PREM 19/2096

MT

SECRET.

PART 4

C

Confidential filing.

Inflation proofed pensions

Inquiry into the value of pensions.

ECONOMIC POLICY

Part 1: Jan 1980

Part 4: June 1982.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~21-6-82~~							
~~23-6-82~~							
~~29-6-82~~							
~~1-10-82~~							
~~15-10-82~~							
~~16-10-82~~							
~~25-10-82~~							
12.11.82							
~~18.11.82~~							
~~24.1.83~~							
~~9-9-83~~							
~~13.9.83~~							
27.11.83							
~~13.2.84~~							
~~21.2.84~~							
~~29.2.84~~							
~~1-8-84~~							
~~MAY '85~~							
~~11-6-86~~							
~~23-10-86~~							
29.6.88							

PREM 19/2096

Dd 533270 5M 2/78 8362633 JET

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(82) 26	29.06.82
MISC 89(83) 1st Meeting, Minutes	24.01.83
C(83) 30	09.09.83
PSP(O)(84) 3	13.02.84
PSP(O)(84) 6	21.02.84
PSP(O)(84) 7	28.02.84

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 J. Gray Date 18/1/2016

PREM Records Team

PRIME MINISTER

MEETING OF E(A) ON THURSDAY 30 JUNE

You have already seen the papers for the meeting over the weekend (under cover of my minute immediately below). I assume from your comments on the papers on exchequer contributions to BR and NFC pension funds that you see major difficulties with Mr. Channon's proposals for legislation. If so, you may want to take this item first (although it is formally the second item on the agenda) and then move quickly on to the Severn crossing issue. That will be a difficult decision, and any solution will need to reconcile the conflicting interests of the Welsh Office, Department of Transport and the Treasury.

Policy Unit have now provided a short note on BR/NFC, also enclosed.

PRCG

PAUL GRAY

29 June 1988

SL3BCH

PAMACE

CONFIDENTIAL

cc BG

PRIME MINISTER

MEETING OF E(A), THURSDAY 30 JUNE

You may like to take a first look at the papers for next Thursday's E(A) over the weekend.

Two items are planned:

(1) Exchequer contributions to BR and NFC pension funds. (Papers in divider 1.)

(2) Severn Crossing. (Papers in divider 2.)

BR and NFC Pension Funds

There is a single paper from Mr. Channon together with a Cabinet Office brief. Papers on this issue were circulated earlier this spring.

On merits, there is a clear case for taking action to reduce Exchequer contributions to the pension funds, and so secure worthwhile public expenditure savings of £30-40 million. But in 1980, the Transport Ministers of the day, Mr. Fowler and Mr. Clarke, gave pretty clear undertakings that the arrangements then introduced would not be changed. So the key issue is balancing the prospect of public expenditure savings against what was said in 1980.

Severn Crossing

You will recall that there was not time to discuss this item at the last meeting of E(A). You have already studied the papers on that occasion, but may like to flick through them again. It is a difficult issue and will be contentious. My attempt to suggest a compromise way through is in the note on the top of the papers.

Patricia A. Parker.

pp PAUL GRAY Duty clerk.

24 June 1988

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

29 June 1988

REDUCTION IN FUNDING TO
BR AND NFC PENSION SCHEMES

Now is not the time to upset the applecart!

Although the Exchequer is paying £30m-£40m a year more than is needed into certain NFC and BR pension funds, the savings gained by making the necesssary changes via legislation would be far outweighed by potential losses from industrial action, not to mention the loss of goodwill.

Paul Channon in his paper says "We would almost certainly be accused of breaking our word; ....". That accusation would be used by the anti-privatisation lobby and interpreted as:

> "The Government is only looking at returns to the Exchequer. It does not care about what happens to the people after privatisation".

Rail privatisation, which will eventually be promoted by D/Tp, is far too great a prize to lose at the first hurdle. The proposed actions would build that hurdle.

Recommendations

1. Do nothing at present.

2. If NFC seek assurances from the Government for continued contributions post their proposed flotation, negotiate at that time. Let them make the first move.

3. Leave the BR pension funds well alone. If privatisation of BR eventually becomes a stated objective, there will be plenty of time to consider restructuring the pension schemes in the lead up to the actual privatisation Bills.

GREG BOURNE

CONFIDENTIAL

CONFIDENTIAL

P 03156

PRIME MINISTER

We cannot go back on our commitments previously given & accepted in good faith - MT

EXCHEQUER CONTRIBUTIONS TO BR AND NFC PENSION FUNDS

E(A)(88)31

DECISIONS

1. Mr Channon seeks agreement in principle that the Government should legislate to reduce its contributions to the pension funds of British Rail (BR) and the National Freight Corporation (NFC). This would be controversial, not least because of commitments which Ministers gave during the passage of the Transport Act 1980. Mr Fowler in particular is concerned on this point. You will wish to reach a decision in principle on whether Exchequer contributions should be reduced despite the commitments.

2. If this is agreed, the handling will need careful consideration. Legislation would not be possible until 1989-90 at the earliest. An early announcement would merely give BR and NFC, and the unions, a chance to mount a campaign to get the decision reversed. On the other hand, the Government will need to make its position clear before the NFC's public flotation around the turn of the year. Mr Channon therefore proposes to open confidential discussions with NFC to try and do a deal, while saying nothing about the position on BR for the time being. He would then consult colleagues further about announcements on both BR and NFC. You will wish to decide whether this is the best approach.

BACKGROUND

3. In 1974 the Labour Government decided that BR would be unable to finance a pension deficit of some £800 million, and the Exchequer should pay it off over ten years. Similar assistance was given to NFC for employees transferred to it from BR. Following

criticism by the Public Accounts Committee that those payments were in advance of need, the Government decided in 1980 to change its contribution onto a pay-as-required basis.

4. At the time of the 1980 Transport Act, Mr Fowler as Minister for Transport made clear in Parliament, and to BR and the rail unions, that the Government regarded the basis of contributions established by that Act to be a once-and-for-all settlement. He did so at a time when the chance of a substantial surplus was regarded as negligible, whilst great importance was attached to protecting the Government from an open ended commitment to fund BR and NFC pensions, whatever the performance of their fund managers. The junior Minister responsible for the 1980 Act (Mr Clarke) said in Committee "I accept that if the funded proportion outperforms the obligation under the unfunded proportion, there will be a surplus which does not go to the Treasury but would probably go to the improvement of benefits". By the time of NFC's privatisation in 1982, statements about continuing the payments to NFC were made, but of a more guarded nature (eg: it is our present intention ...).

5. The amounts payable by Government under the 1980 Act were fixed by actuarial valuation. In the case of BR, which has two main pension funds plus nine minor ones, the Government currently contributes £89 million per annum to its schemes. This amount is expected to increase in the period up to 2000 and then tail off gradually, perhaps coming to an end around 2050. Mr Channon's preferred option is for Government to continue contributing £37 million to certain closed pension schemes relating to pre-1975 service which are unfunded, and to transfer responsibility for the remainder to BR. This would produce a public expenditure saving of £31 million on schemes which are now in surplus.

6. In the case of the NFC, the Government contributes £6 million a year to three schemes under the 1980 Act. This was left unchanged when the NFC was privatised in 1982, the only privatisa-

tion to date in which the Government has accepted a continuing commitment to fund pension scheme deficiencies. The contribution falls into two parts.

- £4.5 million into two schemes which are now in surplus (the latest estimate of this surplus is £190 million). Although NFC would not need to continue these payments if Government funding ceased, they would be unable to benefit from a pensions holiday to the extent of the reduced Government funding. Government withdrawal could therefore affect their profit and loss account to the same extent as if they were required to continue paying the £4.5 million;

- £1.5 million to a largely unfunded scheme, which is still in deficit. Mr Channon proposes that the Government might agree to continue this contribution. NFC would need to take it over if the Government payment ceased.

In addition, under separate legislation Mr Channon has discretion to refund to NFC the cost of rail and tube concessions for employees transferred to NFC from BR. This currently costs £2 million per year. Mr Channon proposes to include travel concessions in his negotiations with NFC.

7. Taking all Mr Channon's proposals together, the saving in public expenditure might be £30-40 million a year.

ISSUES

8. The first issue is whether the Sub-Committee agrees in principle that the Government should reduce its contributions to these pension funds. The principal arguments for reducing the Government's contribution are:

a. the £30-40 million of public expenditure cannot now be justified on pension schemes which are now in surplus. The original justification for the expenditure has entirely disappeared;

b. circumstances have changed. It is quite reasonable to review commitments made 8 years ago, in the light of the substantial growth in the value of pension funds over this period. No one could have foreseen the enormous improvement in the pension funds which have taken place since 1980;

c. action on NFC is justified, given its current financial strength. Action on BR is justified, given the need to put its operations on a normal commercial basis.

9. The main arguments for retaining the present levels of contribution are:

a. clear commitments were given by the Government in 1980. It will not be easy to go back on these, particularly when private shareholders in NFC would be disadvantaged. Mr Fowler expressed concern about going back on the 1980 commitment in a letter to Mr Channon of 9 March. He specifically requested a discussion at E(A). By contrast, we understand that Mr Clarke is relatively relaxed, and believes that the issues should be addressed on their current merits.

b. there could be an impact on future privatisations out of proportion to the £6.5 million per annum savings from NFC, if potential investors came to believe that Government assurances given in privatisation prospectuses are of little value. Mr Ridley made this point in a letter of 15 March to Mr Channon.

c. local authorities could claim that such an action by the Government gave them a precedent for evading some of their own pension obligations. Mr Ridley made this point too in his letter of 15 March;

10. The second issue is whether Mr Channon's proposal to open confidential negotiations with NFC is the best way of taking the decision forward (if approved). Mr Channon envisages that a deal with NFC might take the form of Government continuing to contribute

to non-funded schemes (£1.5m per annum) but stopping its contributions to funded schemes (£4.5m per annum). The Chief Secretary may suggest that any continued contribution could be commuted into a lump sum, to end Government involvement. Mr Channon may be concerned that this would mean paying in advance of need. If the proposal for confidential negotiations is approved, you may wish to ask Mr Channon and the Chief Secretary to pursue this bilaterally. You might also wish to ask Mr Channon what he would say if news of the negotiations with NFC were to leak.

HANDLING

11. You may wish to ask the Secretary of State for Transport to introduce his Memorandum. The Chief Secretary, Treasury could be asked to comment first. The Secretary of State for Employment, followed by the Chancellor of the Duchy of Lancaster, as the Ministers involved in the 1980 settlement, may wish to comment next. The Secretary of State for the Environment may suggest that there are consequences for the future privatisation programme, and for local authorities. You may wish to ask the Lord President of the Council, the Lord Privy Seal or the Parliamentary Secretary, Treasury whether they would expect any significant difficulty in passing the necessary legislation through Parliament.

RJW.

R T J WILSON
Cabinet Office

24 June 1988

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 June 1986

Dear Rachel,

PUBLIC SECTOR PENSIONS: REALISTIC CONTRIBUTIONS

The Prime Minister has seen the Chancellor's minute (undated) about employee contributions to public sector pensions and the Chancellor of the Duchy's letter of 11 June. The Prime Minister agrees, subject to the views of colleagues, that no further action should be taken now to increase employee contributions and that the Government should not go out of its way to make an announcement.

I am copying this letter to the Private Secretaries to Members of the Cabinet.

Yours,

David

David Norgrove

Mrs Rachel Lomax
HM Treasury

CONFIDENTIAL

CC BG

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

Prime Minister!
Only Mr Tebbit has yet commented, in support of the Chancellor. Agree the Chancellor's proposals, subject to colleagues?
DCW
20/6.

PRIME MINISTER

PUBLIC SECTOR PENSIONS: REALISTIC CONTRIBUTIONS

You will recall our commitment in the 1983 Manifesto that, "In the next Parliament, we shall continue to protect retirement pensions ... against rising prices. Public sector pensioners will also continue to be protected on the basis of realistic contributions".

After considering a report by officials in 1984, E(PSP) concluded that any move to increase employees' contributions, if combined with offsetting pay increases, risked misunderstanding and controversy for no financial benefit; and not to concede offsetting pay increases would encounter strong employee resistance at a time when the pay climate was already difficult. We therefore decided to await the conclusions of Norman Fowler's review of retirement provision before making any final decision, and I minuted you to this effect on 27 July 1984.

With the introduction of Norman's Social Security Bill, I have looked again at the question of realistic contributions, and consulted colleagues responsible for public sector schemes. Having examined the options fully we are all agreed that we should not take further action now to increase employee contributions.

Developments in the past few years in both the level of inflation and pay and pensions for public sector employees have transformed the scene. The main sources of the concern which lay behind the Manifesto statement were the open-endedness of the commitment to indexation and the belief that the employees' share of the cost of this was insufficient. These issues are much less pressing today. Action has already been taken, between 1981 and 1984, to increase employees' contributions to the police, firemen, and MPs' schemes, and the allowance for effective pension contributions made by the Review Body in setting armed forces' pay was also increased in 1981. Differences between public and private sector schemes in the extent of protection offered against inflation have narrowed.

More fundamentally, our success in establishing sustained lower rates of inflation has reduced the apparent benefits of indexation. We have been pretty successful in controlling public sector pay, at least so far as central Government is concerned, and we must clearly not let up. Taking into account all relevant factors, including superannuation benefits, the 'overall remuneration package' is generally appropriate to the need to recruit, retain and motivate the necessary staff. Provided our pay negotiations take proper account of the value to the employee of index-linked pension benefits, I do not believe we need to proceed further down the very difficult path of seeking actually to increase employee contributions. The aim is to ensure that the overall remuneration package represents value for money for the taxpayer, in relation to the services provided.

Subject to your views on the substance, we also need to consider handling. There is always liable to be interest in a Manifesto commitment. But my own view is that we should not go out of our way to make an announcement. If pressed, we can emphasise that the Government have, in the light of the Manifesto, always taken account of the value of pensions, and aimed at an appropriate overall package.

The approach I suggest is not affected by my proposals, announced in the Budget, for the treatment of pension fund surpluses. There are, however, related questions to be considered about the financing of some public service schemes and the treatment of surpluses, and I have asked John MacGregor to pursue these with colleagues. But none of these affects the line I propose on employee contributions.

I am copying this to Cabinet colleagues.

NIGEL LAWSON

Econ Pol
Pensions
Pt. 4

CONFIDENTIAL

C&BO

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

16 June 1986

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1 3AG

DEW seen

D. Nigel,

PUBLIC SECTOR PENSIONS: REALISTIC CONTRIBUTIONS

Thank you for the copy of your minute to the Prime Minister.

I agree with the approach you propose, both in that we should not now re-open the question of the extent of employees' contributions, and that an announcement is not desirable.

While the reduction in the rate of inflation has eased substantially the difficulty in establishing realistic contribution, it will also, if sustained, ease the inflationary expectations which have played so strong a part in fashioning public servants' allegiance to index-linking. At some point, after a reasonably long period of low inflation, the whole issue of the costs and value of index-linked pensions might be able to be re-considered.

I am sending a copy of this letter to the Prime Minister, to other members of Cabinet, and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

ECON POL
PENSIONS
PT 4

10 DOWNING STREET

Prime Minister 2

I suggest await colleagues' comments before replying.

DRG
11/6.

Agreed

MT

B/F

B/F 1 week

DRG
11/6

20

bc. J. Redwood

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

1 August, 1984.

Public Sector Pensions

The Prime Minister has seen the Chancellor's minute of 27 July. She agrees that the best course is to await the outcome of the Inquiry into the Provision for Retirement before taking decisions on the financing arrangements of public sector pensions schemes.

I am sending copies of this letter to the Private Secretaries to the Members of E(PSP), John Graham (Scottish Office), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

(1)

Prime Minister

E(PSP) in principle favours raising employee contributions to 8 per cent while trying to negotiate pay increases which less than fully offset the increase in pensions but they doubted whether the savings would be large.

