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E(80) 7th Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 20 FEBRUARY 1980 at 10.50 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Michael Heseltine MP  
Secretary of State for the  
Environment

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham  
Lord Chancellor  
(Item 1)

The Rt Hon Francis Pym MP  
Secretary of State for Defence

The Rt Hon George Younger MP  
Secretary of State for Scotland  
(Item 1)

The Rt Hon Patrick Jenkin MP  
Secretary of State for  
Social Services

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The Rt Hon Mark Carlisle QC MP  
Secretary of State for  
Education and Science

The Rt Hon Norman Fowler MP  
Minister of Transport

The Rt Hon Angus Maude MP  
Paymaster General  
(Item 1)

Mr Paul Channon MP  
Minister of State  
Civil Service Department

Sir Kenneth Berrill  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr P Mountfield (Item 1)  
Mr R G Courtney (Item 2)

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1. INFLATION PROOFED PUBLIC SERVICE PENSIONS

The Committee considered notes by the Chancellor of the Exchequer (E(80) 16) and by the Minister of State, Civil Service Department (E(80) 18).

Their discussion and conclusions reached are recorded separately.

The Committee of the Exchequer noted that the note prepared by officials in the Treasury and the Department of Industry set out the extent of public purchasing and reviewed the principles that governed public purchasing decisions. It recommended that the principle of "best value for money" should continue to be applied, and that the United Kingdom should abide by its international obligations and not introduce any of the more... Nevertheless, the CPD note also before the Committee demonstrated that in some sectors a substantial and rising proportion of purchases were from abroad. It was regrettable that in some cases there had not been sufficient domestic product. Ministers and Departments needed vigorously to encourage purchase of United Kingdom products and to pursue this aim through such bodies as the National Economic Development Council. Close co-operation with suppliers, as provided by organisations such as Marks and Spencer, was essential. The Committee should welcome the recommendations for further action set out in paragraph 5 of the CPD note.

In discussion, there was general agreement that public purchasing decisions should be employed more vigorously to promote the interests of United Kingdom industries. We should seek to enable our main competitors in their support of national industries through public purchasing. There was considerable Parliamentary pressure for some measures of protection to be introduced in public purchasing policy. By taking a more positive stand, the Government could head off demands for forms of protection which would conflict with our international obligations. Public bodies varied greatly in their purchasing policies; in particular the Ministry of Defence (MoD) co-operated well with their suppliers and had raised standards. Purchasers should have regard to performance, quality and marketability in world markets. The often goods supplied to the public sector were required to be produced to designs or

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2. PUBLIC PURCHASING POLICY

The Committee considered a memorandum by the Chancellor of the Exchequer and the Secretary of State for Industry (E(80) 15) and a memorandum by the Central Policy Review Staff (CPRS) (E(80) 15) on public purchasing policy, and a note by the Secretaries (E(80) 7) covering a report by the Advisory Council for Applied Research and Development on research and development carried out in support of public purchasing.

THE CHANCELLOR OF THE EXCHEQUER said that the note prepared by officials in the Treasury and the Department of Industry set out the extent of public purchasing and reviewed the principles that governed public purchasing decisions. It recommended that the principle of "best value for money" should continue to be applied, and that the United Kingdom should abide by the international obligations set out in Annex B of the note. Nevertheless, the CPRS note also before the Committee demonstrated that in some sectors a substantial and rising proportion of purchases came from abroad. It was regrettable that in some cases there was no suitable domestic product. Ministers and Departments needed vigorously to encourage purchase of United Kingdom products and to pursue this aim through such bodies as the National Economic Development Council. Close co-operation with suppliers, as practised by organisations such as Marks and Spencer, was essential. The Committee should endorse the recommendations for further action set out in paragraph 5 of the CPRS note.

