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E(S1) 24th Meeting

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 15 JULY 1981 at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for
the Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services

The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science

The Rt Hon Norman Fowler MP
Secretary of State for Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary
Treasury

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT

FOLLOW-UP TO THE SCOTT INQUIRY ON THE VALUE OF PENSIONS

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The Committee considered a Memorandum by the Chancellor of the Exchequer and the Lord President of the Council (E(81) 78) covering a progress report by the Official Committee on the Value of Pensions.

THE CHANCELLOR OF THE EXCHEQUER said that officials had identified a number of possible courses of action and had asked for guidance on the further work which they should undertake. He and the Lord President of the Council recommended that this work should proceed on the assumption that any changes should, so far as possible, apply to all public sector groups which had index-linked pension schemes, and that the options to be further considered should be those listed in paragraph 71 of the report by officials: namely, a straight increase in contributions; a partial switch to 'pay as you go' contributions; containing increases below a cut-off point fixed in advance; and a power to increase pensions by less than inflation. These options covered the possibilities of changes in benefits as well as changes in contributions. The increasing costs of meeting pensions obligations justified looking at benefits, although it had to be recognised that in the 1979 General Election campaign he had indicated on behalf of the Conservative Party that, while a Conservative Government would wish to ensure that contributions for pensions were at a proper and realistic level, it would not propose to change the index-linking arrangements for public service pensions. Any changes could effect 2½ million actual and another 8 million potential recipients of index-linked public sector pensions; and changes in benefits would require primary legislation.

In discussion the following were the main points made -

- a. It was right in principle to proceed on the assumption that any changes would apply to all public sector groups whether their pension schemes were funded or unfunded.
- b. It would be impracticable to introduce legislation to give effect to changes shortly before the next Election and, if no decisions were taken before the Election, there would be strong pressure during the Election campaign for commitments to

continuing the present arrangements. Insofar as legislative changes were necessary, they would have to be made in the 1981-82 Session. The possibility of making use of the 1982 Finance Bill for the purpose should be explored. Some progress might also be possible by fairly simple amendments to the Pensions (Increase) Act, 1971, as amended in 1975, which applied to most public service schemes and, perhaps, by making changes in other schemes by amendments to regulations and to trust deeds and rules as appropriate.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that further work by officials should be on the assumption that changes would apply to all public sector groups with index-linked pension schemes, and that the options to be further examined should be those listed in paragraph 71 of the report by officials, which covered the possibilities of some changes in benefits as well as changes in contributions. The Committee recognised that, if there were to be any legislative changes in this Parliament, they would have to be made next Session. Officials should complete their further work by the end of September and, while they should aim to cover all the options identified and to consider all public sector schemes, they should give priority to identifying what action could be taken quickly, the extent to which any legislative changes could be incorporated in the 1982 Finance Bill, and the implications of this. When the Committee considered this report, they could take account of any further developments in the work of the inquiry into Civil Service pay, and in the prospects for negotiations on public sector pay settlements in 1982. In response to any questions, Ministers should explain that the Government were continuing to examine the Scott report with an open mind.

The Committee -

Invited the Chancellor of the Exchequer and the Lord President of the Council to arrange for the Official Committee on the Value of Pensions to report to them by the end of September, taking account of the points made in the Prime Minister's summing up of their discussion, and to make recommendations as soon as possible thereafter.

Cabinet Office

16 July 1981