

CONFIDENTIAL R/A

PO CH/GH/0161

PO CH/GH/0161
PACT-A

PAY OF NON
INDUSTRIAL
CIVIL SERVANTS
1980-81

DD's 25 yrs NA 8-3
13-3-87

1980

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

17-12-80

MR. LOONE

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THE "FACILITIES" AGREEMENT

The Financial Secretary had a copy of the letter of 14 December from Mr. Jenkin to Mr. Channon, discussing the substantial loss of staff time in DHSS under the "Facilities" Agreement, and proposing a stricter departmental control.

I am sure the Financial Secretary will want to encourage this, but I doubt whether it is worth a letter to make such an obvious point. I suggest it will be best to wait for the outcome - which should be available fairly soon - of the CSD review of the present arrangements.



(J.G.LITTLER)

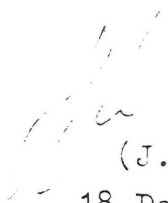
21 December, 1979

CONFIDENTIAL

We have both had copies of the letter of 14 December from Mr. Patrick Jenkin to Mr. Paul Channon about the Facilities Agreement.

2. I can see no reason against the action Mr. Jenkin proposes - appropriate in a publicity sense in view of the occasional extreme case from the Health Service (was there not an organiser earlier this year in one of the main London hospitals who was publicised as spending nearly all his time on union activities).

3. Are there any points we ought to put to the Financial Secretary?



(J.G.LITTLE)

18 December, 1979



17 DEC 1979

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1

REC.	7 DEC 1979
ACTION	
DATE	
TO	

14. December 1979

Yours Paul

E(CS) - NEED TO REVIEW THE FACILITIES AGREEMENT

I realise that CSD are currently engaged in discussions with the National Staff Side about the review of the Facilities Agreement and that the outcome of these discussions will be reported to E(CS) in due course. But I thought it might be useful to set down a couple of points which have occurred to me, as background to your own consideration of this important matter.

In DHSS I find that we currently allow something like 400 man-years worth of staff time to accredited representatives either of Staff Sides or of Unions. I believe this is excessive. Of course it is necessary to bear in mind that we have 98,000 staff, over 500 local offices, and Whitley Structures at Departmental, Regional and Local Office levels: and that 400 man-years represent about 0.4 per cent of our manpower budget. But since this facility time is accorded to "accredited representatives", ie those who are voted into office, we are not infrequently faced with people who have no intention whatsoever of helping to make Whitley work better, and whose political philosophies lead them to programmes of disruption. However much we may dislike the existing legislation, I suggest that the most practicable way of dealing with the problem is to restrict the activities within that legislation so that we can be more certain than now that accredited representatives are spending their time properly on industrial relations matters, and not fomenting discord and industrial disputes.

I appreciate full well that this is a difficult and double process. I for my part intend to ensure that there is proper and strict Departmental control of the facility time accorded under the existing Facilities Agreement for the Civil Service. Equally, I regard it as important that the negotiations at national level should aim at an agreement which is as precise as possible, especially in the distinction between industrial relations and union business, and which sets the right scene for Departments to curtail the subsidised activities of those who have little inclination to help make the system work. In saying this, I do not underestimate

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the difficulties in the way of persuading the Staff Side to agree to anything which seeks to reduce the scope of the present agreement.

I am copying this letter to the Prime Minister, colleagues on E(CS) and to Robert Armstrong.

*Vanessa
Lamb*

CONFIDENTIAL



cc CST 7236/1/5
 FST
 MST C
 MST L
 SIR D. WASS
 SIR A. RAWLINSON
 MR BURNS
 MR MIDDLETON
 MR RYRIE
 MR LITTLE
 MR MONCK
 MR DIXON
 MRS HEATON
 MR RAYMER
 MR CROPPER

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

16th May 1980

T. Lankester, Esq.,
 No.10, Downing Street

To T.L.,

PUBLIC SECTOR PAY POLICY

..... The Chancellor has asked me to circulate the enclosed article from the Spring edition of the Journal of the Royal Institute of Public Administration, as a background paper for the Prime Minister's meeting on Monday at 4 p.m.

I am copying this letter, with enclosure, to the recipients of my letter to you of 15th May.

Yours,

M.A. Hall

M.A. HALL

6871 C-KIP 6

Britain's white-collar civil servants will cost over £3 billion this year. Cuts in numbers — perhaps 1-2% in 1980, will do little to offset April's pay increase. The unions are expecting 18%. This would, for example, take the maximum for Principal — six layers from the top of a department — to £14,000.

Given the sums at stake, the taxpayer may reasonably request an assurance that the basis for determining pay is satisfactory. In fact there seem to be three important respects in which it is not: it is methodologically suspect, insufficiently open to public scrutiny, and based on a policy no longer appropriate or defensible. The result is almost certainly that the civil service as a whole is overpaid. But it is not as simple as that; within the total, many jobs are actually underpaid. In other words, both external and internal pay relativities are out of line.

concerned. There is no group of people informed about the jobs which meets to discuss and compare them. Above all, there is no framework to structure or systematize the judgement. A simple global assessment, often on limited information, is made by a civil servant and put to the outside employer for formal blessing. The process might be likened to using rough rules of thumb to find identical pieces in different jigsaws. In practice far more effort goes into the task of collecting pay and conditions data than goes into job matching.

What constitutes comparable jobs? Suppose two buyers buy similar quantities of stationery and office supplies, with similar purchasing authority and similar staff numbers. Comparable? Perhaps. But suppose one buys the same goods from the same sources each year, with the important judgements and decisions — about what is needed, how much, to

Where is the PRU technique for reconciling different content and context? There isn't one. To be fair to the PRU, they see the problem. But they have no means of taking account of it. And their suggestion that it affects only the top 10% of jobs in question lacks conviction.

In sum, while its work is done honestly and in good faith, the Unit lacks the tools and the process required to ensure adequately disciplined judgements. One measure of its limits is given by the range of pay found by the Unit for jobs of ostensibly equal weight, as shown in its 1979 report. The range between upper and lower quartiles is double that identified by at least one independent organization. The implication is that the Unit's approach cannot perceive real job differences which other methodologies can. And small errors here may mean a lot in money.

The PRU weaknesses favour the civil

CIVIL SERVICE PAY Why PRU Won't Do *by Roy Marris**

Methodology

The Pay Research Unit starts the annual cycle by updating a sample of civil service jobs in the grades concerned (non-industrial up to Assistant Secretary). It then seeks analogues for these jobs in some 260 outside organizations. Its findings are presented in reports setting out in considerable detail the pay and other terms and conditions for jobs which have been identified as comparable with particular civil service jobs. The Unit's work is then complete; it is not asked to process or analyse the data, but passes it raw to the negotiating parties.

The internal and external samples must be representative, and in the past much attention has focused here. Once this is achieved, the Unit's 1979 report says, 'We can readily find outside the service work similar to that within the service, and thus have no need to compare and evaluate different types of job.' Here is the heart of the matter, because it is the judgement that two jobs are similar which links the internal and external samples and hence determines the pay comparison.

How and by whom is this judgement made? There is no standardized analysis and presentation of the jobs

what specification, when, at what price and according to what contract requirements — made elsewhere, whereas the other does it himself. Comparable? Hardly, Job *content* differs. Suppose the content is the same, but that one is buying the goods for retail sale in a highly competitive market, has acute supply problems, is under great pressure from other parts of the organization, etc. — whereas the other does not face such problems. Comparable? Hardly. Job *context* differs.

Hence jobs superficially identical in terms of title and activities may on deeper examination prove very different. The mistake is to suppose that jobs can be plucked from their organizational setting and considered in isolation. Each organization taking part in pay research, civil service included, has its own unique internal and external environment, purpose, strategy, challenge, culture, values, management style. These elements shape its job. A single jigsaw piece means little unless we see how it fits into the whole puzzle. Similarly, individual jobs can be understood only within the framework of the organization of which they are part.

service more often than not. This is because civil service jobs tend to be more limited in decision making authority, more cushioned between layers of other jobs, more easily able to draw support and advice from elsewhere and set in a less demanding environment than are apparently similar jobs outside. In other words, civil service jobs are likely to be equated with outside jobs which are in fact bigger.

Public Scrutiny

Following disquiet about civil service pay being determined by civil servants, the then Government set up the PRU Board in May 1978. It has nine members, five independent and four nominated by the National Whitley Council. Its task is to see that the Unit does its job properly. It has no influence on the grades to be included, the timetable, the information to be collected, or the way the Unit's reports are interpreted and processed. It is not told what analyses and adjustments are made to the raw data. For example, it did not know at the time what adjustment was made on the Government Actuary's recommendations to take account of civil servants index-

linked pensions (subsequently revealed to be 2.6%).

In 1979 the Board asked for summaries of the raw data in various forms and was told by the Council that 'Any summaries quoting medians, or in particular which showed the pay rates for the analogues of specific civil service grades in a way which indicated, or would permit the calculation of, medians would unduly prejudice negotiations'. The Council added that 'Any direct comparison made between raw data medians and the civil service pay settlement would be misleading to those without a knowledge of the detailed processes and of all the details contained in the Unit's reports'. Here was a splendid argument: the Council refused to tell the Board how the data was adjusted, then refused to tell them what it looked like unadjusted because they wouldn't know what relationship it bore to the adjusted data, would they?

The public might be forgiven for thinking that this new watchdog had been set up to watch the wrong thing. 'We certainly do not recommend or have any responsibility for the eventual level of the civil service pay settlement', says the Board. What is required is reassurance that the Unit's findings are not interpreted by civil servants behind closed doors to suit themselves, and presented to hapless ministers as a *fait accompli*. There is no evidence that it is not done perfectly properly. But justice must not only be done, it must be seen to be done. The public should know (in a form which protects the confidentiality of outside organizations) the findings of pay research, and the adjustments made to the data during negotiations to arrive at a settlement. After all, it is the public's money.

Underlying Policy

The Priestley Report of 1955 recom-

mended that 'the civil service should be a good employer in the sense that while it should not be among those who offer the highest rate of remuneration it should be among those who pay somewhat above the average'. Not surprisingly the civil service found this most acceptable and has clung to it firmly ever since. Is it appropriate? Civil servants have the privileges of almost total job security, better than average working conditions and terms of employment, excellent career opportunities provided by long promotion ladders with vacancies invariably filled from within. There is little emphasis on individual accountability, or on personal performance. Annual increments are paid automatically. Many, particularly at junior levels, are underemployed (usually through no fault of their own).

Can it seriously be maintained that civil servants in general should actually be paid more than their outside equivalents? In these bleak times, when the country needs entrepreneurs rather than officials, innovators not enforcers, wealth creators not wealth consumers, change not status quo, such a policy is outmoded.

Professor Gordon Tullock of Virginia Polytechnic Institute and State University estimates that in the USA, where civil servants are also paid on the basis of external comparison, they get 30% more than they would outside. The figure is less here. If the PRU methodology is generous to the civil service by rather less than one promotion level, 10-15% would reflect it. That would cost £300-£450 million this year.

But this is not the whole picture. The civil service grading criteria are slapdash, so that the biggest HEO job, say, is hugely more difficult and important than the smallest. Grade drift is endemic. Hence differences in job weight are not reflected in pay.

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Jobs at the top end of the size range are underpaid compared with outside. With a growing civil service which rewarded ability and high performance with plum jobs and rapid promotion, this was tolerable. But as civil service contracts and promotion prospects diminish, it will become essential to match pay more accurately to job size and to recognize and reward good performance in other ways. Otherwise it will be impossible to attract, motivate and retain the right people. Moreover, many civil servants are overpaid for what they do but underpaid for what they could do, because the way jobs are set up does not allow full use of their talents, does not make them stretch and grow. It is quite possible to reconcile challenging work and real individual responsibility with the particular needs of government. Indeed the two run together.

What the Government Should Do

What does it all add up to? The government should do four things. First, contract out the fact-finding process to the private sector, where adequate methodology is available, independence and impartiality are assured, and wider job experience can be brought to bear. There should be a saving too: pay research required 70 staff and cost £1 million last year. Second, charge the Board to publish summaries of external pay data together with the adjustments made for comparison purposes and the case for them. Third, review civil service remuneration policy to bring it into line with today's realities. Fourth, get to grips with the issues of job grading, performance, and accountability. The outcome should be a fairer deal not only for taxpayers, but for civil servants too.

*The author is an economist working in the pay field and a former civil servant.

William Plowden on Rayner Exercises

Interviewed on BBC's *Newsweek* programme about the current Whitehall exercises to eliminate waste initiated by Sir Derek Rayner, William Plowden said 'I think it is a pretty random pinprick way of trying to get at efficiency and effectiveness in government. I would like to see some much more comprehensive and systematic approach to this.' 'I think the time is long over

ripe,' he added, 'for trying to build into the government process some kind of capability for looking continuously and critically all the time at what Government is doing.'

Mr. Plowden said he thought there were two main reasons for the growth in civil service manpower over the years. Firstly, 'there aren't very strong pressures inside the civil service

for economy. There's a natural tendency to go on increasing one's empire — doing a little bit more of what one's doing already — for perhaps quite good professional reasons.' Secondly, 'governments of both parties do impose on the civil service extra jobs to do, extra legislation, new sorts of controls and so the tasks go on increasing.'

Mr Heath

19/5

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FINANCIAL SECRETARY

- cc Principal Private Secretary
- PS/OST
- PS/AST(C)
- PS/AST(L)
- Sir D Mass
- Sir A Rawlinson
- Mr Littler
- Mr Carey
- Mr Dixon
- Mr Cardona
- GCS

FINANCIAL SECRETARY'S REMARKS IN PUBLIC ACCOUNTS COMMITTEE DEBATE

I attach a draft reply to the letter from Mr Channon's private secretary attaching correspondence with the Secretary General of the Council of Civil Service Unions about the FST's remarks in the PAC debate on 1 May.

I suggest that any comments made to Mr Kendall should give him as little ground as possible to continue the exchange. I think that you can legitimately make the point about the previous Government's "post-dated cheque" but one has to be a little careful about this since Mr Kendall could come back and ask whether you would prefer that it had been a non-post-dated cheque, i.e. that the whole of the increase had been paid last year, as no doubt he also would have preferred. Surely the best ground for your remark is that, whatever the reason for it, it is unsatisfactory to have to publish figures showing a 25% increase in civil service pay. The way in which the figure has been greeted and been interpreted is surely evidence of that.

I suggest a draft which makes both points, and which ends by suggesting that Mr Kendall should not get too excited about remarks made in response to an intervention during a Parliamentary debate.

GCS.

21 May 1980

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THE FINANCIAL SECRETARY TO THE GOVERNMENT:-

G D Rogers Esq
Assistant Private Secretary to the
Minister of State,
Civil Service Department
Whitehall
London SW1

Thank you for your letter of 15 May which I have shown to the
Financial Secretary.

The Financial Secretary asks me to say that his "most
unsatisfactory" comment referred principally to the previous
Government's post-dated cheque which led to the 25% figure. He
thinks that Mr Kendall would not contest that, whatever the
reasons for it, the 25% figure is unsatisfactory: the prominence
which it has received, and the interpretation put upon it about
the current pay increaseⁱⁿ the public services (even though a
wrong interpretation), surely justifies that description.

The Financial Secretary suggests however, that this remark and
the remark about pay research, made on the spur of the moment in
response to interruptions in a Parliamentary debate, are not worth
Mr Kendall's applying too much higher textual criticism to them.

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Mr Burns
 Sir Anthony Rawlinson
 Mr Littler
 Mr Middleton o/r
 Mr Dixon
 Mr Monck
 Mr Unwin
 Mrs Heaton

Mr Rayner
 Mr Cropper

E COMMITTEE MEETING ON PUBLIC SECTOR PAY

Mr Rayner's brief below covers the ground well.

2. The two papers by the CPRS are rather worrying. Their suggestion for a new system involving interim settlements and topping up final settlements amount to maintaining comparability in full, although modifying the methods to some extent. I suggest you should bring this point out clearly. In your first paper, you suggested that the choice lay between maintaining comparability but improving it, abandoning it altogether, or "de-throning" it. You also said you thought the effective choice was between the second and third of these courses. The CPRS has plumped for the first.
3. The longer CPRS paper about the main issues is not an unbiased list of questions - it is rather heavily weighted in the direction of the course they prefer, ie maintaining comparability but improving the mechanisms.
4. I think it is very disappointing that the two CPRS papers do not discuss the fundamental issue: what role should the Government intend public sector pay to play in getting inflation down over the next year? Of course the Government must go for policies which are realistic and are not in danger of being a flop. But I do feel that the CPRS approach rather underestimates the ability of the Government to impose a tough line on those who are in its direct employ. Those who are thought likely to make trouble in this sector are not on the whole popular in the country and if the disputes are handled with skill and the Government's position is seen, overall, to be reasonable, there must be a good chance of winning some fights. Both the CPRS and the

/Lord President

SECRET

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Lord President seem to start from the assumption that the fight should be avoided.

WSR,

(W S RYRIE)

16 June 1980

SECRET

Seen in draft

1. MRS HEATON
2. MR RYRIE *W.S.R. 16/6*
3. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir D Wass
 Mr Burns
 Sir A Rawlinson
 Mr Littler
 Mr Middleton (OR)
 Mr Dixon
 Mr France
 Mr Kemp
 Mr Kitcatt
 Mr Monck
 Mr Unwin
 Mr Davies
 Mr Judd
 Mr Robson
 Mr Daykin
 Mr Ridley

BRIEF ON: E(80)53: CIVIL SERVICE PAY: IMPROVEMENTS TO PAY
 RESEARCH SYSTEM

- E(80)54: PUBLIC SERVICES PAY IN THE NEXT PAY ROUND
 E(80)55: PUBLIC SECTOR PAY: THE MAIN ISSUES
 E(80)56: PUBLIC SECTOR PAY: FACTUAL BACKGROUND

In addition to the above papers, Ministers will have in front of them your paper (E(80)46), and the earlier papers by the CPRS (E(80)49) and the Lord President (E(80)48), which are supplemented rather than superceded by the subsequent papers. These papers are covered by Mrs Heaton's brief of 4 June. The discussion is in danger of being swamped by a mass of paper. More difficult from your point of view, all the papers (except the neutral one on factual background) are in fact opposed to your own position. Your view is that comparability, even with modifications, cannot be allowed to survive. You would prefer it to be 'dethroned': but if this is considered impracticable, you would prefer to see comparability abolished altogether. The other papers, even the CPRS ones which purport to offer a compromise, in fact *advocate* the retention of comparability with modifications. This permeates the CPRS issues paper, which in the absence of a strong line by you is likely to be used as an agenda: because the paper is weak on objectives, but discusses at length the various important settlements, it is likely to sidetrack discussion into detail without the objectives being clearly determined. This can only play into the hands of those who want to retain comparability - a line for which, judging by the minutes of the E discussion on 5 June, there was considerable sympathy at the last meeting.

