONES

Assistant Secretaries:  
B. G. SUTHERLAND HELEN E. HUGHES

Rt Hon Mrs Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London, S.W.1.

25th February 1980

Dear Prime Minister

Civil Service unions are fast approaching the date for detailed pay negotiations, and we have represented our general position to Paul Channon, Minister of State CSD. In the course of our discussions with him, I did say that we possibly would request to see you at an appropriate point in the proceedings, and he promised to pass this request to you.

I have to apologise for burdening you at this time, but as Minister for the Civil Service I think it important that you have from us an account of our general attitude before final decisions are taken by Government which could influence individual union pay negotiations.

I therefore request a short private and informal meeting with you. I would be accompanied by Mr Gillman, the National Staff Side Chairman.

I am sincerely sorry about the timing of this request, but I believe I would be wrong if I delayed a submission.

With best wishes

Yours sincerely,

  
W L KENDALL  
Secretary General



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*SMAD*  
*GWL/Serv*

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

Tel: 211 6402

R J T Watts Esq  
Private Secretary to the  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1

25 February 1980

*Dear Roger,*

PROVISION FOR CIVIL SERVICE PAY INCREASES

My Secretary of State has asked me to let you know that he agrees with the line proposed by the Chief Secretary in his minute of 19 February to the Prime Minister.

I am copying this letter to the Private Secretaries to the Prime Minister, members of E Committee and Sir Robert Armstrong.

*Yours ever,*

*Denis*

DENIS WALKER  
Private Secretary

CONFIDENTIAL

25 FEB 1900





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

*MAD* Civil Service

From the Minister

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

21 February 1980

*Provision*  
PROVISION FOR CIVIL SERVICE PAY INCREASES

Thank you for sending me a copy of your minute of 19 February to the Prime Minister.

I agree with your proposals both to proceed with the central Vote in the 1980-81 Estimates and to keep open the option of using a central Vote in later years.


I am sending copies of this letter to the Prime Minister, to Paul Channon and other members of E Committee and to Sir Robert Armstrong.

Peter Walker

Handwritten mark

21 FEB 1980



Civil Service  
✓ MAP


SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILBANK LONDON SW1P 3JL  
01 211 6402

Paul Channon Esq  
Minister of State  
Civil Service Department  
Whitehall  
LONDON SW1A 2AE

20 February 1980

Dee Paul

Thank you for sending me a copy of your letter of ~~24~~ January to Willie Whitelaw.

I have now seen the letter which Francis Pym wrote to you on ~~16~~ February. Of course my problems in the Department of Energy are not similar in detail to those of the Ministry of Defence. Nevertheless I am sure it is important that we should look very carefully at the general points which he has raised.

It is difficult to see how there could be any real prospect of achieving say a 5 per cent cut in staff costs, which could mean 10 per cent in staff numbers, in 1980/81 over and above what is already being done. And even if this were possible the cost of redundancies would surely be high. In the case of my own Department, having already offered at least 10 per cent by the end of March 1982, which is much more than many Departments have felt able to do, it is difficult to see how anything more of the kind which you might envisage could be accepted without destroying the essential fabric of the Department. It follows that I could not go along with your view that any further squeeze should be applied evenly across the board.

The other course to which you refer is to breach the Pay Agreement. To do this arbitrarily could well cause serious resentment. May be there are middle ways which we ought to be thinking about involving eg staging, if we feel that some further cost savings must be achieved in 1980/81 given the economic circumstances which face us.

All this is not to say that further savings in Civil Service manpower are impossible. The questioning of accepted practices and functions, 'Rayner' type exercises and other methods, must continue and should certainly lead to further results as time goes on - and in all this I attach importance to the element of help from outside Departments.

Copies of this letter go to the recipients of yours.

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Darius

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20 FEB 1980



CONFIDENTIAL

JS



10 DOWNING STREET

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20 February 1980

*From the Private Secretary*

*Dear Alistair.*

PROVISION FOR CIVIL SERVICE PAY INCREASES IN THE 1980-81 ESTIMATES:  
REPORTS OF THE PAC AND OF THE TREASURY AND CIVIL SERVICE COMMITTEE

The Prime Minister has read the Chief Secretary's minute of 19 February on the above subject, and - subject to colleagues' views - agrees with his proposal to announce a central Vote for the Civil Service for 1980/81.

I am sending copies of this letter to the Private Secretaries to the Minister of State (CSD), to other members of E Committee and to Sir Robert Armstrong.

*me. ew.*

*Tim Laker.*

Alistair Pirie, Esq.,  
HM Treasury.

JS

Prime Minister



Agree subject to  
colleagues' views?

PRIME MINISTER

Yes not R

19/2

PROVISION FOR CIVIL SERVICE PAY INCREASES IN THE 1980-81  
ESTIMATES: REPORTS OF THE PAC AND OF THE TREASURY AND  
CIVIL SERVICE COMMITTEE

On 20 September 1979, E Committee agreed - E(79)8th meeting - that Treasury and CSD officials should consult the PAC on the proposal that, in the 1980-81 Main Estimates, provision for civil service pay increases should initially be taken in a single central Vote. The proposal was also discussed with the new Treasury and Civil Service Committee.

2. E Committee saw three advantages in the proposal: it enables us to consider the evidence of pay research before deciding the provision for civil service pay; it provides flexibility to distribute the money between departmental Votes so as to meet possible variations in the pay award between different grades of staff; it reduces the likelihood of the provision leaking before publication.

3. We have now received the Reports of both Committees. Both comment adversely on the central Vote from the point of view of Parliamentary control. At the same time both acquiesce in the arrangement for 1980-81.

4. Two decisions are now needed. First, on 1980-81, I recommend we proceed with the central Vote. The advantages seen by E Committee still hold. To change course now would delay and complicate publishing Estimates. The Committees will not be surprised by such a decision.

CONFIDENTIAL

5. Second, I suggest that we do not now foreclose at this stage the option of using a central Vote in later years. I do not regard as well-based the Committees' comments that the arrangements weaken Parliamentary control. But much will depend on the circumstances, notably as to the rate of inflation. In formal reply to the Committees (which should be made within two months) I suggest that we say simply that we will take account of their views when we come to take decisions in later years.

