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PRIME MINISTER

INDEX-LINKED PENSIONS

..... Following the Cabinet discussion on 3 June we now have I think broad agreement on the outlines of the policy we wish to pursue in respect of public service pensions. Briefly, retain index-linking; place the full burden of the cost of index-linked pensions over and above average private sector practice on the contributors on a "pay-as-you-go" basis; raise the extra contributions by means of a special levy rather than by altering the details of each public service pension scheme; and make the Civil Service Pension Scheme contributory while leaving the Armed Forces Pension Scheme on its present non-contributory basis. As you will see from the attached note by Adam Ridley, this solution accords well with the findings of a public opinion poll carried out recently for the Party.

..... 2. The problems which most exercised the Cabinet were those of tactics and timing in relation both to the legislative programme and the next election coupled with concern about the impact of the proposed special levy on public service wage bargaining in the next two years. Consideration of these problems was remitted to you together with a few senior colleagues and I understand that your office is trying to arrange a meeting for this purpose some time next week. I have prepared this minute and the attached draft Parliamentary statement as an aid to that discussion.

3. The essence of the problem is this. We have now had the Scott Report for nearly 18 months and are under strong pressure in the House to debate it before the recess. We will look very



weak, when the debate takes place, if we cannot put forward a clear indication of our own views. But if we state our views we will be expected to take action to implement them. However implementation requires legislation; the Legislative Programme for 1982-83 is heavy and finding time for a pensions Bill would mean shedding another piece of major legislation; and the Cabinet are agreed that legislation in the 1983-84 Session is not a realistic option. If we were to be able to find time for legislation in 1982-83 the new arrangements could, with considerable effort, be brought into effect late in 1983 - at which point we would find ourselves deep into arguments with several million contributors about whether their extra contributions should be offset by special pay increases. Alternatively, implementation could take place coincidentally with the pay settlement dates of the groups concerned in the course of the 1983-84 pay round. The same arguments about offsetting pay increases would occur then.

4. My view is that we cannot sensibly let ourselves in for these kind of arguments on that timetable. I think it inevitable therefore that implementation is something which must happen in the next Parliament. Indeed it would be much easier to achieve the fairly substantial net financial savings which ought to flow from this reform if the related negotiations with the Unions take place after the next election.

5. If implementation is ruled out for this Parliament, does it make sense to legislate in advance of the election or indeed to state a firm position now which would then inevitably feature in our manifesto for the next election? The balance of judgement is not easy. On the one hand we have a considerable early Parliamentary problem if we do not make our intentions plain. The anti-indexation lobby is vocal and, even if in number fairly small, is important to us as a Party and well represented among our activists. Unless we are prepared to ignore the pressure, and to say that reduced inflation has removed the problem, we cannot put off an announcement of our views for much longer.



And even if we did the question will be asked, and need answering, in the election campaign.

6. There are other important considerations too. In particular there is no doubt that the continued sniping at index-linked pensions of the past three years has contributed to disaffection in the public services. A statement that we proposed to retain index-linking would help our industrial relations and would be particularly important for the older and more stable staff on whom we rely when trouble breaks out. There would be arguments about the degree to which higher contributions should be offset by increases in pay but I believe that there would be a widespread acceptance of the case for getting contributions at a consistent and realistic level. It is also relevant that many civil servants would welcome a contributory scheme if only as a counter to public misunderstanding - a point of some significance to Government as well. Moreover a contributory pension scheme divorces arguments about pensions from those about pay and would greatly simplify the processes of pay bargaining post-Megaw. Finally, I think that there would be advantage in indicating the general scale of charges which would be likely to flow from our new proposals without of course specifically tying our hands to a particular figure. Otherwise those concerned might fail to realise how relatively modest the additional charge has to be in order to ensure that the full burden of the difference between private and public sector practice is covered by employee contributions. Uncertainty could be exploited by the militants.

7. In short, my view is that we should make an early announcement of our intentions - though whether this absolutely needs to be before the recess or whether we could leave it until the autumn is something on which no doubt John Biffen can advise us. That first statement could be short and I attach a possible draft.
..... This would make it clear that there would have to be a substantial process of consultation, on the basis of a White Paper with green edges, which we would hope to issue towards the turn of the year and that implementing legislation would be one of our first

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priorities in the new Parliament. If we wished we could add that, because legislation is not needed to put the Civil Service Pension Scheme on a contributory basis, we would be pursuing this separately with a view to implementation at the same time as the levy came into force.

8. I am copying this minute to Robert Armstrong but to no-one else at this stage.

G.H.

June 1982

rec'd 15/6