2. We therefore recommend that you must start by concentrating discussion again on the objectives, on the lines suggested in paragraph 1 of Mrs Heaton's previous brief. (You may wish to make use in this context of the Treasury note on earnings and prices forecasts at Annex II of E(80)56). Both from a public viewpoint, and from that of influencing earnings expectations throughout the economy, the Government must take a clear and firm initiative to reduce public sector pay increases significantly in the next pay round. None of the alternative approaches to yours offer such an initiative - they are essentially reactive, both on pay levels and on setting firm cash limits in advance. Some colleagues may argue, with considerable justification, that there is little evidence to suggest that public sector settlements can influence downwards those in the private sector. But this misses the point. A tough Government initiative will certainly influence expectations: it also removes that favoured private sector argument that it would have settled lower had not the high level of public sector settlements made that impossible).

3. If you win this argument, then the case for maintaining comparability in some form or other as the primary pay determinant collapses, since it cannot meet your objectives. The discussion will then fall back on the practicalities of your paper as in part amplified by the CPRS issues paper, and in particular on whether "dethroning" comparability stands a reasonable chance of working, or whether it would be better to abolish it completely.

THE CPRS SCHEME (E(80)54)

4. In the above discussion, you may need to point out the weaknesses of the CPRS proposals. Basically the idea is:

- i. an interim settlement (13% is suggested, but it could be lower) on the annual settlement date;
- ii. a topping-up final settlement at the end of the 1980-81 pay round reflecting the percentage increase actually achieved over the round by the relevant private sector analogues for each group.

This would exclude from settlements, but for the 1980-81 round only, any influence for pay movements in the 1979-80 round, and in the case of PRU, any RPI uprating as well. The weaknesses are:

- a) it would have little or no influence on private sector expectations at the outset because the public services would be following the private sector: this is also implied by the high proposed level of interim increase (13%);
- b) either no cash limits would be set in advance of settlements, or they would be subject to subsequent adjustment: the public expenditure reduction element thus disappears;
- c) comparability is restored from 1981-82 onwards (the problem could be eased by staging but on this approach ultimate restoration is inevitable) which both leaves a catching-up problem and places the whole burden of achieving a reduction in earnings increases on the private sector, with the public sector following.

5. You should also question the premise, in paragraph 4 of the paper, that a compromise is necessary because a tough line (by implication yours) would lead to disputes, some of which the Government would inevitably lose, leading to the collapse of the strategy and the cash limit system. The only real danger group we see here are doctors and dentists, and these, even if successful against the Government, are unlikely to lead to a breach of cash limits because of their small size. If the Government is prepared to be tough enough (eg taking advantage of nurses' unwillingness to strike or accepting that social security and unemployment benefits are not being paid out), it should be able to withstand action by other groups.

THE LORD PRESIDENT'S PAPER

6. Unless comparability is to be abolished entirely, this paper is important: it is as necessary to 'dethroning' comparability as to simply retaining it. Clearly the details need further thought, and will to some extent be affected by the overall decision on strategy. But at this stage you could make two points:

- i) the PRU Board must have absolute access to all PRU material (you will recall that Lord Shepherd complained that some had been withheld from the Board on grounds of 'confidentiality');

- ii) there is a case for the PRU Board supervising not only the preparation of the pay research data, but also its use in subsequent negotiations to ensure that it is not misused.

THE CPRS ISSUES PAPER

7. As indicated above, this paper may well be used as the basis of an agenda. It has a number of drawbacks for this purpose:

- i) the objectives (paragraph 2) are weaker than yours - hence the need to argue for your objectives at the outset;
- ii) the discussion is weighted too heavily in favour of the CPRS' views, which should be rejected for the reasons given above;
- ii) the paper is too discussive, and gets heavily involved in detailed settlements, which provides too much scope for sponsor Ministers to grind their own political axes, whilst at the same time obscuring the decisions that need to be taken.

8. Most of the detailed arguments have already been discussed above or in Mrs Heaton's brief of 4 June. Accordingly what follows simply summarises the decisions you will wish to get out of the meeting:

PUBLIC SERVICES

- a) agreement to announce firm cash limits before negotiations start, with a pay(? and price) assumption below those used this year, but at a level which attempts to balance realism with monetary targets (contrary to the CPRS paper paragraph 10(m), we think this entails a common assumption, both to influence expectations and because there are no realistic grounds for setting different assumptions for different groups);
- b) agreement to 'dethrone' comparability in cases where settlements are currently determined in this way:

- i) study of improvements to PRK machinery and of the changes needed in the CS pay agreement to reduce role of comparability (we recommend you argue against special treatment for prison officers);
- ii) study changing terms of reference (CPRS paper paragraph 7e) // Government's position ^{on} acceptance / membership of Review Bodies to reduce the weight currently placed on comparability (on the Armed Forces, you will no doubt consider it inevitable to keep to the Government's commitment) (CPRS paper paragraph 7(c), but the above approach may ease or even remove the problem, as the paper recognises);
- iii) study reconstitution of Clegg Commission with new membership and terms of reference;
- iv) decide on policy on index-linked pay (we do not see firemen as a major problem since their pay causes little public interest: but police are another matter. We consider it would be both difficult and dangerous to present the police as a special case and would therefore argue, in spite of the problems, for de-indexing;
- v) longer-term study of possibilities for amalgamating existing comparability institutions.

NATIONALISED INDUSTRIES

- c) agreement to continue broadly with present approach:
 - i) include tight pay assumptions in 1981-82 EFLs;
 - ii) bring pressure on Chairmen to stay within these;
 - iii) all nationalised industries to adopt unit cost performance targets before the autumn (this conclusion is omitted from the CPRS paper and you will therefore need to bring it out).

TIMING

- d) your general approach argues for setting cash limits and EFLs as early as possible in order to influence expectations (you will be well aware of the arguments on whether to use TSRB 14 and MPs' pay as the starting point).

PM Rayner
 P. M. RAYNER
 14 June 1980

Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Lawrence Airey



Handwritten notes:
of
Notes of
Meeting

Sir Douglas Lovelock ¹⁷
Mr. Littlewood (DNS)
PS/Lord President: ^{3b}
Mr. France
Mr. Robson
Mr. Hansford

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET WITH REPRESENTATIVES
OF THE FIRST DIVISION ASSOCIATION OF CIVIL SERVANTS AT 10.45 A.M.

ON WEDNESDAY, 25TH JUNE, 1980

Handwritten signatures:
M. P. Rague
Rape

Present:

Chancellor of the Exchequer
Mr. Lavelle (Treasury FDA)
Mr. Beighton (Inland Revenue FDA)
Mr. Godfrey (Customs & Excise FDA)
Mr. Bishton (AIT)
Mrs. Heaton (HM Treasury - supporting the Chancellor)

Mr. Lavelle thanked the Chancellor for seeing the delegation, which wished to put to him the views of the Association in advance of Cabinet discussion of the recommendations of TSRB on the pay of senior civil servants. The delegation spoke for the FDA branches in the Treasury, Inland Revenue and Customs and Excise, and for the Association of Inspectors of Taxes, which acted wholly in concert with the FDA on matters of national application such as pay. Mr. Robson, Chairman of the Treasury FDA branch, had already submitted a memorandum to the Chancellor on 18 June. The delegation wished to expand on this.

2. The FDA did not question the Government's right to review the tasks and reduce the size of the public services. This was not directly relevant to the question of pay at senior levels. But a combination of a shrinking civil service and depressed pay levels and differentials at the top of the scale were having a serious effect on morale. It was his personal view that involvement in the process of policy formulation was exhilarating and rewarding; that good government depended on the success of this process; and that there was a real risk of irrevocable damage to the relationship between Ministers and their senior advisers.

3. The FDA's submission had listed the main arguments for full implementation of the Boyle recommendations:-



(i) Equity. The TSRB had been set up at the same time as the DDRB and the AFRB. Recommendations of the other two bodies were to be implemented in full, and no "clear and compelling reasons" had been adduced by the Government to commute them. It would be inequitable to single out the TSRB groups for special treatment in the course of the same pay round. People in the civil service grades covered by Boyle tended to be at a stage in their family life where financial demands upon them were very heavy. Despite the obvious difficulties of gauging feeling among FDA members, Mr. Lavelle had no doubt that they felt strongly that it would be inequitable not to implement Boyle in full.

(ii) Incentives. A failure to implement the Boyle recommendations would imply an inconsistency with the Government's stated belief in rewarding success and streamlining the service. Significant numbers of able civil servants were drifting away; they tended to be the least dispensable. Departure of a few key people could have a serious effect on the efficiency and morale of the Treasury. In Mr. Lavelle's view to make an example of the TSRB groups would have no influence whatsoever on the atmosphere of the future pay round. It was the wrong group to choose as an example, and the wrong time to give a signal.

4. The Chancellor of the Exchequer said he agreed with Mr. Lavelle's assessment of the importance of the relationship between Government and the civil service, and of the need for politicians and civil servants to maintain high morale. Clearly pay and status were highly relevant, and both groups must feel that they were not being unfairly treated. He took the point



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that it could well seem inequitable to treat the TSRB groups differently from other groups covered by review bodies in the middle of a pay round; but in practice the sequence of pay settlements was a seamless web. There was no clear demarcation between rounds.

5. He recognised that some very able civil servants had left the Treasury. But numbers were not at alarming levels, and he would himself be dismayed if there were no such outward movement. Mobility in both directions was needed. A balanced approach was needed to trimming and streamlining the public service. It was counter-productive to slash blindly at numbers without recognising that sometimes more staff would be needed to perform particular functions. He told the delegation that Ministerial colleagues had also argued that this would not be a particularly good case to choose as an example for the next round; but it had to be recognised that the Government was regarded by the private sector as a trend-setter in pay settlements. He was, in a word, sympathetic to the FDA's representations, but - as he imagined the delegation would have expected - not wholly so.

6. Mr. Bishton drew the Chancellor's attention to the anomalies which had arisen at the top end of civil service pay scales. The Government's decision on Boyle would affect not only the grades covered by the TSRB but also Assistant Secretaries and Senior Principals whose settlements had been held over pending Boyle's report. Not a single report by the TSRB had been implemented in full, since its inception in 1972. The Under Secretaries had been consistently held back, and over recent years had failed to keep up either with the all wages index or the RPI. Assistant Secretaries scales had also, and partly in consequence, been depressed. The last settlement of £17,000 as the Assistant Secretary maximum was £1,000 - £1,500 less than pay research suggested. The Minister of State (Civil Service Department) had recognised that the Under Secretary/Assistant



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Secretary interface was a real problem. Boyle had been told of the figures implied by PRU for Assistant Secretaries, viz £22-£23,000 maximum, so that he could take the anomaly into account in his recommendations. If Under Secretaries' pay were again held back, there would be insufficient headroom to establish satisfactory differentials.

7. Mr. Beighton said that continual public criticism was having a serious effect on morale in the civil service. Members had the impression that the Prime Minister was doing nothing to counter it. They did not complain of the heavy additional burden of work which the new policies and policy reviews of the new Government had brought. But even before Boyle reported it seemed that the Government was going out of its way to talk down the pay settlements for senior civil servants.

8. Mr. Godfrey endorsed these points. He added that constant delay in establishing an appropriate level for top civil service salaries simply deferred the problem which became greater each time it arose.

9. The Chancellor said that to him it seemed that there was a generalised public anxiety directed at both politicians and the civil service. There was a need to restore popular confidence in the government machine. This entailed reappraisal of the size and function of the civil service. He was grateful to Mr. Beighton for voicing his anxieties, but could assure him that the criticism of the civil service did not emanate from the Government.

MAH

(M.A. HALL)
26th June, 1980



7.8.80

FIFTH REPORT OF THE TREASURY
AND CIVIL SERVICE COMMITTEE

The Chancellor of the Exchequer, the Rt Hon Sir Geoffrey Howe, QC MP, has today written to the Rt Hon Edward Du Cann, MP, Chairman of the Treasury and Civil Service Committee, enclosing the observations of the Treasury and the Civil Service Department on the Fifth Report from the Committee, Session 1979-80, on provision for Civil Service Pay in the 1980-81 Estimates. The Report was published on 24 July 1980.

PRESS OFFICE

H M TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-233 3415

136/80



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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 August 1980

The Rt. Hon. Edward Du Cann, MP
House of Commons

FIFTH REPORT OF THE TREASURY AND CIVIL SERVICE COMMITTEE

.....

I attach a note setting out the observations of the Treasury and the Civil Service Department on the Committee's Fifth Report, Session 1979-80. As you know, I am glad to see the Committee joining forces with the Government to ensure proper control of pay and numbers in the Civil Service.

You were good enough to explain, when I gave evidence to the Committee on 28 July, that several press reports which followed the publication of your Fifth Report were misconceived. We are both anxious for the facts to be properly understood.

The increase in the Civil Service pay bill in 1980-81 as a result of this year's award was within the 14 per cent provision in the cash limits. The total increase in the amount paid to civil servants is 25 per cent between 1979-80 and 1980-81 because the cost of part of last year's pay award was postponed to this year by the previous Government in order to keep down the cost of the award last year. In honouring the award, we had to meet the full bill this year.

These transactions were entirely public and the arithmetic was set out in the Chief Secretary's Memorandum on the 1980-81 Supply Estimates.

GEOFFREY HOWE

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OBSERVATIONS BY THE TREASURY AND THE CIVIL SERVICE DEPARTMENT ON THE FIFTH REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE, SESSION 1979-80: PROVISION FOR CIVIL SERVICE PAY IN THE 1980-81 ESTIMATES

The Treasury and Civil Service Department have the following observations on the Fifth Report of the Treasury and Civil Service Committee, Session 1979-80, concerning provision for civil service pay increases in the 1980-81 Estimates.

2. Pay in the public sector, and the control of expenditure of pay, are issues of great importance. The Treasury and Civil Service Department welcome the interest and assistance of the Committee in these matters. Some of the comments made by the Committee in their report are more directly related to the Government's decisions concerning the civil service pay settlement, than to the mechanisms of Supply Estimates which are the subject of the present report.

3. The history of the arrangements for dealing with civil service pay in the 1980-81 Estimates is as follows.

4. When the proposal, subsequently implemented, to assimilate Estimates and cash limits was discussed with Select Committees of the previous Parliament, the problem of dealing with pay increases was recognised. The Treasury explained (1) that the treatment of pay, and the possibility of predicting the effect of the relevant pay settlements on Vote subheads, would depend on the pay arrangements in force at the time. In evidence the global Estimate arrangement was mentioned as one possible option.

5. Before 1980-81 the provision for pay in cash limits had been mechanically related to the previous Government's quantified pay policies. In November 1979 the Treasury and the Civil Service Department sent a memorandum to the present Committee, and to the

(1) Supply Estimates and cash limits: memorandum submitted by the Treasury. Fourteenth Report from the Expenditure Committee, Session 1977-78, HC 661

Public Accounts Committee, explaining how, in the absence of a quantified pay policy, it was proposed to make provision in the Estimates for 1980-81 for civil service pay. This followed the lines of the option mentioned earlier, namely that the departmental Estimates should contain provision for civil service pay as settled up to the time Estimates were prepared, and that provision should be taken in a single global Estimate for awards not settled at that time, to be followed in the summer by a Revised Estimate distributing the global Estimate to the relevant subheads of the departmental Estimates.

6. The arrangements described in that memorandum were implemented. Before the House was asked to vote the Main Estimates, the promised Revised Estimate was presented. At the same time the Treasury sent to the Committee a copy of a note published by the Treasury showing new totals for all departmental Estimates following the distribution in the Revised Estimate.

7. As explained when these arrangements were discussed in advance with the two Parliamentary Committees, there were two reasons for this procedure in 1980-81. First, it provided the flexibility necessary to deal with variations amongst departments in the cost of pay awards then in the future. These variations depend, for example, on the number of staff employed in different grades and the amount of overtime worked. Most of the individual Estimates which include civil service pay contain relatively little other expenditure, and so have little scope for absorbing cost variations. The Revised Estimate presented on 4 July showed the distribution by then decided upon in the light of the award for the non-industrial civil service settled in April.

8. Second, before determining the amount to be provided in Estimates for civil service pay increases resulting from the April award, the Government wished to consider the pay research evidence for the non-industrial civil service. This was not available until early February, too late for appropriate provision to be calculated for each Estimate in time for printing and publication before the start of the financial year.

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8. These arrangements were decided upon in the circumstances of 1980-81. As already stated in the memorandum by the Treasury and the Civil Service Department and in their observations on the Committee's First Report; Session 1979-80 (Cmnd 7883), they will not necessarily be followed in future years.

10. The Committee expressed concern about the control of public sector pay in its Second Report, Session 1979-80. This followed discussions by the Committee with Treasury officials, and with the Chancellor of the Exchequer on 14 April, and an exchange of letters between the Chancellor and Chairman of the Committee. This exchange ^ested with the Chancellor's undertaking, in a letter to the Chairman dated 29 April, to "consider in the light of your comments the information to be published with future Estimates". Subsequently Paragraph 19 of the Second Report indicated that the Committee were still "pursuing the matter with the Chancellor". No further consultation took place with the Chancellor before the publication of the latest (Fifth) Report.

11. The Treasury and Civil Service Department make the following comments on four points raised specifically in the Fifth Report.

a. Splitting provision between two Estimates

12. The Treasury and Civil Service Department do not accept the criticism that providing for the new civil service pay increases in a global Estimate separate from the departmental Estimates obscured the true position and undermined effective control.

13. Control was and is fully effective. The figures were published. The aggregate provision for civil service pay in 1979-80 and 1980-81, and therefore the total increase in the civil service pay bill between the two years, was set out in table 5 of the Chief Secretary's Memorandum which accompanied the Main Estimates. The subheads of individual departmental Estimates to be augmented by the distribution of the global Estimate were clearly marked. The Revised Estimate set out in detail the proposed amounts by which each of these subheads was to be augmented.

b. Staging and delaying of awards

14. The Committee drew attention to certain dangers of staging pay awards and suggested that it was only in evidence from the Chancellor of the Exchequer that it emerged clearly that, while the global pay increase estimate was 14 per cent, the actual increase in central Government pay this year compared with last was expected to be 25 per cent, the difference being mainly due to the effect of pay awards staged from the previous year and therefore already included in the Main Estimates. These awards were staged by the previous Government to postpone the full costs involved in unwinding the distortions created by its rigid pay policies. In honouring these awards the present Government had to meet the full costs in 1980-81. As mentioned above, the figures were published in the Chief Secretary's Memorandum.

