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MR. LANKESTER

BF 28/4
MAD

Early Retirement to Secure Manpower Savings

You asked for advice on Mr. Channon's letter of 15th April to Sir Keith Joseph about the possibility of introducing a new and faster scheme for Civil Service redundancy (Voluntary Early Retirement - VER). Mr. Channon has asked colleagues for comments by 30th April and there is no reason for the Prime Minister to weigh in at the present stage. There are however two points about the proposed scheme of which you should be aware. These are:-

- (a) Present accounting practices mean that, while the cost of wages is borne on Departmental Public Expenditure allocations, the cost of pensions and associated lump sums is financed from the provision for common services. Thus, VER would enable Departments to keep within their individual cash limits at the expense of greater costs - perhaps in the first year exceeding wage costs - on public expenditure as a whole. The Chancellor will be dealing with this point in his response to Mr. Channon: it would of course apply to existing plans of redundancy as well.
- (b) As Mr. Channon says, VER is less generous to staff than the existing arrangements for Voluntary Premature Retirement (VPR). The qualifying circumstances for each will differ and staff, otherwise attracted by the prospect of early retirement, can be expected to opt for VPR whenever this possibility is open to them. In practice, staff will have to gamble on the certainty of VER when offered to them against the possibility of VPR if they refuse. This makes it very difficult to know in advance how effective VER would prove to be if adopted as policy - though it could prove very attractive to older staff (the closer they are to retirement the less the gap between VER and VPR).

D. J. Wright
(D. J. Wright) (cong)

22nd April 1980

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