They recommend however, putting the issue on ice until the Mr Fowler's pensions inquiry is complete.

Agree this procedure? Yes MT

Or do you want this to be raised in Cabinet first?

AT

31/7

PRIME MINISTER 31 July 1984

PUBLIC SECTOR PENSIONS

Almost a year of deliberations have taken us no further forward. The options remain as they always were, and they all boil down to whether anybody is prepared to bargain with the employees in the health service, the education service, and in the Civil Service, over the question of who should pay for the realistic contribution towards pension costs.

If no-one is prepared to undertake this bargaining process through the usual channels, then the whole exercise may as well be abandoned forthwith. It is not a question of needing more facts or of more deliberations concerning the technical options. It all hinges on the politics of the pay round.

The one suggestion I would make is that against the current background of low inflation, it should be possible to persuade the trade union side in all of these public sector schemes that new recruits should be taken on without the benefit of an inflation-proofing guarantee. This would then begin to limit the damage should any future Government ever allow a resurgence in the inflationary spiral.

JOHN REDWOOD

CONFIDENTIAL

CC/6

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

PUBLIC SECTOR PENSIONS

Last year the Cabinet agreed that the financing arrangements of public sector pension schemes should be reformed to bring out more clearly the total costs of the benefits provided and how they were split between employer and employee; and that all public service pension schemes should be reviewed to settle and introduce appropriate realistic contribution rates. I was invited to arrange for officials to undertake further work on the detailed technical, negotiating and legislative implications (CC(83)27th) Conclusions, Minute 4). As subsequently agreed, the work by officials has been carried out by the Official Sub-Committee on Public Service Pensions (OP(PS)). The Sub-Committee's interim report was considered at the meeting of the Ministerial Sub-Committee on Public Sector Pay (E(PSP)) under my chairmanship on 24 July.

2. The report by OP(PS) was confined to the four main public service groups of teachers, the National Health Service, local authorities and civil servants. At the moment, the first three of those groups pay an overt contribution of 6 per cent, while civil servants pay overtly nothing, apart from a contribution of 1½ per cent by men for widows' benefits. However, it can be argued that the effect of past pay negotiations is that overt contributions do not represent the full effective contributions that are paid.

3. OP(PS) agreed that, although there was no unique or objectively right figure for the employees' contribution, it would be reasonable to take the figure of 8 per cent, envisaged by the Cabinet, as

a 'realistic' rate. On that basis, OP(PS) identified four broad choices for Ministers.

Option A No change.

Option B Increase contributions paid by civil servants under the Principal Civil Service Pension Scheme (PCSPS) to 8 per cent either

(i) increasing gross pay to offset the effects on net pay of the increase in contributions, but amending the terms of the PCSPS to avoid any improvement in pension benefits consequential on the increase in gross pay; or

(ii) accepting the increase in pension benefits, but increasing gross pay by less than the amount required fully to offset the effects on net pay of going contributory in recognition of the increased actuarial value of pension benefits.

There would be no immediate action on the other three groups; but later action would not be precluded.

Option C Increase employee contributions in the NHS, local government and teachers' schemes to 8 per cent on a publicly stated basis of maintaining the existing actuarial value of the pay and pension package; move to a fully contributory PCSPS as under Option B (i) or B (ii) above.

Option D Increase employee contributions to 8 per cent as under Option C, but with the objective of achieving some net savings from all four groups through a pay offset less than required to maintain the existing actuarial value of the pay and pension package.

4. A majority of OP(PS) recommended attempting Option D, while recognising that the outcome might be nearer Option C. This recommendation was endorsed in the memorandum by the Minister of State, Treasury, considered by E(PSP).

5. E(PSP) agreed that we must rule out Option A. It would mean abandoning our Manifesto commitment to protect public sector pensions against rising prices on the basis of realistic contributions. However, E(PSP) also agreed that in present circumstances the other three options had little political attraction.

Option B would be attacked as a gratuitous improvement in Civil Service pay, or pensions, or both.

Option C would, of its very nature, allow us to achieve no financial savings, but would no doubt involve a great deal of effort, argument and misunderstanding.

Option D might achieve something of substance; but it would be bitterly resisted by the employees affected and might well find little favour with the local authority employers; given our current difficulties on the pay front, E(PSP) were clear that, at the very least, now was not the time to embark on this Option.

6. E(PSP) also had in mind that the Inquiry into Provision for Retirement, set up by the Secretary of State for Social Services,

is expected to report within the next few months on a number of issues which will be very relevant to the whole subject: the relation between public and private sector pension schemes; the prospective economic burden of pensions; and the protection of pensions against inflation after award.

7. E(PSP) therefore agreed that we should await the outcome of the Inquiry into Provision for Retirement and then review our approach. Meanwhile, officials should do no more work on the approach developed in the OP(PS) report, except in the context of their work on preparing material for the Inquiry.

8. I am sending copies of this minute to the other members of E(PSP), to the Secretary of State for Scotland, and to Sir Robert Armstrong. I should be grateful if all recipients would ensure that copies are seen only by those with a clear need to know.

NL

N.L.
27 July 1984

CONFIDENTIAL

c.c. Mr. Owen

10 DOWNING STREET

From the Private Secretary

19 September, 1983.

Sir Robert Armstrong

Public Sector Pensions

The Prime Minister was grateful for your minute of 16 September about the next steps on public sector pensions.

The Prime Minister has agreed to the procedure you propose. She has commented that the subject of the further work (described in paragraph 2i. of your minute) should be "the detailed implications if the Principal Civil Service Pension Scheme were to be made contributory".

M. C. SCHOLAR

19 September, 1983.

CONFIDENTIAL

010

Prime Minister

Agree?

MES 16/9

Yes mt

Ref. A083/2643

PRIME MINISTER

Public Sector Pensions

The Cabinet agreed on 15 September (CC(83) 27th Conclusions, Minute 4) that further detailed work should be done by officials on public sector pensions and that you would arrange for further consideration by Ministers when the results of the detailed work by officials were available.

2. The further work falls under the following headings:

i. the detailed implications ~~of making~~ if the Principal Civil Service Pension Scheme were to be made contributory;

ii. in respect of other public service schemes, the detailed implications of bringing employees' pension contributions more into line with benefits (the scope for adjustments of benefits not to be ruled out entirely but the Manifesto broad policy of proceeding by seeking realistic contributions to be borne in mind);

iii. in respect of the nationalised industry schemes, how they could be required or encouraged to adopt a similar policy to that eventually decided upon for the public services.

3. I propose that the official work should be carried out in a new Official Group in the MISC series under Treasury chairmanship. As to further Ministerial consideration, you referred in the Cabinet discussion to a Sub-Committee of the Ministerial Steering Committee on Economic Strategy. The obvious forum would be the Ministerial Sub-Committee on Public Sector Pay (E(PSP)) which is chaired by the Chancellor of the Exchequer and contains not only the Secretaries of State for Social Services and Employment, who have a general policy interest in pensions, but also the main Ministers with responsibilities for the public services and the

nationalised industries. There is also a close connection between negotiations on pensions and those on pay. I think that it might well be advantageous to have a discussion in E(PSP) under the Chancellor of the Exchequer's chairmanship of the detailed points arising from the work of officials before you become involved again. Depending on developments you might then want to chair a meeting yourself - either ad hoc or in ES - before the matter came back to the Cabinet.

4. Shall we proceed on these lines?

RtA

ROBERT ARMSTRONG

16 September 1983

Ref.A083/2603

PRIME MINISTER

Public Sector Pensions

C(83) 30

Flag D

BACKGROUND

This memorandum by the Chancellor of the Exchequer proposes increases in public service pension contributions as the solution to the problem of index-linking.

2. The Cabinet last discussed public sector pensions on Flag A 3 June 1982 on the basis of a paper (C(82) 14) by the then Flag B Chancellor of the Exchequer (CC(82) 31st Conclusions, Minute 4). In essence, the basic structure of public service pension schemes would be left largely unchanged. Most public servants would pay a basic contribution of 6 per cent of salary, plus a "special charge" related to the year-by-year cost of index-linking; this "special charge" was expected to be about 2¼ per cent, and would vary in line with the cost of index-linking. Public servants with an especially early retirement age (mainly policemen, firemen, and members of the Armed Forces) and therefore faster than normal accrual of pension benefits would pay a rather higher basic contribution, and a higher "special charge", to reflect in part the significantly higher cost of their benefits. Particularly in view of the difficulty of legislating in the 1982-83 Session, it was decided not to proceed further at the time.

3. The present Chancellor's proposals, in C(83) 30, though also involving an increase in employee contributions to around 8 per cent in normal accrual schemes, are significantly different. In particular:

a. He proposes extensive changes in the financing arrangements of public service pension schemes "to bring out more clearly the total costs of the benefits provided and how they are split between employer and employee".

b. Employees' pension contributions would not be split into two tiers and would be assessed on classical actuarial lines rather than, in part, by reference to the year-by-year cost of pensions increase as previously proposed.

He proposes that officials should be instructed to prepare a detailed programme of action on this basis.

4. As the Chancellor of the Exchequer points out, it would be consistent with the proposals in C(83) 30 to make the Principal Civil Service Pension Scheme contributory; there is separate correspondence on this aspect. It can, however, be left for separate consideration in the light of the Cabinet's decisions on the general questions raised in C(83) 30.

5. The proposals apply only to the public services. The Chancellor says that it will be necessary to consider 'how to make the nationalised industries follow the public services' lead', but gives no further details.

Flag C 6. A brief description of the financing of the main public service pension schemes is attached at Annex A.

MAIN ISSUES

7. The main issues before the Cabinet are as follows:

(i) Should the aim be to levy employee pension contributions, in the generality of public service schemes with normal rates of accrual of benefit, at a significantly higher rate than now?

(ii) If so, is the approach underlying C(83) 30 is the best one?

Higher contributions

8. To ask public servants for higher pension contributions is fully in accordance with the general tenor of discussions in Cabinet before the General Election, and has ample warrant in the Election Manifesto. But it is possible that some Ministers may have reservations.

(a) Allowing for differences in the timing and bases of the figures in Appendix I to the note by officials attached to C(83) 30, the present pattern of contributions seems fairly consistent. The majority of services are paying, in formal contributions, about 30 per cent of the cost of their pensions. The exceptions are other ranks in the Armed Forces, and MPs (both rather special cases), and the Civil Service. I understand that, on average, employees in the private sector pay contributions of some 4.3 per cent out of a total cost of some 15.3 per cent - around 28 per cent of the total cost. These figures do not provide a convincing justification for a substantial increase in employee contributions. In particular, staff interests can be expected to argue that the increases in contributions by the Armed Forces, police and firemen have brought them into line with the general pattern and do not constitute a reason for increases in contributions paid by other public servants.

(b) In those cases where the Government is seeking an increased employee contribution to bring it to a realistic level (ie from 6 per cent to 8 per cent in many cases). The objective will be to secure savings for the taxpayer. But these groups will no doubt press for their pay to be increased to offset the increased contribution, arguing that their existing pay must be assumed to take account of their pensions, benefits and contributions. To the extent that these claims are not resisted the savings will be lost.

Method

9. On the method to be adopted for securing increased contributions, the Cabinet may wish to consider whether the Chancellor's new proposals are preferable to those discussed by the Cabinet last year. They avoid the concept of a new "special charge" for index linking. They involve however recasting the finances of most public service schemes which may require lengthy negotiations with the staff and employers affected; and complicated legislation.

Nationalised Industries

10. In previous discussions, the Cabinet has shown a preference for extending decisions in this field to the nationalised industries; but, given the lack of Ministerial control over the terms of nationalised industry pension schemes, it has proved impossible to devise any reliable way of doing this. It may be that the language of paragraph 6 of C(83) 30 will prove too sanguine, and that exhortation is the most that will be feasible.

Further work

11. If the Cabinet broadly approves the proposals in C(83) 30, further work by officials will be needed, as the Chancellor says. I suggest that this work should be overseen by the Ministerial Sub-Committee on Public Sector Pay (E(PSP)), reporting its conclusions to you as appropriate. This work could include the position of the nationalised industries.

Announcements

12. The Chancellor suggests that the Government's intention to proceed in the way he proposes should be announced to Parliament when it returns. Given the desirability of maintaining a coherent line across the public services, there is much to be said for a single announcement. But unless an announcement is full, it is likely to generate a good deal of disquiet among staff. It would probably be appropriate to ask officials, as an early part of their work, to advise on its form and content.

HANDLING

13. You will wish to ask the Chancellor of the Exchequer to introduce his memorandum. The Foreign and Commonwealth Secretary, the Home Secretary and the Secretaries of State for Education and Science, Northern Ireland, Defence, Scotland, Environment and Social Services will have views on the implications for the services for which they are responsible. The Secretary of State for Employment can advise on the likely implications for pay negotiations. Ministers with sponsoring responsibilities for the nationalised industries may wish to comment on the prospects for making the industries follow the lead of the public services.

CONCLUSIONS

14 You will wish the Cabinet to reach conclusions on the proposals in C(83) 30, ie:

i. whether the financing arrangements of public service schemes should be reformed to bring out more clearly their costs and the split between employer and employee;

ii. whether all public service schemes should be reviewed, in association with the Treasury, to settle and introduce appropriate realistic contribution rates;

iii. whether 8 per cent should be the realistic contribution rate for normal accrual schemes;

ii. whether officials should be asked to prepare a detailed programme of action;

v. whether there should be a public announcement when Parliament returns.

RtA

ROBERT ARMSTRONG

14 September 1983

C

ANNEX A

Financing of Public Service Pension Schemes

There are three main methods of financing public service pension schemes.

'Pay as you go' (PAYG)

2. The Civil Service, Armed Forces, Police and Fire schemes are all financed by this method. The employer receives all employee contributions and other forms of income (for example, transfer values from other schemes) and takes them into his general finances; he defrays all benefits and other outgoings, including pensions increase, as they arise, from his general finances. There is no employer's contribution, as that phrase is usually understood in the private sector: the employer simply meets the difference between income and outgoings.

Notional funds

3. The teachers' and National Health Service pension schemes are notionally funded. Contributions from employers and employees (assessed on actuarial principles) and other forms of income are deemed to be invested in a fund, against which basic benefits and most other outgoings are deemed to be charged. But the fund does not exist: it is essentially an accounting device, which was originally intended to serve as a check on the adequacy of employers' and employees' contributions and the equity of the division between them. The actual financial transactions are essentially on a PAYG basis.

4. Pensions increase is not charged to the notional funds: it is paid by the Exchequer. Thus the taxpayer pays the full cost of pensions increase for teachers, whether they are employed by local education authorities or by the private sector. If employees' pension contributions were adjusted to take explicit account of pensions increase, it would be logical to integrate the financing of basic benefits and pensions increase. The employers would no doubt insist that any resulting changes should not shift any part of the cost of pensions increase from the Exchequer to them. Arrangements to achieve such a result might well be complicated.

Real funds

5. The schemes for local authority white collar and manual workers are genuinely funded: local authorities or groups of local authorities maintain real funds, like most private sector employers, into which employers' and employees' contributions are paid. The contribution income and the return on the funds' investments are used to pay basic benefits and most other outgoings.

6. Again, pensions increase is not charged to the fund: it is financed by PAYG charges by employers on the rates. If employees' contributions were adjusted to take explicit account of pensions increase, it would be logical to integrate the financing of basic benefits and pensions increase. This would appear to require substantial recasting of the existing system.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

SOCIAL SECURITY AND PUBLIC SERVICE PENSIONS

The Prime Minister was grateful for your minute of 15 November, in which you recommended that a Ministerial Group on pensions legislation be set up; and that there should be further consideration later of a further Ministerial Group on social security.

The Prime Minister has commented that presentational and other issues are arising already. She would accordingly like both of these groups to be set up immediately.