15. The implications of staging to which the report draws attention are clear and inevitable. They arise with any system of annual limits and of pay increases which fail to any extent to coincide with the financial year; and are one reason why, as already mentioned, an annual system of control totals can only provide a framework, not a complete control over pay settlements. The decisions taken about the civil service pay settlement in 1980-81, including the delay in implementation, were announced at the time. If such decisions are taken, the effect on the provisions needed for future years is an important consideration. So too is the fact that deferring or staging a settlement saves money in the current year. The increase in the total civil service pay bill between 1979-80 and 1980-81 would have been no more than 14 per cent if the previous Government had paid the 1979 pay award in full on its normal settlement date. This would have increased expenditure in 1979-80, which is why the previous Government staged the award. The present Government delayed the date of implementation of the 1980 award for the same reason.

c. Civil Service pay increases and numbers

16. The Committee recommended that additional information should be given in the Estimates.

7. The form of the Estimates is already under separate consideration and will doubtless be the subject of further discussion with the Committee. The danger of double counting reductions in numbers can be, and has been, avoided. The Estimates for 1980-81 were based on planned levels of expenditure, including planned manpower. The cuts in manpower costs made specifically to offset part of the cost of the 1980 pay award represented additional reductions below the plans mentioned.

d. Procedure

18. The Committee suggested that the present procedural arrangements for debating Estimates on the floor of the House are inadequate.

19. These arrangements are a matter primarily for the House. The House is to debate a proposal by the Chancellor of the Duchy of Lancaster that a Select Committee be appointed to review this and other aspects of financial procedure.

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RA 65

EXCHEQUER	
REC.	15 AUG 1980
ACTION	MR UNWIN
COPIES TO	CSF
	FST
	SIR D. WASS.
	MR RYRIE
SIR A. RAWLINSON	
MR BATTLET.	



HOUSE OF COMMONS

LONDON, SW1

August 13, 1980.

- MR BUTLER
- MR UNWIN
- MR DIXON
- MR P G DAVIES
- MR MOWER
- MR DYER
- MRS RAYNER

- MR ROBSON
- MR RIDLEY
- MR BAMFIELD (CD)

[Handwritten signature]

Thank you for your letter of 7 August with a note enclosed setting out the observations of the Treasury & Civil Service Department on the 5th Report of the Treasury & Civil Service Committee. The Committee will not be meeting during the Recess but no doubt we shall be considering these observations at the meeting which we are holding on the first day that Parliament reassembles. Meantime I thought perhaps you might like to have this acknowledgment, and a comment of my own.

I agree with you: it is plainly satisfactory if the Select Committee and the Treasury are working together in the surveillance of pay and numbers in the Civil Service. I hope that the work the Committee does will continuously reinforce Parliament's and the Treasury's surveillance of such matters.

I am also glad that you emphasise the need for the facts to be properly understood. Parliament, and the public, must have the relevant information. You are right when you say that the basic arithmetic in relation to the increase in the Civil Service pay Bill in 1980/81 was set out in the Chief Secretary's memorandum on the 1980/81 Supply Estimates.

The Committee was concerned to make two points. The first is that although this statement is factually true the figures were set out in two separate tables. It is necessary to make a special calculation in order to establish the percentage increase between the present total pay bill and the total for the previous year and thus enable a proper comparison to be made. Nowhere was the percentage increase nor any comparison with the previous year's figures clearly displayed. That is why the disclosure of the 25% figure in the Committee's report attracted so much attention.

/ over

The second point is perhaps more significant for the future. The Committee is not so much interested now in a post mortem about what has happened as in establishing a system by which the control mechanism for Civil Service pay is fully comprehensible by Parliament and the outside world and announced early in the year.

You will know that this matter has been of continuous concern to the Committee, as it has been to Parliament, and the establishment of comprehensible controls is very much more important than the proportional increase in any one year's payments.

Handwritten initials: J. S.

The Rt Hon Sir Geoffrey Howe, Q.C., M.P.,
Treasury Chambers,
Parliament Street,
SW1P 3AG



cc: Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. ~~France~~
Mr. Littlewood - DNS
PS/Customs & Excise
PS/Inland Revenue

30
68

MR. McCONNACHIE - INLAND REVENUE

CHANCELLOR'S MEETING WITH FDA/AIT

The Chancellor has agreed to see a delegation drawn from the FDA and AIT branches in his main Departments to discuss pay and pensions in the Civil Service. The meeting will take place at 9.45 a.m. on 9 September. Relevant correspondence is attached.

.....

2. The Chancellor would welcome briefing. I am sure he would welcome some support; perhaps this should be Establishments Officers from Treasury, Customs, and IR (there are, are there not, very few FDA members in ^{DMS} DHSS?)

MA

(M.A. HALL)
14 August 1980

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C Please see note below.

RT.

3/69

CHANCELLOR OF EXCHEQUER ← 12/2

cc Sir D Wass
Mr France
Mr Hansford
Mr Spence (IR)

CIVIL SERVICE PAY AND PENSIONS

(Below)

I have seen Mr Spence's minute of July 21 seeking a meeting with you to discuss the position on pay and pensions. As Chairman of the Treasury Branch of the FDA I hope that, if you are minded to have such a meeting, you would invite representatives from all your departments.

2. On pensions, Ministers will no doubt be considering the statement the government is to make in the light of the voting in the House on Monday night on MPs pay and pensions. One of the amendments passed would have the effect of paying pensions for MPs on the full rates of pay recommended by the TSRB. If the Government decided to accept this proposal it would be only equitable to pay pensions to civil servants on the full rates recommended by the TSRB and on the rates produced by pay research.

SAR

S A ROBSON
Treasury FDA Branch Chairman
23 July 1980

Boston 734 1100
X 222

32
70

~~SECRET~~



Inland Revenue
POLICY DIVISION
Somerset House
London
WC2R 1LB

Telephone Enquiries 01-4386.497

The Chancellor of the Exchequer
11 Downing Street
LONDON SW1

Your reference

Our reference

Date

21 July 1980

Dear Chancellor

The Revenue Branch of the FDA had a meeting on 18 July to discuss the question of senior grades pay. The comments on the Government's conduct re-inforced the points made to you in John Green's letter of 7 July, and mine of 9 July. There was particular concern at the treatment of those about to retire but the main focus of discussion was on the need for re-establishing a fair and rational way of determining pay for next year, which would remedy the nonsenses of the present pay structure and repair some of the damage to morale caused by the events of the last months. There was a strong feeling that it would be right for us to seek a meeting with you on this subject, and I therefore write to request that you should see a small deputation on this subject.

If you decide to see us - as I hope you will - perhaps your Secretary could contact the Branch Secretary, Andrew Pinder, as I will be on leave for the next three weeks.

Yours sincerely

Ian Spence

I R SPENCE

3374
R.A.P.

cc Mr Unwin
CST
FST
Sir D Wass
Mr Ryrle
Sir A Rawlinson
Mr Bailey
Mr Butler
Mr Dixon
Mr P G Davies
Mr Mower
Mr Dyer
Mr Rayner
Mr Robson
Mr Ridley
Mr Bamfield (CSD)



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 August 1980

The Rt. Hon. Edward du Cann, MP.,
House of Commons

Dr Mr du Cann,

I am writing to thank you for your letter of 13 August to the Chancellor of the Exchequer. Sir Geoffrey is at present on leave, and I shall bring it to his attention as soon as he returns.

*Yours sincerely,
M.A. Hall*

M.A. HALL
Private Secretary

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PS/CHANCELLOR (MR HALL)

CHANCELLOR'S MEETING WITH FDA/AIT

I attach briefing for the Chancellor's meeting at 9.45 am on 9 September with FDA/AIT branches in the Inland Revenue, Customs and Excise and Treasury. As envisaged in your note of 14 August DNS will not be taking part.

2. The briefing falls into four parts:

A. General;

B Pay (prepared in conjunction with Treasury IP2 Division);

C. Pensions;

D. Other issues including any departmental points which may arise.

3. Mr Boyd, Mr Bryars, Mr Butler and I will attend in support of the Chancellor. We will hold ourselves available if the Chancellor would like a preliminary word.

RIM

R I McCONNACHIE
5 September 1980

cc: PS/MST (L)
Sir Douglas Wass
Mr F E R Butler
Mr Fox
→ Mr Rayner
Sir Douglas Lovelock)
Mr Jefferson Smith)
Mr Whitmore) C & E
Mr Bryars)

Sir Lawrence Airey
Mr Dalton
Mr Green
Mr Boyd
Mr Vernon
Mr Houghton
Mr Willis

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A. INTRODUCTION

1. The FDA/AIT will be interested in three main issues:
 - a. The 1980 pay settlement and, in particular, what they see as a cynical disregard of the TSRB recommendations;
 - b. the future of PRU and the TSRB for the 1981 pay round;
and
 - c. the associated question of pay for pensions' purposes.
2. In relation to these subjects or as separate points they may also raise the questions of morale, incentives, staff cuts, and lasting reforms (Sir Derek Rayner's proposals).
3. These are of course issues which concern all departments and at national level the FDA have put their case to the Lord President (at his meeting with civil service unions on 1 August) and to the Prime Minister (at a private meeting on 2 July). Accordingly the Chancellor may wish to open the meeting by saying that:
 - a. he is well seized of the concern of senior staff in his departments about pay and other matters;
 - b. recognises fully the strength of representations made to the Lord President and to the Prime Minister;
and
 - c. will take careful note of the views of senior staff and report them to Ministerial colleagues as appropriate;
but
 - d. the Government in reaching decisions has to balance against these its wider economic policies and particularly the need for significantly lower pay settlements throughout the economy.

B. PAY

General pay outlook

4. We suggest the Chancellor draws on the arguments in his paper on "influencing national pay behaviour", with which he will be very familiar. The arguments from the growth of the money supply and from international competitiveness both point to settlements in single figures if more jobs are not to be lost. It is already becoming clear that in many areas of the private sector - particularly manufacturing industry - settlements at this level will be the most that can be afforded. Keeping up with the RPI is simply not possible in current circumstances. But the rate of increase in the RPI is now falling and will continue (broadly) to fall: the lower pay settlements, the quicker it will come down.

TSRB decision

5. All the above was evident at the time of the TRSB decision. The TRSB report was backward-looking, and at the end of the last 'pay round'. But 'pay round' is a term of convenience rather than a bargaining reality, and full implementation of the TRSB report would undoubtedly have influenced expectations for the next pay round in the wrong direction. Inflationary expectations have to be broken at some point.

Public service pay in the current pay round

6. Pay will be constrained by cash limits. Cash limits will be set in the light of what taxpayer and ratepayer can afford, and so that pay settlements do not inhibit the private sector in achieving the lower level of settlements which economic and financial circumstances dictate. These factors inevitably mean increases in cash limit provision (and thus in pay) significantly lower than last year's - and cash limits must prevail.

Pay research

7. This is Lord Soames' province, and the unions have already had a meeting with him on the subject. But the Chancellor might point

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out that if pay research is to survive, it has to be publicly acceptable and defensible. At present it is not. Factors such as choice of outside analogues, fringe benefits, uprating, superannuation and job security all need careful examination.

Comparisons with private sector

8. The FDA are likely to argue (as in Mr Spence's letter of 9 July) that civil service salaries are falling behind those in the private sector. In support of this they may pray in aid movements in real salaries: a table (copy attached - Annex A) showing the indexed levels of gross and net salaries has circulated among FDA members in the Revenue.

9. The Chancellor will not wish to be drawn into a debate as to why pay for senior staff in the civil service has fallen relative to comparable posts outside. But if defensive points are needed he might reiterate the difficulty of making meaningful comparisons; the need to take account of "environmental factors" - eg job interest, security, and especially the need to set an example so as to moderate expectations, and the overriding importance of reducing public expenditure and inflation.

10. If the FDA refer to the real trends in earnings the Chancellor may care to make the positive points that:

a. Senior Principals now have gross salaries higher in real terms than at any time since 1971; and

b. senior staff as a whole have had significant real increases in net earnings since 1977.

Inspector pay

11. The AIT may make special representations about Inspector pay. Many Inspectors are in day-to-day contact with accountants to negotiate settlements of accounts. Quite rightly they see accountants as their natural analogue, and are well placed to note how civil service salaries are falling behind those of their opposite

numbers in the private sector. This leads to disillusionment for senior grades and a small but significant loss of the better Inspectors who leave for much higher salaries and greater prospects outside.

12. These are comparisons which the Chancellor should not accept (and which the FDA will probably not wish to pursue to the extent of separate pay scales). But it could be pointed out that:

- a. resignations from senior posts in the Inspectorate are not out of line with wastage rates for the service generally (see Mr McConnachie's note of 15 July - copy attached at Annex B);
- b. the Inspectorate cannot be exempt from the general policy; but
- c. Ministers recognise the particular value of fully trained Inspectors and their high standing in regard to professional bodies.

C. PENSIONS

13. There is no doubt about the strength of feeling over the restriction of pension benefits consequent on the restriction of pay below TSRB recommended levels. As an illustration of this the "loss" of pension benefits for Deputy Secretaries and Under Secretaries who retire on 31 March 1981 with 40 years' pensionable service are:

	TSRB recommendation	Government authorised pay	Pension		Pension loss	Lump sum loss
			On TSRB figures	On authorised pay		
	£	£	£	£	£	£
Dep/Secy	27,000	24,500	13,500	12,250	1,250	3,750
Under/Secy	23,500	20,500	11,750	10,250	1,500	4,500

14. The TSRB did not make any recommendations for Assistant Secretary but on the basis of the £22,000 put to the TSRB by the CSD the figures would be:

	£	£	£	£	£	£
Asst/Secy	22,000	19,500	11,000	9,750	1,250	3,750

The "losses" for officers who retire during the year ended 31 March would be proportionately less.

15. To reinforce their case for basing pension benefits on TSRB recommended pay FDA may well refer to the vote in the House of Commons on 21 July 1980 to the effect that Members' pensions should be based on the TSRB recommended pay of £13,750 and not on the restricted pay of £13,150. They may quote the view expressed in the debate on 7 August by Mr St John-Stevass:

"As for the question of the pensionable salary, we are not rejecting the view of the House; the Hon Member is quite wrong. That, again, was an expression of opinion, and when an opinion has been expressed by the House the Government must reflect upon it. It is our view that one cannot implement that proposal in respect of one group of the TSRB people, who have all been treated equally, without implementing it for the others."

[Hansard 7 August 1980 Cols 807 and 808]

16. In reply the Chancellor may wish to refer to the passage in that speech immediately following the one quoted:

"Therefore, the House should have the opportunity to consider the facts. Then a substantive motion will be put before the House. The House will vote on the matter and that will dispose of it."

and to assure the FDA that the Government is very conscious of the similar position of other TSRB groups.

D. OTHER ISSUES

Morale

17. The 1980 pay settlement is seen as a breach of the PRU/TSRB agreements and contrary to what Ministers have been saying about differentials and incentives. Moreover the prospects for 1981 are increasingly constrained by cash limits which will be below the going rate for the private sector and for the police and armed forces. On top of this there is uncertainty as to the direction in which the civil service may be going and whether it will provide an adequate

40

career for really able people. All these concerns come ill at a time when many senior staff are very heavily engaged in implementing the Government's new policies.

18. The Chancellor will not wish to enter a detailed debate on such matters. However, and if pressed, he might care to make the points that:

a. there is no question of a set attack on the civil service by Ministers;

b. all organisations need from time to time to critically examine their efficiency but Ministers value - and wish to preserve - the loyalty and integrity of senior staff, but

c. morale will inevitably be a problem in a period of transition.

Cuts in senior staff

19. Mr McConnachie's note of 28 August (copy attached - Appendix C) reported the position as regard reductions in senior posts in each of the departments. It would be premature to discuss this with the FDA since the quantum of the reductions, and their timing and distribution, have yet to be decided. The Chancellor could merely indicate that this matter is under review, along with general questions of grading and structure, as part of the "wider reforms" exercise.

Promotion prospects

20. As part of their complaint against the pay settlement, the FDA have pointed to the narrowing of differentials. To the extent that this is true promotion prospects could be said to be of little importance. But in practice they are, of course, of considerable concern, particularly with the cutting of top posts, especially for the younger and brighter people whom the civil service can least afford to lose.

21. There is at present no ready answer to these problems. Sir Derek Rayner's proposals may lead to some greater flexibility. And a fairly attractive scheme for early retirement would help to open up top posts. But these are matters where CSD have further work to do.

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 1974

receiving sales data from
 the computer. I imported calculations
 in direct services from Boston and
 prepared some statistics
 on 30 Feb. 1971

INDEX OF REAL ESTATE SALES
 using N.P.C. JAN, 74 = 100

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Perm. Sec. 100	105.1	97.7				67.3	58.2	60.1	64.3	66.1
Dep. " 100	109.0	102.2				78.5	67.9	70.3	78.5	81.2
Wholesaler " 100	114.2	107.7				89.7	77.6	80.6	86.1	90.6
Asst. " 100	107.9	101.5				88.1	76.2	78.9	93.8	92.4
Gov. Priv. " 100	100.0	94.8				90.8	78.5	84.2	100.3	100.4
Priv. " 100	100.0	95.8				85.5	73.9	80.3	92.9	95.0

ADULT MALES
 ALL OCCUPATIONS
 AVE. WEEK EARNINGS
 NEW ENGLAND SURVEY
 DET. FILE

100	101.3	109.0	107.5	106.9	111.0	112.4	115.6	116.3
100	107.2	109.5	113.6	112.4	110.1	103.3	110.7	111.0

ADULT MALES
 FTEER. TAX & INC
 Personal (Non)
 Consumer out

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Perm. Sec. 100	98.2	97.5				58.2	55.6	60.3	72.4	72.8
Dep. " 100	102.4	100.8				66.2	63.2	69.0	80.7	81.9
Wholesaler " 100	107.4	104.9				74.3	70.4	76.8	85.6	87.8
Asst. " 100	102.2	99.0				73.2	69.0	75.1	90.3	88.0
Gov. Priv. " 100	100.3	95.8				78.7	73.3	81.7	98.1	97.0
Priv. " 100	100.4	95.8				77.4	70.6	79.4	97.1	94.6

Assuming
 1980
 1979

←
 1979

PS/CHANCELLOR OF THE EXCHEQUER (MR HALL)

RESIGNATIONS AMONG SENIOR STAFF

You asked for information on resignations among the more senior grades in the Chancellor's four main departments over the last three years. Figures - which include corresponding specialist and departmental grades - are attached.

MRS

R-h R I McCONNACHIE
15 July 1980

cc: Sir Douglas Wass		Sir Lawrence Airey
Mr France		Mr Green
Sir Douglas Lovelock)	C & E	Mr Boyd
Mr Whitmore)	Mr Houghton (o/r)
Mr Littlewood)	DNS	Mr Vernon
Mr Standen)	Mr Cayley

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(a) INLAND REVENUE

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>
Permanent Secretary	-	-	-
Deputy Secy or equivalent	-	-	-
Under Secy or equivalent	1 (5%)	-	-
Asst. Secy or equivalent*	7 (2.5%)	3 (1.07%)	1 (0.36%)
Senr. Principal or equivalent	7 (0.68%)	15 (1.45%)	9 (0.86%)
Principal or equivalent	26 (1.39%)	23 (1.22%)	32 (1.66%)
Total	41 (1.28%)	41 (1.27%)	42 (1.28%)

*including "tweeny" grades between Assistant Secretary and Under Secretary.