6. If you and other members of E Committee agree, I will arrange an early announcement of the decision to go ahead with the central Vote for 1980-81, and for an appropriate reply to be given to the Committees. I understand that the annual PAC debate is to take place on 28th February, when this matter is likely to be raised, and this would be a convenient occasion for making the announcement.

7. The aim is to put proposals to Cabinet on February 28 as to the provision to be made in the central Vote.

8. Paul Channon supports these conclusions. I am copying this to him, to other members of E Committee and to Sir Robert Armstrong.

W. J. B.

JOHN BIFFEN  
19 February 1980

CONFIDENTIAL

19 FEB 1960

12 11 10 9 8 7 6 5 4 3 2 1

19 FEB 1960

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Paper 371: First Report  
from the Treasury and Civil Service Committee  
1979-80: provision for Civil Service Pay  
increases in the 1980-81 estimates  
Published by HMSO, 6 February 1980

Signed Wayland Date 12 January 2010

**PREM Records Team**

CF. to note



Original to G/R.

CC/MOD

CSP

LPO

Civil Service

10 DOWNING STREET

THE PRIME MINISTER

7 December 1979

Dear John,

Thank you for your letter of 23 November enclosing correspondence, which I now return, from some of your constituents employed by the Ministry of Defence and in particular from Mr. J.F. Iles of 8 St. Tysol Close, Llansay, Usk about Civil Service retirement policy.

Your constituents refer to a Parliamentary Answer of 1952. This attempted to provide only a brief summary of the general principles governing Civil Service retirement policy, however, and referred to further instructions which were then issued as a Treasury Circular, and of which I enclose a copy (the detail has since been incorporated in more recent regulations). Paul Channon has explained further developments in his letter of 23 October 1979 to you.

It is quite open to the Ministry of Defence to retire staff at age 60 in accordance with the principles established in 1952. In fact many departments have modified the policy of maximum retention in the light of their own needs, as provided for by paragraph 2 of the 1952 Statement of Principles. Mr. Iles rightly points to the direct pension costs which have to be

/ taken

taken into account. But other considerations are also important, especially in the higher grades of the Administration Group in which Mr. Iles is placed: for example, the career prospects of more junior staff; a balanced age structure; recognition of the personal strain attendant on work at the highest levels; and manpower economy requirements. While I appreciate your constituents' concern I am satisfied that the general principles on the age of retirement from the Civil Service, as recently endorsed by the Official and Staff Sides of the National Whitley Council, are observed by the Ministry of Defence in their policy for the Administration Group.

I am sending copies of this letter to Francis Pym and Paul Channon.

*Y  
Lomson*

*Rajant*  

---

John Stradling Thomas, Esq., M.P.



Civil Service 2

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

6 December 1979

Mr Tim Lankester  
Private Secretary  
10 Downing Street  
LONDON SW1

*Handwritten initials*

*Prime Minister*

*To note*

*TL*

*6/12*

*Dear Tim,*

CIVIL SERVICE PAY: PENSIONS AND JOB SECURITY

The Lord President mentioned to the Prime Minister the other day the problems we were having with the National Staff Side about our decision to refer the two issues of pensions and job security to the Pay Research Unit Board.

2. Yesterday Lord Soames arranged to meet the National Staff Side with whom the necessary changes to the Civil Service Pay Agreement have to be negotiated. In the event, matters in the House delayed the Lord President and the Minister of State took the meeting. Mr Channon impressed upon the Staff Side the importance we attach to the proposals and why we consider it essential to introduce an independent scrutiny into these two important aspects of Civil Service pay. He warned them that if they refused to let these matters go to the Pay Research Unit Board that could call in question the whole Civil Service pay system. He asked them to reconsider their position in the light of what he had said and to let us know their final decision as soon as possible. Finally he made the point that it was very much in the interests of themselves and their members that there should be a visibly independent scrutiny of these two matters.

3. The Staff Side said they thought that the publication of the Government Actuary's report already provided ample scope for scrutiny by outside opinion. They were opposed to the intrusion of the Pay Research Unit Board into the area of pay negotiation as distinct from fact-finding, and saw our proposals as the thin end of the wedge. They were also concerned about our wish to see both issues dealt with in time for the 1 April 1980 pay settlement and maintained that the Pay Research Unit Board would not have time to consider the two questions properly - particularly job security.

4. The Staff Side have agreed to consider all this and report back to us shortly. In the meantime we are considering the options open to us if the National Staff Side stance is maintained.

5. I am sending a copy of this minute to Martin Vile in Sir Robert Armstrong's Office.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY  
Private Secretary





18 DEC 1970



cc HMT HS  
D/Emp  
cc MWhite  
Civil Service

10 DOWNING STREET

*From the Private Secretary*

5 November 1979

MANAGEMENT - IN CONFIDENCE

The Prime Minister has read the Lord President's minute of 1 November about the problem of Assistant Secretaries' and Under Secretaries' salaries. She agrees that the Pay Research Unit Board and the Top Salaries Review Body should consider the problem jointly and make proposals for its resolution. She has noted, if new arrangements for determining the salaries of Assistant Secretaries cannot be implemented for the 1 April 1980 settlement, it may be necessary to allow any dispute about Assistant Secretary pay next year to go to arbitration.

I am sending copies of this letter to Tony Battishill (H.M. Treasury) and Ian Fair (Department of Employment).

T. P. LANKESTER

Jim Buckley, Esq.,  
Lord President's Office.

Prime Minister



Yes no

Agree Ld Soames' proposal, which seems sensible?

R 2/11

PRIME MINISTER

THE PAY RESEARCH/TOP SALARIES REVIEW BODY INTERFACE

For some years there has been a problem at the interface between the pay of Assistant Secretaries and that of Under Secretaries. This is to let you know how I would propose to deal with it.

Assistant Secretaries have their pay settled in the normal way by negotiations on the Pay Research evidence. The pay of Under Secretaries is determined by the Top Salaries Review Body (TSRB) which collects its own evidence of outside rates and works in a different way.

The problem is that the rate indicated by Pay Research for the maximum of the Assistant Secretary scale has often been too close to, or has exceeded, the rate recommended by the TSRB for the Under Secretary. It has been necessary to reduce the appropriate salary for Assistant Secretaries to keep some sort of differential between Under Secretaries and them. The position is obviously unsatisfactory to everybody. This year Assistant Secretaries were promised a review of the problem to see if a solution could be found.