The Prime Minister would be grateful if you would put the necessary arrangements in hand.

MCS

18 November 1982

CONFIDENTIAL

Social Security Taxation of Benefits Pt4

JJ

Econ. Pol

10 DOWNING STREET

From the Private Secretary

18 November, 1982.

Dear David,

The Prime Minister was grateful for your Secretary of State's minute of 2 November about the follow-up to the Cabinet's decision earlier that day about social security and related matters.

The Prime Minister has decided to set up two Ministerial Groups: one on presentational and other issues in relation to the decisions and legislation required for recovery of pensions over-provision: the second to consider the policy and legislative implications of the proposal to break the existing statutory link between the increases in state retirement pensions and index-linked public service pensions.

The Secretary of the Cabinet will be in touch further with your Secretary of State about the arrangements.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

D.J. Clark, Esq.,
Department of Health and Social Security.

CONFIDENTIAL

Social Security
Taxation of Benefits
Pt 4

10 DOWNING STREET

1

Prime Minister

I'm sorry to trouble you yet again with this.

You decided to set up both groups of Ministers now; but thought that the presentation/legislation group should be not a new group but an existing group on presentation chaired by the Lord President.

Yes MT

He has no such group currently. Agree that a new group as at X be set up as well as the 'link group'?

MCS 17/11

cc Social Security, Taxation of Benefits Pt 4.

'Lords' group and presentation group NOW – not.

No – I think it would be best to set up such a group as presentation issues are arising already now.

(1)

Ref. AO82/0106

Prime Minister

Agree (i) these proposals?

(ii) this reply to Mr Fowler?

MCS 15/11

PRIME MINISTER

Social Security and Public Service Pensions

Mr Scholar in his minute of 9th November indicated that you were content with the broad approach to following up the Cabinet's decisions of 2nd November on social security and pensions matters set out in my minute of 8th November (Ref: AO82/0009). I undertook to put forward detailed proposals.

Social security issues

2. On the social security issues the immediate work has now been done. The Government's intention to recover some at least of the over-provision has been announced. On legislation, I understand that the Ministers most closely concerned are agreed that it would not be desirable to include anything about the over-provision in the bill which is to be introduced shortly concerning the National Insurance Surcharge, and that there will have to be a second bill some time next year. The remaining tasks are:

i. to take final decisions about the extent of recovery of the over-provision and any offsetting improvements in social security benefits;

ii. to consider the content and timing of legislation required for this purpose;

iii. to consider the presentation of the final decisions.

3. One option would be to set up a group now to deal with these matters (which might be called the Ministerial Group on Social Security Issues) with the following composition:

X

Chairman: Lord President of the Council

Members: Secretary of State for Social Services
Chief Secretary, Treasury
Secretary of State for Employment
Chancellor of the Duchy of Lancaster

The Lord Privy Seal and the Chief Whip would receive the Group's papers and would be invited to attend any meeting at which specific Parliamentary aspects were to be discussed.

4. It now seems unlikely however that such a Group would have much to do in the next two or three months. The Chancellor of the Exchequer will probably want to consider the main decisions of substance in the context of the next Budget, and it would be unusual to discuss decisions of that kind in a Ministerial Group. You may therefore prefer not to set up the Group at present but to keep it in mind as a piece of machinery which may have to be activated around the time of the Budget when the main decisions have been taken and further work is needed on the presentational and legislative implications.

Public service pensions issues

5. The same considerations do not apply to the specific issue of whether to break the existing statutory link between increases in the state retirement pension and index linked public service pensions. It would be desirable to set work in hand now both to consider the policy and the legislative implications in good time before next year's bill dealing with the over-provision. I therefore suggest that you might set up now a Ministerial Group on Pensions Legislation with the following composition:

Chairman: Chancellor of the Exchequer

Members: Home Secretary
Lord Chancellor
Secretary of State for Education and Science
Secretary of State for Defence
Secretary of State for the Environment
Lord President of the Council
Secretary of State for Social Services
Lord Privy Seal
Secretary of State for Employment
Minister of State, Treasury (Mr Hayhoe)

6. The Group is inevitably a large one because the issue affects not only civil service pensions but also those of the police, judiciary, teachers, armed services, local authority employees and National Health Service staff. As it is, the Group may need to bring in from time to time other Ministers such as the Foreign and Commonwealth Secretary, the Secretary of State for Scotland, the English and Scottish Law Officers and some of the nationalised industry sponsoring Ministers. Some Ministers, such as the Home Secretary, may well prefer to be represented by junior Ministers.

7. I also propose that there should be an Official Group with broadly similar membership.

8. If you agree with these proposals I will put the necessary arrangements in hand. I am also attaching a draft Private Secretary reply to the minute of 2nd November from the Secretary of State for Social Services.

RTA

ROBERT ARMSTRONG

15th November 1982

DRAFT LETTER FOR PS/NO 10 TO SEND TO PS/SECRETARY OF STATE FOR SOCIAL SERVICES

The Prime Minister was grateful for your Secretary of State's minute of 2nd November about the follow-up to the Cabinet's decisions earlier that day relating to social security and related matters.

As the immediate issues relating to presentation and legislation have now been resolved by the Ministers most closely concerned, the Prime Minister does not propose to set up a Ministerial Group for this purpose, although she will keep the possibility in mind when further steps have to be taken next year. A Ministerial Group will however be set up to consider the specific issue of the existing statutory link between increases in the state retirement pension and index linked public service pensions.

The Secretary of the Cabinet will be in touch further with your Secretary of State about the arrangements.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Econ Pol Inflation Profiled Recession, Pt 4 hLE

PM

Econ Pol

10 DOWNING STREET

From the Private Secretary 12 November, 1982

PUBLIC SECTOR PENSION SCHEMES

Many thanks for your letter of 10 November, with the attached note and table.

I showed this to the Prime Minister, and she was grateful for the work you have had done.

M. C. SCHOLAR

J. Gieve, Esq.,
Chief Secretary's Office
HM Treasury

CONFIDENTIAL

cc SV

Prime Minister (2)

You asked about this.

MCS 10/11

Treasury Chambers, Parliament Street, SWIP 3AG

M C Scholar Esq
10 Downing Street
London SW1

10 November 1982

Dear Michael

PUBLIC SECTOR PENSION SCHEMES

You asked in your letter of 25 October for a further note on the pensions burden imposed on public sector industries over the past ten years.

... I attach some figures and a short note. They show that no deficiencies have been "written off". But three industries in particular - the Coal Board, the Post Office (including British Telecoms) and British Rail - face large historic deficiencies in their pension funds. The Exchequer has been directly involved in meeting the cost of some of these deficiencies. The circumstances of each case and the amounts involved are described in the attached note.

A fourth industry, British Gas, has not made formal deficiency payments but the increasing burden of employers' contributions suggests they may have chosen to meet a similar problem by a different route.

The explanations underlying the larger scale deficiencies are rooted in historic factors - reflecting decisions taken ten or more years ago. Our primary concern is to ensure we do not add to these liabilities. To this end we are currently doing some work to clarify how far the industries have freedom to replace existing schemes with new ones; how far the industries (and implicitly the Exchequer) stand behind the liabilities of their pension fund; and whether there are any other factors which could create contingent liabilities on the Exchequer. The Chief Secretary will be considering the implications of this work when complete.

Yours sincerely

J.G. Gieve

JOHN GIEVE

Private Secretary

PUBLIC SECTOR PENSION SCHEMES

1. Tables A and B attached show contribution levels and the extent of deficiency payments by the main public sector industries since 1972-73.

2. Table A shows in most cases a relatively stable picture. Contribution rates in general have tended to rise over the past ten years. This reflects the trend towards improved pension provision, marked particularly by the introduction of the new State Scheme in 1975-76.

3. One exception is British Gas where the regularly increasing level of employer contributions suggest there is an underlying problem with deficiencies in the fund which are being met by the employer.

4. Table B again shows a relatively stable picture for most industries. A number of industries have made or are making deficiency payments on a modest scale. This is not unusual by normal commercial standards. Three cases however stand out - the Coal Board, the Post Office (including British Telecoms) and British Rail. In each of these cases regular deficiency payments are being made and in some cases the Exchequer is directly involved. The circumstances in each case are different.

5. The deficiencies in the Coal Board schemes stem from the rapid rundown in manpower in the industry over two decades and the decision in 1974 to inflation proof the pensions paid to existing pensioners. The Government meets that part of the deficiency in the miners' scheme that relates to people who left the industry before April 1975. These deficiency payments are additional to the Government grants to the NCB to meet early retirement and redundancy costs.

6. The Post Office fund has a total deficiency of £2049 million of which £1712 million has been attributed to British Telecom. £1250 million of the deficiency dates from the time when the Post Office was a Government Department and fund's investment was placed notionally in low interest bearing Government stock. The remainder of the deficiency reflects later inadequate funding stock. The payments by the Post Office and British Telecoms to liquidate these deficiencies are due to come to an end in 1992.

The Exchequer does not contribute towards these deficiencies. The £45 million paid annually by the Exchequer to the Post Office Fund represents the transfer to the Post Office of the assets of a notional fund which existed prior to 1969 when the Corporation was a Government Department. These payments will come to an end this year.

7. In the case of British Rail no deficiency payments are made by the industry but the Government is meeting the emerging cost of certain historic deficiencies. These deficiencies arose as a result of inadequate funding in the past and because favourable transfer terms were offered to members of the old railway pension schemes when the modern funds were established. By the early 1970s the deficiencies were reaching a point where the industry was unable to fund them and under the Railway Act 1974 the then Government undertook to fund any unfunded obligations incurred up to 1 January 1975. Under the Transport Act 1980, the Government changed the method of funding to meet only the emerging cost of the deficiencies. The BR funds are currently fully funded by employer and employee contributions in respect of current service.

TABLE A

CONTRIBUTION RATES 1972-73 - 1981-82

	1972 - 73		1973 - 74		1974 - 75		1975 - 76		1976 - 77		1977 - 78		1978 - 79		1979 - 80		1980 - 81		1981 - 82	
	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer
National Coal Board: Manuals	6-20p/wk	6-20p/wk	→	→	→	→	5%	5%	→	→	→	→	→	→	5.25%	5.25%	→	→	→	→
Staff	5-6%	8-10%	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→
Electricity Supply: Manuals	5%	10%	→	→	→	→	6%	12%	→	→	→	→	→	→	→	→	→	→	→	→
Staff	6%	12%																		
British Gas: Manuals	Scheme not constituted prior to 1975						2.5%	10.4%	2.5%	11.3%	2.5%	11.8%	2.5%	13.4%	2.5%	13.4%	2.5%	18.3%	6%	23.2% →
Staff	Scheme not constituted prior to 1975						6%	17.6%	6%	17.9%	6%	25.0%	6%	25.0%	6%	24.8%	6%	28.6%	6%	28.6% →
British Steel: Manuals	4.5%	7.5%	→	→	→	→	5.25%	10.5%	→	→	→	→	→	→	→	→	→	→	→	→
Staff	6%	10%	→	→	→	→	8%	16%												
Post Office + B Telecom	6%	9%																		
British Shipbuilders	Scheme not constituted prior to 1981		→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	6% or 4.5%	7.6% (AVG) →
British Airways: Men	Scheme not		7.25-8.5%	13.05-26.35%	→	→	7.25-8.5%	14.5-29.75%	7.25-8.5%	15.95-32.5%	→	→	→	→	→	→	→	→	→	→
Women	constituted		5.75-7%	10.35-17.6%	→	→	5.75-7%	11.35-19.75%	5.75-7%	12.65-21%	→	→	→	→	→	→	→	→	→	→
	prior to July 73																			
British Airports	6%	10.5%	→	→	6%	[1] 11.5%	→	→	→	→	6%	11.75%	→	→	→	→	→	→	→	→
Civil Aviation Authority	-	20%	→	→	[1] 7.5%	15%	→	→	→	→	→	→	→	→	→	→	7.5%	25%	→	→
British Rail: Wages grade	6.5%	6.5%	[2] 9.33%	14%	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→
Staff	8%	12%	[2] 9.33%	14%	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→
National Bus Co: Wages grade	Scheme not constituted prior to 1974				2.5%	7%	→	→	→	→	→	→	2.5%	8%	→	→	→	→	→	→
Water Industry	5.5%	10-11%	→	→	6%	11-12%	→	→	→	→	→	→	→	→	→	→	→	→	→	→

Notes

Arrows indicate rates unchanged in intervening years.

(1) Rate increased December 1974

(2) Rate increased July 1974

Eca P

TABLE B

DEFICIENCY PAYMENTS 1972-73 - 1981-82

(£ million unless otherwise stated)

	1972 - 73		1973 - 74		1974 - 75		1975 - 76		1976 - 77		1977 - 78		1978 - 79		1979 - 80		1980 - 81		1981 - 82	
	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government
National Coal Board: Manuals	5.6	-	6.1	8.3	6.2	8.3	17.2	18.0	19.7	28.2	23.3	34.0	29.1	36.1	34.5	41.3	21.7	49.3	4.2	54.3
Staff	5.0	-	15.7	-	37.7	-	44.3	-	50.2	-	55.5	-	20.1	-	22.7	-	33.0	-	33.0	-
Electricity Supply: Manuals	4.9																			
Staff											17.6	-	17.6	-	17.6	-	17.6	-	17.6	-
British Gas: Manuals																				
Staff																				
British Steel: Manuals																				
Staff																				
Post Office + B Telecom	44.3	45	112.7	45	105.4	45	131.6	45	205.2	45	173.7	45	67.0	45	78.8	45	81.2	45	89.3	45
British Shipbuilders																				
British Airways																	2.2	-	2.2	-
British Airports			0.2	-	0.5	-	1.25% of pay + £1.2m	-	1.25% + £0.9m	-	1.25% + £1.3m	-	1.25% + £0.8m	-	1.25% + £1.9m	-	1.25% + £2.3m	-	1.25% + £2.1m	-
Civil Aviation Authority															2.9	-	3.0	-	-	-
British Rail (1): Wages grade / Staff	8.8	-	9.5	-	23.6	46.8	-	101.3	-	108.8	-	109.2	-	86.6	-	124.6	-	47.6	-	52.0
National Bus Co: Wages grade					1% of earnings	-	1% of earnings	-	1% of earnings	-	1% of earnings									
Water Industry																				

Notes

Unbroken line indicates no payments made.

(1) Includes some payments on a calendar year basis.

Econ Pol, Inflation Proofed Pensions, Pt 4

SECRET

J/ 2

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

SOCIAL SECURITY: PRESENTATIONAL ISSUES

The Prime Minister was grateful for your minute of 8 November (ref. A082/0009).

The Prime Minister agrees with the broad approach in your minute and would be grateful if you would put forward more detailed proposals. Presumably they would include, or would be in the form of, a draft reply to Mr. Fowler's minute of 2 November?

MS

9 November 1982

Gry

010

Prime Minister

In the light of Sir R Armstrong's advice, do you now agree to X?

MCS 8/11

Yes MT

Ref. A082/0009

PRIME MINISTER

Social Security: Presentational Issues

The Cabinet decided on 2 November that a small group of Ministers most closely concerned should consider the presentational aspects of the decision of principle to offset at least part of the excess provision for inflation in the November 1982 uprating; the group was also to consider the possiblity of breaking the existing statutory link between increases in the State retirement pension and index-linked pensions in the public services. I understand that you wish the Lord President of the Council to take the chair of such a group.

2. The minute of 2 November from the Secretary of State for Social Services suggests that the other members should be the Secretary of State for Industry, the Chief Secretary, Treasury, the Minister of Agriculture, Fisheries and Food or the Secretary of State for Employment, and himself.

with MCS?

3. I think that there are three aspects to these issues:

(a) First, there is the handling of the necessary legislation. I understand that, in particular, the Treasury need a very early decision on whether the legislation that they are preparing on the National Insurance Surcharge should include powers to deal with the over-provision. The Lord President is already discussing this with the Chief Secretary, Treasury and the Secretary of State for Social Services.