(b) CUSTOMS & EXCISE

Permanent Secretary	-	-	-
Deputy Secy or equivalent	-	-	-
Under Secy or equivalent	-	-	-
Asst. Secy or equivalent	4 (4.3%)	1 (1.08%)	-
Senr. Principal or equivalent	1 (0.94%)	-	-
Principal or equivalent	4 (0.87%)	2 (0.45%)	3 (0.66%)
Total	9 (1.33%)	3 (0.45%)	3 (0.45%)

(c) DEPARTMENT FOR NATIONAL SAVINGS

Grades from Deputy Secretary to Principal	-	-	-
---	---	---	---

(d) TREASURY

Permanent Secretary	2 (40%)	-	-
Deputy Secy or equivalent	1 (14.29%)	-	-
Under Secy or equivalent	-	-	-
Asst. Secy or equivalent	2 (4.17%)	-	2 (4.08%)
Senr. Principal or equivalent	-	1 (16.67%)	-
Principal or equivalent	3 (2.94%)	1 (0.94%)	5 (4.95%)
Total	8 (4.17%)	2 (1.04%)	7 (3.66%)

PS/CHANCELLOR OF THE EXCHEQUER (MR HALL)

STAFF IN HIGHER GRADES IN THE CHANCELLOR'S
DEPARTMENTS

Your minute of 16 July asked if the co-ordinating group could consider the points raised by the Minister of State (Lords) on my note of 10 July. I am sorry that, with the incidence of leave, this minute has been delayed. Taking the Minister's comments in turn, our reactions are as follows.

1 and 6: reductions in senior posts

The following paragraphs summarise the position in each of the four departments as regards possible reductions in senior posts.

(a) Inland Revenue

(i) It is already intended to make a 10% reduction in the number of Open Structure posts (Under Secretary and above) in the Civil Service by April 1982. The Inland Revenue will be making their due contribution to this cut.

(ii) The CSD are looking at the grading structure in the Civil Service, and the general scope for reductions particularly at Assistant Secretary or equivalent levels, in the light of comments from Sir Derek Rayner. When they have reported - which will probably be in the autumn - the Inland Revenue will examine the implications of the recommendations and will report to the Chancellor.

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(iii) In general, however, the need for staff at this level is not directly correlated to the number of staff in the clerical etc grades. Some of the posts involved, for example, are engaged on policy work in Somerset House including the provision of advice for Ministers. Most of the 32 Inland Revenue Assistant Secretaries do just this. At present the workload in this area is heavy, but in a year or two's time there should be scope for reductions in parallel with those in the Open Structure. As regards the Assistant Secretary "equivalent" posts, the attached table shows the wide range of functions they cover. In some cases, eg Superintending Valuer, it should be possible to achieve proportionate cuts, but the great bulk of posts at this level are SPIs and PIs in regional and local offices, dealing with the most complex tax casework or supervising work on the examination of tax accounts and countering avoidance and evasion. The Chancellor has recently approved additional staff resources at Inspector level for this work, and it would not seem sensible to make offsetting cuts at supervisory level. But there should be some reduction in certain management and technical functions which would provide scope for modest staff reductions at the AS equivalent level over the next year or two.

(b) Customs & Excise

On 1 April 1979 there were 108 Customs and Excise staff at Assistant Secretary level and above. At 1 July 1980 there were 101 and it is planned to save 3 more posts (2 Under Secretary and 1 Assistant Secretary) by the end of this financial year. There will be further reductions in the number of senior posts in subsequent years but the extent and timing of these is not yet clear. However, a total reduction of 16 or 17 posts between 1 April 1979 and 1 April 1984 is a feasible target.

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(c) Department for National Savings

The DNS has 3 open structure posts and 8 posts at Assistant Secretary level, including the 3 outstation controllers. All of these posts were examined in 1978-1979 during a CSD-led staff inspection of the HQ Unit, and no changes in senior posts were recommended. DNS is tightly complemented and graded at senior levels for a Department of its size and functions. For example, each of the outstation operational offices (ranging up to nearly 4,000 staff) is managed by 1 Assistant Secretary; and the Finance and Establishments responsibilities for the whole Department are also exercised at Assistant Secretary level.

The large programme of manpower reductions envisaged for the Department has already substantially increased the planning and monitoring work for these 11 staff, and the contribution required from them is likely to increase over the period, during which they will nevertheless need to maintain their contribution to savings policy issues, industrial relations, and the normal running of the Department. No reduction in these staff over the next 3-4 years is therefore at present in mind.

(d) Treasury

The reviews of each Sector of the Treasury have been looking carefully at the senior line management structures. In assessing the contribution which the outcome of these reviews can make to the Treasury target for reductions, we would expect to take into account the Cabinet's line on the pro rata reduction of senior posts. For the moment, however, these reviews have been overtaken by the wider review of the responsibilities of the Treasury and the Civil Service Department.

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88 89

2. Deputy Secretary posts in Inland Revenue

The 6 posts at Deputy Secretary level are the two Deputy Chairmen (Mr Green and Mr Dalton), the Director General (Management) (Mr J F Boyd), the Director General (Technical) (Mr E V Adams), the Solicitor and the Chief Valuer.

3. Under Secretary equivalents in Customs

The 3 posts referred to are Principal Assistant Solicitors. The Solicitor is included in the three Deputy Secretary posts recorded in paragraph 3 of my minute of 10 July.

4 and 5:

Assistant Secretary equivalents in Inland
Revenue and Customs and Excise

At 1 April 1980 there were 250 posts at Assistant Secretary equivalent level in the Inland Revenue and 17 in Customs and Excise. (In my minute of 10 July I regret that the Inland Revenue figures omitted 6 specialists). The breakdown of these posts is given in the table attached. The reason the Inland Revenue has so many posts in grades roughly equivalent to Assistant Secretary is the extent of the specialist work at this level in the department. Most of the posts concerned (182 out of 250) are filled by people in the tax inspectorate, with the next most numerous group being professional valuation staff. In Customs and Excise work of a similar nature is performed mainly by general service Assistant Secretaries, of whom there are 68, against only 32 in the Inland Revenue.

R I

R I McCONNACHIE

28 August 1980

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Copies to: PS/MST(L) Sir Lawrence Airey
Sir Douglas Wass Mr Green
Mr France Mr Dalton
Sir Douglas Lovelock) Mr Boyd
Mr Hawken) Mr Houghton
Mr Jefferson Smith) C & E Mr Vernon
Mr Whitmore) Mr Christopher (VO)
Mr Littlewood) Mr Rogers
Mr Standen) DNS Mr Cayley

INLAND REVENUE

Senior Principal Inspector of Taxes	37
- 14 Regional Controllers	
- 20 in Technical Division, dealing with specialist technical work	
- 3 in Management Divisions	
Principal Inspector of Taxes	145
- 1 Regional Controller (Northern Ireland)	
- 115 in the Taxes network, acting as Group Controllers or managing PI districts	
- 3 in Policy Divisions	
- 17 in Technical Divisions	
- 9 in Management Divisions	
Solicitor (Scotland)	1
Assistant Solicitor	12
Chief Statistician	4
Chief Valuer (Scotland)	1
Assistant Chief Valuer	9
Superintending Valuer	35
Registrar, CTO Scotland	1
Deputy Controller, CTO	3
Senior Principal Accountant	1
Senior Economic Adviser	1
	<u>250</u>

CUSTOMS AND EXCISE

Assistant Solicitor	14
Chief Statistician	1
Collector London Airports	1
Deputy Director Outfield	1
	<u>17</u>

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Ref 91

CHANCELLOR'S MEETING WITH FDA/AIT

You told me that the Chancellor had raised some further points on the briefing attached to my note of 5 September as follows:

1. Number of staff dismissed or made redundant in Inland Revenue, Customs and Excise and Treasury at levels between Permanent Secretary and Principal from 1977/78- 1979/80.

We do not yet have precise figures but the number must be very small, only a handful. Of course at this level, as in outside firms, it would be more common for staff to resign rather than be dismissed. The figures for resignations are in Annex B to my earlier note.

As for redundancies, it is my recollection that the Foreign Office and Ministry of Defence have had schemes in earlier years. The Chancellor will also be aware that recent schemes providing for more flexible arrangements for the early retirement of civil servants are under discussion with Ministers. The present Government policy is so far as possible to rely on natural wastage in meeting the cuts in the civil service generally which would be required to meet the Prime Minister's target of 630,000 posts by 1984.

Annex A - Movements in real salaries

2. The Chancellor asked whether we agreed the figures. We have no reason to doubt the accuracy of the arithmetical calculations (in the time available they have only been selectively checked) but we would with respect agree with the Chancellor's comment that the comparison of the position of civil servants at levels between Permanent Secretary and Principal with average weekly earnings of adult males in all occupations is not apt, and I am setting out below figures for average weekly earnings on

cc: Mr Boyd (IR)
Mr Bryars (Customs & Excise)
Mr F E R Butler (Treasury)
Mr Rayner (Treasury)

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comparison
The same RPI / (a) adult males - non-manuals and (b) the top 10 per cent of male earners. The figures are as follows:

	(a)	(b)
1971	100	100
1972	104.7	104.7
1973	106.7	106.3
1974	104.1	103.6
1975	107.6	105.7
1976	108.0	106.6
1977	100.1	97.8
1978	105.1	102.3
1979	107.1	104.4

3. The Chancellor will see from these figures that the gap to which the unions have drawn attention still remains, although it is rather smaller than might appear from the average weekly earnings figure quoted in Annex A; and of course, as the Chancellor will be aware, the trend in the private sector over the last ten years has been increasingly towards the provision of remuneration in non-financial terms viz perks.

4. The Chancellor may not want to be drawn into a detailed discussion based on the table but he also asked for calculation of the percentage increase for each group of civil servants from the starting point in 1971. The following table shows the salary figures taken from the appropriate Imperial Calendar lying behind the table with in each case the percentage increase calculated in nominal terms:

	<u>Gross Salaries</u>		<u>Percentage increase</u>
	<u>1971</u>	<u>1980 (Max)</u>	
Perm. Sec	£14,000	£31,000	121
Dep. Sec	£ 9,000	£24,500	172
Under. Sec	£ 6,750	£20,500	204
Asst. Sec	£ 6,300	£19,500	210
Sen. Prin	£ 5,200	£17,500	237
Principal	£ 4,400	£14,000	218

On the same basis the after-tax figures are as follows:

	<u>1971</u>	<u>1980</u> (Max)	<u>Percentage</u> <u>increase</u>
Perm. Sec.	£7,599	£18,417	142
Dep. Sec	£5,662	£15,547	174
Under. Sec	£4,603	£13,552	194
Asst. Sec	£4,424	£13,052	195
Sen Prin	£3,686	£11,983	225
Principal	£3,150	£ 9,988	217

5. The Chancellor also asked whether we had figures for movements in management salaries in the non-public sector for broadly comparable grades. We have been in touch with Department of Employment who say that they do not have anything readily available. It is our impression however that from time to time management consultants have tended to publish information of this kind and if there is anything which can be drawn from this source we hope to have it available tomorrow morning.

6. The Chancellor also asked how many of the private sector analogues retired at 60 had inflation-proof pensions and paid so little in actual or notional contributions towards their pensions.

7. In the time available we do not have precise figures. One might however hazard the following general propositions:

- a. although retirement at 60 is not mandatory in the civil service at these grades, it is increasingly the trend at the more senior levels. The position however differs in the Chancellor's departments and in particular between the Administrators and the Tax Inspectors who can and do continue beyond 60. Retirement in the private sector is from 60 upwards; on average therefore people probably do retire somewhat earlier in the civil service.

- b. as to inflation-proof pensions, I have been in touch with our Superannuation Funds Office who are

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responsible for vetting for Inland Revenue purposes pension schemes. They tell me that virtually all the top people in private companies have inflation-proof pensions and this provision is becoming increasingly common for top managers (top hat pension schemes) in the bigger public companies. c. Civil servants effectively pay about 8½% of their salaries for their pensions (taking account of the 1½% contribution for widows, etc). We have no information about the average level of contribution to private schemes.)

The question of the payment made by civil servants for their pensions is of course very much under review at present.

8. I realise that these are incomplete answers to the Chancellor's questions but it is the best we can put together in the time available. The Chancellor may wish to return to these points at his preliminary discussion with us at 9.30 am tomorrow morning. In view of the importance of the pay comparisons, we shall be joined by Mr Rayner of IP2 Division in the Treasury.

RIM

R I McCONNACHIE
8 September 1980



Minister of State

The Rt Hon Francis Pym MC MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1 2HB

Mr P. Rayner P. 11/55
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Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Sir D Wass
Sir A Pawlison
Mr Bailey

CH/EXCHEQUER	
REC.	1 SEP 1980
ACTION	<i>Mr Heaton</i>
COPIES TO	<i>CST</i>
	<i>FST</i>
	<i>MST C</i>
	<i>MST L</i>

Mr Little
Mr F. R. Butler
Mr Carey
10 September 1980
Mr Monck
Mr Kitcatt
Mr Dixon
Mr Gordon
Mr Norris
PS/IK
PS/CE

Dear Francis,

CONTRACTING OUT OF PUBLIC SECTOR FUNCTIONS

You wrote to Christopher Soames on 4 September about the treatment of VAT in making cost comparisons between in-house and contracted-out work, urging a change in the existing arrangements in the case of contract cleaning. In his absence I am replying.

I suspect my letter of 3 September to the Chancellor of the Exchequer which I copied to you, crossed in the post with yours. In fact the matter is under review with the Civil Service Union. We shall be seeking to bring our practice into line with the Treasury advice.

I am copying this letter to the recipients of yours.

Yours,

PAUL CHANNON

Paul



CHANCELLOR OF THE EXCHEQUER

TOP SALARIES IN THE CIVIL SERVICE

1. I was struck as you no doubt were by the Table produced by the FDA and attached to Mr McConnachie's minute of 5 September which purports to show the extent to which top salaries in the Civil Service have been eroded over the last ten years. But the interpretation I place on the figures is somewhat different from that placed on them by the FDA.

2. The FDA figures show that in real terms the salary of the Permanent Secretary has fallen from 100 in 1971 to 66.1 in 1980: and that for the Deputy Permanent Secretary from 100 to 31.2.

Top salaries in industry have also been seriously eroded over this period largely as a result of the redistribution of incomes involved in successive incomes policies. I have always suspected that Civil Service salaries have suffered no worse than other salaries at a comparable level.

3. This indeed is borne out by a comparison between the figures in the latest Boyle Report with those in the original Boyle Report. For the group of second largest companies - comparative figures are not given for the handful of very large companies - the average salary for the Chairman was £30,200 in 1971: by 1980 it had risen to £52,700. In real terms, on the basis used by the FDA, the salary had fallen from 100 to 57. For deputy Chairmen in the same size group the salary increased from £24,300 to £57,300, a fall in real terms from 100 to 72.

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4. On the basis of these figures one could say that Boyle has erred on the side of generosity rather than meanness and that the reductions in the awards made by Cabinet have still left the top ranks of the Civil Service doing as well if not better than their counterparts in industry generally. I am well aware of the dangers of placing too much reliance on individual figures. Nevertheless in this particular instance they tend to support one's general knowledge and experience. Traditionally there was a very big gap indeed between the top Civil Service salaries and the comparable salaries in industry. This gap has narrowed - I suspect to a significant degree. Although Boyle recognises and clearly states that there are factors other than "comparability" which need to enter into the reckoning, I suspect that as time has gone on "comparability" has come more and more to dominate the picture. This may well have started long before Boyle as both Plowden and the Prices and Incomes Board were much influenced by the concept of comparability. As a result, top salaries in the Civil Service have in fact fared better than the corresponding salaries in industry. The fact that they appear to have done badly, particularly in the eyes of their recipients, is because higher incomes generally have been severely squeezed, particularly in the last ten years. While therefore the higher Civil Service has a grievance it is much the same grievance as the middle classes generally have - but in reality a smaller grievance not a greater one.

A.C.

LORD COCKFIELD
10 September 1980

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1. MR KYRIE *Draft letter revised*
 2. CHANCELLOR OF THE EXCHEQUER *L.S.R.*

Copies attached for:
 Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Mr Ridley

Copies sent to:
 Sir Anthony Rawlinson
 Sir Kenneth Couzens
 Mr Middleton
 Mr Littler
 Mr Unwin
 Mr Bridgeman
 Mr Robson
 Mrs Heaton
 Mr P Rayner

CIVIL SERVICE PAY

On 23 July you suggested to E Committee (E(80)27th Meeting) that, because cash limits would have to override the application of comparability in the 1981 settlement, it would probably be necessary to suspend the Civil Service Pay Agreement. Since six months notice was required, a decision would have to be announced before 1 October and, so as to obtain demonstration effects on the private sector, you envisaged an announcement before the Recess.

2. E Committee, however, decided that the Lord President should be left to continue his discussions with the unions on the improvement of the pay research system before a decision was taken on suspension of the Agreement. The Lord President was to report back in September, in time for the 1 October deadline.

3. Since then we, in consultation with a small interdepartmental group, have been preparing a paper on the main options for the civil service pay system; this work will be available shortly. It has however become clear that the Lord President will not be able to report at all conclusively this month on his parallel talks with the unions. It is therefore necessary to anticipate E Committee's review of the case for suspending the Agreement.

4. This may be easier than it sounds, since the Civil Service Department are firmly of the view that the meeting which the

Lord President had with the unions on 1 August and which was reported in the press, constituted such notice as is required and has been interpreted in that sense by the unions. The Lord President made it clear that cash limits would have to be the major determinant of Civil Service pay in 1981. He did not give notice of formal suspension; but that is felt by the CSD to be unnecessary and in some respects damaging (because it might make it more difficult to reinstate the agreement if that were wanted), as well as being provocative. The Lord President is said to be determined that there should be no allegations of bad faith if primacy is given to the cash limits rather than to pay research and it is envisaged, therefore, that he will write to the staff side in suitable terms to remove any ambiguity there might be. It will probably also be necessary, but at a later stage, to take corresponding action in relation to access to arbitration.

5. It had been our view, as put to you, that formal suspension of the pay agreement was desirable. We are, however, persuaded, on the advice of the CSD, that no substantial additional risk will be run by proceeding as they suggest; the demonstration effect of suspension would be partly lost; but the discussions with the unions about changes in the system might have a better chance of success. The Department of Employment and CPRS concur.

