



DEPARTMENT OF TRANSPORT
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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
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NAPM
ST 17/5

17 May 1985

Dear Chancellor

NATIONAL BUS COMPANY PENSIONS

You will want to know why I am anxious to meet you on Monday to discuss National Bus Company (NBC) pensions. I understand that you have seen the papers, so I will not spell out all the details.

I must stress that the NBC problem has not arisen on any other privatisation that I know of. Either an undertaking has been privatised as a whole, so that pension scheme and employer go into the private sector together; or it has been possible for staff to leave a preserved entitlement with a large parent body which is not being privatised. Neither alternative applies to NBC; we are privatising, breaking up and leaving no residual body which could take responsibility for existing liabilities. Furthermore, we are changing the whole economic basis of the industry, by deregulating. I do not see how it can be denied that in these circumstances we cannot rely on the successor companies to meet these inherited obligations as employees expect NBC to do; indeed I doubt whether we could persuade the successor companies to take them on. For that reason the option of closing the funds seems the only way of dealing with preserved entitlements.

It is easy to say that if the schemes are properly funded nothing should go wrong. That is no comfort to a pensioner, who will see that whereas at present NBC can and does give support and stand behind them, in future he will depend on a closed fund, without a parent body at all. I think it hardly surprising that we and virtually all members of Parliament have had a deluge of worried letters from present and former NBC staff.

Politically, NBC's campaign has influenced our supporters, and we face at Report stage of the Bill on Tuesday an Alliance amendment, carefully drafted to draw attention to the direct effects of the Bill rather than future risks of economic misfortune. The amendment is particularly dangerous, because

it could imply a guarantee for future service as well as the past, which is no part of my case. I am frankly not sure that we can successfully resist the amendment in the Commons; nor am I sure that in the present climate we could undo the damage in the Lords.

I am especially worried that the Opposition could claim that we adopt a more responsible approach where central government is directly concerned. I understand that a guarantee has been given in respect of closed pension schemes for Industrial Training Boards. Peter Rees' argument that the Government had a direct responsibility hardly meets the point; NBC would reply that it is only Government action which is preventing them from continuing to fulfil the same responsibility themselves. I gather that you think that the Royal Ordnance Factories, where a guarantee was refused, is a precedent. I frankly fail to see how that can be so; the staff were members of the Principal Civil Service Pension Scheme, and are able to leave a preserved entitlement there; a fundamental point in the NBC case is that no such option is open to them. We did give a no-worsening guarantee for ROF staff, and failure to fulfil it has led to compensation being agreed.

I think I must say on Tuesday that the Government will ensure that for past service (not future) the funds will be underwritten. Either we will have the risk taken over by a private insurance company (if a defensible price can be agreed; my officials have been looking into this option, and it may be possible, though the difficulties are obvious), or if we cannot make this succeed, I see no alternative to guaranteeing the funds ourselves.

I am sure that anything less than this will lead to just the sort of public trouble that the privatisation programme should avoid. I am sure we should discuss this on Monday; if not I must ask for a Treasury colleague to speak from the front bench on Commons Report the next day, to defend a case that is Treasury's not mine - as Michael Spicer is helping you on the Finance Bill.

/ I am sending copies of this to E(A), Willie Whitelaw, John Wakeham and Bertie Denham.

yours sincerely,

Henry Dornant (Private Secretary)

for NICHOLAS RIDLEY

(Approved by the Secretary of State but signed in his absence)