4

I propose to invite the Pay Research Unit Board (PRUB) and the TSRB to consider the problem jointly and to make proposals for its resolution. I would ask the two bodies to consider the problem urgently in the hope that new arrangements can apply for the 1 April 1980 settlement. If this proves to be impossible, however, it may be necessary exceptionally to allow any dispute about Assistant Secretary pay next year to go to arbitration: I think it would be a good idea to have one member who would serve on both PRUB and TSRB. Sir Derek Rayner would be an ideal candidate but he is far too busy. There is a vacancy on TSRB at the moment. I am looking for a good candidate who could be suitable to fill this and also serve on PRUB. I hope to submit the names of suitable candidates for your approval shortly.

Copies of this minute go to the Chancellor of the Exchequer and the Secretary of State for Employment.

Copy in Appls.

S.

SOAMES

1 November 1979

PRIME MINISTER

THE PAY RESEARCH/TOP SALARIES REVIEW BOARD INTERFACE

For some years there has been a problem at the interface between the

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Civil  
Service

CONFIDENTIAL

PRIME MINISTER

Civil Service Pay Research: Pensions Valuation  
(E(79) 60)

BACKGROUND

✓  
When the Committee discussed the future of pay research on 17th July (E(79) 5th Meeting, Item 4) it agreed that the assumptions on pensions to be employed in future pay negotiations in the Civil Service "should be re-examined and the availability of actuarial advice to the PRU Board should be reconsidered, if necessary by the addition of a suitable member of the Board". And when the Committee discussed the Standing Commission on Pay Comparability on 11th September (E(79) 7th Meeting, Item 1) they expressed a desire "to have advice on how best the value of index-linked pensions could be subjected to independent scrutiny". This paper by the Lord President fulfils both remits.

✓  
2. The essence of the paper is that the 2.6 per cent notional deduction from the pay of Civil Servants to offset the value of index-linked pensions is widely misunderstood. It is not meant to value index-linking as such but to cover the difference between index-linking as applied to the Civil Service and the practice of uprating pensions applied by their analogues. Moreover, the full deduction made - 7 per cent - for Civil Service pensions compares favourably - i.e. is greater than - that applied by most of the analogues. This being so the Lord President argues that the deduction to be made from Civil Service pay to cover the cost of pensions (mostly deducted before the appropriate pay scales are struck) should for presentational reasons be expressed as a single figure. The Lord President also suggests that the assumptions and method used in valuing Civil Service pensions should be submitted to the Pay Research Unit Board for audit; and that the Board itself should be strengthened by nominating a pensions or insurance expert as an additional member.

CONFIDENTIAL

3. We understand that the Chancellor of the Exchequer had intended to put forward a paper of his own on this subject but changed his mind. It is nevertheless likely that he will have points to make - perhaps tending in the direction of suggesting that Civil Servants should pay a higher contribution for their pensions. But such an outcome is not excluded by the Lord President's proposals. If the "audit" by the PRU Board shows that the Government Actuary's calculations are based on too favourable assumptions, a correction can be made.

HANDLING

4. You will want the Lord President to introduce his paper. You might then call upon the Chancellor of the Exchequer and the Secretary of State for Employment to contribute before opening up the issue to wider discussion.

CONCLUSION

5. Subject to discussion the most likely outcome is that the Committee will endorse the Lord President's recommendations as set out in paragraph 8 of his paper.



(Robert Armstrong)

29th October 1979



With the Compliments  
of the  
Chancellor of the Exchequer's  
Private Secretary

MW

Treasury Chambers,  
Parliament Street,  
S.W.1.

19/10

# FDA

Association of First Division Civil Servants

17 NORTHUMBERLAND AVENUE, LONDON, WC2N 5AP 01-839 7406/7

## BRANCH SECRETARIES CIRCULAR

12 October 1979

BSC 51/79

Dear Colleague

### RESPONSIBILITY ALLOWANCES

I am having an argument with the Civil Service Department about allowances paid to private secretaries in private offices. At present these allowances are classified as allowances for greater responsibility, but CSD claim that this is not justified. They argue that all the jobs in private offices are now properly and appropriately graded at HE0(A), Principal or Assistant Secretary level etc and that the holders are not performing duties above their grade. They admit that there is some tension in the job and other peculiarities, but claim that the level of responsibility is no more than that in jobs in similar grades. They are not denying that an allowance is due for long and unsocial hours, but say there is no element of added responsibility. and in fact, at one stage of the argument, the CSD officials talked about the 'post office' nature of the job.

Responsibility allowances generally are to be increased by 74% in stages ie: 9% on 1 April 1979, 5% on 1 August 1979 and the balance on 1 January 1980. There are over-lap etc problems at Assistant Secretary level and above and we still have to work out what the increases for all principal private secretaries will be. I am insisting that they cannot modify the existing arrangements at this late hour, but the CSD are intent on doing so in the next round.

I would, therefore, be grateful if you would in the light of the above contact any private office members you have and let me have their views. If they want to write to me direct please encourage them to do so.

FDA Branch Committee

Mr Hall

Mr Pirie

Mr Locke / Mrs Diggles

Yours sincerely

G W MARSHALL  
General Secretary

Do you have any views on this, please? If so, please send them to me or write direct to Geo Marshall.

J. Martin  
Branch Secretary





Civil Service

2

PRIME MINISTER

To see. The new rates are payable

Civil Service Department

Whitehall London SW1A 2AZ

01-273 4400

from 1 April 1979.

3 August 1979

MS

Tim Lankester Esq  
Private Secretary  
10 Downing Street  
Whitehall  
London SW1

Dear Tim,

CIVIL SERVICE LONDON WEIGHTING

The Prime Minister may wish to know that the Civil Service National Staff Side have accepted revised rates of London Weighting of £780 for Inner London and £325 for Outer London.

E(EA) agreed on <sup>28<sup>th</sup> June</sup> ~~9 July~~ that the Civil Service Department should negotiate these increases which are based precisely on the Pay Board's recommendations of 1974, updated by Department of Employment indices. They take account of the reduced standard rate of income tax in this year's Budget. The cost, £26.5m a year, which also covers the controlled fringe bodies, was included in the revised cash limits for 1979-80.

I am sending copies of this letter to Private Secretaries to members of E(EA) and to Martin Vile in Sir John Hunt's Office.