6. In view of the E Committee decision that this matter should not be resolved before the Lord President's report, and in view of the slippage of the report into October, the method of handling needs Ministerial clearance now. The best way of achieving this, on which the Cabinet Office agree, is probably a letter from you to the Lord President, copied to the rest of E. The attached draft is designed to smoke the Lord President out; it invites him to write to the staff side in terms which will avoid accusation of bad faith or yet further breaches of agreements if cash limits take precedence over pay research in the determination of the 1981 settlement.

Ry

(P V DIXON)

11 September 1980

DRAFT LETTER

FROM: CHANCELLOR
TO: LORD PRESIDENT
Copied to: E Committee
 Sir Robert Armstrong

At E Committee on 23 July we concluded that you should continue your talks with the Civil Service unions on the revision of the current pay agreement, and report back in September, before we reconsidered the question of giving six months' notice of suspending the agreement, which would have to be done by 1 October.

2. I am concerned that time is now running out for that decision. I understand that it is unlikely that you will be able to report at all conclusively this month. ~~And I myself shall be absent for some time at the end of the month.~~

3. I think it is for you to judge whether a formal act of suspension is needed in order to safeguard the situation adequately. But I think it is vital that 1 October should not pass without our being sure that we have done all that is necessary to safeguard our freedom of action fully. We must not run the risk of accusations of bad faith if, as we intend, cash limits override pay research information for the 1981 settlements, and the pay agreement does not therefore operate in the coming year.

4. I should be grateful for your assurance that this is all in order. I am copying this to the members of E Committee and to Sir Robert Armstrong.

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cc: PS/Minister of State (L)
Sir Douglas Wass
Mr. F.E.R. Butler
Mr. McConnachie - Inland
Revenue

MR. P. RAYNER

TOP SALARIES IN THE CIVIL SERVICE

..... The Chancellor has asked me to shown you the attached minute from Lord Cockfield about the comparative performance of top salaries inside and outside the Civil Service, which has prompted him to ask two questions. Firstly, could someone at official level - quite possibly in the CSD - assess the case which is made. Secondly, if the case is well founded, how was it that Boyle produced such different figures.

R.I.T.

(R.I. TOLKIEN)

11 September 1980



CHANCELLOR OF THE EXCHEQUER

TOP SALARIES IN THE CIVIL SERVICE

1. I was struck as you no doubt were by the Table produced by the FDA and attached to Mr McConnell's minute of 5 September which purports to show the extent to which top salaries in the Civil Service have been eroded over the last ten years. But the interpretation I place on the figures is somewhat different from that placed on them by the FDA.

2. The FDA figures show that in real terms the salary of the Permanent Secretary has fallen from 100 in 1971 to 66.1 in 1980: and that for the Deputy Permanent Secretary from 100 to 81.2.

Top salaries in industry have also been seriously eroded over this period largely as a result of the redistribution of incomes involved in successive incomes policies. I have always suspected that Civil Service salaries have suffered no worse than other salaries at a comparable level.

3. This indeed is borne out by a comparison between the figures in the latest Boyle Report with those in the original Boyle Report. For the group of second largest companies - comparative figures are not given for the handful of very large companies - the average salary for the Chairman was £30,900 in 1971: by 1980 it had risen to £53,700. In real terms, on the basis used by the FDA, the salary had fallen from 100 to 57. For deputy Chairmen in the same size group the salary increased from £24,300 to £57,300, a fall in real terms from 100 to 72.

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4. On the basis of these figures one could say that Boyle has erred on the side of generosity rather than meanness and that the reductions in the awards made by Cabinet have still left the top ranks of the Civil Service doing as well if not better than their counterparts in industry generally. I am well aware of the dangers of placing too much reliance on individual figures. Nevertheless in this particular instance they tend to support one's general knowledge and experience. Traditionally there was a very big gap indeed between the top Civil Service salaries and the comparable salaries in industry. This gap has narrowed - I suspect to a significant degree. Although Boyle recognises and clearly states that there are factors other than "comparability" which need to enter into the reckoning, I suspect that as time has gone on "comparability" has come more and more to dominate the picture. This may well have started long before Boyle as both Plowden and the Prices and Incomes Board were much influenced by the concept of comparability. As a result, top salaries in the Civil Service have in fact fared better than the corresponding salaries in industry. The fact that they appear to have done badly, particularly in the eyes of their recipients, is because higher incomes generally have been severely squeezed, particularly in the last ten years. While therefore the higher Civil Service has a grievance it is much the same grievance as the middle classes generally have - but in reality a smaller grievance not a greater one.

A.C.

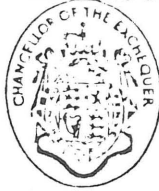
LORD COCKFIELD

10 September 1980

~~CONFIDENTIAL~~

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cc CST
FST
MST (c)
MST (L)
Sin > WAS

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 September 1980

Sir A. R. Gibson
Sir M. Cousins
M. Middleton
M. Little
M. Vawter
M. Bradburn
M. Brown
Mrs Heaton
M. Dixon
M. Pyrie
M. P. Rayner
M. Riley

The Rt Hon Lord Soames CH PC GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

Dear Lord President,

At E Committee on 23 July we concluded that you should continue your talks with the Civil Service unions on the revision of the current pay agreement, and report back in September, before we reconsidered the question of giving six months' notice of suspending the agreement, which would have to be done by 1 October.

I am concerned that time is now running out for that decision. I understand that it is unlikely that you will be able to report at all conclusively this month..

I think it is for you to judge whether a formal act of suspension is needed in order to safeguard the situation adequately. But I think it is vital that 1 October should not pass without our being sure that we have done all that is necessary to safeguard our freedom of action fully. We must not run the risk of accusations of bad faith if, as we intend, cash limits override pay research information for the 1981 settlements, and the pay agreement does not therefore operate in the coming year.

I should be grateful for your assurance that this is all in order. I am copying this to the members of E Committee and to Sir Robert Armstrong.

Yours sincerely
P. S. Jenkins.

GEOFFREY HOWE

Approved by the Chancellor and signed in his absence.

~~CONFIDENTIAL~~

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

CH/EXCHEQUER	
REC.	SEPI980
REF.	MR P. RAYNER
COM.	GT
TO	IST
	MSTC
	MST L
	SIR D. WASS
	SIR A. RAWLINS
	SIR K. COUZENS
	MR MIDDLETON
	MR LITTLE
	MR UMWIN
	MR BRIDGEMAN
	MR ROBSON
	MRS HEATON
	MR DIXON
	MR RYRIE
	MR RIDLEY

85
pwp
16/9
104

15 September, 1980.

- MR BRIDGEMAN
- MR ROBSON
- MRS HEATON
- MR DIXON
- MR RYRIE
- MR RIDLEY

Dear Sir,

The Prime Minister has read the Chancellor of the Exchequer's letter of 12 September about the revision of the Civil Service pay agreement, and she agrees that this question must be reconsidered in time so as to allow the agreement to be suspended - if necessary - next April.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, and to David Wright (Cabinet Office).

u
u
T. Laker.

Jim Buckley, Esq.,
Civil Service Department.

CONFIDENTIAL



17/9

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Ray 105

PERSONAL PRIVATE SECRETARY

c.c. Mr Ryrle
Mrs Heaton
Mr P Rayner



CIVIL SERVICE PAY AGREEMENT

You may like to know that I had a quick word with Mr Lankester because I thought his letter of 15 September showed a slight misunderstanding of the Chancellor's letter of 12 September. The Chancellor was not asking for any collective reconsideration before 1 October (which would be necessary if it were intended to lead to 6 months notice of suspension); he was leaving it to the Lord President to take such action as he judged necessary to ensure that there could be no charge of bad faith if the agreement did not operate next April - such action might amount to notice of suspension or might be something less. Some Ministers might ask for collective consideration now, but the Chancellor had not done so. Mr Lankester confirmed that this was not the Prime Minister's intention and was going to have a word with the Civil Service Department to clarify the matter.

Pvd

(P V DIXON)

16 September 1980

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EX/CHEQUEE

CONFIDENTIAL

18/9

ACTION	MR P. RAYNER
COPIES TO	CST
	FST
	MST C
	MST L
	SIR D. WASS
	SIR A. RAWLINSO
	SIR K. COLENS
	MR MIDDLETON
	MR LITTLE
	MR UNWIN

Civil Service Department
 Whitehall London SW1A 2AZ
 01-273 4400

107

17 September 1980

The Rt Hon Sir Geoffrey Howe, QC, MP
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
 LONDON SW1P 3AG

Dear Geoffrey,

Thank you for your letter of 12 September about giving notice to the unions of the primacy of cash limits in determining Civil Service pay for the 1 April 1981 settlement. I share your views about the need to avoid accusations of bad faith over this.

I met the Council of Civil Service Unions on 1 August to launch negotiations on the improvements to pay research on which we had agreed. At that meeting I also told them formally that, although pay research would still have a part to play, the cash limit would be the major determinant of Civil Service pay in 1981. I did not wish there to be any misunderstanding about that. I did not enlarge on the part pay research would still play, though as the Prime Minister indicated in her summing up at E Committee on 23 July, the evidence will help us with the distribution of the available monies. We would thus be able to keep the pattern of Civil Service rates as close to the market as possible.

If PRU
 gives an
 accurate
 insight
 into this

My formal meeting on 1 August served notice on the unions that the cash limit would be the major determinant of Civil Service pay in 1981. To avoid any possible doubt, however, I have asked my officials to write further to them before 1 October telling them that what I said on 1 August was intended to serve as formal notice under the terms of the Pay Agreement.

My officials have had further discussions with the unions since my meeting with them in August. Although it is too early to say with any precision what their final attitude will be, I can at least say that, bitter though their initial reaction was when they saw me, they are still talking about our proposed improvements. I do not wish to jeopardise the chances of a reasonable outcome and have therefore refrained from pressing the unions too hard too quickly. In any case

What is this?

CONFIDENTIAL

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they have had other pre-occupations of their own such as the TUC Conference. When officials have explored the ground further I shall almost certainly want to see the unions again myself before reporting back to E Committee. I think this means that our further consideration there of the pay research issues would best wait until sometime in October. The action I have already taken on giving notice to the unions adequately safeguards our position.

I am copying this to the Prime Minister, Members of E Committee and Sir Robert Armstrong.

Yours ever
Christoph

SOAMES

12/36/13

69

01-211-6402

The Rt Hon Paul Channon MP
Minister of State
Civil Service Department
Whitehall
London SW1

3 October 1980

See para

<i>Mr. Rayner</i>	<i>Mr. Dixon</i>
<i>PPS</i>	<i>Mr. Unwin</i>
<i>MST</i>	<i>Mr. Burgess</i>
<i>Sir D. Nass</i>	<i>Mr. Buckley</i>
<i>Mr. Lynne</i>	<i>Mr. Wicks</i>
<i>Mr. Middleton</i>	

PAY OF PETROLEUM SPECIALISTS

I understand that you have received, or will shortly receive from your officials a submission seeking agreement to proposals for improvements in the pay of the Petroleum Specialists grades of this Department. The terms of the submission were agreed with officials from my Department following a completion of a joint comparability study involving a number of major oil companies.

The submission recommends very substantial pay increases well above the average authorised for other civil service grades in the 1980 pay round. However I hope that you and colleagues will be prepared to treat the Petroleum Specialist class as a special case. There are currently some 37 vacancies against a complement of 88 Petroleum Specialists and my Department is finding it increasingly difficult to carry out its responsibilities in the North Sea. It is not possible to devote adequate resources to safety aspects of offshore operations, it is increasingly difficult to carry out independent evaluations of oil and gas exploration and insufficient attention is being given to the development of offshore fields to ensure optimum recovery. Failure to fill a large proportion of these vacancies is therefore leaving us exposed to severe criticism should there be any major accident in the North Sea and is putting at risk very large sums of money which should accrue to the Exchequer.

Petroleum Specialists in a number of disciplines are in short supply both nationally and internationally. It is imperative if we are to get our fair share of the required expertise, that we be able to offer salaries which are competitive with those of the major oil companies in the UK. Most of the oil companies revise their pay scales during January and it is on those scales fixed in January of this year that the review team carried out its comparability exercise. We have therefore already been at a competitive disadvantage for 9 months of this year and this is reflected in the fact that we have

lost 6 Petroleum Specialists since 1 April. I very much fear that unless new pay scales of the order now recommended are approved quickly we shall lose quite a lot more in the next few months especially as new companies involved in the 7th licensing round are actively recruiting specialist staff. Moreover the new recruitment drive about to be launched by the Commission is likely to have little success unless improved pay scales can be quoted in the advertising literature.

I should be grateful if you would bear all these factors in mind when considering the recommendations put forward by our officials.

Yours

D A R HOWELL

David

115 74

1. MR DOUGLAS WASS *DW.*
2. PS/CHANCELLOR OF THE EXCHEQUER

cc - PS/Minister of State (Lords.
Mr F E R Butler
Mr Dixon
Mrs Heaton
Mr McConnachie (IR)

TOP SALARIES IN THE CIVIL SERVICE

Your minute to me of 11 September, attaching Lord Cockfield's minute of 10 September, and the Chancellor's comments.

I have not consulted CSD on this issue - the result would be likely to be only the usual set of apologetics. Instead, I have gone direct to the Office of Manpower Economics, who are responsible for preparing and analysing the material for the Top Salaries Review Body's reports. Their comments are as follows:

They start by pointing out that the Review Body does not reach its recommendations by the automatic process which Lord Cockfield's calculations (or indeed those of the FDA) seem to suggest. This kind of information is one of many items considered by the Review Body. Moreover, the Review Body would not necessarily consider the Chairmen or Deputy Chairmen of very large companies as appropriate posts for comparison with permanent and deputy secretaries.

If nonetheless it is wished to make a comparison of the type made by Lord Cockfield, OME consider it more reasonable to base it on private sector salaries at a similar level to those of permanent and deputy secretaries, which over the period reviewed, have been considerably below those of chairmen and deputy chairmen of very large companies. This materially affects the results as salary compression has been more marked at the highest levels of pay.

According to the results of the salary surveys in the Review Body's Reports, and making estimates for the gaps between surveys, OME have found that between 1969, which was the starting point for the Review Body's first recommendation, and 1980, private sector pay at the salary level recommended for permanent secretaries has increased by about 150%-160%, while their recommended pay has gone up by 143% (from £14,000 recommended in 1969 to £34,000 recommended in 1980). The corresponding figures for deputy secretaries are an increase of about 125%-235% according to the salary surveys, and an increase of 200% in the levels of pay recommended between 1969 and 1980.

/2..

MANAGEMENT IN CONFIDENCE

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11b

The recommendations made by the Review Body would have left permanent and deputy secretaries with smaller increases in salary than those received by people in the private sector at approximately the same level of pay.

These figures take no account changes in fringe benefits and conditions of service, but the Review Body takes these items into account in deciding their recommendations.

There is really nothing to add to this. I have not calculated the real drop in income implied by these figures (as done in the FDA table), but this can easily be done should the Chancellor wish.

A. D. Reed.

PP. P M RAYNER
6 October 1980



CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Mr F E R Butler
Mr Dixon
Mrs Heaton
Mr Rayner
Mr McConnachie (IR)

TOP SALARIES IN THE CIVIL SERVICE: MR RAYNER'S MINUTE OF
6 OCTOBER

1. There seem to be a number of misunderstandings here - which might as well be cleared out the way.

First I did not suggest or imply that "the Review Body ... reached its recommendations by [an] automatic process". On the contrary what I was saying was that their recommendations were if anything more generous than the figures they themselves had published for top salaries in industry would suggest. It must follow from this that an element of judgment or adjustment has been interposed and this is the negation of an "automatic process".

Second I did not take, as Mr Rayner's minute says OME claim, salaries appropriate to "very large companies". In fact I specifically stated that I had taken the "second largest companies".

2. OME do however make one arguable, although in my opinion invalid, point. They say that Permanent and Deputy Secretaries should not be compared with people who are - arguably - doing a similar job, but should be compared with people at the same income level in the private sector. Now it is well known that over time the smaller incomes have increased at a faster rate than the

higher incomes. This is the phenomenon known as the redistribution of (pretax) incomes: it is accelerated by inflation but it is a trend which can be traced back over very, very many years. I myself did a great deal of work on this subject in the 1940's. It follows of course that the income level basis of comparison will give a higher level of increase than will the comparable job basis. All the material published by Boyle suggests that he had based himself on a comparison of like jobs and not on a comparison of like incomes. Thus his latest Report repeatedly uses phrases such as: "broadly equivalent levels of responsibility". OME are saying in effect that Boyle is wrong. I agree this is a debatable point but my own view is that Boyle is right. This is in any event quite a different point than that raised by the FDA. The FDA were not challenging Boyle: they were claiming that on Boyle's basis they were seriously eroded. My answer to them is that on Boyle's basis they are, but no more and indeed if anything rather less, than the people with whom Boyle compared them.

3. While as I say Boyle has based himself on "like levels of responsibility", the figures also suggest that over the years he has drifted upwards. But I would guess that this upward drift does not reflect the OME kind of argument but the increasing influence of "comparability" - in the sense of the same payment, as opposed to the same rate of increase, for the same job.

dc.

LORD COCKFIELD
9 October 1980

10, Lombard Street,
London, EC3V 9AP

507 75
120

October 10, 1980

Rt. Hon. Sir Geoffrey Howe, QC, MP.,
Treasury Chambers,
Parliament Street,
SW1P 3AG

*Wages
in wages program*

Dear Geoffrey

Payment of wages

You asked me to let you know how the banks are getting on with what you once described as the campaign "to abolish the week". So I am writing on a personal basis to let you know the present state of play.

Last spring the five London Clearing Banks and the three Scottish Clearing Banks formed a payment of wages working group (which I look after). This group has now been expanded to include the TSBs, the Co-operative Bank and the National Girobank, and we are also making a link with the Yorkshire Bank. This widening of the Group is important in helping to give any campaign a broader base and making it more acceptable to employers, employees and unions.

The first task was actually to reach agreement that all the banks were in favour of promoting the move from the payment of wages weekly in cash to monthly through bank accounts. This was also important, as previously the banks had been somewhat uncertain how far they wished to move down market.

There is a strong will to keep much of the initiative on a competitive basis between the banks. Each bank is determined to make its own approach, especially to the companies whose accounts they hold. Each bank obviously competes in offering a different package of services and charges to employees who open an account. When it comes to organising any joint action, competition is a lot hotter than it appears from the

outside.

Nevertheless there are areas where joint action is appropriate, and the Working Group is in the process of taking action designed to speed up changes in the method of payment.

The general feeling, however, is that this action should rely more on an industry by industry and company by company approach than on a publicly announced national "campaign" by the banks. The reason for this is that conditions vary so much between one industry and another and between one company and another in practical matters such as whether workers have access to a bank at lunchtime to obtain cash, how far the industry is based on overtime or bonus payments, and the state of relations with the unions, that it makes more sense to tailor each scheme to the particular needs of the industry or company.

