

Ref A05256

PRIME MINISTERFollow-up to the Scott Inquiry into the Value of Pensions
E(81) 78

BACKGROUND

In E(81) 78 the Chancellor of the Exchequer and the Lord President of the Council invite the Committee to endorse their recommendations for further work by the Official Committee on the Value of Pensions whose interim report is attached to their memorandum. They do not invite the Committee to take any definitive decisions at this stage.

2. The Scott Report was discussed by Cabinet on 15 January 1981 (CC(81) 2nd Conclusions, Item 5) when it was agreed that the Government should offer no comments on it at the time of publication, and that officials of the Departments concerned, under the chairmanship of the Treasury, should examine the issues raised and should report to the Chancellor of the Exchequer and the Lord President of the Council who would then make proposals to Ministers. The Scott Report was published on 5 February when, in a Written Answer (Hansard Col 173) you said:-

"I should like to thank Sir Bernard Scott and his colleagues for their thoughtful analysis of the issues involved. Before taking any decisions on this problem, the Government will take account of the reactions to the report's analysis and findings."

The Government is not committed to take further action by any particular date and, while the Scott Report aroused interest when it was published, there is no strong public or Parliamentary pressure for early action.

3. The Official Committee have now produced their detailed interim report which is annexed to E(81) 78. The main issues are summarised in the Chairman's cover note and in the index and summary to the report itself. Since firm decisions are not invited at this stage, there is no need for the Committee to examine the official report in detail. What is needed is guidance on

whether officials are on the right lines and, therefore, on the questions summarised by the Chancellor of the Exchequer and the Lord President of the Council in their covering memorandum.

4. If approval is given to further work, on the lines recommended, the next step will be for the two Ministers to instruct the Official Committee to prepare detailed papers on the options recommended for further study, with a view to inviting the Ministerial Committee to take decisions on the next moves in about October or November. These decisions would be taken against the background of the latest development on the pay front. In the meantime there would be no consultations with the unions.

HANDLING

5. You might open the discussion yourself by emphasising to the Committee that they are not now being invited to take decisions on the issues set out in the report by officials. The object is to decide whether the Committee endorses the recommendations for further work with a view to decisions in the autumn. You might then ask the Chancellor of the Exchequer and the Lord President of the Council to speak to their paper. Unless any other Minister wishes to make general points, you might then take the Committee through the main questions in E(81) 78, which are summarised in the following paragraphs.

6. Is it accepted that any changes should, so far as possible, apply to all public sector groups which have index-linking? (Paragraph 3 of E(81) 78).

i. The point here is that (although the arrangements differ) in addition to the Civil Service there are indexed-linked pension schemes for the Armed Forces, the National Health Service, MPs, Ministers, the Judiciary, Teachers, Local Government employees, the Police, the Fire Service, the Nationalised Industries and other public corporations. (The details are summarised in Annex B of the report by officials.)



ii. Acceptance that, as a question of equity and to maximise the gains to the Exchequer, the arrangements should apply to public sector pension schemes generally, implies that Ministers are not ruling out such possibilities as -

- a. Changing the terms of some public service and nationalised industry pension schemes over the heads of employers and employees, or
- b. altering the terms of Exchequer support for certain public sector pension schemes.

iii. It should be noted that contributions are currently relatively higher for civil servants (8 per cent) than for most other public services (5-7 per cent); any attempt to increase contributions to a roughly common level would bite more on the other public service and sector schemes.

7. Should both benefits and contributions be considered? (Paragraphs 4 and 5.)

i. Scott was concerned only with contributions.

ii. The Committee will need to consider what weight to give to the statements made during the 1979 General Election campaign which are summarised in the Addendum to E(81) 78, which seem to point to the possibility of changes in contributions but not in benefits.

iii. If there were to be changes on the benefit front, primary legislation would be necessary in 1982-83; but, subject to clarification in the further work, if the changes were confined to contributions this could be achieved, at least in the Civil Service, by negotiation.

iv. There is a key question in paragraph 5 of E(81) 78 on whether the working assumption should be that any changes in benefits would apply to existing pensioners and in respect of service before the date of any change in current arrangements. That would be held to be tantamount to "retrospective legislation"; but without such an assumption the financial benefit of any change would be very long drawn out.



8. Does the Committee approve the short list for the study of further options which is recommended by officials in paragraph 71 of their report (subject to their decision on whether benefits should be further examined - paragraph 7 above)?

i. The options which were ruled out of the short list are summarised in paragraph 72 of the officials' report.

ii. In practice the short list is pretty wide-ranging, covering both contributions and benefits and variants of each.

9. Are there any difficulties over carrying forward this work in parallel with the Megaw Inquiry into Civil Service pay? (Paragraph 7.)

- You might ask the Lord President of the Council to advise on whether he sees any difficulties arising from -

i. The Megaw Inquiry dealing with pensions questions and so overlapping with the further work now proposed.

ii. Relations with the Civil Service unions if they feel that, on top of the current pay dispute, they are (as they could see it) attacked on the pensions front.

10. There is one other question which, while relevant, does not arise directly from the present papers: namely should officials be asked to consider whether the work they are undertaking has any implications for the present state retirement pension arrangements which are in the process of providing large numbers of private sector employees with earnings related indexed linked pensions?



CONCLUSIONS

11. In the light of the discussion you will wish -

1. To record conclusions with reference to the recommendations, summarised above, for further work by officials.

2. To invite the Chancellor of the Exchequer and the Lord President of the Council to make recommendations in the autumn in the light of the further work by the Official Committee.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

Robert Armstrong

14 July 1981