



HOUSE OF COMMONS
LONDON SW1A 0AA

17th November, 1975

The attached note from Cranley Onslow is self-explanatory. As you know, I drew attention to this issue in the long speech about "The Two Nations" which I made in May, and have since been involved in extensive correspondence with the secretaries of several of the Civil Service Unions, in which I have not sought to withdraw our commitment to inflation-proofed pensions - if only because I have reiterated it in my speech and it is founded on our own legislation.

Even so, the issue is obviously one which requires urgent and fundamental thinking on our part. The right approach (which is in my mind after discussion with David Howell) may lie in re-negotiation of the position on which pay research and comparability is conducted. The Economist reported that inflation-proofing is taken account of in the Civil Service pay structure by making a deduction of only 1.75 per cent from what they would otherwise receive. I see from certain Parliamentary Answers last week that notional contributions by Civil Servants to their unfunded pension fund are assessed at 17 per cent.

This is a subject which Margaret and I discussed with Francis Sandilands and others when we met them the other day with John Nott and David Howell, and Francis is going to let me have his own actuary's assessment about the position. I have also sought advice about it from Gareth Jones, the Managing Director of Booz Allen.

The point of this note is to suggest that we should, as a matter of urgency, initiate a study of this subject together with the whole PRU approach to Civil Service pay. Can I suggest that Kenneth Baker would make a good chairman for such a working group and that John Nott and David Howell should probably also be involved? I am sending a copy of this note to Margaret Thatcher, John Nott and David Howell.

The Rt. Hon. Sir Keith Joseph Bt., M.P.