Moreover at present the trade unions are adopting a fairly passive and neutral attitude to the methods of pay as distinct from the level of pay. Any major national campaign might encourage them to start negotiating conditions at a national level.

The Working Group have recently appointed a full time "Project Executive" and his job is to make approaches to trade associations and large companies to seek to persuade them to change their payment methods. He will be backed up by a range of supporting literature and by teams from each of the banks.

We are also preparing a series of detailed case studies of British firms who have successfully made the change, and we have a computer model available to help calculate the advantages for any specific company.

The Inter Bank Research Organisation have undertaken a good deal of research into the ways that France and other countries have changed their payment methods, and into the present pattern of payments in this country (I did think of sending you some of this material but assumed that these days you already have plenty to read!).

We have in progress at the moment a large scale survey of employee attitudes to wage payment methods, and the results of this will be available later this year.

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As you know, we have been co-operating with the CPRS in their study. I do not know what they have said in their report to you, but it will be particularly valuable if it stimulates a review of payment methods throughout the public sector.

The CBI are pressing for a reform of the Truck Acts, and have written to Jim Prior on this issue. We started with the same idea but the more we consider it the less we like it. The only sort of amendment which could be made would be one in effect to allow an employer to compel his workers to be paid through a bank account. We feel that to attempt to pass such legislation would stir up union antagonism, and might slow down the whole process. Holland appears to have managed to move most of their workers on to monthly pay despite legislation similar to our Truck Acts.

A year or so ago we did consider raising the payment of wages issue at NEDC and Jeremy Morse discussed this with Douglas Wass. But we have dropped that idea partly because we prefer the industry by industry approach and partly because we do not see the need for legislative change.

We do, however, see the need to achieve a greater momentum of change and are, therefore, hoping to mount a substantial publicity campaign next year. This will not take the form of a national campaign by the banks but - if it succeeds - will consist of a wide range of press articles, news items, publications, speeches, etc., all on the theme of the desirability of moving from cash to monthly pay. It is possible, but by no means certain, that this might be followed in due course by an advertising campaign.

During the past year I have refrained from suggesting that we should ask you to make any pronouncement because I feel that it is essential to keep the campaign totally non-political. British trade unions being what they are, any suggestions that this was an initiative by a Conservative Government might kill it stone dead. But once our publicity campaign gets going I hope it might be possible to find a suitable occasion at which, if some questions are put to you you might respond favourably.

If you agree I would also like to talk to Rosalind Gilmore about attracting the interest of the press. If CPRS are going to do something for publication it would be helpful

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if the timing of this could be co-ordinated with our publicity initiative so that we could achieve a build up of press interest.

Needless to say I would be delighted to come and discuss all of this further with you if you wish.

[Faint handwritten scribble]

[Handwritten signature]

Brendon Sewill

- 1. MRS ~~LEATON~~ ^{F/A}
- 2. MR RYBIE ^{was R. 15/10}
- 3. CHANCELLOR OF THE EXCHEQUER

- cc Mr Littler
- Mr Middleton
- Mr Bridgeman
- Mr Dixon
- Mr Unwin
- Mr Robson
- Mr Ridley
- Mr Cardona

Copies attached for: Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir D Wass
 Sir A Rawlinson

BRIEF ON: E(80)144: CIVIL SERVICE PAY
E(80)115: COMPARABILITY AND CASH LIMITS
E(80)119: PUBLIC SERVICES PAY

The first two papers are predominantly about the longer term determination of civil service pay, and therefore fall conveniently together. Also relevant is the second part of the CPRS paper E(80)119, which comments on some of the options in the note by officials attached to E(80)115.

2. The Lord President's paper (E(80)114) is short, and does not take us very far. It reports what he has said to the unions (and subsequently confirmed in writing) about cash limits being overriding in determining the 1981 settlement - though it omits his further indication to the unions that the pay research results would also have a part to play in determining the settlement, which appears to go beyond what he had been authorised to say by colleagues. He also points out that the 1981 negotiations will not be easy, but will be easier if the cash limit is not unrealistically low (ie not creating a major catching-up problem for the future), and if the public services are all treated similarly. These points are relevant to the discussion of your paper E(80)118. For the longer term, negotiations on the proposed changes to pay research are continuing. Although the unions are clearly unhappy, negotiations have not broken down: but they will take a long time. We recommend that this report should simply be noted, and the negotiations allowed to continue in their own time.

3. In the final paragraphs of his paper, the Lord President points up the problem of reconciling comparability and cash limits. This leads directly in to your paper E(80)115 covering a lengthy report by officials.

4. In introducing this paper, you may like to point out that the report was commissioned by E Committee in July to examine further the longer-term options

for civil service pay set out in paragraph 11 of your earlier paper E(80)71. This it does in two ways. First it looks at the pros and cons in pay bargaining and financial terms of the various options in the light of the objectives set out in paragraph 3 of the report. Second, it looks at the implications for cash limits and other public service groups of these various options.

5. It is here that the real difficulty becomes apparent. As has been recognised all along, there is a basic problem of reconciling comparability and cash limits. But the nature of that problem, and the possible solutions, depends upon the way in which cash limits are set. Cash limits are a system, not a policy, and can be used as a means of implementing a wide variety of policies. Thus the pay element in cash limits could, for example, be set:

- a) to achieve a demonstration effect
- b) to reflect ability to pay (as shown either in monetary targets or PSBR constraints)
- c) to reflect labour supply and demand (if a way can be found of achieving this)
- d) on the basis of 'comparability' (however defined).

Similarly, it is important to decide whether a uniform pay element will be set for all public service groups (which we believe is not feasible on a continuing basis, because it leads to the kind of rigidities that have doomed 'pay policies' in the past), or whether there can be different pay elements (in which case there will have to be some basis, though not necessarily the same one throughout, for the different treatment).

6. This is why your covering note suggest that the report does not deal sufficiently with the fundamental issues. Instead it has become obsessed with a systematic approach to comparability. This may well be too rigid: some fudging round the edges may be necessary. In any event, it is a second-stage problem. Only when the approach to setting the pay element in cash limits has been considered (if only to the extent of deciding that no single approach can be assumed to run every year in the future) can comparability options be assessed. The question of how comparability (if it survives) and cash limits fit together is then basically a mechanical problem.

7. This is why the conclusion of your covering paper argues that further work to be done. A detailed discussion of the options would be premature, and we

CONFIDENTIAL

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recommend you try to avoid this - though any preliminary reactions from your colleagues would of course be useful.

F M Rayner

F M RAYNER

15 October 1980

(1) 82



sent 21/10

141

PRIME MINISTER

CHERCHEUR	
REC	20 OCT 1980
FROM	Ms HEARD
SUBJECT	CST
	FST
	Sin D. UMS

Mr. Lyall Mr. P. Rayner
 Mr. M. J. Chan Mr. Carron
 Mr. Dixon
 Mr. J. Wain

CIVIL SERVICE PAY

As you know I told the Civil Service Unions on 1 August that the cash limit would be the main determinant of the next Civil Service pay settlement in April 1981. At the previous E Committee we had concluded that the pay research evidence would be useful for the distribution of the settlement, and I therefore told the unions that pay research would have a part to play.

Under the terms of the Civil Service Pay Agreement the evidence collected by the Pay Research Unit is due to be delivered to both parties by 15 November. Most of it is ready now.

At E Committee last Thursday it became apparent that decisions on the cash limits for the public services will have to be taken before the pay research evidence is available to us. At the sort of levels we are now discussing, I see little prospect of varying the distribution of the pay increase for the Civil Service between different groups; nor, as I said at E last week, will we have agreed anything with the Unions on changes to the pay research system in time for the 1981 settlement.

I have concluded that no point would now be served in allowing the pay research evidence to come in. We cannot make any practical use of it ourselves. The unions would only use the figures - which will reflect the "going rate" in the first half of this year - to support their case for higher increases than we are ready to allow.

I therefore propose that we should now formally suspend the operation of the Civil Service Pay Agreement for the April 1981 settlement, to enable us to halt the delivery of the pay research evidence to the two Sides. We shall be accused (and rightly) of breaching the agreement but I do not think we should allow that consideration to deter us.

Ideally we would suspend the Pay Agreement at the same time as we announce our general position on public service pay and our decisions on cash limits. But on the basis of the present timetable for that announcement we should be leaving the suspension of the Pay Agreement too late to prevent the delivery of the Reports to the parties. I therefore propose that we should go ahead with this during the next few days.

I enclose a draft letter which I would propose to give to Mr Kendall, Secretary General of the Council of Civil Service Unions, announcing our decision. I will also need to inform the Chairman of the Pay Research Unit Board, Lord Shepherd, and Director of the Pay Research Unit. I would make clear to them that the Board and Unit will remain in being while we are continuing our discussions with the Unions about the longer term.

I am sending copies of this minute to Geoffrey Howe and Jim Prior.



SOAMES

20 October 1980

Enc.

DRAFT LETTER FROM THE LORD PRESIDENT TO MR KENDALL

When I met the Council of Civil Service Unions on 1 August I said that the cash limit would be the major determinant of Civil Service pay next year. I also make it clear that the Government wished to see a number of changes in the present pay research system, some of which involved changes to the existing Pay Agreement.

As you and your colleagues will be well aware, the economic position at present is an increasingly difficult one. There is an overriding need to combat inflation, and the Government has made clear the need for restraint in pay settlements generally in this round. This need has become even more apparent than it was when I saw the Council. I believe there is growing recognition that this approach is the right one in the national interest.

Our discussions with the Council on the pay research system have shown that it would be unrealistic to think in terms of early agreement, although we attach importance to pushing ahead with our talks.

Against this background the Government has decided that the Pay Agreement should be suspended so far as the 1981 settlement is concerned. I much regret that this should be necessary.

1. MRS HEATON
 2. CHANCELLOR OF THE EXCHEQUER
 3. CHANCELLOR OF THE EXCHEQUER

Chief Secretary
 Financial Secretary
 Sir Douglas Wass
 Mr Ryrie
 Mr Middleton
 Mr Dixon
 Mr Unwin
 Mrs Gilmore
 Mr Ridley
 Mr Cardona

CIVIL SERVICE PAY

Sad though it is to record, there is only one response you can make to the Lord President's minute of 20 October to the Prime Minister, and that is "I told you so". Your paper E(80)71 advocated formal suspension of the pay agreement, both to show the private sector that the Government meant business in taking a tough line on public service pay, but also to avoid there being any doubt in the minds of the Civil Service Unions about the Government's position, and to ensure that we were not put in the wrong by breaching the agreement. However, the meeting of E Committee on 23 July decided against formal suspension, and the Lord President's statement to the Unions instead asserted that cash limits would be the major determinant of the 1981 settlement. You returned to the point in your letter of 12 September to the Lord President, and again his reply concluded that formal suspension was not necessary. Now, and for precisely the reason we advocated - that having the pay research evidence available to the parties serves no useful purpose other than to embarrass the Government - the Lord President has concluded that formal suspension is necessary. But to achieve it, we have to break the pay agreement.

Nonetheless, we can only conclude that the Lord President is right, if belatedly. We recommend you to support him.

There is one point on the draft letter which he proposes to give to the Secretary General of the Council of Civil Service Unions. The second sentence of the second paragraph links together inflation and pay settlements. As drafted, it could imply that the Government thought that excessive pay settlements caused inflation. There is no need to refer to inflation in this context, and we suggest that the reference to the over-riding need to combat inflation should simply be deleted.

A draft minute to the Prime Minister is attached.

P M Rayner

P M RAYNER
 22 October 1980

27/10
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CONFIDENTIAL

~~DRAFT~~ MINUTE TO THE PRIME MINISTER FROM CHANCELLOR OF THE EXCHEQUER

Copies to Lord President
Secretary of State for Employment

CIVIL SERVICE PAY

I have seen a copy of the Lord President's minute to you of 20 October.

I think it is a pity that we have now been put into the position of having to break the Civil Service pay agreement by suspending it out of time. For some months, I have been of the view that we should need to suspend, and drew attention to this in my paper E(80)71 and in my letter to the Lord President of 12 September. I would not now dissent from his judgment in favour of suspension.

*para added
(vi)]*
I do, however, question one of the arguments for doing this, that it will not be practicable to vary the distribution of the 1981 Civil Service pay settlement between different groups. The responsibility for managing the Civil Service will remain even if the Agreement is in abeyance; and it is certainly not our intention to create a uniform level of settlement across the public services even if we adopt, as we did last year, a standard figure for the pay assumption to use in cash limits.

I have one comment on the draft letter attached to his minute. As the second sentence of the second paragraph now reads, it links the need for restraint in pay settlements with the need to deal with inflation. I think the argument goes wider and includes public expenditure. So perhaps the simplest course is to delete the reference to the overriding need to combat inflation, relying instead on the first sentence about the difficulty of the economic position, which subsumes the problem of inflation.

I am sending copies of this minute to *the Lord President*
~~Christopher Seames~~ and
~~Jim Prior~~ *Secretary of State for Employment.*



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10 DOWNING STREET

RECEIVED
27 OCT 1980
Mrs Heaton

From the Private Secretary

CST
FST 23 October, 1980.

Dear Jim,

Civil Service Pay

Sir D Wass
Mr. Pyrie
Mr. Middleton
Mr. Dixon
Mr. Unwin
Mrs. Gilmore
Mr. Ridley
Mr. Cardona

The Prime Minister has now considered the Lord President's minute of 20 October about Civil Service pay. She has also seen the Secretary of State for Employment's minute of 23 October.

The Prime Minister agrees that action should be taken now to prevent the pay research evidence from coming in. As regards Mr. Prior's suggestion that this could be achieved by invoking the letter of 19 September, I have told the Prime Minister that your Department is quite clear that the terms of that letter do not in themselves amount to formal suspension of the pay agreement. On that basis, she agrees that formal suspension of the agreement for 1981 should now be announced quickly, though she hopes that the Lord President will make good use of the letter in defending the Government's action.

I am sending copies of this letter to Peter Jenkins (HM Treasury) and Richard Dykes (Department of Employment).

Jim

Tim Laker

Jim Buckley, Esq.,
Lord President's Office.



PRIME MINISTER

Mr Dixon
 Mr Unwin
 Mr P Rayner
 Mr Cardona

Mrs Heaton 24/10
 CST

FST

Sir D. Wass

Mr Rynie

Mr Middleton

CIVIL SERVICE PAY

I have seen the minute of today's date from the Secretary of State for Employment commenting on my minute of 20 October to you. I am glad that he agrees that we should stop the pay research evidence coming in.

Two events have occurred since I wrote which in my view require us to move very quickly to give effect to a decision to suspend pay research for 1981. First, the Financial Times has apparently heard a garbled report to the effect that the Government has already decided to suspend the Pay Agreement for next year and to inform the unions of the decision at a meeting tomorrow. Mr Kendall says that they have approached him for comment on it. Secondly, Mr Kendall himself has been instructed by the Council to see the Director of the Pay Research Unit tomorrow to request the immediate delivery of those of the Unit's reports which are already complete: unless we suspend the Pay Agreement, the Director may find it difficult to withstand this request for long.

I am clear that the terms of the letter of 19 September do not, in themselves, amount to formal suspension of the Pay Agreement, but I shall of course make good use of the letter in defending our action.

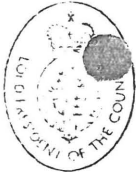
What is clear is that the only way of preventing the reports coming in - and we are all agreed on the need for this - is to announce the formal suspension of the Pay Agreement for 1981 and to do so quickly.

I am sending copies of this minute to those who received the earlier correspondence.

SOAMES

23 October 1980

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Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

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From the Private Secretary

24 October 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Mrs Heaton ^{24/10}
CST
FST
Sir D Wass
Mr Rynie
Mr Middleton
Mr Dixon
Mr Unwin
Mr P Rayner
Mr Cardona

Dear Tim,

CIVIL SERVICE PAY

When I spoke to Clive Whitmore last night about this to forewarn you that the Lord President was writing, he told me that the Prime Minister's decision, which was in line with the Lord President's thinking, was about to be despatched. We agreed that to avoid confusion I would not send my minute. I collected your note and we are now inviting the Secretary General of the union side, Mr Kendall, to meet the Lord President. This will now be early next week to allow time for us to adequately brief the management in departments. I will be in touch about the precise timing.

... Attached is the Lord President's minute which I think we should put on the record. It does contain some new information.

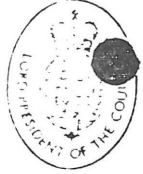
I am copying this, with the Lord President's minute, to ~~John Wiggins~~ (Chancellor's Office) and Richard Dykes (Employment).
Peter Jenkins

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

pwip

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Civil Service Department
Whitehall London SW1A 2AZ

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The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1H 9AT

Sir O Warr
Mr Payne
Mr Middleton
Mr Dixon
24 October 1980
Mr Darwin
Mr Payne
Mr Cardona

24 October 1980

JW 24/10

CONFIDENTIAL
Mr Heston 24/10
CST
FST

Dear Willie,

CIVIL SERVICE PAY

With the agreement of the Prime Minister I will be telling Mr Kendall (General Secretary of the Council of Civil Service Unions) on Monday afternoon that we are suspending the operation of the Civil Service Pay Agreement so far as the 1981 settlement is concerned.

When I met the Council in August I told them that the cash limit would be the major determinant of Civil Service Pay next year although I also said that pay research would have a part to play. (This was in accordance with our conclusion in E Committee in July that the pay research evidence might be useful in deciding on the distribution of the settlement.)

Subsequently the unions were given formal notice of this position under the terms of the Pay Agreement which requires us to give 6 months notice of intention to withdraw from all or part of it.

It is now clear that at the kind of pay levels for the public services which we are discussing there will be no role for pay research. We have therefore decided to set aside the Pay Agreement as a whole with immediate effect. This goes beyond the terms of the notice we gave. But, since pay research will not apply in the 1981 settlement, suspension now makes our position quite clear.

In answering any charges of breaching the Agreement we can point firmly to the fact that we gave due notice to the unions that next year's settlement would have to be determined on the basis of the cash limits position.

We are still in discussion with the Council on changes to the pay research system for the longer term and I shall be making it clear to Mr Kendall that we want these talks to continue.

CONFIDENTIAL
CONFIDENTIAL

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My officials will be providing Departments with background briefing on which they can draw in dealing with queries from their staff after the suspension has been announced publicly immediately following my meeting with Mr Kendall.

I am copying this minute to the Prime Minister, all members of the Cabinet, including the Minister of Transport and Sir Robert Armstrong.