Yours sincerely,  
Jim Buckley.

J BUCKLEY  
Private Secretary

3 AUG 1989



CONFIDENTIAL

*Civil Service*



Civil Service Department

Whitehall London SW1A 2AZ

Telephone 01-273 3000

Minister of State

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

10 July 1979

*Dear Tim 2 n/7*

Thank you for your letter of 28 June about the classification given to E(EA)(79)10 & 11.

I have considered carefully what you say in your letter, and, of course, consulted officials here. Having done that, I have to tell you that, on the basis of the existing security instructions, we believe the classification which was used was the appropriate one in each case, and that the contents of neither paper could justify the use of a higher classification.

As far as paper No 10 is concerned, only paragraph 5 contains sensitive material (but not such as to justify a higher classification than CONFIDENTIAL).

With regard to the other paper - No 11 - the material in it seems to us to be amply covered by the definition of CONFIDENTIAL. You may have overlooked the fact that the survey date for the Industrials' pay settlement has been available to the union side for as long as it has been available to us.

I quite accept of course that when we do circulate papers containing what is really sensitive information, we ought always to consider carefully whether or not the circulation should be restricted; but that is a separate question from the security classification to be used.

I am copying this to Martin Vile in the Cabinet Office.

*Yours sincerely*

*G E T Green*

G E T GREEN  
Private Secretary

CONFIDENTIAL

A09927

PRIME MINISTERCivil Service Pay Research(E(79) 14)

## BACKGROUND

1. The paper explains the basis of "fair comparisons" on which Civil Service pay has been determined since 1956. The system is firmly entrenched, and since there is no obvious better alternative the Lord President suggests that to abandon it would play into the hands of the militants in the Civil Service Unions. Annex A shows that Civil Service pay has always lagged behind general pay rates - indeed the system of comparisons implies that it should - and the difficult presentational problems of very large increases have arisen only because the system was artificially held back in some periods. If operated annually there is no reason to expect increases which would arouse unreasonable expectations elsewhere.

2. The Lord President therefore suggests that the system should be retained, but improved.

## HANDLING

3. Before his paper is reached you will already have had a discussion in E on the fundamental question of the way in which Pay research and Cash limits can be reconciled. The present paper goes for Course B of the Treasury paper, (E(79) 15) and so begs the question of what would happen if something closer to Course A were adopted.

4. With that background you might lead the Committee to consider the Lord President's specific proposals in turn -

- i. That pay research should be retained as the basis for Civil Service pay negotiation and allowed to operate annually.

ii. Pensions: That the allowance for inflation-proofing of pensions and, in particular, the Government Actuary's conclusions on the value of this to staff (Annex C of the paper) should be authoritatively examined. The Lord President suggests that the review should be undertaken by a strengthened Pay Research Unit Board. But will it, even when strengthened, have the right expertise to do the job?

iii. Independence: That the visible independence of the PR Board should be strengthened.

iv. No-strike agreements: E Committee on 19 June (E(79) 3rd Meeting, Item 1) referred the whole question of no-strike agreements for further consideration by the Departments of Employment, Environment, Industry, Health and Social Security, and Home Office. The issue of no-strike agreements in the Civil Service could be set on one side for consideration when the subject is discussed in the round.

v. Cash limits: The Committee's earlier discussion on E(79) 15 will have set the tone. If the Committee favoured course B in that paper it need not discuss the matter further on this paper. If however the Committee have already decided in principle in favour of ~~course~~ A, you might also ask how Pay Research would operate under a policy where Cash Limits were used to enforce constraint on pay? The probable answer is that it would still look something like what is proposed here, but that volume cuts would be more severe if the Government get the cash limits too low. The more rigorous the PRU system can be made, the less risk there is of this happening.

#### CONCLUSION

5. The Committee's conclusion will in part be contingent on their earlier discussion but, subject to that, the most likely conclusion is:-

To accept the conclusion of the Lord President's paper subject to points made in discussion and any prior decision on the handling of cash limits.

*J.H.*  
JOHN HUNT

6 July 1979

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

28 June 1979

Your Minister has circulated two papers - EA(79)10 and 11 - sensitive material from a negotiating point of view. It seems very odd, to say the least, that these two papers have only been classified confidential - especially after the various leaks in the spring in the Civil Service pay negotiations. You might consider sending round a reclassification slip, though I suspect the damage may already have been done.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

T. P. LANKESTER

G E T Green Esq  
Civil Service Department

CONFIDENTIAL

C. Service

S

Please copy  
to Civil Service  
Industrial pay  
file

MANAGEMENT IN CONFIDENCE



CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

Original - Govt Machinery  
CF 14.  
Special Political  
Advices - April  
1979

David Wilks -

He left 10-  
asked for

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Tim Lankester Esq  
Private Secretary  
10 Downing Street  
London SW1

22 June 1979

Dear Tim,

ADMINISTRATION GROUP PAY RATES

I understand you would like a schedule setting out Administration Groups pay rates from EO to Permanent Secretary level, showing the increases paid on 1 April 1979, 1 August 1979, and 1 January 1980. This I now attach.

You will see that we have shown the three Permanent Secretary rates payable to Second Permanent Secretaries, Permanent Secretary Heads of Departments and the four "super-Permanent Secretaries, respectively. Where scales are payable - Assistant Secretary and below - we have shown the maximum and minimum.

If you have any further questions, no doubt you will let me know.

