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CONSERVATIVE PARTY FINANCE COMMITTEE - 17 FEBRUARY 1981

A discussion of the Scott Committee Report was led by Paul Dean MP. Fifty present.

1. Mr Dean felt that the Scott report had provided no answers to the political problem of public service indexation; nor could an answer have been expected from the Committee as constituted. Two questions remained:

- i) Is comparability any longer relevant? If the Pay Research system has been suspended in respect of pay, then can it be relevant to pensions? Should we not be asking what terms are required to attract the public servants we need.
- ii) What is the future of inflation proofing as such? We now have an indexed bottom tier (NI Pension & Earnings related pension). We have a top tier that is divided into three parts - public service, private pension schemes, the self employed.

2. What to do? Either abandon inflation proofing, or extend it to everybody. Mr Dean suggested a compromise solution:

- i) A cut off level for public service pension indexation.
- ii) Higher contributions for indexed public service pensions.

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3. Lord Orr-Ewing (guest) spoke of this dreadful report.... made three recommendations:

- i) Relativities should be geared to the 100 top companies, excluding banks and North Sea oil companies.
- ii) Set a ceiling to indexation of 10%.
- iii) Limit pensions in the public sector to, say, £10,000 pa.

It is very dangerous to rely on the judgement of one person (the Government Actuary). At least there should be a panel.

4. Robin Maxwell Hyslop. The Conserative Party has always held out against retrospection. A lot of people have accepted early retirement on the guarantee of indexed pensions. We must not go back on those assurances. Remember, in the private sector there is often the appreciation in value of a farm, a shop etc.

5. Tony Beaumont-Darke. Arrant nonsense that the captain and the crew have a lifeboat, but the passengers not. If Sir Bernard Scott had guaranteed inflation proofed pensions to his employees at Lucas Industries Ltd., Lucas would have gone bust.

6. Eric Cockeram. The government has made its problem worse by the appointment of the Scott Committee. It was inept in its choice of members. The Scottish actuary had never run a pension fund in his life - he was a life assurance man. The government must act pretty quickly to pour scorn on this report.

7. Robert McCrindle. Warned the Party of political risk. Many of the Party's most loyal workers are retired civil servants or retired headmasters. We cannot get away with de-indexing. We should

- i) try to make it easier for private funds to index themselves, via indexed bonds;
- ii) introduce a cut off point.

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8. Chris Patten. Don't shoot the messenger. Not sure that we can write off the five million state employees. We must look at:

- i) Contributions
- ii) Cut off point.

9. Peter Hordern. The Scott Report made the wrong comparison. It should not have limited itself to employees' contributions. It should have looked also at employers' contributions, which have rocketed in recent years.

Indexed linked bonds are too fanciful for words. Indexation of the national debt will prevent its real value of falling over time. Solution: much higher contributions.

10. Brandon Rhys Williams. Pensions should be indexed to National Income, not to RPI.

11. Michael Hamilton. You cannot take indexed pensions away from those who have them.

12. John Browne. Took the point about retrospection; but it was quite intolerable that civil servants should get special treatment. Indexed bonds would be disastrous: the more people are insulated against inflation the less is the will and the wish to stop it.

13. Tony Marlowe. We should prevent pensioners getting more in retirement than the present incumbent of the same job receives.


14. John Watson. We should maintain past rights but, for the future, pensions should be on a commercial basis. The Commercial Union cannot sell an indexed pension contract. If they tried to, the first thing to do would be to buy their contract, the second to sell their shares.

15. Nick Budgen. We have been round this course many times. The dangerous thing about Scott is the implication that there is another way out. Indexed bonds are not a way out. - They would upset the whole capital market. Granny Bonds are tolerable as a small anomaly: on a big scale they would be highly undesirable. Small firms could never borrow if index linking became a regular feature of the fixed interest market.

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16. Stephen Dorrell. Would like to say a word in favour of indexed bonds. They represent an attempt to protect the capital value of past savings.
17. Sir Robert Taylor. Felt the first thing MPs had to do was to renounce indexation in their own pensions. He had put down an amendment to the Pensions Bill accordingly.
18. Peter Lloyd. The Party line, given to enquirers at Central Office during the election, was that we introduced indexed pensions and we would stand by them. At the next General Election it would be perfectly proper to change policy, but not now.
19. William Waldegrave. MPs who have bought extra years in their pension scheme would have something to say if indexing were terminated. The indexation should be related to some index of real national income, not the RPI.
20. Nigel Foreman. Agreed on a cut off point and on increased contributions. But the change must not be retrospective.
21. Paul Dean, summing up. Thought that three things had emerged.
  1. There was a concensus that the government ought to do something, and do something fast.
  2. It was vital to realise that Scott had concentrated solely on the employees' contribution and ignored the comparison of employers' contributions.
  3. An acceptable compromise might lie in
    - i) Maintaining faith with those already retired, with a cut off point if inflation goes past a certain point.
    - ii) Recognising that contributions simply do not reflect modern conditions, and acting accordingly.

  
P J CROPPER  
18 February 1981

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10 DOWNING STREET

PRIME MINISTER TO

SEE PLEASE.



A handwritten signature in blue ink, appearing to be 'P. ...'.

22/1/1981

Handwritten initials in blue ink, possibly 'md'.