(b) Secondly, there is the elaboration in the rather longer-term of the Government's public justification of its decision to offset the over-provision; and the consideration of both the substance and the presentation of decisions on the balance between moderating the extent of recovery and making improvements elsewhere in the social security system.

(c) Thirdly, there is the possibility of breaking the link between increases in the State retirement pension and increases in public service pensions.

4. I suggest that the Ministers most concerned with (a) and (b) are the Lord President, the Secretary of State for Social Services, the Chief Secretary, Treasury, the Secretary of State for Employment, the Chancellor of the Duchy of Lancaster and, when specific Parliamentary aspects are involved, the Lord Privy Seal and the Chief Whip. I would not have thought that the Secretary of State for Industry or the Minister of Agriculture, Fisheries and Food, both referred to in Mr Fowler's minute, need to be involved, unless you would like to include them for political reasons.

5. Separate issues are raised by (c). If the link between increases in the State retirement pension and public service pensions is broken, there will be no mechanism for increasing public service pensions. The Government will then be obliged to say what, if anything, it proposes to put in place of the existing system. That will naturally raise the issues discussed in the Scott Report, which the Cabinet has so far found intractable. If they are to be pursued, it will be necessary to involve the Ministers with responsibility for public service pension schemes (the Home Secretary, and the Secretaries of State for Defence, Industry, the Environment, Social Services and Scotland), and perhaps Ministers with sponsoring responsibilities for the nationalised industries, as well as Treasury Ministers and the Lord Privy Seal.

6. This suggests that the right course is for the Lord President to be nominated as the Chairman of a group with a small permanent membership but with the opportunity to bring in other Ministers as required. Its first task would be to consider the urgent issues mentioned at paragraph 3 (a) above; and this is already in hand informally. It could then go on to consider the issues mentioned at paragraph 3 (b). I think, however, that if the issues at paragraph 3 (c) are to be adequately considered - in effect, this means addressing again some of the main Scott issues - it will be more convenient to do this in a separate forum.

X

7. If you agree with this broad approach, I will put forward more detailed proposals.

RCA

ROBERT ARMSTRONG

8 November 1982

FILE

CONFIDENTIAL

PM

Econ Pol.

10 DOWNING STREET

From the Private Secretary

25 October, 1982

PUBLIC SECTOR PENSION SCHEMES

Many thanks for your letter of 21 October with which you enclosed a note on the pensions burden imposed on the public sector in terms of write-offs, subsidies and employers' contributions to pension funds.

The Prime Minister has the impression that some large deficiencies not mentioned in the note have been written off in the past by legislation or by other arrangements. Please could we have a further short note, stretching back say ten years?

J. Gieve, Esq.,
Chief Secretary's Office
H.M. Treasury

CONFIDENTIAL

CONFIDENTIAL

JV

Prime Minister (4)

The key figures you wanted are at Flag A

Treasury Chambers, Parliament Street, SW1P 3AG

M Scholar Esq
10 Downing Street
London SW1

21 October 1982

Mes 21/10

[Had the impression that large part deficiencies had been written off by legis'n or other arrangement ? Railways? MT

Dear Michael

PUBLIC SECTOR PENSION SCHEMES

Your letter of 11 October recorded the Prime Minister's concern about the costs of pension provision in the public sector and asked for a note on the burden imposed in terms of write-offs, subsidies and employers' contributions. The enclosed note sets out this information for the nationalised industries. Margaret O'Mara wrote to you on 15 October about the position in the public sector more generally in the context of the line it is proposed to take in the debate on Scott later this week.

So far as the debate is concerned, the approach set out in Margaret's earlier letter covers the nationalised industries as well. The major difference between the nationalised industry schemes and those elsewhere in the public sector is that we have no direct responsibility for pension arrangements in the industries.

I am copying this letter to Private Secretaries in the Departments of Energy, Environment, Industry, Transport, the Scottish Office and to Richard Hatfield (Cabinet Office).

Yours sincerely

JSt. Gieve

JOHN GIEVE
Private Secretary

PUBLIC SECTOR PENSION SCHEMES

This note deals with the nationalised industries.

2. The attached table shows for the main nationalised industry funds total expenditure on benefits and its financing. Generalisations are difficult. Employee contribution levels range from 2.5% to 9.33% of earnings (averaging about 6%), and between 17% and 50% of total contributions. Employer contributions range from 7.6% to 29.1% of earnings (averaging about 11%). Within some schemes contribution rates differ between manual and white-collar workers. These disparities reflect the fact that pensions are negotiated by each management as part of a total package of remuneration and conditions of service.

3. 6 of the 12 industries make deficiency payments to their pension schemes, ranging in 1981-82 from £1.3m to £89.3m and from 0.03 - 3.3% of total labour costs. In addition the Government makes payments to the funds of three industries: the Coal Board, the Post Office and British Rail. Subventions from industry and Government totalled £260 million in 1981-82. Of this total £64.1 million, in respect of British Rail, reflected a statutory obligation to meet the emerging cost of certain historic liabilities. This obligation was incurred when a general capital reconstruction of British Rail in 1974 revealed that

British Rail, as a contracting industry, could not meet pension obligations from its revenue account. Similarly contributions from the shrinking workforce of the NCB are insufficient to meet past pension obligations. The Government sees an overall financial benefit in contributing to the pensions fund and enabling redundancy schemes for miners to go forward. Government contributions to the Post Office Staff Superannuation Fund are on a different basis. When the Post Office became a public corporation in 1969 the national fund to which the Post Office had been contributing was transferred to fund trustees through a series of lump sum payments by the Government, which will cease in 1982/3.

4. Comparisons of the burden of pension funding in the public and private sectors are difficult and have to be treated with caution. Comprehensive surveys distinguishing between public and private sector schemes are few, and tend not to separately identify nationalised industries. What information is available suggests that the total cost of pensions tends to be somewhat higher in the public sector industries than in the private sector; but that the public sector employee pays a higher employee contribution and meets a slightly larger proportion of total costs.

5. A survey by the Government Actuary in 1979, for example, found that total pension contributions averaged 15% of average earnings in the private sector, but 18% in the public sector. These contributions on average were divided between employee and employer in the ratio 1:3; but among the nationalised industries all but

6 (out of 15) schemes showed a higher proportion than this of employee contributions. A more recent survey by the National Association of Pension Funds in 1981 showed an average employer's contribution of 10.81% - exceeded by most nationalised industries - but also showed that 42% of all employers made deficiency payments into their funds. Deficiency payments in the nationalised industries are not running at significantly higher levels.

6. The Government no longer has any direct involvement in or powers over pension terms in the nationalised industries. Arrangements are made however to monitor the funds' finances at regular intervals to ensure that major deficits do not arise (because in practice the Exchequer could find it hard to stand back from the consequences of such deficits); and to ensure that where deficiencies do arise, proper consideration is given to meeting them (within the constraints of contractual obligations and the statutory independence of the Funds) by adjusting benefits and employee contributions before the industry makes any payments to the funds.

HM TREASURY
20 October 1982

Industry	Number of Scheme members ('000)	Number of beneficiaries ('000)	Total Expenditure on benefits (£m)	Contribution Rates		Deficiency payments from employer		Subventions from Exchequer (£m)
				Employee	Employer	(£m)	As % of total wage costs	
National Coal Board: Staff	56	51	85	5-7%	11%	33	-	-
Miners	233	255	118	5.25%	5.25%	58	3.3%	54 (5)
Electricity Supply Industry	131	71	200	6%	12%	19.2	1.3%	-
British Gas	93	39	74	6%	19.5% (manual) 29.1% (staff)	-	-	-
British Steel	106	109	129	5.25% (manual) 8% (staff)	16%	-	-	-
Post Office and British Telecom	400	180	428	6%	9%	89.3	0.03%	45
British Shipbuilders (1)	55.2	4.4	12.1	6% (2) or 4.5%	7.6% (average)	-	-	-
British Airways (3)	46	15	45	7.25-8.5% (men) 5.75-7% (women)	12.65-25.5%	2.2	0.5%	-
British Airports (3)	7.5	1.2	3.4	5-7%	11-12%	2.1	2.6%	-
Civil Aviation Authority (3)	7.4	1.7	6.2	7.5%	25% (6)	-	-	-
British Rail	209	52.2	85.2	9.35%	14%	-	-	64.1 (4)
National Bus Co.	35	4.7	6.9	2.5% (manual) 7.5% (staff)	7.7% (manual) 18.5% (staff)	1.3	0.06%	-
Water Industry (3)	56	11	27.5	5% (manual) 6% (staff)	11%	-	-	-

Notes:
(1) Scheme not index linked
(2) Two tiered scheme
(3) Information relates to 1980-81. All other figures relate to 1981-82 except for British Rail and National Bus where the figures relate to calendar 1981.
(4) The Government meets the emerging cost of certain historic, liabilities.
(5) The Government reimburses to the NCB the costs of eliminating that part of the deficiency in the Mineworkers Pension Scheme that relates to those persons who left the industry before 6 April 1975. (For 1981-82 this amounted to £54m out of total deficiency payments of £58m.).
(6) Includes deficiency payments of up to 10 % of salary.

ECON. POLICY: INFLATION PROOFED PENSIONS.

4.5

Econ Pol

cc TL

BI

(1)

Prime Minister

This looks satisfactory to me.

MCS 21/10

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

20 October 1982

Michael Scholar Esq.
Private Secretary
10 Downing Street
LONDON
SW1

Dear Michael,

DEBATE ON THE SCOTT REPORT

In my letter of 15 October, I promised to send you a copy of the draft of the opening speech which Mr Hayhoe will be making in Friday's debate on the Scott Report. This I now enclose.

You will see that the draft remains silent on a possible connection between action on contributions and the future of index linking, as the Prime Minister requested. However, it seems likely that questions on this point will be raised and we are considering how best to deal with them without giving any commitment one way or the other.

I am copying this letter as before.

Yours sincerely,
Margaret O'Mara

MISS M O'MARA
Private Secretary

PENSIONS - DEBATE ON 22 OCTOBER - OPENING SPEECH

I welcome this opportunity to discuss the whole question of indexed linked pensions in the public sector in the light of the valuable report by the Committee under the chairmanship of Sir Bernard Scott which was published last year.

2. Since we last debated this subject in February, the rate of inflation has continued to show a welcome fall. At that time the annual rate was 12 per cent. Last week it was announced that the September index had actually fallen for the first time in 12 years, and the annual rate of increase of the Retail Price Index is down to 7.3 per cent, the lowest for 10 years. We fully expect the rate to decline further over the next few months.

3. More stable money reduces the disparity in pensions which has caused such public concern in recent years. With pensions, as in so many fields, we see the tremendous benefits of getting inflation under control.

4. Members will have noticed the Written Answer which I gave on Tuesday which compared movements in the Retail Price Index, national average earnings, and gross domestic product since 1970. As can be seen from the table, only occasionally have public sector pensioners increased their income by a higher percentage than those in work. But of course it is also true that during the last decade public service pensioners with index linking have generally fared better than other occupational pensioners. The House will remember that index-linking was established by the Pensions (Increase) Act 1971. When the Bill was debated in May of that year, it was universally welcomed. The disparities that rapid inflation was to cause were not then foreseen. However, it is worth recalling that before 1971 public sector pensions had been updated on an ad hoc basis - often after much public campaigning by those concerned. By and large, over time these irregular increases kept pensions in line with movements in prices. The significance of the 1971 Act was that it provided a regular system of uprating in place of the ad hoc and somewhat unsatisfactory arrangements which had existed beforehand.

Sometimes when I listen to the present pensions debates it sounds as though some commentators believe that the choice is between index-linking and doing nothing. Of course this is wholly unrealistic. The actual choice is between index-linking and some other updating arrangements. Pensions are earned over periods of up to 40 years, and then can be in payment for many years of a person's retirement. Even with low inflation, therefore, some method of uprating is necessary and this is recognised in the private sector as well as in the public sector.

5. Members will also have seen the other long Written Answer which I gave on Tuesday which describes the main pension schemes in the public sector whose benefits are index-linked and gives a great deal of information about the numbers involved, the costs, and the methods of financing. It is estimated that there are nearly 2½ million pensioners and 5¼ million members of pension schemes whose benefits are index-linked. That is roughly a quarter of the working population. As the table shows, the average civil service pension at the moment is £32.40, and the average in the public services sector taken as a whole is £36.20 a week. Increases in line with those for the State Retirement pension are due in November, which will bring the Civil Service average to £35.80. I suppose it is inevitable that press comment concentrates upon the increase going to Admirals, Judges, Permanent Secretaries and the like, but there are of course not many of these. Moreover, there is evidence that the public want to see the retirement incomes of members of the armed forces, policemen, doctors, nurses, teachers and others so far as possible protected against price increases, and to judge from my own postbag, much of the earlier uninformed and sometimes misleading criticism has abated as the facts have become more widely known.

6. So far I have been talking only of the public sector. The situation in the private sector is quite different and perhaps even more complicated. The Scott Report itself gives some interesting information about the great variety of schemes, and this can be supplemented by the surveys which have been published since,

notably by the National Association of Pension Funds. On the whole, although it is very difficult to generalise in this area, it seems clear that during recent years private sector schemes have made discretionary upratings to their benefits which are well below the rates of inflation. On the other hand, the effective rate of employee contribution is usually lower in the private occupational schemes. Nevertheless, I recognise the continuing public concern that private sector schemes are generally less good than those in the public sector.

7. At the moment there are almost no schemes available in the private sector which can offer formal index-linking. However the Chancellor of the Exchequer announced in the 1981 Budget that the Bank of England would be issuing indexed gilt-edged stock as part of our policy of diversified funding, and indexed gilts give fund managers an important new financial instrument. Initially, purchase of the stock was restricted to pension funds and certain other institutions, but in the 1982 Budget the Chancellor announced the removal of this restriction, and the Government has issued £5½ billion of indexed stock so far.

8. Indexed gilts are not intended to provide the basis for indexed pensions throughout the economy, although individual pension funds may wish to use them in devising indexed schemes. Rather, indexed gilts make it possible for pension funds, as well as for insurance companies and individual savers, to diversify their portfolios so as to reduce their vulnerability to the risks of inflation.

9. The existence of indexed gilts traded freely on the stock market also helps us to see the price which the market is prepared to pay for indexed assets, and this is useful in setting a value on indexed pension schemes in the public sector.

10. In this connection it is worth drawing attention to the work of the Government Actuary's Department. The response of the market

has tended to confirm his department's assessments of the value of inflation-proofing of occupational pensions, a conclusion earlier supported by the Scott Committee itself, and I am glad to have this opportunity to thank the Government Actuary and his department for the work they do.

11. Perhaps I should also refer to the long term prospects of all our pension arrangements both state and private. Pensions are, after all, a form of transfer of income between generations. And we must recognise the danger of imposing upon the working population, now or at some future date, through contributions and taxes, a commitment to provide more for the retired population than can be afforded. The Chancellor of the Exchequer drew attention to this point in an important speech to the National Association of Pension Funds in May of last year in Birmingham. The demographic arithmetic is there for all to see and without a renewal of growth in the economy it just will not be possible to protect the incomes of a growing retired population without affecting the incomes of those in work. Obviously this is not the central issue of our debate today but I thought it right to draw attention to this more general problem which should never be ignored when we look at pension matters.

12. I should like now to turn to the narrower question of pensions in the Civil Service for which the Government has a direct responsibility. Since our last Debate, we have had the report of the Committee under the Chairmanship of Sir John Megaw which inquired into Civil Service pay. The report was published in July. Although primarily about methods of determining pay, the Megaw Report devotes a chapter to non-pay benefits including especially pensions. The Scott Report remarked that the methods by which the pay of civil servants was adjusted, under pay research, were complex and obscured the reality of what civil servants contribute for their pension arrangements Scott suggested that it would be an advantage if in future the pension element of the pay comparison were better publicised. The Megaw Report goes further and recommends that:

"provided this can be introduced at no additional cost to public funds, the basis by which civil servants contribute to their pensions should be one whereby a direct contribution is made from the pay actually received to cover the whole of the employee's share of pension costs. Both the employee's and the employer's share should be publicly declared".