Yours sincerely,  
David

DAVID LAUGHRIN  
Private Secretary

MANAGEMENT IN CONFIDENCE

PERMANENT SECRETARY

Salary for Pension Purposes		Salary from		Revised Salary for Pension Purposes		Revised Salary from	
1.4.78	1.4.79	1.4.80	1.4.79	1.4.79	1.4.80	1.4.79	1.4.80
£	£	£	£	£	£	£	£
23,500	21,311	23,500	26,000	26,000	26,000	23,811	26,000
26,000	23,386	26,000	28,500	28,500	28,500	25,886	28,500
28,000	25,211	28,000	31,000	31,000	31,000	28,211	31,000

DEPUTY SECRETARY

Salary for Pension Purposes		Salary from		Revised Salary for Pension Purposes		Revised Salary from	
1.4.78	1.4.79	1.4.80	1.4.79	1.4.79	1.4.80	1.4.79	1.4.80
£	£	£	£	£	£	£	£
20,000	17,814	20,000	22,500	22,500	22,500	20,314	22,500

UNDER SECRETARY

Salary for Pension Purposes		Salary from		Revised Salary for Pension Purposes		Revised Salary from	
1.4.78	1.4.79	1.4.80	1.4.79	1.4.79	1.4.80	1.4.79	1.4.80
£	£	£	£	£	£	£	£
16,000	14,714	16,000	18,000	18,000	18,000	16,714	18,000

ASSISTANT SECRETARY

Scale from 1.4.78	Revised Salary Scale for Pension Purposes	Revised Scale payable from	1.8.79	1.1.80
£	1.4.79	1.4.79	£	£
10,043	14,250	10,947	11,449	14,250
to	to	to	to	to
12,273	17,000	13,378	13,991	17,000



SENIOR PRINCIPAL

Scale from 1.4.78	Revised Salary Scale for Pension Purposes	Revised scale payable from		
	1.4.79	1.4.79	1.8.79	1.1.80
£	£	£	£	£
9,057	11,750	9,872	10,325	11,750
to	to	to	to	to
10,809	15,000	11,782	12,322	15,000

PRINCIPAL

Scale from 1.4.78	Revised Salary for Pension Purposes from		Revised scale payable from	
	1.4.79	1.4.79	1.8.79	1.1.80
£	£	£	£	£
6,791	8,850	7,402	7,742	8,850
to	to	to	to	to
8,729	11,750	9,515	9,951	11,750

SENIOR EXECUTIVE OFFICER

Scale from 1.4.78	Revised Salary for Pension Purposes from		Revised scale payable from	
	1.4.79	1.4.79	1.8.79	1.1.80
£	£	£	£	£
5,937	7,350	6,471	6,768	7,350
to	to	to	to	to
7,032	8,900	7,665	8,016	8,900

HIGHER EXECUTIVE OFFICER

Scale from 1.4.78	Revised Salary for Pension Purposes from	1.4.79	Revised scale payable from	
	1.4.79		1.8.79	1.1.80
£	£	£	£	£
4,842	5,950	5,279	5,520	5,950
to	to	to	to	to
5,718	7,250	6,233	6,519	7,250

EXECUTIVE OFFICER (MAIN SCALE)

Scale from 1.4.78	Revised Salary Scale for Pension Purposes		Revised scale payable from	
	1.4.79	1.4.79	1.8.79	1.1.80
£	£	£	£	£
3,113	4,200	3,445	3,601	4,200
to	to	to	to	to
4,579	5,700	5,043	5,272	5,700

*Civil Service*

*MFS*



10 DOWNING STREET

*From the Private Secretary*

cc HMT  
DN  
DOT  
MAFF  
DM  
DOI  
HMT  
FCO  
HO  
CO  
5 June 1979

The Prime Minister would be grateful if the Lord President would put a paper to E Committee on the PRU and the PRU system of pay determination in the Civil Service. She has also asked that such a paper should include consideration of the work of the Government Actuary on the adjustment for differences in superannuation benefits.

I am sending a copy of this letter to Private Secretaries to members of E Committee and to Martin Vile (Cabinet Office).

**L.P. LANKESTER**

Jim Buckley, Esq.,  
Lord President's Office.

*6*



10 DOWNING STREET

THE PRIME MINISTER

4 June 1979

Thank you for your letter of 17/ May about the Government Actuary's recent report relating to Civil Service pensions.

I understand your points - and the strong feelings you express. But I am sure you will be aware that the Government Actuary is independent and has exercised professional judgement on actuarial matters. He is the Government's professional adviser in this field. However, the publication of his report will enable other actuaries to comment on these matters. This will help us to ensure that proper comparisons are made and that the pay research system is understood by all concerned, including the taxpayer. The Government attaches great importance to this objective and I therefore very much welcome the interest shown by your Association.

Your letter also includes some more general recommendations of your Association. Before 1971, public service pensions were increased to take account of inflation at frequent intervals though not annually. This required repeated special legislation which was costly and inconvenient. I do not see that any useful purpose would be served by a return to this ad hoc system, which has also, as you know, been replaced in State pension arrangements by statutory provision for regular increases each year. As to

/your second

file DSC.

c. CSO,  
Govt Actuarial  
Dept.

your second recommendation, which recalls the views of the Expenditure Committee, the commitment to publish the Government Actuary's report will enable outside actuaries to examine the assessment he has made.

Your third and fourth recommendations invite the Government to take direct responsibility for inflation proofing private occupational pensions. The inability of private occupational pension schemes to maintain the real value of pensions arises essentially from the relatively poor performance of the British economy over recent years. Inflation is but one symptom of the underlying weaknesses which this Government is committed to rectifying. Only by dealing with these deep-seated problems will it be possible to bring about a sustained increase in the real living standards of all members of our society, including pensioners. An important element in our policies is, of course, the enforcement of strict controls over public expenditure with the objective of restoring an acceptable balance between the claims of the public and private sectors over our economic resources. Against this background, I would hope that you will accept that Exchequer under-writing of occupational pensions generally, which can only add to public spending, would not usefully contribute to the achievement of our long-term objectives.

(SGD) MARGARET THATCHER

P.A. Bayliss, Esq.

vb

PRIME MINISTER

You redrafted the letter which CSD provided on the Government Actuary's Deduction. Attached is a retyped version. I have taken the liberty of making one small change to your redraft. In the second paragraph you had written "my problem is that the Government Actuary is independent ... ". I think this could be taken as implying that you are openly hostile to the Actuary. We may want him to reform his ways, but this has to come from you or Lord Soames to him - rather than in a letter to an outside organisation. I have redrafted as follows: "But I am sure you will be aware that the Government Actuary is independent ..." . I hope you will go along with this.

*Amend*

In my previous covering note, I suggested that we ask CSD to prepare a paper on PRU and the Government Actuary's work on the pension deduction for E Committee. Shall I ask them to do so?

1 June 1979

*TL*

cc: Mr. Wolfson  
Mr. Hoskyns

~~PRIME MINISTER~~

Civil Service

INFLATION-PROOFED PENSIONS IN THE CIVIL SERVICE

The Association of Independent Businesses wrote to you criticising the smallness of the deduction from Civil Service pay - only 2.6% - which the Government Actuary recommended in his latest report for the value of Civil Service index-linked pensions (Flag A).