Thompson

Christoph

SOAMES

CONFIDENTIAL
CONFIDENTIAL

CHANCELLOR

159
42

cc: Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Littler
Mr Middleton
Mr Bridgeman
Mr Dixon
Mr Unwin
Mrs Heaton
Mr Robson

TSCS 27 OCTOBER: STAGING OF PAY SETTLEMENTS

1. Paragraphs 5-8 of the TCSC 5th Report criticised staging. Paragraphs 14 and 15 of the Treasury and CSD reply largely accepted these criticisms, whilst making clear the case of staging.

2. E Committee is to consider your paper on this problem tomorrow. It proposes that:

- a) the Government should discourage staging in the future
- b) the cash limit rules should be changed from FY 1981-82 onwards to prevent any financial advantage from staging
- c) all groups which had staging in FY 1980-81 should have full provision made in FY 1981-82 for the earnings increase resulting from that staging. This is predicated on the general 6% proposal being agreed.

3. Formally you have not got collective agreement to (a) and (b) above. But at its last meeting, E came very close to endorsing the approach. You may therefore wish to take a chance and tell the Committee that the Government is opposed to staging and will be altering the cash limit rules to prevent any financial advantage being gained from it. If not, you will simply have to say that the Government is considering the issue in the overall context of cash limit decisions and will have the Committee's views very much in mind.

CONFIDENTIAL

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4. You should try if possible to avoid the problem of what happens about those groups whose settlements were staged in FY 1980-81. You cannot in any event take a firm line at this stage because of the uncertainty about the 6% figure. If you are pressed, we suggest you indicate that there is no question of reopening past settlements, the amounts of money involved are much smaller than this year, and the financial provision for the next settlements is being considered as part of the decisions on cash limits generally.

P M Rayner

P M RAYNER

27 October 1980

94
167

1. SIR DOUGLAS WASS
2. CHANCELLOR OF THE EXCHEQUER

cc Mr. Ryrie
Mr. Middleton /
Mr. Dixon
Mrs. Heaton

Copies attached for:-

Chief Secretary
Financial Secretary
Minister of State (L)
Mr. Ridley
PS/Inland Revenue
PS/Customs and Excise
Mr. Littlewood (DNS)

LASTING REFORMS: CIVIL SERVICE PAY AND PERFORMANCE

I start by declaring an interest in the proposal in the Lord President's minute of 28 October to the Prime Minister for merit pay for Under Secretaries! Leaving that aside, and looking at the proposal from the viewpoint of my management responsibilities for the Treasury, I share the reservations about the scheme attributed to senior officials in Lord Soames' minute.

I acknowledge that the scheme is an "ice breaker" for introducing merit pay lower down the service. But rushing forward with this scheme risks, in my view, giving merit pay a bad name.

The paper attached to Lord Soames' minute says "There are good reasons why senior civil servants should be subject to variations in their pay according to the quality of their work. It is only fair that those who do better work should be paid more; and higher pay for better work may induce better work". The scheme described in the paper does not in my view satisfy either of those reasons.

It does not achieve the objective that those who do better work will be paid more across the Government as a whole. Each Permanent Secretary will be obliged to distribute the pay of Under Secretaries in his Department around the average. One sees the reason for this, but it is unfair to Departments with a high proportion of 'flyers' doing more than averagely demanding jobs. Most people would, I think, allow that the Treasury is in that position. It follows that some Treasury Under Secretaries will be paid less than a colleague in another Department who is doing less

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good work. In an even smaller Department with only two Under Secretaries, one will have to be paid less than the average if another is to be paid more, even if both are doing work of outstanding merit. In that respect the scheme is unfair.

Then there is the question whether it will induce better work. I doubt very much whether it will do so. Even if one takes the view that people at the top of the Civil Service need a financial incentive on top of their natural desire for advancement and for jobs of interest and responsibility - which I doubt - the financial range which is at present possible between the Deputy Secretary salary and the top of the Assistant Secretary scale will cause the sums of money at stake for Under Secretaries to be derisory. I believe that the scheme will provide more irritation than an incentive, and will certainly put a substantial extra burden on the Permanent Secretary.

Putting these two factors together - the potential criticisms of unfairness and the derisory sums at stake - I am sceptical whether the Government would be well-advised to rush into this scheme across the board on the tight timetable which would be inevitable if the scheme were to be introduced for April 1981. If this scheme were to be introduced at all - and my comments make clear that I have reservations about that - it might be better to run it on an experimental basis in one or two Departments.

I am not offering a draft letter for the Chancellor to send to the Prime Minister now in case the Chancellor does not share my reservations. The Chancellor will also want to consider the advice from his other Departments. If the Chancellor would like me to submit a draft minute to the Prime Minister, I will do so in the light of his reactions.

F.E.B.F E R BUTLER
30 OCTOBER 1980

CONFIDENTIAL

EC MRS HEATON
CST
FST
SIR D. MASS
MR RYRIE
MR MIDDLETON
MR DIXON
MR UNWIN
MR P. RAYNER
MR CARDONA



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CIVIL SERVICE PAY

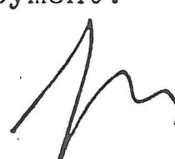
I have seen a copy of the Lord President's minute to you of 20 October, and the subsequent correspondence.

2. I entirely endorse the course of action he has followed with your agreement, although I wonder whether it might not have been better if we had acted a little earlier.

3. On a rather separate point, it may be helpful if I place on record my reservations about one of the arguments Christopher Soames put for suspending the Agreement: that it will not be practicable to vary the distribution of the 1981 Civil Service pay settlement between different groups. The responsibility for managing the Civil Service will remain even if the Agreement is in abeyance; and it is certainly not our intention to create a uniform level of settlement across the public services even if we adopt, as we did last year, a standard figure for the pay assumption to use in cash limits.

4. I am sending copies of this minute to the Lord President and to the Secretary of State for Employment.

(G.H.)


31 October 1980

CONFIDENTIAL

HANCELLOR OF THE EXCHEQUER

170
97

C. W. Butler
→ *Mr. Rayner*

cc Chief Secretary
Financial Secretary
Minister of State (L)
Mr Ridley
PS/Inland Revenue
PS/Customs and Excise
Mr Littlewood (DNS)
Mr Ryrie
Mr Middleton
Mr Dixon
Mrs Heaton ✓

LASTING REFORMS: CIVIL SERVICE PAY AND PERFORMANCE

You will be receiving advice on Lord Soames' minute of 28 October from your other Permanent Secretary Heads of Department, and I do not want greatly to add to your reading. But I want you to know that I strongly endorse the line which Robin Butler takes in his minute of 30 October below.

I think that this is a very ill-thought out scheme and is being rushed forward at a speed which is quite unjustified. As the chief official manager of this Department, I have considerable reservations about whether a system involving marginal differentiations in pay at Under Secretary level would have any net beneficial effect on performance, at any rate with the size of differentiation which is likely to be permitted. Given what I believe to be the real motivation of people in the service at this level, I think it quite possible that merit pay could militate against efficiency and motivation. To illustrate the point I invite you to read Lord Soames' paper, substituting 'Cabinet Ministers' for 'Under Secretaries' wherever the latter term appears.

I would not however want this advice to be the end of the matter. There is a serious proposition here to be debated and considered and for a sensible conclusion to be reached in good time. The CSD are plunging into a reform which they have not adequately discussed with Departments or thought through, and are doing so in craven deference to pressure from Sir Derek Rayner. What is good for Marks and Spencer is not always good for a professional non-commercially motivated public service.

CONFIDENTIAL

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You and the Prime Minister may well be favourably disposed to the idea of performance-related pay in the Civil Service. If so, I think that this makes it all the more imperative that you should hear all the arguments against it. This can only be done if the study which Lord Soames proposes is not prejudiced by a prior decision to introduce merit pay in the Civil Service (which seems to be implied) and by a timetable which is likely to militate against a proper study of the subject.

When you have received advice from your other Heads of Department you may like to have a word with us on procedure.

DW

DOUGLAS WASS
31 October 1980

CONFIDENTIAL

1PAY5

CONFIDENTIAL



Mr. Ryrie Mr. Middleton
By [signature]
4/11

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Sir D Wass
- Mr Ryrie
- Mr Middleton
- ~~Mr Dixon~~
- Mr ~~F~~ E R Butler
- PS/Inland Revenue
- Mr McConnachie - IR
- PS/Customs and Excise
- Mr Littlewood - DNS

LASTING REFORMS - CIVIL SERVICE PAY

I have I would hope made it clear in the two minutes I have sent to you (13 October and 22 October) that I regard the scheme as proposed by Christopher Soames as inadequate in that it has failed to face up to the practical difficulties of introducing such a scheme in isolation and in advance of other and possibly necessary but undecided changes.

You simply cannot do things in bits in this way. You need to have a clear vision of your objective: and what you do on individual problems should then be related to progress towards that objective. Unless you proceed in this deliberate, purposive, way, you end up in a mess.

H.C.

LORD COCKFIELD

3 November 1980

33
4/11

CONFIDENTIAL

CHANCELLOR OF THE EXCHEQUER

Mr P. Layton *Page 4/4* *100*
cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton
Mr. Dixon
Mrs. ~~Watson~~
Mr. Ridley
Sir Lawrence Airey (IR)
Sir Douglas Lovelock (C&E)
Mr. Littlewood (DNS)

PAY AND PERFORMANCE

I attach a draft minute on the lines sketched out in Mr. Jenkins' minute of yesterday.

I have included in the last sentence a reference to looking at what other countries, e.g. France, do in this respect: this was the suggestion in the Financial Secretary's minute of 3 November, with which I respectfully agree.

F.E.R.B.

F E R BUTLER
4 NOVEMBER 1980

CONFIDENTIAL

DRAFT MINUTE FROM THE CHANCELLOR OF THE EXCHEQUER TO THE PRIME MINISTER

Copied to:-

Members of the Cabinet
Minister of Transport
Sir Robert Armstrong
Sir Derek Rayner

CONFIDENTIAL

PAY AND PERFORMANCE

I strongly support in principle the introduction of performance-related pay, about which Christopher Soames minuted you on 28th October.

However, I should let you know that the Heads of my Departments are unanimous in expressing anxiety about introducing the particular scheme proposed in the Annex to Christopher's letter, on the timescale which he proposes. They have pointed out to me that there are unresolved problems about its administration - for example, the self-financing formula means that merit pay in each Department could only be given to some at the expense of others in the same Department and not in relation to any general criterion, and there are difficulties about specialists and small Departments - and they believe that there are major questions of principle about introducing merit pay at this level which need more consideration.

I have not had the opportunity to take a firm view of the weight and validity of these arguments, but I think that they must be taken into account. There would not be time to do so adequately if we had to introduce this scheme by 1st April. My own main reservation is whether the present proposals go far enough. Although a scheme at Under Secretary level is relatively easier to introduce, the case for it at lower levels in the Civil Service seems very much stronger. It may be preferable to introduce a more far-reaching scheme over a narrower front on an experimental basis. In doing so it would be useful to look at what other Governments do, e.g. France.

I am copying this minute to those who received Christopher Soames' minute of 28 October.

RAA 12

CH/EXCHEQUER	
REC.	- 7 NOV 1980
ACTION	Sir D Wass
COPIES TO	CST
	FST
	MST L
6th November, 1980	

PS/IR
 PS/Ref
 DNS
 Mr McConnachie
 Mr Heaton

CONFIDENTIAL

Prime Minister

Mr Pyrie
 Mr Middleton
 Mr Dixon
 Mr. F.E.R. Butler

W. Rayner

Pay and Performance

1. The Lord President's minute of 28th October enclosed a paper proposing that officials should urgently prepare a scheme of performance related pay for members of the Open Structure of the Civil Service, to be introduced from next April.
2. I must express considerable misgivings of a scheme of this kind. I certainly share the desire to see the efficiency of the Civil Service improved, but I do not believe that a scheme of this kind will achieve that. Implicit in the scheme is the assumption that senior members of the Civil Service are principally or at least significantly motivated by the prospect of financial reward. I doubt this strongly. Work in the higher levels in Whitehall certainly has its rewards - the interest of the job, the security and the pension, but people who are determined to make a fortune do not enter the Civil Service. What concerns me most, however, is that the operation of a scheme of this kind would place the Permanent Secretary in a most invidious position. I am concerned lest the resentment which could be caused on the part of those who find that they are receiving less than the average rate is potentially far more damaging than any additional motivation which the scheme might offer. It is beyond doubt that the scheme would also consume a good deal of the time of our Permanent Secretaries, who have many more important matters to deal with. The friction which would be caused would in my view outweigh the advantages, even if, which I am not convinced is the case, objective criteria as distinct from subjective assessments were a practical option.
3. I am sending copies of this minute to Cabinet colleagues, the Minister of Transport, Sir Robert Armstrong and Sir Derek Rayner.

H: of S: M.

2/11

CONFIDENTIAL

12/36

103

RAP



10 DOWNING STREET

From the Principal Private Secretary

7 November 1980

CH/EXCHEQUER	
REC.	10 NOV 1980
ACTION	Sir D. LIAI
COPIES TO	CST
	FSI
	MS (c)
	MS (L)

Mr. Pyrie
 Mr. Middleton
 Mr. Dixon
 Mrs. HEATON
 Mr. Nibley
 Sir L. Army - IN
 Sir D. Walker - CPM
 M. G. Williams - D
 M. F. E. Norton
 Mr. Ragner

Dear Jim,

Pay and Performance

The Prime Minister has seen the Lord President's minute of 28 October 1980 and the accompanying paper about a scheme for performance-related pay for the Open Structure of the Home Civil Service.

She has also seen the comments which some of her Cabinet colleagues have offered on the Lord President's proposals, beginning with the Home Secretary's minute of 2 November. Since there is clearly not unqualified agreement with the Lord President's suggestion that officials should press ahead with the detailed preparation of a scheme on the basis of Annex B to his paper, she sees no alternative but to discuss the matter in Cabinet. She would be grateful if the Lord President would circulate a paper to Cabinet which not only sets out his essential proposals but also responds to the main points which other members of the Cabinet have made in commenting on his minute.

I am sending copies of this letter to the Private Secretaries to other members of the Cabinet and to the Minister of Transport. Copies also go to Sir Robert Armstrong and Sir Derek Ragner.

Yours are,

Heri Whitman.

13/14

Jim Buckley, Esq.,
 Civil Service Department.

CONFIDENTIAL

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136
PAP



MINISTRY OF DEFENCE

1 BUILDING WHITEHALL LONDON SW1

CH/EXCHEQUER	
REC.	- 7 NOV 1980
ACTION	SIR D. WASS
COPIES TO	CST
	FST
	MST L
	MR RYHIE
	MR MIDDLETON
	MR DIXON
	MR F.E.R. BURER
	PS/IR
	PS/CTE
	DNS
	MR McCONNACHIE - IR
	MRS WATSON

Telephone 01-~~XXXXXX~~ 218 2111/3

MO 20/17/6

7th November 1980

W. Rogers

Dear Clive,

PAY AND PERFORMANCE

My Secretary of State has seen the Lord President of the Council's minute to the Prime Minister of 28th October and has asked me to record that he agrees with Lord Soames' proposal that officials should proceed with work with the aim of introducing from April 1981 a scheme for performance-related pay for the Open Structure of the Home Civil Service.

My Secretary of State regards the real need, however, as being for a wide ranging scheme; he hopes that any early scheme of a very limited nature will not prejudice, or put at risk, the introduction subsequently of a wider scheme.

I am sending copies of this letter to John Wiggins (HM Treasury), Jim Buckley (Civil Service Department) and David Wright (Cabinet Office).

*Yours w.
Burr*

(B M NORBURY)

C A Whitmore Esq

31/11

cc:

CST
FST
C
L
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mrs Heaton
Mr Ridley

CONFIDENTIAL



105
Sir L Airey (IR)
Sir D Lovelock (C&E)
Mr Littlewood (DNS)
Mr Butler

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

RAF

Mr. Keynes

PRIME MINISTER

PAY AND PERFORMANCE

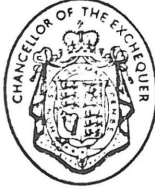
I strongly support in principle the introduction of performance-related pay, about which Christopher Soames minuted you on 28th October.

2. However, I should let you know that the Heads of my Departments are unanimous in expressing anxiety about introducing the particular scheme proposed in the Annex to Christopher's letter, on the timescale which he proposes. They have pointed out to me that there are unresolved problems about its administration - for example, the self-financing formula means that merit pay in each Department could only be given to some at the expense of others in the same Department and not in relation to any general criterion, and there are difficulties about specialists and small Departments. They also believe that the questions of principle involved in introducing merit pay at this level need more consideration.

3. I have not had the opportunity to take a firm view of the weight and validity of these arguments, but they clearly need to be considered. Would there be time to do so adequately if we had to introduce this scheme by 1st April? But I do have two important reservations of my own.

CONFIDENTIAL

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11/11



4. The first is whether the present proposals go far enough. Although a scheme at Under Secretary level is relatively easier to introduce, the case for it at lower levels in the Civil Service seems very much stronger. It may be preferable to introduce a more far-reaching scheme over a narrower front on an experimental basis. In doing so it would be useful to look at what other Governments do, e.g. France.

5. The second relates closely to the question of self-financing. I strongly suspect that on average pay levels at the levels of Assistant Secretary and above are rather higher than in the private sector, both for administrative and specialist grades - in other words that present comparability criteria lead to overpayment as a rule. I also believe that merit payments must be substantial if they are to have any point whatever. So I am led to presume that the proper way ahead to a self-financing (or even money-saving) system which will ease unfair pressures on private employers would be, in outline, to

- (1) reduce "basic" pay levels substantially;
- (2) apply the money saved to provide quite large merit payments.

6. I am copying this letter to those who received Christopher Soames' minute of 28 October.


(G.H.)

7 November 1980

Pay
Rayne

CH/EXCHEQUER	
REC.	11 NOV 1980
ACTION	<i>Sin</i> UAU
COMES TO	<i>OST</i>
	<i>OST</i>
	<i>OST (c)</i>
	<i>OST (L)</i>

M. F. E. R. BULLOCK
Mrs. HARRISON
M. R. DICKINSON
B. KERR
P. J. C. SHAW
P. J. DAVIS

PRIME MINISTER

PAY AND PERFORMANCE

M. R. DICKINSON
M. H. DICKINSON
M. DIXON

I support the arguments in the Home Secretary's minute of 2 November in which he commented on the proposals made in the Lord President's minute of 23 October. I agree in particular with his suggestion that we take a little more time to consider the issues involved.

At the same time I am in favour of rewarding merit and encouraging better performances. To this end, may I put forward an alternative suggestion? This would be a system under which there was a range of pay for Under-Secretaries, who would move from one level to the next only after satisfying top management of their suitability for such an increase. This would enable the highly competent Under-Secretary to move steadily up the range, while an Assistant Secretary promoted to Under-Secretary who turned out to be less able, would remain at the bottom.