In discussion, there was general agreement that public purchasing decisions should be employed more vigorously to promote the interests of United Kingdom industries. We should seek to emulate our main competitors in their support of national industries through public purchasing. There was considerable Parliamentary pressure for some measure of protectionism to be introduced in public purchasing policy. By taking a more positive stance, the Government would head off demands for forms of protection which would conflict with our international obligations. Public bodies varied greatly in their purchasing policies; in particular the Ministry of Defence (MOD) co-operated well with their suppliers and had raised standards. Purchasers should have regard to performance, quality and marketability in world markets. Too often goods supplied to the public sector were required to be produced to designs or

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specifications which made them unsuited to overseas markets. But purchasers should not depart from lowest cost tenders merely to shore up declining industries or support uneconomic products; the aim was not to protect uncompetitive industries but to promote high quality and commercially successful goods. The strict application of cash limits would provide the incentive to seek value for money as well as promoting national interests, but conflicts would inevitably arise, since imported goods would on occasion be cheaper than the domestic product. Purchasing departments should consider the extent to which they would make long-term arrangements with suppliers which would provide assured markets and the incentive to invest appropriately.

In further discussion of departmental actions, the following points were made.

a. The Department of the Environment would be establishing a unit to follow up the suggestions in the papers before the Committee.

b. A Supplies Council for the National Health Service (NHS), with representatives of suppliers and Health Authorities, was being established. The purchasing policies of the NHS, whose spending on purchases was second only to the MOD, had been criticised in the past; it was hoped that this Council would improve matters, but clinical judgements, which could not be over-ruled, sometimes required the use of imported equipment.

c. The Department of Transport was encouraging the nationalised industries in its sponsorship to buy British products; in particular, future requirements for handling equipment in ports were under examination in order that United Kingdom manufacturers would be in a position to supply.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the need to strengthen and promote the competitiveness of British industry needed to be taken into account in public purchasing decisions, but recognised that there could be few, if any, general rules to assist Departments and other purchasing bodies in their application of this principle. Cases would need to be examined on their individual merits. The Committee therefore endorsed the Chancellor's view that there needed to be a shift in policy, while remaining within international obligations. This implied vigorous promotion in spending Departments, nationalised industries, and other public bodies, of the

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need to purchase British goods wherever possible and to create close links with supplying firms. The Committee further endorsed the specific proposals for action set out in paragraph 5 of the CPRS note. The Secretary of State for Industry, in conjunction with the Chancellor and the CPRS as appropriate, should follow these up.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Industry to take the lead in initiating measures aimed at encouraging public purchasers to promote the interests of United Kingdom industry.

3. Endorsed the recommendations for further action in paragraph 5a. to f. of E(80) 15.

4. Invited the Secretary of State for Industry, in conjunction with the Chancellor of the Exchequer and the Central Policy Review Staff, to report back to the Committee on progress by the summer.

Cabinet Office  
21 February 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(80) 7th MEETING MINUTES, ITEM 1  
WEDNESDAY 20 FEBRUARY 1980 at 10.50 am

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INFLATION PROOFED PUBLIC SERVICE PENSIONS

Previous reference E(80) 1st Meeting, Item 5

THE COMMITTEE considered notes by the Chancellor of the Exchequer (E(80) 16) and by the Minister of State, Civil Service Department (E(80) 18) on the treatment of inflation-proofed pensions in the public services; and also had before it a letter dated 19 February from the Paymaster General to the Chancellor of the Exchequer, on the practical difficulties of de-indexing pensions above a certain level.

THE CHANCELLOR OF THE EXCHEQUER said that the two notes annexed to his paper described alternative methods of dealing with the problem of index-linked public service pensions. There was a growing sense of injustice about the extent of protection given to public service pensioners, particularly in relation to those on relatively large pensions. At a time when it was proposed to de-index short term benefits, it would be increasingly difficult to justify continuing the present system. To interfere with the present arrangements, either by way of de-indexing pensions or of increasing employees' contributions would meet considerable opposition from the public service trade unions. His own preference would be for a limited measure of de-indexation, subject to a cut-off point so that the smallest pensions would not be affected, pending a complete review of pension arrangements in the public sector. If it was felt that the pledges made by the Government's supporters before and during the election precluded this course, then the

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alternative was to adjust the contributions paid by those still at work, so as to reflect more accurately the real value to them of guaranteed index linking. In that event he proposed, as previously, that a group of distinguished outside advisers should be established to review this question, and to suggest what deduction might be made from pay for this purpose.