I now attach a draft reply (Flag B), a background note from CSD (Flag C), and a note explaining the 2.6% from the Government Actuary (Flag D).

The draft letter is rather bland. This is not because the CSD are altogether happy with the 2.6% deduction: on the contrary, they thought it was insufficient, and they are also unhappy that the Government Actuary has not managed to get a better public understanding of his methodology. However, CSD do not think it would be right - and I am sure in this they are correct - that the Actuary should be criticised in the first instance in a letter from you to an outside organisation.

The main reason, in my view, why the Actuary has come up with such a low figure is that the analogues outside the Civil Service which he has looked at are untypical for the economy as a whole. But this is in effect a criticism of the analogues which the PRU examines - since, under the Civil Service Pay Agreement, the Actuary takes the same analogues.

I think you will want a paper from CSD Ministers fairly soon on the PRU system and how they see it operating in the next pay round. PRU are already working on the re-evaluation of the analogues, and the sooner they are given any new guidance which Ministers may have in mind the better. In view of the link between PRU and the work of the Actuary on the pensions deduction, I suggest that they should also report on this aspect too.

Shall I ask CSD to prepare such a paper, to be taken in E Committee within the next month or so?

31 May 1979

T.



**Civil Service Department**

Whitehall London SW1A 2AZ

01-273 4400

29 May 1979

T Lankester Esq  
10 Downing Street

*Dear Tim,*

In your letter of 21 May you sought advice on the reply to the letter dated 17 May from the Association of Independent Businesses to the Prime Minister. Although it does raise some of the wider issues involved in the index-linking of public sector pensions the letter concentrates on the method by which civil servants pay for pensions as described in the Government Actuary's recent report. The Civil Service Department looks to the Government Actuary to calculate the deduction from Civil Service pay on account of pension benefits. He is sending you direct the note which you requested but for convenience I enclose a copy of his letter.

2. It is vitally important to the operation of the pay research system that a proper adjustment should be made for comparative pension benefits, including index linking. It has become almost equally important that the calculations used for this purpose should be understood and accepted by public opinion. CSD Ministers will be considering shortly what more might be done to improve public understanding. In the meantime the Prime Minister may wish to send a fairly general reply to the Association's letter. A draft is attached.

3. The following is by way of background. In 1977 the Civil Service Pay Agreement introduced a number of changes to meet public criticism of certain features of the pay research system as a condition for its reactivation. In view of the extensive criticism of Civil Service pensions arrangements, CSD officials obtained the agreement of the unions to the reassessment by the Government Actuary of the deduction for differences in pensions benefits and to the publication of a report by him so as to enable interested parties and, in particular, outside actuaries to comment on his methods. This is the first occasion on which the assessment has been carried out on the basis of full evidence collected by the Pay Research Unit of the details of the pension provisions for the outside analogues seen in the pay research surveys.

4. Mr Bayliss says his Association is dissatisfied with the conclusions of the report for the following reasons:

- a. no account is taken of the value of the assurance that Civil Service pensions will remain inflation-proofed.

Comment The Government Actuary bases his calculation on the assumption that inflation-proofing will continue. In



fact it is always open to a future Government to legislate to change the basis of the pensions increases.

b. the analogue schemes are not typical of the private sector generally.

Comment this is not a matter for the Government Actuary who states (paragraph 3.3 of his published report) that the schemes are those attaching to the outside analogues the selection of which is the responsibility of the independent Director of the Pay Research Unit. His methods and the representativeness of the survey fields have been endorsed by the independent Pay Research Unit Board whose task it is to monitor the Director's exercise of his responsibilities.

c. the benefits have been expressed at the "new entrant contribution rate" which overstates the value to outside pensions of the State scheme.

Comment The Government Actuary gives in paragraph 5.2 of his report his reasons for this choice. His assessment is intended to value the benefits currently accruing, and these benefits will include a guaranteed minimum pension which the State scheme will inflation proof.

d. the economic assumptions imply a rate of inflation which may be too low.

Comment The choice of economic assumption, taking a forty year view, is very much an actuarial matter. We understand that the assumptions are in line with those used by other actuaries.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY  
Private Secretary

Civil Service Pay Research

Adjustment for Differences in Superannuation Benefits

Note by the Government Actuary

1. The Prime Minister has asked for a note explaining how I arrived at such a low figure as 2.6% for the adjustment for differences in superannuation benefits between civil servants and those in analogue employments. A copy of my report on this adjustment is attached; some salient features are summarized below.
2. The deduction covers benefit differences only; contribution differences are dealt with elsewhere in the pay research process. It was obtained by valuing the benefits currently accruing to serving civil servants and those accruing to their outside analogues. It does not take into account the benefits being paid to current pensioners, as the pay comparisons relate to those in service now.
3. The actuarial basis must have regard to long-term prospects, as civil servants now serving may not retire for a very long time and may live for many years after retirement. One must look to 40 years or more of the future, not at the immediate past. The basis assumes that the yield on investments (including capital appreciation as well as interest) will exceed the rise in prices by 3% a year and the rise in the general level of earnings by 1½% a year. The gross rate of interest in money terms was taken at 9% a year and this implied inflation rates of about 6% a year in prices and 7½% a year in earnings. It must be emphasized that these are long-term averages and do not represent the rates expected in the near future. It was assumed that higher rates of inflation would be accompanied by higher rates of interest.
4. The main reason why the deduction is much lower than many would have expected lies in the information the pay research exercise revealed about pensions increases in analogue schemes. (See paragraphs 4.6 & 7 of the report). Though few outside schemes promise full protection against inflation, in practice many analogue schemes have given a high degree of protection even in recent years; the comparison is not between the civil service giving full protection and analogue schemes giving none, but between full protection on the one hand and considerable protection on the other.
5. Analysis of analogues showed that over 20% of their schemes - probably almost all public sector - gave full index-linking. About 25% gave fixed increases, commonly 3% per annum, of whom over half provided for discretionary increases on top.

About 45% provided for discretionary increases only, and under 10% made no provision. Schemes which gave discretionary increases covered about 60% of the rise in the cost of living on average. One-third of all analogues gave 80% protection or more.

