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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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MO 4/4

20th September 1983

Prime Minister (2)

Sir R Armstrong
a similar
makes the same point for
senior civil servants, in his
note (attached).

MS. 23/9

David Trefgarne has already had some discussion with Barney Hayhoe about the depressed rates of pensions that would be awarded to senior officers of the Armed Forces by relating them - as the Treasury propose - to the actual rates of pay received during the staging of the 1983 TSRB pay award. David made clear to Barney at the time that he was not happy with the outcome of their meeting; nor are the Chiefs of Staff; and neither am I. I should add that the Lord Chancellor - who is at present in Hong Kong - is also most concerned not only at the effect that the Treasury's proposal would have on the pensions of judges who retire between 1st April and 31st December but at the lack of adequate consultation with responsible Ministers. The Cabinet when it discussed the TSRB recommendations in July took no decision on this matter and the present situation - as far as the Lord Chancellor and I are concerned - arises as an unconsidered consequence of the Cabinet's decision on pay.

I am afraid it is necessary to go in to some detail to illustrate the injustice to individuals which we are in danger of perpetrating. In the Civil Service and most other public services (apart from the Judiciary) pensions are based on individual salaries earned over the last twelve months of service. When new pay rates are introduced

The Rt Hon Nigel Lawson MP



those retiring shortly thereafter benefit from only slightly increased pensions since only a small proportion of their salary over the previous twelve months has been earned at the higher rate. The Armed Forces however promulgate new rates of pension together with new pay rates that, like the pay rates, are immediately effective and continue to be awarded until superseded. The Treasury proposal to relate pensions to the staged pay award would therefore have a particularly sharp impact on the Armed Forces - and on the Judiciary - whose pensions are based on the rate of salary in payment on the day of retirement. For example, the difference in the pensions that would be awarded to Generals retiring before 1st August 1983 and after 31st December 1983 would be nearly £2,500 a year, and the difference in their lump sums over £7,250. The depressed rates of pension would also affect adversely any widow's pension that came into payment in the future.

There would be particular anomalies attaching to retirements from the Armed Forces in the period 1st April to 31st July. Under the pension increase arrangements for the Armed Forces those retiring between November and April receive an immediate increase in their pensions for which those retiring from 1st April onward do not normally qualify. So if the pensions of those retiring between 1st April and 31st July were based on 1982 pay rates, those retiring in that period would - unless special arrangements were made - be worse off than their colleagues retiring in the immediately preceding period. Further, because the recommendations of the Armed Forces Pay Review Body were accepted without staging, the increase for a 1-star officer (Brigadier and equivalent) has completely eroded the pay differential between 1 and 2-star officers (Major General and equivalent) in the period 1st April to 31st July; and in the absence of any special arrangements a 1-star officer retiring before 1st April would be receiving a higher pension than a 2-star officer who retired between 1st April and 31st July. Barney Hayhoe has, I understand, shown some concern for these problems and has proposed certain solutions. But these are only palliatives that reduce the worst



anomalies but do nothing to remedy the wider injustice of which they are symptomatic.

In the past when a recommended rate of salary has been accepted but staged, pensions have been based on the full recommended rates of pay from the outset. This was done for all Servicemen retiring in 1978-79 under a staged pay award for that year, and again in 1979-80 for senior officers affected by the staging of the 1979 TSRB recommendations. For a Conservative administration to treat retiring Servicemen and their widows with less consideration than a Labour administration is, as far as I am concerned, totally unacceptable.

I must therefore ask you to reconsider the policy that you are advocating. Both I and the Lord Chancellor hold firmly to the view that the pensions of senior members of the Armed Forces and of the Judiciary should from 1st April 1983 be based on the full recommended rates of pay that have been accepted by the Cabinet but staged until 1st January 1984. There is all the difference in the world between the loss to an individual of nine months' pay and his having the ill-fortune to retire in a period of depressed pay that will ensure that his pension - and that of his widow - will be permanently reduced, with a consequential loss over the years of literally tens of thousands of pounds. To treat in this way loyal public servants at the end of their careers - for a saving that for the Armed Forces amounts to £160,000 in 1983/84; and £40,000 per annum subsequently - does not I suggest, bear examination.

I am copying this letter to the Prime Minister, the Lord Chancellor and Sir Robert Armstrong.

Gay

Michael Heseltine

CONFIDENTIAL



~~CC NO~~

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Whitehall
LONDON SW1A 2HB

23 September 1983

Jim Michael

TSRB PENSIONS *with Mrs*

In Nigel Lawson's absence abroad I am writing to thank you for your letter to him of 20 September.

Of course we are aware of your concerns, and as you say I have discussed them with David Trefgarne. As I told him, we are prepared to look at ways in which individual examples of blatant injustice which might arise from the present position could be alleviated; and we have made some proposals to your officials in an effort to be helpful. I think these deserve fuller consideration; and there may be other ways forward in the particular circumstances of the Armed Forces pension provisions which might help with the very real problems you see. Our concerns here are to avoid breaching the stand we have taken so far (eg in relation to doctors and dentists and MPs) and must continue to take; namely that there should be no notional backdating or "deeming" of pay for pension purposes. I know this has been done in the past but I do not think the practice is a happy one and we are anxious to get away from the precedents.

Nigel Lawson will certainly want to consider your letter carefully on his return and it may be that a meeting will be necessary. Meanwhile, what I suggest is that our officials get together urgently to summarise the possible options we now have, taking account of your concerns and of ours, as a basis on which Nigel can consider your letter and, as I say, perhaps meet with you. I think this would be the best way ahead immediately.

I am copying this letter to the Prime Minister, the Lord Chancellor and to Sir Robert Amrstrong.

Barney Hayhoe

BARNEY HAYHOE

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From the Secretary of the Cabinet and Permanent Secretary to the Management and Personnel Office

Sir Robert Armstrong GCB CVO

Ref. A083/2689

CHANCELLOR OF THE EXCHEQUER

cc Prime Minister
Lord Chancellor
S/S Defence

The Secretary of State for Defence has sent me a copy of his letter of 20 September to you, proposing that the pensions of senior members of the Armed Forces and of the Judiciary retiring on or after 1 April 1983 should be based on the full recommended rates of pay that have been accepted by the Cabinet but staged until 1 January 1984.

2. Although the pensions of retired senior civil servants are based on average salary in the last year of service rather than on salary, at the date of retirement, so that the amounts of money at stake in individual cases are smaller, I think that the same principle is involved in the case of senior civil servants as in the case of senior members of the Armed Forces and Judiciary; and that senior civil servants who have ~~since~~ retired ~~since~~, 1 April 1983 would think that they had been treated inequitably, if the pensions of senior members of the Armed Forces and Judiciary retiring after that date were based on the 1 January 1984 pay rates and theirs were not. In the case of the senior civil servants, the effect of applying the principle would be that, in calculating average salary for the last year of service, the salary payable from 1 April 1983 would be deemed to be that recommended by the Top Salaries Review Body for that date and approved by the Government for implementation from 1 January 1984.

3. I am sending copies of this minute to the Prime Minister, the Lord Chancellor and the Secretary of State for Defence.

REA

ROBERT ARMSTRONG

22 September 1983