13. Much of the earlier misapprehension about "civil servants not paying for their pensions" has abated as a result of the Scott and Megaw reports. These made it very clear that civil servants have been making a sizeable effective contribution estimated by Scott at some 8 per cent. Nevertheless, misunderstandings are almost bound to continue. The Government is therefore attracted by the proposal to make the Civil Service pension scheme contributory. To do so would make it much easier to see the link with pay and to compare the position of civil servants with that of other groups. There would, of course, be no question of uncovenanted benefits or windfall gains going to civil servants as a result of a change to a contributory scheme.

14. I should particularly welcome the views of the House on this suggestion. The idea has been put forward and considered from time to time, and in the past the argument that the existing system is simpler and more efficient has carried the day. But I must confess that I have long seen attraction in a contributory scheme which would avoid the sort of misunderstanding and misrepresentation which has dogged the present arrangements.

15. Elsewhere in the public services, the armed forces and the police are now making a more appropriate contribution towards their pensions which are more favourable than those of most of other groups because of the relatively early retirement age which is required because of the physically demanding nature of their work. The armed forces and policemen now pay an 11 per cent pension contribution. And the pension contribution of firemen is under consideration.

16. Much of the public concern about public sector pensions is focussed upon the costs of index-linking and there is very understandable resentment at any additional burdens placed upon taxpayers as a result. Few would dissent from the proposition that public service pension schemes should be based upon fair contributions from those concerned and that in this context we include the cost of pensions increases not just of the basic pension. It is also well worth noting that action on contributions produces more money more speedily, than action to cut back the level of benefits. The sums involved are substantial. For example this year's 4 per cent increase in the contribution rates of the police will save the Exchequer some £47 million in a full year. Over the public services as a whole it is worth noting that a 1 per cent increase in pension contributions would amount to around £200m whereas a 1 per cent reduction in the amount of pension increase would amount to £30m.

17. Another important section of the Megaw Report relating to Civil Service pensions recommended that the advantages enjoyed by civil servants in terms of better pension rights on changing jobs should be taken into account in pay negotiations. Discussions between the Government and the CCSU are taking place and I do not wish to comment upon the merits or substance of this recommendation but it does illustrate one of the other main disparities between the public and private sector, namely their treatment of early leavers. It is comparatively easy for an employee to change his job within the public sector since the schemes are similar, and he can either take his pension rights with him or have them preserved until retirement age. In much of the private sector on the other hand, as the Occupational Pensions Board has shown, people who change jobs can be put at a severe disadvantage as far as their accrued pension rights are concerned and this can be a disincentive towards changing jobs at all. The Government believe that the managers of pension funds should review their current practice which is often both unfair and a constraint on mobility and therefore on economic performance.

18. In recent years many suggestions have been put forward for replacing the present system of index-linking - for example returning to a system of discretionary upratings, including an element of discretion to cut back the increase if the index goes up by more than a certain figure, reducing the increases for those with the biggest pensions, and so on. They all have advantages and disadvantages and I am sure many will be referred to during the course of today's debate. However the arguments ebb and flow and whatever the economic justification for one course or another, let no one underestimate the very severe legislative and institutional difficulties in making changes which apply to all index-linked schemes. All told, there are about 130 schemes and the legislative and contractual bases on which they are built differ considerably. In the case of the Civil Service, the pensions increases are provided directly by statute under the terms of the Pensions (Increase) Act 1971, to which I referred earlier, and the Social Security Act 1975. Some of the other schemes in the public sector at present use a notional fund, while others operate solely on a pay as you go basis. In the case of most nationalised industries, there are fully funded pension funds financed by employer and employee contributions which cover the costs of the benefits. It is an immensely complex subject. I do not propose to announce firm Government conclusions today. We are making progress in getting contributions right, and I am glad that the debate providesan opportunity for Hon Members to express their views on the complex and important issues involved.

Econ Pol, Inflation Proposal
Pensions, Pt 4

CONFIDENTIAL

Econ Pol

385

File

cc: Cabinet
CO

bc: Mr. Vereker

10 DOWNING STREET

From the Private Secretary

18 October 1982

DEBATE ON THE SCOTT REPORT

Thank you for your letter of 15 October about the arrangements for handling the Debate on the Scott Report on 22 October.

The Prime Minister was content with these arrangements, but has commented that it will be important not to give the impression that the Government may yet be taking action about benefits; she hopes that Mr. Hayhoe may be able to say that the Government's prime and for the moment exclusive concern is to see that existing index-linking benefits are properly paid for.

I would be grateful if you would ensure that we see a copy of the draft speech when it is ready.

I am sending copies of this letter to the Private Secretaries to other members of Cabinet and to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL

385

Prime Minister (1)

Shall I make the observation at X on the proposal at Y?

MCS 15/10

Yes - see note below MT

MR SCHOLAR

DEBATE ON THE SCOTT REPORT

(attached) The outline, in the letter of 15 October from the Chancellor's Private Office, of what Mr Hayhoe proposes to say in the debate on 22 October is perfectly consistent with the conclusions of the Prime Minister's meeting on 15 June. If Mr Hayhoe succeeds in fending off criticism that the Government is prevaricating over Scott, without making commitments which would adversely affect pay behaviour, he will do well.

But there is one point which I think needs to be considered carefully. Cabinet did decide on 10 December 1981 not to change the benefits, and instead to examine possible changes in contributions. Yet the Chancellor proposes that Mr Hayhoe should say, if asked, that action on contributions does not imply that nothing is to be done about benefits. I fear that that would be taken, quite wrongly, as an indication that the Government has not given up hope of restricting the benefits - which would provide public service unions with an unnecessary argument in support of higher pay claims. Of course, in order to avoid criticism that the Government is doing nothing, Mr Hayhoe will not be able to rule out action on benefits categorically; but I should have thought it will be possible for him to say that, for instance, the Government's prime and for the moment exclusive concern is to see that existing index linking benefits are properly paid for.

J.

15 October 1982

I agree - we really must not include that phrase about benefits. It is contrary to Cabinet's decision. MT.

4.40

c/SU

AWR

Prime Minister (2)

MCS 15/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 October 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

DEBATE ON THE SCOTT REPORT

I am writing to tell you about the intended arrangements for handling the Debate on the Scott Report on 22 October. The Debate is on a Friday, on a Motion for the Adjournment, and Mr Hayhoe will make both the opening and the winding up speeches.

As factual background we are intending to publish information about the extent of index-linking in the public sector and the way in which it is financed. Copies of two PQs which we intend to put down for Written Answer on 19 October are attached. This is the first opportunity which members will have to see the information in consolidated form, but almost all of it is available elsewhere. It seems preferable to volunteer it in advance rather than have it elicited piecemeal by Questions,and it certainly shows how complex the issue is and helps to explain the delay in responding to Scott.

The Prime Minister commented earlier that she thought the Debate should be a low-key occasion. We think it would be wrong therefore to say anything definite one way or the other about the future of index-linking. We can point to the success in bringing down the rate of inflation. More stable money reduces the disparity in pensions which has caused great public concern and this is one of the benefits of controlling inflation. There can be some discussion about the various groups who enjoy index-linking, with references to the information in the PQ, and we will emphasise the Government's continuing concern at the disparity between the public and private sector. There may be a passage about indexed gilts which provide fund managers with an important new financial instrument.

Since the Megaw Report has appeared since the last Debate on Scott in February, we intend to take up the suggestion that civil service pensions should be made contributory, and say that the Government is disposed to favour such a change. We will emphasise the Government's concern that a proper level of contributions should be paid by all groups who enjoy index-linking, referring to the increases in contributions from the armed forces and the police, but if asked whether this implies that index-linking will be retained provided it is properly paid for, we will say that action on contributions does not imply that nothing is to be done about benefits.

A copy of the draft of the opening speech will be sent round early next week.

I am sending copies of this letter to the Private Secretaries of all members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

HM TREASURY

Con - [ ]

FOR WRITTEN ANSWER ON
MONDAY 18 OCTOBER 1982

No [ ]-[ ]: To ask Mr Chancellor of the Exchequer, if he will detail the main pension schemes in the public sector whose benefits are fully protected against increases in the general level of prices.

DRAFT ANSWER

The Pensions (Increase) Act 1971, as amended, provides for annual increases in line with increases in the general level of prices, for pensions payable under the schemes listed in Schedule 2 to that Act. The largest such schemes are the Principal Civil Service Pension Scheme, the Local Government Superannuation Scheme, the Teachers' Superannuation Scheme, the National Health Service Superannuation Scheme, the Police Pension Scheme, and the Fire Service Pension Scheme. The Armed Forces Pension Scheme follows these arrangements by analogy. Other schemes covered directly by the Act include the Parliamentary Contributory Pension Scheme, pensions payable under the Judicial Pensions (Consolidation) Act 1981, and those payable to former holders of certain public offices such as the Parliamentary Commissioner for Administration and the Comptroller and Auditor General. A wide variety of pensions paid to former overseas officers, such as the expatriate staff who served colonial governments, are also increased under the Act.

2. The financing arrangements for the main schemes in Great Britain covered by the Act (including, for these purposes, the Armed Forces Pension Scheme) are as follows:

Scheme	Employee Contributions (incl pay reductions)		Employer Contributions (c)		Source of benefits	
	per cent of pay	Estimated revenue (or savings) in 1982/83 £m	per cent of pay	Estimated revenue in 1982/83 £m	Basic pensions (c)	Pensions increase
Civil Service (a)	See note (b)	(360) (b)	n/a	n/a	Exchequer	Exchequer
Local government	5 (manuals) 6 (non-manuals)	400	8.5 (d)	600	Local authority pension funds (d)	Last employer of pensioner
Teachers	6	335	8.4	450	Notional fund	Exchequer
NHS	5 (manuals) 6 (non-manuals)	350	7.5	425	Notional fund	Exchequer
Police (a)	11 (men) 8 (women)	100	n/a	n/a	Police authorities	Police authorities
Fire (a)	6.75 (e)	20	n/a	n/a	Fire authorities	Fire authorities
Armed Forces (a)	See note (b)	(260) (b)	n/a	n/a	Exchequer	Exchequer

Notes:

a. Most of the pensions in this table are subject to a maximum of 2/3 final pay (or the broad equivalent in pension and lump sum) after 40 years' service, from age 60 or 65. However, the arrangements for the police and fire services, the armed forces, prison officers (within the Civil Service scheme) and mental health officers (within the NHS scheme) provide for pensions from earlier retirement ages and accrual of full pension over a period of less than 40 years. The value of such arrangements as a percentage of salary is considerably greater, and at the present time is reflected in higher effective employee contributions for the armed forces and the police.

b. Civil Service and armed forces pensions are largely non-contributory and it is therefore necessary to incorporate pensions deductions into gross pay levels. For the Civil Service, the most recent adjustment was in 1980 pay research, which resulted in an average total effective contribution of 7.9 per cent of Civil Service pay,

...uding the $1\frac{1}{2}$ per cent paid by men for widows' benefits. For the armed forces, the last two sets of recommendations by the Review Body on Armed Forces Pay have included reductions of 11 per cent in pay rates to take account of pension benefits.

c. The employer contributions listed are those payable to actual or notional pension funds; for the wholly unfunded schemes, no employer contributions as such are paid. However, the NHS and teachers' notional funds and the local authority pension funds cover basic pensions only (that is, without increases under the Act) and pensions increases are financed separately. Thus, the contributions shown do not cover the liability for pensions increase. This liability falls on the source shown in the final column of the table. The Government Actuary estimates that if pensions increases were taken into account in the funds the employer contributions might be some 6 per cent higher.

d. Pensions under the local authority superannuation scheme are paid from pension funds maintained by county councils, the GLC, the City of London, London boroughs and Scottish regional authorities. The employer contributions vary from fund to fund, and average $8\frac{1}{2}$ per cent.

e. Revised rates under consideration.

3. The numbers covered by these schemes are as follows:

Thousands

Service	Number of employees	Members of pension scheme	Number of pensioners		
			retired employees	dependants	Total
Civil Service	659	657	323	101	424
Local government	2 054	1 060	286	66	352
Teachers	658	613	201	11	212
NHS	1 179	820	202	35	237
Police	133	133	51	24	75
Fire	39	39	18	7	25
Armed Forces	328	321	224	60	284
Overseas	-	-	46	9	55
Total	5 050	3 643	1 351	313	1 664

4. Estimated expenditure in the 1982/83 financial year, and the average pension before and after the 11 per cent increase due on 22 November 1982, is as follows:

Service	Lump sum £ million	Basic pensions £ million	Pensions increase £ million	Total £ million	Average pension £ a week	
					pre-Nov 1982	post-Nov 1982
Civil Service	300	403	354	1057	32.40	35.80
Local government	175	325	240	740	29.70	32.70
Teachers	219	333	373	925	56.10	61.90
NHS	174	220	228	622	32.10	35.40
Police	44	80	107	231	46.00	50.80
Fire	9	20	29	58	36.00	39.80
Armed forces	130	244	289	663	34.60	38.30
Overseas	1	20	103	124	41.80	46.70
Total	1052	1645	1723	4420	36.20	39.90

5. Information is available about the distribution of Civil Service, teachers and NHS pensions by size (before taking account of the increase due in November 1982):

Size of pension £ a year	Civil Service	Teachers	NHS
0 - 999	49.7	9.1	52.1
1000 - 1999	23.3	16.9	21.7
2000 - 3999	16.5	44.8	16.2
4000 - 5999	6.4	24.7	4.6
6000 - 7999	2.3	3.9	2.2
8000 - 9999	1.1	0.5	1.7
10000 or more	0.7	0.1	1.5
Total	100.0	100.0	100.0

6. The Pensions (Increase) Act does not in general apply to pension schemes in the wider public sector, such as the nationalised industries. Most of these schemes do, however, provide for regular increases in line with movements in prices. These schemes fall into three groups:

A. those whose rules provide annual increases in line with those under the Act;

B. those which provide full index-linking, but related to actual movements in the Retail Price Index rather than, as with increases under the Act, forecast movements; and

C. those whose schemes do not provide explicitly for inflation- proofing, but who have in practice followed the increases made under the Act.

About two-thirds of nationalised industry employees belong to the first group, and are thus subject to the same pensions increase arrangements as members of the schemes discussed above. The following table describes the main pension schemes in the wider public sector, within these three groups, as they were in 1980/81 (the latest year for which the full range of information is centrally available).

Scheme	Scheme members 000	Pensioners (including dependants) 000	Employee contributions per cent	Employer contributions per cent	Expenditure on benefits in 1980-81 £ million
A: schemes whose rules require them to follow the 1971 Act					
Post Office/ British Telecom	400	180	6	9	571
British Rail	217	64	9⅓	14	40 (in 1979)
British Steel	128	101	8 (staff) 5¼ (manual)	16	127
British Airways	47	15	5¾-7 (women) 7¼-8½ (men)	12.65-25.5	46
Atomic Energy Authority	35	7.5	4¼-7½	10-12½	18
London Transport	50	14	5 (manual) 6 (staff)	13¼ (manual) 18.9 (staff)	21
Universities	58	38	6¼	14	52.5
National Bus Company	36	5	2½ (manual) 7½ (staff)	7½ (manual) 22½ (staff)	6
Civil Aviation Authority	7.4	1.6	7½	25	8.7
B: schemes which provide index-linking by other means					
National Coal Board: **Miners**	240	255	5¼	5¼	130
Staff	59	50	4½-5½	10-12	85
British Airports Authority	7.5	1.2	6-7	11¾-12¾	2.9
C: schemes which have in practice followed the 1971 Act					
Electricity Supply	143	66	6	12	133
British Gas	93	39	6	15.2 (manual) 29.1 (staff)	65
BBC	21.5	7	7½	20¼	21

Other schemes, covered directly by 1971 Act				
Water industry	56	11	As for local government	27.5
Forestry Commission	8	4.7	As for Civil Service	7.1
Total	1606	860	- -	1362

7. With the exceptions of the National Water Council pension fund (which has adopted the local government scheme) and the Forestry Commission, which has an unfunded scheme, all the above schemes pay pensions increases from their funds, so that the liabilities met by contributions include this element.

