

CONFIDENTIAL

PRIME MINISTER

Index-Linked Pensions: Follow-up to the Scott Report

I am submitting separately a Cabinet Office brief for the discussion of this item at Cabinet on 10th December.

2. I should like in this separate note to make the following comments with my MPO hat on:

- (1) The public perception is of inflation-proofing as a perk of civil servants. This darkens counsel, because inflation-proofing is not confined to civil servants: it is a privilege enjoyed throughout the public services - all of whom are covered by the statute - and very widely in the public trading sector also. The fact that the public perception links inflation-proofing to civil servants tends to lead people to talk about remedies in terms of civil servants only; and this tendency is accentuated by the facts that civil servants are the Government's own employees and that their pension scheme is non-contributory. The Chancellor of the Exchequer's paper rightly draws attention to the extent of inflation-proofing and the difficulties of dealing with the whole range; but there are passages in it which seem to come near to saying, in effect: "even if we cannot deal with other people, let us at least deal with our own people, in the Civil Service."
- (2) I believe that many people in the Civil Service are sensitive to the feelings expressed by the private sector about inflation-proofing, and would accept (if not positively welcome) measures which either compensated for the advantage in terms of a higher contribution or set some limit to the extent of the benefit - provided that those measures were applied to all the public services and public sector schemes of which inflation-proofing is at present a feature. But it would grievously set back attempts to restore relations between management and unions in the Civil Service, and would generate deep resentment against the Government among the staff, if the Civil Service thought that they were

CONFIDENTIAL

CONFIDENTIAL

being discriminated against by comparison with other public service and public sector groups who enjoy index-linked pension benefits.

These relations are going to be under strain anyway on pay, on the assumption that the 1982 claim (now submitted at 13 per cent) will have to go to arbitration: particularly if the Government then feels obliged to set aside the award.

- (3) Under the old pay research arrangements, the rates derived from job comparisons were abated by $8\frac{1}{2}$ per cent in respect of the employee's pension contribution. This figure compared with the 6 per cent actually deducted in schemes in other public services (notably the National Health Service and local government). The extra $2\frac{1}{2}$ per cent was regarded as recognising the additional benefit (as compared with private sector employees) of index-linking. If the Civil Service was asked to contribute a further $2\frac{1}{2}$ per cent for index-linking, they would consider that they were being asked to pay for index-linking twice over, as compared with other public services.
- (4) There is something to be said for making the basic "contribution" in the Civil Service, as well as the additional $2\frac{1}{2}$ per cent for inflation-proofing, actually instead of notionally deductible - though it should be borne in mind that, if salaries were expressed in gross terms and a pension contribution was actually deducted (instead of salaries being paid net of a notional contribution) pension benefits would presumably have to be calculated in terms of the gross pay: this could mean an increase of up to 6 per cent in the Exchequer cost of paying pensions. But there would be strong pressure that at the point of change there should be a corresponding once for all pay increase - so that, so far as contributions were concerned, the effect both on the Exchequer and on the civil servant was neutral at the point of change. An attempt to negotiate a once for all increase less than the amount of the new deduction would damage the prospects of the change being regarded as acceptable.

CONFIDENTIAL

- (5) If Ministers wanted to pursue the possibility of making the basic employee's contribution actually deductible, but not to take a decision or commit themselves to legislation at this stage, they could decide to put the idea to the Megaw Committee, as something to be considered and taken into account in thinking about the new pay arrangements. It is arguable that, if such a Committee is actually sitting, the most natural course is to put the proposal to the Committee to consider.
- (6) The Chancellor of the Exchequer's paper is very much in terms of pension schemes which relate to a 40-year career. It rightly states that it would be necessary to consider the implications of what was agreed for schemes which relate to shorter careers - like those for the police, and for the prison officers - who are of course civil servants. I do not think that it should be readily assumed that it would be easy to translate what was proposed for 40-year career schemes to these shorter service schemes, and I believe that it would be prudent for Ministers to ask to see these implications worked out in detail before they committed themselves to final decisions.
- (7) What is said to the Press about the Cabinet's discussion of this subject could itself have significant consequences in the public services concerned. That is something you will need to think carefully about and discuss with the Cabinet in the light of whatever decisions the Cabinet reaches on the questions of substance.

RTA

Robert Armstrong

9th December 1981