THE MINISTER OF STATE, CIVIL SERVICE DEPARTMENT, said that any attack on the present pension arrangements would be fraught with difficulty. Of the two methods proposed, he greatly preferred the "contribution route". De-indexing would result in serious injustices, not just to the highest-paid, and would create considerable anomalies as between one group and another. These would be made much worse by the proposed exclusion of those nationalised industries which would be covered by legislation as well as of those that could not. In any case increased contributions would save more public expenditure than the de-indexation method proposed by the Chancellor.

In discussion the following main points were made -

- a. On the basis of promises they had given in Opposition, on advice from the Party, many Government supporters would regard themselves as unable to support legislation to de-index pensions.
- b. It would put an intolerable strain on the loyalty of public servants to the Government, if any Government were to go back on pledges which it had given to its own employees on too many fronts at once.
- c. The de-indexation of short-term benefits, already agreed by Ministers, provided no justification for de-indexing public service pensions. The relevant social security analogy would be retirement pensions, which the Government had decided not to de-index; and de-indexation of short term benefits had been adopted as an interim measure, until such time as those benefits could be brought into tax: public service pensions were already liable to tax.

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d. Public criticism concentrated on the indexation of the already high pensions paid to retiring senior civil servants and generals, but these were not typical. The bulk of pensions were paid to comparatively less well off people. Nevertheless, even with the cut-off proposed by the Chancellor, many middle and junior staff, including non-commissioned service officers and many nurses and teachers, would still suffer significant loss of expected pension increases. The operation of the cut-off would pose serious practical problems, both for the Paymaster General's office in administering civil service pensions and in the National Health Service.

e. A particular source of difficulty lay in the way in which full protection of pensions meant that those who had retired some years ago sometimes received larger pensions than those retiring, at the same rank, now. The possibility of correcting this anomaly should be included in any study of the problem.

f. If the 'contribution' route were adopted, the extra cost to the employee would, in the case of the civil service, be ~~for the extra cost to the employee to be~~ reflected in a deduction from the notional salary established by pay research rather than in an actual deduction from pay. There would be much to be said for so arranging matters that an explicit deduction for inflation-proofing showed up on the employee's pay slip. This would remind the Government's employees that they, too, had a direct interest in reducing inflation. Indeed there was a good case for showing the whole of the deduction from Civil Service pay on account of pension rights, as a direct contribution from gross pay rather than as a notional deduction in the determination of pay.

g. In pay-as-you-go pension schemes such as those of the Civil Service, and the Armed Forces, it was desirable that current contributions by staff should adequately reflect the cost of inflation-proofing the pensions of their retired colleagues.

h. Members of Parliament enjoyed inflation-proofed pensions and paid less for them than did Civil Servants. It was for consideration whether they should be asked to give a lead by accepting a substantial increase in the pension contributions they made.

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i. Further thought needed to be given to the membership of the advisory body of 'wise men'. It might be necessary to expand this to, say, five and to allow for cross-membership with one or more of the pay review bodies. The establishment of the review should be announced as quickly as possible, and no later than the announcement of the Government's decision to de-index short term benefits.

j. Once a value had been placed on inflation-proofed pension rights by outside advisers, the whole question should be brought as quickly as possible into the collective bargaining arena, so that it could be linked with future pay negotiations.

k. It would be very important to explain to the public the justification for the Government's decisions. It might be useful to involve an all-party Parliamentary Select Committee, if possible. One possible committee for this purpose was the Treasury and Civil Service Committee, but it would be important to avoid giving the impression that this was solely a civil service problem. The Committee should be encouraged to extend its enquiries across the whole range of the public sector including the nationalised industries.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the most fruitful approach, in the short term at any rate, would be to preserve index-linking of public service pensions but to increase the contributions required from those in work. In the longer term the critical need was to reduce the rate of inflation. Success of the Government policies for this would reduce the problem of inflation-proofed pension to manageable proportions. The Committee approved, subject to the points made in discussion, the Chancellor's proposals for an independent inquiry into the value to the public servant of the right to an index-linked pension, and agreed on the need for Government publicity to explain the decision.

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The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to seek the agreement of the Ministers concerned and the Prime Minister to the terms of reference, membership, and a timetable for the work, of the proposed advisory committee.
3. Invited the Chancellor of the Exchequer, in consultation with the Minister of State, Civil Service Department, to consider how best to bring the subject of index-linked pensions in the public sector as a whole before a Parliamentary Select Committee.

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21 February 1980

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