8. The foregoing schemes cover in all some 5¼ million scheme members and nearly 2½ million pensioners, and are expected to spend up to £6 billion on benefits in the current financial year. This list is not however exhaustive, since there are a great many smaller schemes in the public sector which also provide index-linked pensions. The latest survey of occupational pension schemes by the Government Actuary in 1979 found 130 public sector pension schemes, with 5.6 million members and 2.3 million pensioners. Later figures are not available, but the number of pensioners has certainly increased since 1979.

9. The Government Actuary's survey found 11.8 million members of occupational pension schemes, 10.3 million of which were in schemes contracted-out of the earnings-related, index-linked additional element of the State pension scheme. This figure of 11.8 million represents about 51 per cent of employees in the United Kingdom, 24 per cent in the public sector and 27 per cent in the private sector. There are also about 9 million people in receipt of state retirement pensions. These pensions, and Guaranteed Minimum Pensions, to which the 10.3 million members of contracted-out schemes will be entitled, are fully increased in line with increases in the general level of prices, as provided for in the Social Security Acts. About 3.7 million people were in receipt of pensions from occupational pension schemes (although not all would yet have reached state pension age, so that this figure is not comparable with that of 9 million retirement pensioners). Of these 3.7 million, 62 per cent come from public sector schemes and 38 per cent from private sector schemes.

10. The potential beneficiaries of public sector pension schemes are not confined to contributing scheme members. There are an estimated 800,000 people who have left public sector schemes before retirement age with preserved benefits which will become payable in due course. In addition, many wives of scheme members and pensioners may become entitled to widows' pensions in the future.

FOR WRITTEN ANSWER ON
MONDAY 18 OCTOBER 1982

H M TREASURY

Con - [ ]

No [ ] - [ ]: To ask Mr Chancellor of the Exchequer, how changes in the general level of prices since 1970 compare with changes over the same period in national average earnings and gross domestic product.

DRAFT ANSWER

The following table compares movements in the Retail Prices Index, national average earnings and gross domestic product since 1970.

	June RPI (June 1970 = 100)		June earnings (June 1970 = 100)		GDP (Q2) (1970 Q2=100)	
		Year-on-Year increase per cent		Year-on-Year increase per cent		Year-on-Year increase per cent
1970	100	-	100	-	100	-
1971	110.3	10.3	110.9	10.9	109.8	9.8
1972	117.0	6.1	123.9	11.7	126.0	14.8
1973	127.9	9.3	142.9	15.3	147.4	17.0
1974	149.0	16.5	165.8	16.0	163.3	10.8
1975	188.0	26.1	208.1	25.5	207.7	27.2
1976	213.9	13.8	245.9	18.2	244.9	17.9
1977	251.7	17.7	265.9	8.1	290.0	18.4
1978	270.4	7.4	306.8	15.4	329.8	13.7
1979	301.1	11.4	347.7	13.3	386.9	17.3
1980	364.3	21.0	423.3	21.7	451.0	16.6
1981	405.5	11.3	473.9	12.0	482.2	6.9
1982	442.7	9.2	520.6	9.8	520.3	7.9

cc: Econ Pol
Inflation Proofed Pensions
Pt 4

Econ Pol

bc. J. Vereker

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 11 October 1982

PUBLIC SECTOR PENSION SCHEMES

You will have seen from a copy of my letter of today's date to John Whitlock that the Prime Minister continues to be concerned about the burden imposed on British Airways finances by their Pension Fund.

The Prime Minister has commented "we are top heavy on pensions everywhere"; and has asked for a note on all the public sector pension funds: on the burden they are imposing on their industries in terms of write-offs, subsidies, and employers' contributions. The Prime Minister has commented that this material will be required in any event for the debate on the Scott Report later this month.

I am copying this letter to John Whitlock (Department of Trade) and Richard Hatfield (Cabinet Office).

John Gieve, Esq.,
HM Treasury.

CONFIDENTIAL

CC: Econ Pol.
Inflation Proofed Pensions.
Pt 4

File

AEROSPACE

10 DOWNING STREET

From the Private Secretary

11 October 1982

BRITISH AIRWAYS

The Prime Minister has seen a copy of your Secretary of State's letter of 6 October to the Chief Secretary.

The Prime Minister feels that Ministers have been bounced by the action which British Airways have taken. She remains of the view that British Airways should have imposed a pay freeze, given the extent of their losses; and that the redundancy terms are too generous and the pensions scheme too costly. The Prime Minister enquires whether it would be possible to change the Trust Deed governing the British Airways' pensions scheme. If legislation would be required, the Prime Minister asks what other public sector pension funds would be involved.

15/10

I would be grateful if you would let me have this information as soon as possible, so that the Prime Minister can consider whether she can now agree to your Secretary of State's proposals. You will see from my letter of today's date to John Gieve in parallel, that the Prime Minister has asked the Treasury to let her have a note on the position of public sector pension schemes across the board.

I am sending a copy of this letter to John Gieve (HM Treasury) and Richard Hatfield (Cabinet Office).

John Whitlock, Esq.,
Department of Trade.

CONFIDENTIAL

CONFIDENTIAL

FILE

SW

bcc: Mr. Vereker
Econ PA

10 DOWNING STREET

From the Private Secretary

23 June, 1982

Pensions Increase and the Independent Schools

Thank you for your letter of 18 June and the attached papers.

I showed these to the Prime Minister. As I mentioned to you on the telephone, she commented that she sees little point in removing the cost of pensions increase subsidy from the independent schools at this time, when many parents are struggling to keep their children at such schools.

I am sending a copy of this letter to the Private Secretaries to the members of the Cabinet and to David Wright.

M. C. SCHOLAR

N. J. Cornwell, Esq.,
Department of Education and Science

CONFIDENTIAL

TWP

CONFIDENTIAL

2le AH

Econ Pol.

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

INDEX LINKED PENSIONS

I have shown the Prime Minister your minute A08737 of 17 June 1982 about index linked pensions, and she is content for you to circulate to the Cabinet a note on the lines of the draft attached to your minute.

FEW.

21 June 1982

AH

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10 DOWNING STREET

(1)

Prime Minister

I have held this up in case you wish to intervene.

Content that Sir K Joseph remove this subsidy from the independent schools?

MCS 18/6

No - I see no point in doing that - at this time when many parents are struggling to keep their children at such schools now

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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

M C Scholar Esq
Private Secretary
10 Downing Street
London SW1

18 June 1982

Dear Michael.

PENSIONS INCREASE AND THE INDEPENDENT SCHOOLS

You told me that the Prime Minister's copy of my Secretary of State's letter of 14 June to the Chancellor of the Exchequer had gone astray, and that the Prime Minister had therefore not yet been able to consider the proposed Answer. We are therefore delaying placing the Answer until Monday.

In the meantime the Chancellor and the Secretary of State for Scotland have both made suggestions for modifying the Answer. In the light of these the following redraft is now proposed:

> "Private sector employers and employees make the normal contributions to the Teachers' Superannuation Scheme. The cost of pensions increase, however, is met by the Exchequer, and has been since 1944, for all retired teachers within the Teachers' Superannuation Scheme; and administration costs are also borne by the Exchequer. I consider that this subsidy to private employers should be phased out ~~from September 1983~~, and am today writing to representative bodies stating my intention of inviting them to discuss the issue with my Department. My rt hon Friend the Secretary of State for Scotland will be initiating corresponding discussions in Scotland."

I should be glad to have your confirmation by mid-day on Monday 21 June that the Prime Minister is content for this Answer to be given. Copies of this letter go to the Private Secretaries of members of the Cabinet and Sir Robert Armstrong.

Yours ever,

Nick.

N J CORNWELL
Private Secretary

CONFIDENTIAL

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

18 June 1982

The Rt. Hon. Sir Keith Joseph Bt MP
Secretary of State for Education and Science

Dear Secretary of State,

PENSIONS INCREASE AND THE INDEPENDENT SCHOOLS

Thank you for your letter of 14 June.

As you know, I agree with you on the need to deal with this anomaly, since it is potentially a political embarrassment - for the independent schools as well as the Government. But we need too to avoid the political criticism that would come from the other direction, if we made sudden changes in the costs of the schools. I quite agree, therefore, that it would be unreasonable to give the schools only 3 months notice that we proposed to charge them as much as 5 per cent more for employer superannuation contributions. The aim should therefore be to introduce the higher contributions for the 1983-84 academic year.

I think however that it would be useful for the announcement to refer specifically to this timetable. I would suggest that the final sentence of your draft should read:

> ".... I am today writing to their representative bodies stating my intention to ensure that from September 1983 these private sector employers' contributions meet the full cost of their employees' pension arrangements and I will be inviting them to discuss the issue with my department."

That apart, I have no comments on the draft announcement. I particularly welcome the absence of any reference to the Scott Report. Although the matter was mentioned in passing in the Third VP Report, it is something that needs to be dealt with on its own merits. Indeed there is probably advantage in dissociating it from the follow-up to Scott. If we are asked whether your announcement anticipates our response to Scott, we can say that this is a relatively minor issue in relation to public service pensions increase as a whole, but one that needs to be tackled. The Government's consideration

/ of it

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of it has been quite separate from that of the Scott Report.

I am copying this letter to recipients of yours.

Yours sincerely,

Peter Jenkins

GEOFFREY HOWE (Approved by the Chancellor of the Exchequer and signed in his absence)

 1.

Prime Minister.

Content for the attached note to go to Cabinet?

Yes ms

Ref. A08737

MR WHITMORE

Index Linked Pensions

Mr Scholar's letter of ~~16~~ attached June records the outcome of the Prime Minister's meeting on this subject on 16 June. That letter was copied to the Private Secretaries to Ministers present at the meeting.

2. The subject was discussed by the Cabinet on 3 June, inconclusively. The minutes of that discussion (CC(82) 31st Conclusions, Minute 4) did not commit the Prime Minister or the Chancellor of the Exchequer to report back; they said that the Prime Minister would discuss the issues further with the Chancellor of the Exchequer and certain other Ministers and would then consider how best to proceed.

3. This leaves us with the question whether the conclusions reached at yesterday's meeting should be conveyed to the rest of the Cabinet, and if so, how. I think that they probably ought to be conveyed. It is not just a matter of good order and tidiness: other members of the Cabinet ought to know the tactics that it has been decided to pursue.

4. This could be done by copying Mr Scholar's letter of 16 June to the Private Secretaries of Cabinet Ministers not present at yesterday's meeting. But I think that it may not be desirable to give so wide a circulation to that letter and I am therefore inclined to suggest that we deal with this by circulating to the Cabinet for information a note by the Secretary of the Cabinet briefly recording the decision. This note would be circulated for information; there would be no suggestion that the matter should be discussed further by the Cabinet. I attach a draft note accordingly.

Yes ms

RTA

ROBERT ARMSTRONG

17 June 1982

DRAFT

INDEX LINKED PENSIONS

Note by the Secretary of the Cabinet

1. At the conclusion of the discussion of this subject at Cabinet on 3 June 1982, the Prime Minister said that she would discuss the issues further with the Chancellor of the Exchequer and certain other Ministers and would then consider how best to proceed (CC(82) 31st Conclusions, Minute 4).

2. That discussion has now taken place. It was agreed that there was now no prospect of legislation on this subject in this Parliament. The Lord President was invited to arrange for a debate after the Summer Recess, probably in the "overspill" in October. In that debate the Government should expose the complexities of the issue, without committing itself firmly to any particular conclusion, though it could reveal its thinking a little more clearly than on previous occasions, in particular on the principle that it was a matter of simple justice that those groups who enjoyed index linking should, broadly, pay for the benefit. Such a debate would provide an opportunity for eliciting attitudes of Opposition parties on these matters.

ROBERT ARMSTRONG

Cabinet Office

June 1982

FILE MJ

bcc: Mr. Vereker

SUBJECT.

se. master set.

10 DOWNING STREET

From the Private Secretary

16 June 1982

Dear Peter,

Index-Linked Pensions

The Prime Minister held a meeting this morning to discuss the matters raised in the Chancellor's undated minute received here on 15 June. Apart from the Chancellor, the Home Secretary, the Lord President, the Secretary of State for Social Services and the Secretary of State for Employment were also present.

The Chancellor said that in the Cabinet discussion on 3 June colleagues were moving towards a decision to retain index-linking, to place the full burden of its cost on beneficiaries on a pay-as-you-go basis, and to raise the extra contributions by means of a special levy rather than by altering the details of each public service pension scheme. This policy was consistent with the stance which Ministers had taken in the pre-election period in 1979; and it accorded well with the findings of the public opinion poll recently carried out for the Conservative Party. There was much pressure in the House to announce the Government's decision before the House rose for the summer recess. It had to be recognised, however, that there were problems about the timing of an announcement, and about dropping a piece of major legislation in the 1982/83 programme to make room for a pensions bill. There was also concern about the effect of an announcement, whenever it came, on the current pay round. His conclusion was that the Government should make an early announcement, whether before or after the recess, on the lines of that attached to his minute, to the effect that there would be consultation, a White Paper at the turn of the year, and legislation at the beginning of the next Parliament.

In discussion it was suggested that it was a matter for regret that there appeared to be no alternative to dealing with this problem other than by removing index-linking altogether or by dealing with contributions. There were, however, powerful reasons for reaching an early conclusion on this matter. There was much genuine resentment on the part of those who were not beneficiaries of index-linked pensions but were obliged to pay for the index-linking enjoyed by others. It was unjust that there should be two nations,

/one enjoyed

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one enjoying this considerable benefit and the other not, but both contributing towards it. The poll to which the Chancellor had referred, however, illustrated the extent to which index-linking had become established as part of the expectation of a wide group. Given the difficulty of removing a benefit already enjoyed by so many, the Chancellor's conclusion that action should be taken on contributions seemed inescapable. The only practical way forward was the scheme proposed by the Chancellor, which was one of a rough justice. It would be important to extend the principles of such a scheme to the nationalised industries, whose employees should not in equity fare better than those in the public services in this regard.

Against this, it was argued that an announcement on the lines proposed by the Chancellor would have a serious effect on the wage round. There could be no question of making the announcement during the National Health Service dispute, since it would add another bone of contention to an already difficult position. Indeed, whenever the announcement was made, it would have awkward implications both for pay, and for inflation prospects generally. Arguably, it was a higher priority for the Government to maintain its progress on inflation than to risk this by taking the desired action on pensions; and further progress on reducing inflation would also serve to make less acute the resentment about index-linking. What was proposed might achieve the worst of all worlds; the announcement would cause acute difficulty on the pay front, but by postponing its implementation until the next Parliament, and by preserving index-linking, there would be little immediate political benefit. Finally, it was doubtful whether the scheme could be extended with success to the nationalised industries: there would be great problems about ensuring that increased pension contributions were not financed by higher pay.

Summing up the discussion, the Prime Minister said that the Lord President should arrange for a debate in the Parliamentary overspill, in October. This should be a low-key occasion, at which the Government sought to expose the complexities of the issue, without committing itself firmly to any particular conclusion. In the debate the Government could reveal its hand a little more clearly than on previous occasions, in particular on the principle that it was a matter of simple justice that those groups who enjoyed index-linking should, broadly, pay for the benefit; it would be desirable to give close attention to the attitude of the Opposition parties to this principle.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Lord President, the Secretaries of State for Social Services and Employment; and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Peter Jenkins Esq
HM Treasury.