6. Where a scheme is contracted-out, the Guaranteed Minimum Pension will receive full price protection through the State scheme. For the balance of pension over this level, it was assumed that any fixed percentage increase would continue to be given, and that, in relation to the Retail Price Index, employers would give the same discretionary increases as in the recent past. This implies that analogue pensions in excess of guaranteed minimum pensions would receive about 70% of full protection or, taking guaranteed minimum pensions into account, nearly 80% of full protection.

7. The remainder of the deduction arises from other differences between civil service and analogue benefits. Analogue schemes often have larger national insurance offsets and higher retirement ages but better death benefits than in the civil service.

Government Actuary's Department  
London WC2

23 May 1979

Civil  
Service

DRAFT LETTER FROM THE PRIME MINISTER -

P Bayliss Esq  
The Association of Independent Businesses

Thank you for your letter of 17 May about the Government Actuary's recent report relating to Civil Service pensions. Although you touch on some of the wider aspects of public sector pensions arrangements, you seem to be mainly concerned about the extent to which civil servants pay for their pensions.

2. To avoid any misunderstanding I should perhaps point out that the 2.6% deduction for net differences in benefits is only one of several deductions from Civil Service pay required by the pay research system to reflect differences between the pension arrangements of civil servants and those with whom their pay is compared. In addition to this deduction there are deductions for the extent to which the outside pension contributions exceed the 1½% paid by male civil servants in respect of family benefits. The combined effect of all these deductions varies from grade to grade but is usually in the range 6% - 8%. The average contribution in the outside schemes concerned is 4.1% of total pay.

3. Many of your comments on the report relate to the way the Government Actuary has exercised his independent professional judgment on actuarial matters. He is the Government's professional adviser in this field but the publication of his report will enable other actuaries to comment on these matters. Indeed the whole purpose of publishing the report was to permit a wide-ranging and informed debate by the actuarial profession of the Government Actuary's assumptions and methodology. This will help

us to ensure that proper comparisons are made and that the pay research system is understood and accepted as fair by all concerned, including the taxpayer. The Government attaches great importance to both these objectives and I therefore very much welcome the interest shown by your Association.

4. Your letter also includes some more general recommendations of your Association. Before 1971, public service pensions were increased to take account of inflation at frequent intervals though not annually. This required repeated special legislation which was costly and inconvenient. I do not see that any useful purpose would be served by a return to this ad hoc system, which has also, as you know, been replaced in State pension arrangements by statutory provision for regular increases each year. As to your second recommendation, which recalls the views of the Expenditure Committee, the commitment to publish the Government Actuary's report will enable outside actuaries to examine the assessment he has made.

5. Your third and fourth recommendations invite the Government to take direct responsibility for inflation proofing private occupational pensions. The inability of private occupational pension schemes to maintain the real value of pensions arises essentially from the relatively poor performance of the British economy over recent years. Inflation is but one symptom of the underlying weaknesses which this Government is committed to rectifying. Only by dealing with these deep-seated problems will it be possible to bring about a sustained increase in the real living standards of all members of our society, including pensioners. An important element in our policies is, of course, the enforcement

of strict controls over public expenditure with the objective of restoring an acceptable balance between the claims of the public and private sectors over our economic resources. Against this background I would hope that you will accept that Exchequer underwriting of occupational pensions generally, which can only add to public spending, would not usefully contribute to the achievement of our long-term objectives.

2 pps - see below



GOVERNMENT ACTUARY'S DEPARTMENT  
22 KINGSWAY LONDON WC2B 6LE  
TELEPHONE 01-242 6828 Ext 232

24 May 1979

T P Lankester Esq.  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear Lankester,

Edward Johnston has asked me to mention to you that our copy of your letter of 21 May to Buckley of the Lord President's Office took two days to get here and this gave rise to difficulties as other departments consulted us about a letter we had not received. He thought you should be aware of this so that some quicker method of transmission can be found should your Office have reason to get in touch with us in future.

Yours sincerely,

  
L V MARTIN



Handwritten text in red ink, possibly a name or initials, arranged in a circular pattern.

24 MAY 1970





GOVERNMENT ACTUARY'S DEPARTMENT  
22 KINGSWAY LONDON WC2B 6LE  
TELEPHONE 01-242 6828 Ext 232

24 May 1979

T P Lankester Esq.  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear Lankester,

CIVIL SERVICE PAY - ADJUSTMENT FOR DIFFERENCES  
IN SUPERANNUATION BENEFITS

In your letter of 21 May to Buckley of the Lord President's Office about the letter the Prime Minister had received from the Association of Independent Businesses you said that the Prime Minister had also asked for a note from the Government Actuary setting out how he arrived at such a low figure as 2.6 per cent.

Edward Johnston has asked me to send you the enclosed note which he has prepared, which he hopes will meet the Prime Minister's needs and to say that, if any further details or explanations are needed, he is available for further consultation either in writing or personally.

I am sending copies of this letter to the recipients of your letter and to Geoffrey Morgan, Peter Towers and Geoff Green at CSD.

Yours sincerely,

  
L V MARTIN



cc GAD  
134  
CO

JS

10 DOWNING STREET

From the Private Secretary

21 May 1979

~~B/F 28.5.79.~~

The Prime Minister has received the enclosed letter from the Association of Independent Businesses which is highly critical of the Government Actuary's recent report on the value of inflation-proofed pensions in the Civil Service. The Prime Minister would like to reply to this letter, and I should be grateful if you would let me have a draft by Monday, 28 May.

late  
said letter

The Prime Minister has also asked for a note from the Government Actuary setting out how he arrived at such a low figure as 2.6 per cent. I would be grateful if this could be provided on the same time scale.

I am sending a copy of this letter to the Government Actuary's Department, Martin Hall (HM Treasury) and Martin Vile (Cabinet Office).

T. P. LANKESTER

J. Buckley, Esq.,  
Lord President's Office.



10 DOWNING STREET

*From the Private Secretary*

21 May 1979

I am writing on the Prime Minister's behalf to thank you for your letter of 17 May about inflation-proofed pensions and the Civil Service. A further reply will be sent to you as soon as possible.

T. P. LANKESTER

P.A. Bayliss, Esq.

PRIME MINISTER

This letter from the Association of Independent Businesses is highly critical of the report of the Government Actuary which was submitted to the previous Government in April. This concluded that a deduction of 2.6 per cent should be made on Civil Service salaries to take account of index-linked pensions; and this 2.6 per cent was built into the PRU recommendations on which the recent Civil Service pay settlement was based.