Prime Minister

The Chancellor's minute portrays the Cabinet Discussion as much more conclusive than it was. Your worries about (i) effect on pay round (ii) legislative programme were never really dealt with.

MCS 15/6

MR. SCHOLAR

c. Mr. Mount

INDEX LINKED PENSIONS

As I have advised several times before, the Chancellor's proposals will make the next pay round in the public services very much harder. It would therefore be best if this whole issue could be put off until the next Parliament.

But I fear what the Chancellor proposes is the worst of all worlds. The uncertainty he will create with his proposed announcement will result in pay (and other) disadvantages; but by postponing the implementation until the next Parliament, he will bring none of the benefits. Far better, as I have said before, to go into the consultation period without a prior indication of the Government's intention.

J.M.M. VEREKER

15 June 1982

cc JU
cc LPC

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

INDEX-LINKED PENSIONS

Following the Cabinet discussion on 3 June we now have I think broad agreement on the outlines of the policy we wish to pursue in respect of public service pensions. Briefly, retain index-linking; place the full burden of the cost of index-linked pensions over and above average private sector practice on the contributors on a "pay-as-you-go" basis; raise the extra contributions by means of a special levy rather than by altering the details of each public service pension scheme; and make the Civil Service Pension Scheme contributory while leaving the Armed Forces Pension Scheme on its present non-contributory basis. As you will see from the attached note by Adam Ridley, this solution accords well with the findings of a public opinion poll carried out recently for the Party.

2. The problems which most exercised the Cabinet were those of tactics and timing in relation both to the legislative programme and the next election coupled with concern about the impact of the proposed special levy on public service wage bargaining in the next two years. Consideration of these problems was remitted to you together with a few senior colleagues and I understand that your office is trying to arrange a meeting for this purpose some time next week. I have prepared this minute and the attached draft Parliamentary statement as an aid to that discussion.

3. The essence of the problem is this. We have now had the Scott Report for nearly 18 months and are under strong pressure in the House to debate it before the recess. We will look very

weak, when the debate takes place, if we cannot put forward a clear indication of our own views. But if we state our views we will be expected to take action to implement them. However implementation requires legislation; the Legislative Programme for 1982-83 is heavy and finding time for a pensions Bill would mean shedding another piece of major legislation; and the Cabinet are agreed that legislation in the 1983-84 Session is not a realistic option. If we were to be able to find time for legislation in 1982-83 the new arrangements could, with considerable effort, be brought into effect late in 1983 - at which point we would find ourselves deep into arguments with several million contributors about whether their extra contributions should be offset by special pay increases. Alternatively, implementation could take place coincidentally with the pay settlement dates of the groups concerned in the course of the 1983-84 pay round. The same arguments about offsetting pay increases would occur then.

4. My view is that we cannot sensibly let ourselves in for these kind of arguments on that timetable. I think it inevitable therefore that implementation is something which must happen in the next Parliament. Indeed it would be much easier to achieve the fairly substantial net financial savings which ought to flow from this reform if the related negotiations with the Unions take place after the next election.

5. If implementation is ruled out for this Parliament, does it make sense to legislate in advance of the election or indeed to state a firm position now which would then inevitably feature in our manifesto for the next election? The balance of judgement is not easy. On the one hand we have a considerable early Parliamentary problem if we do not make our intentions plain. The anti-indexation lobby is vocal and, even if in number fairly small, is important to us as a Party and well represented among our activists. Unless we are prepared to ignore the pressure, and to say that reduced inflation has removed the problem, we cannot put off an announcement of our views for much longer.

And even if we did the question will be asked, and need answering, in the election campaign.

6. There are other important considerations too. In particular there is no doubt that the continued sniping at index-linked pensions of the past three years has contributed to disaffection in the public services. A statement that we proposed to retain index-linking would help our industrial relations and would be particularly important for the older and more stable staff on whom we rely when trouble breaks out. There would be arguments about the degree to which higher contributions should be offset by increases in pay but I believe that there would be a widespread acceptance of the case for getting contributions at a consistent and realistic level. It is also relevant that many civil servants would welcome a contributory scheme if only as a counter to public misunderstanding - a point of some significance to Government as well. Moreover a contributory pension scheme divorces arguments about pensions from those about pay and would greatly simplify the processes of pay bargaining post-Megaw. Finally, I think that there would be advantage in indicating the general scale of charges which would be likely to flow from our new proposals without of course specifically tying our hands to a particular figure. Otherwise those concerned might fail to realise how relatively modest the additional charge has to be in order to ensure that the full burden of the difference between private and public sector practice is covered by employee contributions. Uncertainty could be exploited by the militants.

7. In short, my view is that we should make an early announcement of our intentions - though whether this absolutely needs to be before the recess or whether we could leave it until the autumn is something on which no doubt John Biffen can advise us. That first statement could be short and I attach a possible draft. This would make it clear that there would have to be a substantial process of consultation, on the basis of a White Paper with green edges, which we would hope to issue towards the turn of the year and that implementing legislation would be one of our first

priorities in the new Parliament. If we wished we could add that, because legislation is not needed to put the Civil Service Pension Scheme on a contributory basis, we would be pursuing this separately with a view to implementation at the same time as the levy came into force.

8. I am copying this minute to Robert Armstrong but to no-one else at this stage.

G.H.

June 1982

rec'd 15/6

CONFIDENTIAL

G.6

FROM: ADAM RIDLEY
10 June 1982

CHANCELLOR

cc CST
MST(C)
Mr Le Cheminant

PUBLIC SERVICE PENSIONS

As you will recall, the public opinion survey undertaken recently by Conservative Central Office provided useful and, indeed, striking support for the proposals you have put to the Cabinet. We now have a fuller report on the results of the survey, which in particular explores the differences in response attributable to sex, age, party, and sector of employment. In sum, this disaggregation of the responses only goes to strengthen the initial impression derived from the crude "headline" results which you saw earlier. It also sheds light on several points of particular interest:

(a) Awareness of the existence of index-linked public sector pensions.

Answer 2(a) shows that Conservative voters are notably more aware of them than those of other parties, while 2(c) shows the same is true of the ABC.1. groups as opposed to other socio-economic groups. However, public sector employees appear curiously unaware on the face of it, according to 2(c). That could reflect a basic problem of comprehension, as is hinted at by the answer to the last question given in § 7 which shows that awareness of the index-linking of the ordinary retirement pension is no greater.

(b) Party and class and employment differences and the index-linking principle

Curiously only the Liberal respondents showed a majority against the index-linking principle. Conservatives were on balance significantly in favour, Labour and SDP rather more so still. ABCI's were most in favour of index-linking. So were public sector employees - but as 3(c) shows a majority of the private sector respondents who understood the question were in favour too.

2. As there are to be further discussions of the issue and Mr Le Cheminent is even now preparing further material for you to use, this is obviously the moment for considering how to put the survey to use. After talking the matter over with Mr Kerr, it would seem that there is a good case for your drawing your colleagues' attention to the survey results. I would suggest a shortish letter making a few key points, covering either the full report attached or a suitably shortened version (my preference is for the former, but only marginally). It would be most helpful to know whether you agree, and if so whether there are any points you would want borne in mind for the draft of your letter.

3. As you will see, I am copying this minute to Mr Le Cheminent. At this stage I imagine you will want us to continue to handle these survey results on a carefully restricted basis, for obvious reasons.

ANR

A N RIDLEY

STRICTLY CONFIDENTIAL

Public Attitudes to Index Linked Pensions.

1. Introduction

The Party recently commissioned from GALLUP some questions on attitudes towards index linked pensions. The survey was conducted from 12th to 17th May, and GALLUP interviewed 977 electors throughout Great Britain. A note setting out the 'headline' results from the survey was circulated last week - this note sets out the detailed findings.

2. Awareness of Index Linked Public Sector Pensions.

GALLUP asked 'Many people are not aware that all public sector employees will get in addition to the ordinary state retirement pensions, another pension from their employers which is increased each year to compensate for inflation - this is often called an index linked pension. Were you aware of this provision or not?' GALLUP found 64% aware of the existence of index linked pensions for public sector employees, 34% were not, and 2% did not answer the question. Details of the analysis of this question for the main socio-economic groups are shown below:-

a) VOTING INTENTION

	TOTAL	CONSERVATIVE	LABOUR	LIBERAL	ALLIANCE/SDP
	%	%	%	%	%
AWARE	64	73	53	62	65
NOT AWARE	34	26	44	36	34
DON'T KNOW	2	1	3	2	1

Among Conservative supporters 73% claimed to be aware of the existence of index linked pensions, among Alliance/SDP supporters 65%, among Liberal supporters 62% and among Labour supporters 53%

b) SEX

	TOTAL	MEN	WOMEN
	%	%	%
AWARE	64	73	56
NOT AWARE	34	34	42
DON'T KNOW	2	5	3

Men are more likely than women to be aware of the existence of index linked pensions - 73% of men claimed to be aware of them compared with only 56% of women.

c) AGE

	TOTAL	18-34	35-44	45-64	65+
	%	%	%	%	%
AWARE	64	58	66	71	62
NOT AWARE	34	40	31	27	36
DON'T KNOW	2	2	3	2	2

Electors in the 45-64 age group are more likely to be aware of the existence of index linked public sector pensions - 71% claimed to be aware of them in the age group, compared with 66% in the 35-44 age group, 62% in the 65+ age group and 58% in the 18-34 age group.

d) CLASS

	TOTAL	ABC1	C2	DE
	%	%	%	%
AWARE	64	75	63	50
NOT AWARE	34	23	34	48
DON'T KNOW	2	1	3	2

2)

ABC1 electors are more likely to be aware of public sector index linked pensions than are electors in the other social groups, 75% in the ABC1 age group 63% claimed to be aware of them 34% in the C2 group and 50% in the DE group.

e) OCCUPATION

	TOTAL	EMPLOYED IN PRIVATE COMPANY/ SELF EMPLOYED	EMPLOYED IN PUBLIC SECTOR
	%	%	%
AWARE	64	65	70
NOT AWARE	34	33	30
DON'T KNOW	2	2	0

Employees in the public sector are slightly more aware of index linked public sector pensions than are employees in private companies (including self employed).

3. ATTITUDES TO INDEX LINKED PENSIONS

GALLUP asked respondents 'Some people say that pensions given to retired people from the public sector should not be index linked. Do you agree or disagree with this view?' Among the electorate as a whole 36% agreed that pensions for public sector employees should not be index linked, 46% disagreed with this view and 18% did not have a view. Details of the analysis for the main groups are shown below:-

a) VOTING INTENTION

	TOTAL	CONSERVATIVE	LABOUR	LIBERAL	ALLIANCE/SDP
	%	%	%	%	%
AGREE	36	38	35	45	30
DISAGREE	46	47	45	38	57
DON'T KNOW	18	16	20	18	12

Among Conservative supporters 47% disagreed with the idea of stopping public sector index linked pensions (38% agreed with the idea), 45% of Labour supporters disagreed (35% agreed), 38% of Liberal supporters disagreed (45% agreed) and 57% of Alliance/ SDP supporters disagreed (30% agreed).

b) SEX

	TOTAL	MEN	WOMEN
	%	%	%
AGREE	36	38	34
DISAGREE	46	50	42
DON'T KNOW	18	12	24

Among men 50% of men disagreed with the idea of stopping index linked pensions 38% agreed (12% did not have a view). Among women 42% disagreed - 34% agreed, but 24% did not have a view.

c) AGE

	TOTAL	18-34	35-44	45-64	65+
	%	%	%	%	%
AGREE	36	31	37	42	35
DISAGREE	46	47	48	47	41
DON'T KNOW	18	22	15	11	25

In the 18-34 age group 47% disagreed with the idea of stopping index linked pensions (31% agreed), 48% disagreed in the 35-44 age group (37% agreed), 47% disagreed (42% agreed) and 41% in the 65+ age group (35% agreed).

d) CLASS

	TOTAL	ABC1	C2	DE
	%	%	%	%
AGREE	36	36	38	34
DISAGREE	46	53	46	37
DON'T KNOW	18	10	17	30

Among the ABC1 agroup 53% disagreed with the idea of stopping index linked pensions - 36% agreed with the idea and 10% did not have a view. Among the C2 class group 46% disagreed with the idea of stopping index linked pensions, 38% agreed and 17% did not have a view. Among the DE class group 37% disagreed, 34% agreed and 30% did not have a view.

e) OCCUPATION

	TOTAL	EMPLOYED IN PRIVATE COMPANIES/ SELF-EMPLOYED	EMPLOYED IN PUBLIC SECTOR
	%	%	%
AGREE	36	39	32
DISAGREE	46	42	58
DON'T KNOW	18	19	10

Among electors employed in private companies or self-employed 39% agreed with the idea of stopping index linked pensions and 42% disagreed. Among public secotor employees - 32% agreed and 58% disagreed.

4. GOVERNMENT POLICY

GALLUP presented respondents with three options with regard to index linked pensions. They found 7% in favour of ending completely the index linking of pensions for public employees, 43% in favour of making sure that those who will draw an index linked pension pay the full cost while they are working, 33% in favour of leaving them as they are and 17% did not have a view. There was no significant differences among the main socio-economic groups except when we look at the analysis by type of occupation. Here we found:-

OCCUPATION	TOTAL	EMPLOYED PRIVATE COMPANIES/ SELF-EMPLOYED	EMPLOYED PUBLIC SECTOR
	%	%	%
END COMPLETELY THE INDEX LINKING OF PENSIONS FOR PUBLIC EMPLOYEES	7	8	6
MAKE SURE THAT THOSE WHO WILL DRAW AN INDEX LINKED PENSION PAY THE FULL COST WHILST THEY ARE WORKING	43	48	32
LEAVE THINGS AS THEY ARE	33	29	47
DON'T KNOW/ NO VIEW	17	16	14

Among public sector employees 47% were in favour of leaving them as they are - compared with 29% of electors employed in private companies/self-employed, only 32% of public sector employees claimed to be in favour of the idea of making sure that those who will draw an index linked pension pay a full cost whilst they are working - 48% of electors employed in private companies took this view. Only 6% of public sector favoured the idea of ending all index linked pensions - 8% of employees of private companies (including self-employed) took this view.

5. ATTITUDE TO INDEX LINKED PENSIONS FOR VARIOUS GROUPS

GALLUP asked a range of questions designed to look at attitudes towards index linked pensions for various groups. They asked:-

> I am now going to read out a list of different jobs. For each one, can you tell me whether you think that people who work in them should or should not have an index linked pension when they retire?

	Should	Should Not	Don't Know
Soldiers, Sailors, Airmen (%)	81	10	9
Civil Servants (%)	51	36	14
Nurses (%)	84	8	8
Employees of the Railways, Post Office, Bus Companies and British Airways (%)	51	37	12
Doctors (%)	65	25	10
Policemen (%)	79	12	9
People who work in Local Government(%)	46	42	12
Prison Officers (%)	72	17	10
Teachers (%)	61	29	11
Employees of Nationalised Industries like the Water, Gas and Electricity Boards(%)	49	39	13

84% of electors thought nurses should have index linked pensions, 81% of electors thought soldiers, sailors and airmen should have index linked pensions, 79% policemen, 72% prison officers, 65% doctors, 61% teachers, 51% civil servants, 51% employees of the railways, post office, bus companies and British Airways, 49% employees of nationalised industries like the water, gas and electricity boards, and 46% people who work in local Government.

42% thought people who worked in local Government should not have index linked pensions, 39% employees of nationalised industries like the water, gas and electricity boards, 37% employees of the railways, post office, bus companies and British Airways and 36% civil servants.