On the face of it, the 2.6 per cent does seem insufficient. But the previous Government were unwilling to challenge the Government Actuary. I think you should probably reply to this, since ~~we~~<sup>you</sup> are formally responsible for the Actuary - and it is an important issue. If you agree, I will get a draft reply from the CSD.

*done*

18 May 1979

*Would we also ask the  
Actuary how he  
arrived at that.  
W.J.P. 12  
ms.*



# The Association of Independent Businesses

(formerly the Smaller Businesses Association)

Europe House, World Trade Centre, London E1 9AA

Telephone: 01-481 8669

01-481 0422

**President:** Patrick de Laszlo

**From:** 38 Chancery Lane,  
London WC2A 1EL.

17th May, 1979.

The Rt.Hon. Mrs. Margaret Thatcher, M.P.,  
10 Downing Street,  
London S.W.1.

Dear Prime Minister,

## Inflation Proofed Pensions and the Civil Service

I write with reference to the report made by the Government Actuary to your predecessor on the subject of 'the 1979 Review of the Adjustment for Differences in Superannuation Benefits'. At its National Council Meeting yesterday, this Association accepted its Economic Committee's condemnation of the Review and endorsed certain recommendations to which I propose to return later in this letter.

We believe that Mr. Johnston has failed lamentably to fulfil the objective of the 1977 Civil Service Agreement on Revised Pay Procedures to which he draws attention in Appendix 1, i.e. to ensure that pension adjustments can be demonstrated to be fair and properly based, particularly in relation to pension increase. His task has been to receive evidence from the Pay Research Unit and to exercise his professional judgement to determine the 'Deduction'. This is defined as the allowance required to reflect the extent to which superannuation benefits of Civil Servants are, on average, more valuable than those of comparable employments.

The Report explains very clearly, and with the utmost precision, the process by which the 'Deduction' is determined at 2.6%, an increase of 0.85% from the figure determined in 1974. There is, however, one glaring omission. In paragraph 6.11, the assumption is made that the Pensions (Increase) Acts will continue to provide full protection against price increases for Civil Servants, but nowhere in the assessment is any account taken of the value of this assurance. The vast majority of the analogue schemes selected by the Director of the Pay Research Unit provide either a low level of fixed increase or increases which are discretionary to the fund trustees. Our research discloses only three schemes outside the public sector where cost of living increases are guaranteed: one of these is a Trade Union and another, a company which was at one time a nationalised undertaking. The independent business sector which we represent makes most of its pension

**Executive Committee:** Brian Kingham (Chairman), Philip Bayliss, Peter Boneham, Peter Colvin-Smith, Colin Dauris, Patrick de Laszlo, Reuben Josephs, Simon Preston. Secretary: Patricia Comrie.

Cont/..

- 2 -

arrangements through life assurance companies, who find it impossible even to quote for inflation proofed pensions. The most that can be arranged at present is a funding provision for escalation at the rate of  $8\frac{1}{2}\%$  per annum which typically increases the payroll costs from 20-25% to 40-45%. In the light of these circumstances, we would have expected the Government Actuary to place a value on this almost priceless guarantee of at least 10%, making the 'Deduction' 12.6%, instead of 2.6%.

The Government Actuary reports that the analogue schemes can be expected to provide 65% inflation proofing in future. In our view, and using the evidence he has previously produced in his Fifth Survey of Occupational Pension Schemes, we feel that the analogue is very untypical of the private sector as a whole, with which, in our opinion, the comparison should be made.

Mr. Johnston has chosen to express the value of superannuation benefits at the 'new entrant to contribution rate'. This has meant his taking into account the inflation proofed nature of the earnings-related Government scheme which does not come fully into effect for another twenty years. For employees with less than twenty years to serve, the Government scheme is much less significant, a fact which is very material.

The report confirms that the 'Economic Assumptions' are of particular importance and indicates that those made imply rates of price increases of about 6% a year. Taking a forty year view, which the Government Actuary does, who knows whether he may be correct? He bases his view of the future, however, upon his assessment of the past; perhaps a dangerous thing to do in current conditions. He also takes 'account of the views of the Treasury'. In this respect, a glance through successive editions of the Investors Chronicle demonstrates that the Treasury has consistently under-estimated inflation prospects and has forecast figures which are regularly lower than those put forward by private institutions.

I trust that I have said sufficient to explain our dissatisfaction with the Report.

We are not unmindful of the history of pension inflation proofing. The measures introduced in 1971 were designed by common consent to give automatic adjustments of perhaps 2-3% per annum to a deserving section of the community. No one anticipated at that time the extent to which prices would escalate in subsequent years. The Government of the day expressed the hope that private industry would follow their example. It is significant that only public authority schemes and nationalised industries have done so. Management of private industry, from the giant G.E.C. downwards, have considered it to be commercially impossible for them to make similar provisions.

My Association would therefore ask you to consider four alternative recommendations.

Cont/..

17th May, 1979.

- 3 -

1. If on closer and more expert examination, the Government Actuary's determination is found to be correct, let the 'Deduction' of 2.6% be omitted. At the same time, remove all guarantees of continued inflation proofing, implied or otherwise. Let the adjustment be the subject of annual review by the Government in the light of what the country can afford.

2. If the present situation is to be allowed to continue, even for a short time, accept the recommendations of the Eleventh Report from the Expenditure Committee Session 1976-77 and arrange for the Government Actuary's findings to be made the subject of examination and report by consultant actuaries who confirm that they have no vested interest in the matter.

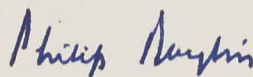
3. Let the Government confirm their previously held view that private sector schemes should provide for inflation proofing and let them re-insure the measure of risk involved which no single employer can sensibly underwrite.

4. Let the Government give emphasis to its determination to eradicate high levels of inflation by accepting liability for post retirement increases in excess of 3% per annum for all occupational pension schemes.

We believe that there is wide concern in the country about the rapidly increasing disparity between the standard of living enjoyed by public sector pensioners compared with their private sector counterparts.

We look to you, Madam Prime Minister, to provide an equitable solution to an inequitable situation.

Yours sincerely,



P.A. BAYLISS  
Chairman  
National Economic Committee