6. INDEX LINKING OF PRIVATE PENSION SCHEMES

When GALLUP asked 'At present most private firms schemes to give pensions to their employees (not the state system) are not index linked, do you think these schemes or should not be index linked to the rate of inflation - 68% thought they should be index linked, 16% they should not and 16% did not have a view.

We asked those who thought private pension schemes should be index linked 'would you be prepared to pay, say £2.00 a week more than you do at present for this? 71% claimed they would be prepared to pay an extra £2.00 a week, 14% they would not be prepared to pay an extra £2.00 a week and 14% had no view.

7. AWARENESS OF INFLATION LINKING OF ORDINARY STATE PENSIONS

GALLUP found 71% of electors aware that the ordinary state pension is changed each year to take account of inflation - 24% claimed not to be aware of this provision and 6% did not answer. In the 65+ age group 79% claimed to be aware of this provision 77% of the 45-64 age group, 74% of the 35-44 age group and 61% of 18-34 age group.

PUBLIC SERVICE PENSIONS: DRAFT STATEMENT/WRITTEN ANSWER

The Government has completed its review of public service pensions in the light of the Scott Report.

In doing so we have examined a wide range of options and have come to a conclusion that the right course is to seek adequate contributions from public service employees for their pension benefits rather than to seek to reduce the real value of those benefits. This decision is fully in line with the approach to these matters which we put forward at the last election. The principle underlying our proposals will be that public service employees, rather than the taxpayer, should bear the full cost of the extra benefits they enjoy as compared to average practice in the private sector.

Some 3.7 million public employees belong to pension schemes directly subject to the provisions of the Pensions (Increase) Act of 1971 and some 1.6 million public service pensioners, or their widows, receive index-linked pensions. In addition there are a number of public sector, mainly nationalised industry, pension schemes which provide similar protection to the purchasing power of their pensioners.

Nationalised industry and similar pension schemes in the public trading sector are often of a contractual kind not readily susceptible to amendment by legislation. The present statement therefore applies only to public service pension schemes such as those for civil servants, nurses, teachers, other NHS and local government employees, members of the Armed Forces and the police.

Within the public sector there is a wide variety of separate schemes which differ from each other on matters such as the financial and statutary basis of the schemes, the level of contributions, the manner in which contributions are paid and the rate of accrual of benefits. Seeking to bring all of these schemes to a common basis would be a massive and time-consuming operation. The Government has decided that the simplest way of applying the principle ennunciated above is to leave the structure of these schemes, other than the Principal Civil Service Pension Scheme, unchanged and to seek power to impose a special levy on all public service contributors of a size sufficient to finance the difference in the degree of inflation proofing, actually paid year by year, between the public service pension schemes concerned and the average practice of the private sector pension schemes. If our proposals are accepted the level of this charge will be reassessed periodically in the light of changes in the average practice of private sector pension schemes, the rate of inflation and other factors such as the maturing of the State scheme. On present indications the likely initial level of the charge would be around 2-2½ per cent of pay. As the existing level of contributions in most public service pension schemes is 6 per cent, for basic benefits, the likely total charge on public service employees, when the new scheme comes into operation, would be of the order of 8-8½ per cent of pay. This would be the charge for schemes where prospective pensioners contribute for up to 40 years of employed service. Some public servants, eg the police, fire and prison services, have faster rates of accrual and higher rates of basic contributions and of special charges would be justified in these cases - pointing to a total contribution by them of around 11 per cent.

Legislation to give effect to our proposals would remove once and for all the perception of unfairness which currently applies between those who enjoy and those who do not enjoy index-linked pensions. The full cost of the better benefits would clearly be a charge on the potential beneficiaries, and in a way which would automatically reflect changing circumstances.

I am also able to announce two related decisions. Armed Forces pensions are in form non-contributory although in practice, through the operations of the Armed Forces Pay Review Body, Service men and women have their pay abated by 11 per cent to take account of the substantial pension benefits to which they are entitled. These arrangements work well and the Government does not propose to disturb them.

The Principal Civil Service Pension Scheme is also in form non-contributory except that male civil servants [directly meet the full cost of] contribute to the pensions payable to their widows. At the same time, for many years, a specific deduction has been made in the process of determining Civil Service pay in lieu of a direct pension contribution. This practice, although administratively simple and cost effective has led to a good deal of public misunderstanding about the nature of the Civil Service pension arrangements. It was also operationally tied in with the system of Civil Service pay determination which was brought to an end in 1981. There would be considerable advantage for all concerned if the Civil Service Pension Scheme was now to be put on a contributory basis. Moreover, such an arrangement would, by removing the question of pension contribution from the pay determination process, sit more readily with any new form of pay determination which may emerge following the report of the Megaw Inquiry into Civil Service pay. It is technically possible to put the Civil Service Pension Scheme on to a contributory basis without legislation though the right level of contribution to be required cannot be settled in advance of the determination of the level of extra contribution for full index linking to be applied to the public services as a whole. On present indications however the total level of contribution by civil servants to their pensions under the proposed arrangements would be of the order of 8-8½ per cent of their pay as for other public services with comparable pension arrangements.

The House has expressed a wish for an early debate on these matters and the necessary arrangements are being made. When that debate has taken place it would be the Government's intention to issue a document setting out its proposals in greater detail as a basis for consultation with the interests involved. Legislation will then be introduced to Parliament. [Given the complexity of these matters it is not possible to forecast precisely when the legislation will be introduced or when it will prove possible thereafter to implement the arrangements stemming from that legislation.] [It would be prudent for the House to assume that the necessary legislation is more likely to be introduced early in the new Parliament than in the latter days of this one.] [Our aim will be to complete the necessary consultations and introduce legislation in the next Session of Parliament. If this proves possible the new arrangements could become effective at some date in 1984 or 1985.7

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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

14 June 1982

Dear Geoffrey,

PENSIONS INCREASE AND THE INDEPENDENT SCHOOLS

Thank you for your letter of 30 April. Cabinet has now decided to give further consideration to Scott (CC(82)31st Conclusions, Minute 4).

As you say, however, it would be unfortunate if we appeared to be caught unawares in relation to the independent schools, and I believe that an early announcement recognising this problem is essential. I propose therefore to make a statement as soon as possible in the form of a written answer to a PQ and attach a draft.

As you will see, my Department will write to the various bodies representing the private education employers on the day the announcement is made. The letter will link the issue to that of charging also for the cost of the Department's administration of the teachers' pension scheme on their behalf - a proposal arising from a "Rayner scrutiny" project about which they were forewarned in 1980 - and will give notice that they will be invited to discuss both issues in due course. The aim will be to move towards charging from September 1983, the beginning of the academic year. I am satisfied that it would not be reasonable to seek to do so for the year starting this September.

I am anxious to make the announcement this week if at all possible and would be grateful for any comment you or others may have by close of play on Wednesday 16 June. In view of the political sensitivity of the issue and its possible implications for other departments I am copying this letter, my letter of 8 April to you and your reply of 30 April to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

Yours ever, Keith

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DRAFT

QUESTION

To ask the Secretary of State for Education and Science whether he is satisfied about the arrangements for meeting the cost of pensions payable to teacher pensioners from the private sector of education, and if he will make a statement.

ANSWER *

Contributions to the teachers' pension scheme are made by private sector employers and employees on the same basis as those for the maintained sector. The cost of pensions increase, however, is met by the Exchequer, and has been since 1944, for all retired teachers within the Teachers' Superannuation Scheme. I consider that this subsidy to private employers should be brought to an end, and am today writing to their representative bodies stating my intention of inviting them to discuss the issue with my department.

* Please see revised version at back

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London
SW1P 3AG

8 April 1982

Dear Geoffrey,

PENSIONS INCREASE AND THE INDEPENDENT SCHOOLS

You may know of the following point, either from your officials or (as I understand, though I have not seen it) from the Third Report of the Official Committee on the Value of Pensions.

2. Under the Pensions (Increase) Act 1971, all "official pensions" are periodically increased. Part I of Schedule 2 brings within the definition of "official pensions" those coming under the Teachers' Superannuation Scheme. Many independent schools have long been accepted within that Scheme, and their teachers' pensions are accordingly "official pensions" and fall to be increased under the Act. Both the independent schools and their teachers pay the required contributions to the (notional) fund from which the teachers' pensions are subsequently paid; but since the cost of pensions increase is not borne by the fund but by the Exchequer, they do not (except as taxpayers) contribute to that cost.

3. I understand that the Third Report of the Official Committee recommends that the Treasury should discuss with my Department whether this form of subsidy to the independent schools, at a cost to the Exchequer which may be of the order of £10m per annum, should continue. I am very willing for such discussions to be begun, though I can see that it may not be possible to take them all the way to a conclusion until we have made up our minds how to proceed on the wider questions about paying for pensions increase arising from the Scott Report.

4. On the other hand, I increasingly feel that we might be unwise to leave the particular point about the independent schools in abeyance until we are ready to deal with the Scott Report issues more generally. Rather remarkably, the subsidy that the 1971 Act

given to the independent schools has gone quietly on, without notice being taken of it, for ten years. I understand it may now be coming to Derek Rayner's attention through a scrutiny currently in progress on the Government Actuary's Department. So, for this or other reasons, the subsidy could become the subject of wider discussion and perhaps public comment before we activated it ourselves as a question arising out of the Scott Report.

5. You don't need me to tell you that the matter could be controversial, both in educational and in financial terms. I think we would do better to take hold of it now, and thus have some control of the manner and timing of its becoming a subject of wider discussion, than to risk the appearance of being taken by surprise. I would be grateful if we might have an early word together as to how best to proceed.

Ever

Ian

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 30 April 1982

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

Dear Keith

PENSIONS INCREASE AND THE INDEPENDENT SCHOOLS

Thank you for your letter of 8 April. I entirely agree with you about the need to take the initiative in tackling this issue. It would be unfortunate if we appeared to be caught by it unawares.

While there is no intrinsic reason for associating this with the wider follow-up to Scott, I am, as you know, hoping that we shall reach and announce conclusions on Scott sooner rather than later. If colleagues agree to my proposed timetable, there would be advantage in terms of public presentation if we dealt with the pensions increase subsidy to private schools in the same context rather than highlighting it as a separate problem. I can, however, see nothing to prevent us getting ahead with the necessary change in advance of action on Scott. In principle we should simply need to seek a higher employer contribution from the private schools, reflecting the full accruing liability for index-linking; the special charge on employees could be introduced subsequently and simply set against the increase in employer contributions.

Assuming early decisions on Scott, therefore, I suggest that we make known at the same time our intention in principle to tackle this problem. In the meantime, our officials should jointly consider the practical details, and in particular the extent of any legislative change that would be necessary. We might decide on the precise timing of the change when officials have reported back to us.

While my officials are not aware of any analogous problems in relation to the NHS Superannuation Scheme, we would clearly need to take parallel action there if there were to be any question of private medical practitioners being admitted to it.

/I am therefore

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I am therefore copying this letter and yours to Norman Fowler, and would be grateful if he would consider urgently whether the problem could arise in the NHSS and whether his officials should join in the programme of work which I propose.

GEOFFREY HOWE

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Econ Pol Pensions

(1)

PRIME MINISTER

We discussed briefly after Cabinet on Thursday the composition of a small group of Ministers to take further consideration of index-linked pensions. You said that you wanted a small group, with some protagonists of both points of view expressed at the Cabinet meeting. I suggest that in addition to the Home Secretary and the Chancellor of the Exchequer you should have also the Lord President, who expressed a clear view throughout and can also advise on the Parliamentary and legislative programme implications; and the Secretary of State for Employment, given the importance of the wage round effects of higher contributions; together with Norman Fowler, who, like Norman Tebbit, ended up against the Chancellor's proposal, and who is in addition a large employer of public sector staff.

That makes six in all. Agree that we should set up an early meeting on this basis?

Yes no.

MCS

~~Mr Scholar.~~

(1) When —

(2) Ka, how long?

1 hour

C1. 14/6.

~~M Scholar.~~

16 3/6

Tuesday 22nd June

C1. 14/6

4 June 1982

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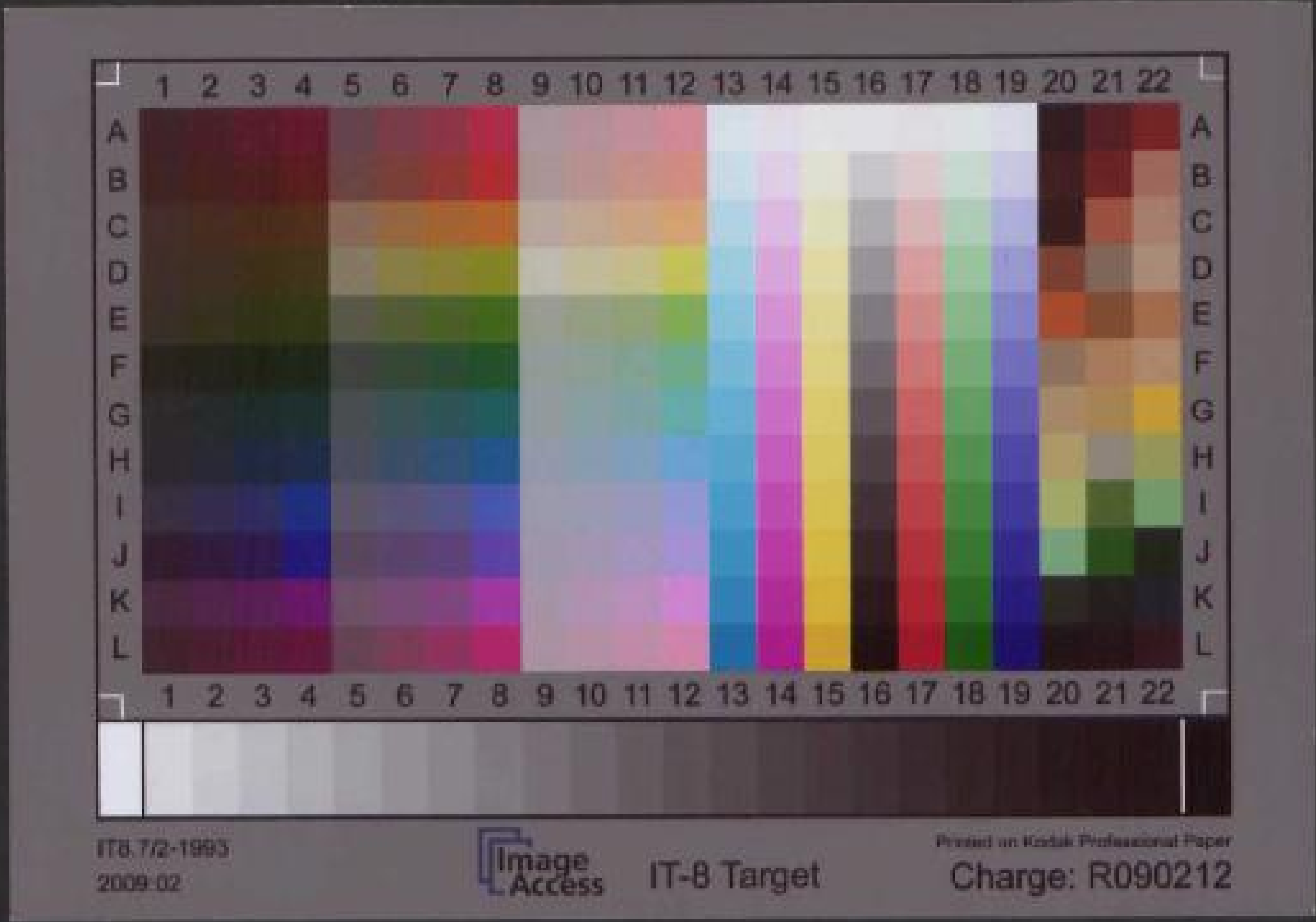
PART 3 ends:-

CC (82) 31st concs minute 4 (LCA) of 3/6/82

PART 4 begins:-

MCS to PM of 4/6/82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