I am copying this minute to those who received copies of the Lord President's minute.

M

2

SECRETARY OF STATE FOR ENERGY

10 November 1980

11/11

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TREASURY
13 NOV 1980
I.P.C.S.
Prime Minister

CH/EXCHEQUER	
REC.	11 NOV 1980
ACTION	(in) LMSJ
COPIES TO	CST
	PT
	MSJ(c)
	MSJ(L)

355

Mr. Pyrie
Mr. M. J. D. Linton
Mr. Dixon
Mr. F. R. D. Smith
Ms. Hanson

Mr. Ridley
PS Fin
PS CBE
PS JMS

PAY AND PERFORMANCE

I have been thinking about the Lord President's minute to you of 28 October, in the light of the comments from the Home Secretary and other colleagues.

I fully support the objectives and believe that we ought to be able to introduce a Civil Service scheme which relates pay to performance. However, I share the Home Secretary's view that we should tackle the important question of performance-related pay at a rather more cautious pace than the Lord President envisages. I very much welcome a thorough examination on the matter, and as soon as possible; but I have at present considerable reservations about making the Under Secretary grade alone the focus of what will be a major new step within the Civil Service - and at a time when the financial room for manoeuvre is bound to be extremely limited. I would hope that we could avoid any commitment, even in principle, to a scheme along the lines of the Lord President's Annex B until it is clear whether such a scheme is practicable and acceptable, and whether we shall be able to follow it with a wider application of pay and performance arrangements throughout the Service.

I am copying this minute to the recipients of the Lord President's minute.

PT



CH/EXCHEQUER	
REC.	10 NOV 1980
ACTION	SIR D. WASS
COPIES TO	CST
	FST
	MST C
	MST L
	MR RYRIE
	MR MIDDLETON
	MR DIXON
	MRS UGATON

147
PAP

PRIME MINISTER

PAY AND PERFORMANCE

MR RIDGEMAN
PS/IR
PS/C+E
PS/DNS
MR E.E.R. BURTON
Dr. Rayner

I entirely share the doubts expressed by the Home Secretary about the Lord President's proposals to you in his minute of 28 October.

I have considerable doubts whether we would on balance do anything to improve motivation by introducing monetary incentives for senior management in the Civil Service. Certainly I believe it would be unwise to rush into a scheme for the particular grade of Under Secretary. I hope we can take a more considered look at the whole issue.

I am sending copies of this minute to Cabinet colleagues, the Minister of Transport, Sir Robert Armstrong and Sir Derek Rayner.

J P

10 November 1980

12
11/11

M. P. Rayner *110*

CH/EXCHEQUER	
REC.	11 NOV 1980
ACTION	<i>(in) (LMS)</i>
COMES TO	<i>CST</i>
	<i>PT</i>
	<i>MS (c)</i>
	<i>MS (u)</i>

Page 12/4

Prime Minister

PAY AND PERFORMANCE

M. Byrnie
M. H. D. [unclear]
M. D. [unclear]
M. F. R. [unclear]
M. [unclear]

M. [unclear]
PS [unclear]
PS [unclear]
PS [unclear]

I have been thinking about the Lord President's minute to you of 28 October, in the light of the comments from the Home Secretary and other colleagues.

I fully support the objectives and believe that we ought to be able to introduce a Civil Service scheme which relates pay to performance. However, I share the Home Secretary's view that we should tackle the important question of performance-related pay at a rather more cautious pace than the Lord President envisages. I very much welcome a thorough examination on the matter, and as soon as possible; but I have at present considerable reservations about making the Under Secretary grade alone the focus of what will be a major new step within the Civil Service - and at a time when the financial room for manoeuvre is bound to be extremely limited. I would hope that we could avoid any commitment, even in principle, to a scheme along the lines of the Lord President's Annex B until it is clear whether such a scheme is practicable and acceptable, and whether we shall be able to follow it with a wider application of pay and performance arrangements throughout the Service.

I am copying this minute to the recipients of the Lord President's minute.

PT

Mr P M Payer

cc: Mr P M Payer
Financial Secretary
Minister of State
Minister of State
Sir Douglas Mawson
Mr Ryrie
Mr Middleton
Mr Burgner
Mr Dixon
Mr Unwin

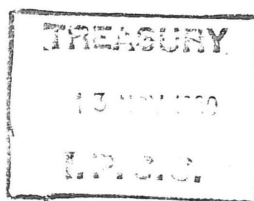
IPCS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

12 November 1980

Dear Secretary of State



PAY OF PETROLEUM SPECIALISTS

Thank you for sending me a copy of your letter of 23 October to Paul Channon.

It seems to me that we are faced with a straight choice. It is generally agreed that your proposals are a realistic assessment of the going market rate, and would have to be justified on this basis. If you cannot pay the rate for the job, you will not be able to recruit and will continue to lose these key staff. On the other hand there will be considerable difficulties in presenting such high increases, even though they relate to the last "pay round" and there is risk of repercussions. An element of this presentational difficulty is that the figures derive from a comparability study and we have just decided to suspend pay research for the non-industrial Civil Service generally - though the pay year in question is, strictly, different.

I am not clear that Paul Channon's proposals do not fall foul of the same objections. Indeed, they may run the risk of getting the worst of all worlds. They produce high percentage increases (a maximum of 30.5 per cent), whilst your view remains that they are insufficient to deal with the very real recruitment and retention problems which you face. An alternative to your proposals could be very much lower increases, which can be presented as clearly in line with the broad level of increases received by the non-industrial Civil Service in 1980.

The choice between the two alternatives will to my mind rest on whether it is possible to present your proposals in a way that will minimise possible damage to our over-all objectives on pay this year, that will not stir up further trouble with the Civil Service Unions over the suspension of pay research, and will eliminate, or

MANAGEMENT IN CONFIDENCE

at least in principle, the risk of repercussions. In practice, we may be faced with a stark choice between two unpalatable alternatives, which we would have to make collectively. But can I suggest as a start that you and Paul Channon might provide us with a fuller assessment of the possible presentation and of the risks of repercussions than we have so far had?

I am sending copies to members of E Committee, to Paul Channon, and to Sir Robert Armstrong.

Yours sincerely

R. W. A.

PP JOHN BIFFEN

[Approved by the Chief Secretary and signed in his absence]



CH/EXCHEQUER	
REC.	17 NOV 1980
ACTION	MRS HEATON
COPIES TO	CST
	PST
	MST C
	MST L
	SIR D. WASS
	MR RYRIE
MR MIDDLETON	
MR DIXON	
MR VINN	
MR P. RAYNER	
MR RIDLEY	

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

33

John Hoskyns Esq
No 10 Policy Unit
10 Downing Street
LONDON SW1

14 November 1980

Dear Mr Hoskyns,

PAY COMPARABILITY

You sent me a copy of your minute of 30 October to the Prime Minister about your conversation with Dr Donoghue.

I am not clear what we are supposed to make of the account of the Economist Intelligence Unit's attempt to recruit additional economic forecasters. I see the same story was in the Economist article - 'Incomparable' - on 1 November. I hope we are not in the business of using unsubstantiated assertions and anecdotes in dealing with civil service pay, for they certainly do not all point in the same direction as the case which David Wolfson brought to our attention illustrates (copy attached).

Anecdotal evidence is no substitute for the collection of facts about salaries and other conditions of service on a systematic basis. When people move jobs one of the main reasons is more money. No doubt the EIU were wise not to employ someone who made a statement as silly - in economic terms - as that attributed to the person interviewed. But I should want rather more information about EIU salaries and other conditions (do the top 3 people have cars, loans, meal allowances etc) before making a summer of one swallow. No doubt the EIU could provide you with the details of their total benefit package should you wish to put an example to the Prime Minister which includes essential facts.

I am sending copies of this letter to the Prime Minister and the Chancellor of the Exchequer.

Yours sincerely,

[Signature]

(Private Secretary)

Dictated by Lord Soames
and signed, on his behalf.



HM DEVELOPMENT
COMMISSIONERS

The Development Commission *for annual*

01-222 9134

11 COWLEY STREET LONDON SW1P 3NA

From the Chairman

*B(F 20 Nov 1980)
after chasing the Dept
file 340/13711*

MB 27 NOV 1980 E 1

5 November 1980

Paul Channon Esq MP PC
Minister of State
Civil Service Department
Whitehall
LONDON SW1A 2AZ

LORD PRESIDENTS OFFICE
C 45
- 7 NOV 1980
FILING INSTRUCTIONS
FILE NO 1A

Mr Swales

*for advice and
draft reply ph*

- " PS/1st President ✓*
- PS/Asst Sec*
- PS/2nd Asst Sec*
- Mr Burnett*
- Mr NEA Moore*
- Mr Pease*
- MS.*

David Wolfson

David Wolfson of the Cabinet Office is anxious that I bring to your attention one aspect of Civil Service remuneration policy which we both think works against the public interest.

The problem came to my own notice because the Council for Small Industries in Rural Areas, which is an agency of the Development Commission and employs staff on Civil Service terms and conditions of service (although they are not civil servants), is now seeking a new Chief Executive - the present one retires shortly. Although there was a large number of applicants for the post and I think we have found a very suitable person (the selection procedure is in its final stages), it became fairly clear during the process that a number of people regarded the terms as far from generous. The/

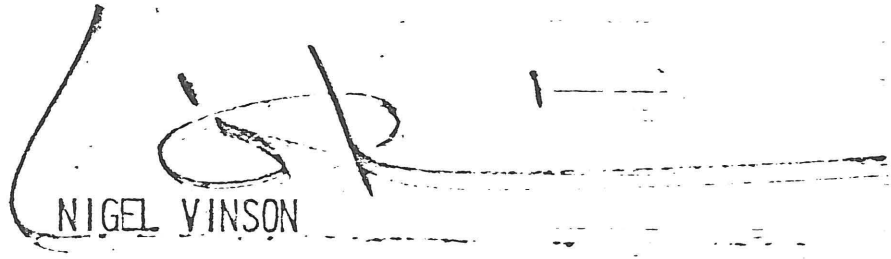
115
The salary (Assistant Secretary scale) was not thought to be particularly good for a Chief Executive of an organisation employing over 300 people and advising small businesses over a wide range of disciplines. I understand that the Chief Executive of the SDA receives £28,250 and that the WDA Chief Executive gets £24,750. Even the Chief Executive of the Development Board for Rural Wales gets the Under Secretary salary of £20,500.

However, it was not salary alone which dismayed so many applicants. It was the additional irritants of no official car being provided and, worse still, no removal expenses on appointment. The head-hunting consultants who acted for us in seeking candidates have assured me that it is unprecedented, in their experience, for candidates at this level in the private sector to pay for their own removal expenses on appointment. Our consultants advise us that, taken together, these three issues contributed to misgivings in the minds of many candidates about the stature of the post and caused unfavourable comparisons to be drawn with posts at that level in the private sector.

I appreciate that the current Civil Service rules have been correctly applied in this instance but I hope we can learn from it, and some changes could be brought about with regard to the promotion of similar candidates in the future. Had the candidate been chosen from within the Civil Service his full removal expenses would have been paid and I think it would be perfectly proper for candidates to posts of this seniority from outside the Civil Service to have their full removal expenses reimbursed and that a special new ruling should be made to this effect. I do not think that it would/

would create a formidable precedent making it necessary for removal expenses to be paid below this level - there has to be a demarcation at some point. Overall the cost would be negligible because we are talking about very few appointments but I do think it important, and I am sure you will agree, that we should not hinder the flow of really good people from the private sector into public posts unnecessarily.

A



NIGEL VINSON



CH/EXCHEQUER	
REC.	17 NOV 1980
ACTION	M. F. E. R. B. S. U. G.
COPIES TO	CJT
	BT
	MR (cl)
	MR (L)

In Confidence

19756 PA 1/2

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

Sir D. U. S.
Mr. Rayner
Mr. Middleton
Mr. Dixon
Mr. H. H. H. H.
Mr. H. H. H. H.

17 November 1980

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

P/S
P/S
P/S

Dear Chancellor,

In your minute of 7 November to the Prime Minister you say that you strongly suspect that as a rule Assistant Secretaries and above are overpaid compared with the private sector.

In view of the fact that (1) the present Under Secretary rate is £3,000 below that recommended by TSRB and, flowing from that decision, the present Assistant Secretary maximum is £2,500 below that indicated by the pay research evidence; and (2) Sir Derek Rayner, when Deputy Chairman of the Pay Research Unit Board, personally conducted a rigorous examination of the comparisons made by the Unit at Assistant Secretary level and satisfied himself that they had been properly carried out; I would be grateful if you would let me know what evidence you have to support your suspicion. Since you have sent your letter to colleagues I think it all the more important to resolve this.

I am copying this to the Prime Minister, Cabinet colleagues, including the Minister of Transport, Sir Derek Rayner and to Sir Robert Armstrong.

SOAMES

26
19/11



Dist 118
RAJ
45

10 DOWNING STREET

19 November 1980

The Rt Hon Lord Soames CH
Lord President of the Council
Civil Service Department
Old Admiralty Building
Whitehall
LONDON SW1

CH/EXCHEQUER	
REC.	19 NOV 1980
ACTION	Mrs HEATON
COMES TO	CS
	FS
	MST(c)
	MST(c)

Mr M. DICKSON
Mr DIXON
Mr J. J. J.
Mr P. RAYNER ←
Mr RILEY

Sir D. LAM
Mr. R. H. H.

Dear Christopher,

PAY COMPARABILITY

Your letter of 14 November reads more into my minute of 30 October than it contained. I was passing on information which I specifically described as "anecdotal", for what it was worth - no more, no less. I did not suggest that "unsubstantiated assertions and anecdotes" should take the place of the systematic collection of facts.

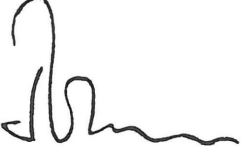
Nevertheless, anecdotes can be helpful (as no doubt Nigel Vinson's letter to Paul Channon was helpful) in that any information is better than no information, provided it is properly evaluated.

One of the most difficult questions to answer is "What is the value, to the recipient, of an inflation-proofed pension?". It may be impossible to answer that question from a gathering of statistics. Meanwhile, Civil Service union leaders presumably argue that the value of such pensions is much exaggerated in public comment and that the present employee contributions are adequate. Perhaps the only way to find out would be to ask public service employees, on a survey basis, what sized salary increase would compensate for the loss of an indexed pension. If the union leaders' contention is correct, the compensation would be quite small. A small increase in salary scales would adequately compensate for the ending of inflation-proofing and all sides would then be satisfied: the employees concerned and public opinion on the matter.

In your letter, you say that perhaps the EIU were wise not to employ someone "who made a statement as silly - in economic terms - as that attributed to the person interviewed". I don't think that we can judge whether or not the remark was silly or sensible. The value of an indexed pension to the recipient is presumably a matter of his subjective judgment, his attitude to risk and his views on likely future inflation etc. Given that the people interviewed by EIU did in fact assign a value of £3,000 or so to such a pension, presumably

the only thing that would have really been "silly" would have been for them not to say so at their interviews.

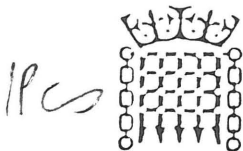
I hope this note clears up any misunderstanding. I am copying this letter to the Prime Minister and to Geoffrey Howe.

Yours ever


JOHN HOSKYNS

120
19

CH/EXCHEQUER	
REC.	27 NOV 1980
ACTION	M. BRIDGEMAN
COPIES 10	CST
	FST
	SIND/LAS
	M. BROWN



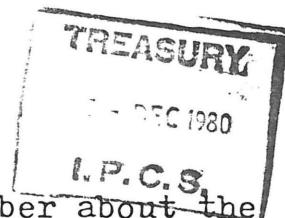
HOUSE OF COMMONS

LONDON SW1A 0AA

- | | |
|---------------|--------------|
| Mr. HANSFORD | Mr. JAVIER |
| Mr. BRIDGEMAN | Mr. BOTTILL |
| Mr. BURGESS | Mrs. GILMORE |
| Mr. V. HALL | Mrs. LLOYD |
| | Mr. RIDLEY |
| | Mr. CANNON |

26 November 1980

Mr. RYAN
Sir A. LAWSON

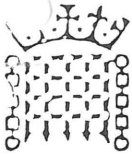


Thank you for your letter of 24 November about the way in which Civil Service pay is to be controlled in future.

Let me say at once that the Committee warmly welcomed the way in which you have gone a long way to implement the recommendations made in their Fifth Report. We had noted the Treasury's observations on the Fifth Report with some concern and we had intended to publish a further report which would have been critical of these observations. This will not now be necessary, and the Committee is glad that it is not. However, the Committee wished to make certain observations which we hope will be helpful to you. The Committee read your letter as meaning that a full explanation will be given at the relevant time explaining any difference there may be between the actual percentage increase between 1980/81 and 1981/82 in the provision for pay and the announced provision for increases in earnings from due settlement dates. As you point out there could be a number of reasons for any such differences and the Committee are convinced that it would be most helpful for a proper understanding of Government policy if the reasons for these differences were spelt out in full.

The Committee particularly welcomed your assurance that the Government will, in future, avoid the staging of awards which has given rise to confusion in the past and made control of total spending the more difficult. They are also glad to see that where a staged award is made by a public services employer, the Government, when setting the relevant cash limit for the subsequent year, would not allow for that part of the award which had been fitted into the previous year's cash limit by delaying or staging.

157/12



121

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The third main point in the Fifth report stressed the difficulties which arose from splitting the provision for pay between the main Departmental Estimates and a global Estimate for increases arising from the annual pay settlement. With the suspension of pay research presumably no question of a split Estimate arises this year and the Committee trust that it will be avoided if and when pay research is resumed.

The text of this letter is being released to the Press.

A handwritten signature in dark ink, appearing to be 'G. S.' with a horizontal line underneath.

The Rt Hon Sir Geoffrey Howe, Q.C., M.P.,
Treasury Chambers
Parliament Street
S W1P 3AG

in Reply 172



CH/EXCHEQUER	
REC.	28 NOV 1980
ADDRESSEE	SIR D WASS
	CST
	FST
	MST C
	MR RYAN
	MR MIDDLETON
	MR DIXON
	MR F. E. R. BURTON
	PS/IR
	PS/C/E
	DNS

PRIME MINISTER

PAY AND PERFORMANCE

Mr McCORMACKIE - 112
Mr BOCKLEY

I was interested to see the Lord President's minute to you of 28 October. Although I am much in favour of relating Civil Servants' pay to their performance, I share colleagues' doubts about the proposed pilot scheme for the Under-Secretary group. I am glad we are to discuss the whole issue in Cabinet.

2. I personally doubt if people who have reached Under-Secretary (and equivalent) against strong competition for promotion to that high level need any additional carrots to encourage them to try harder; the small extra financial reward available would constitute a very small carrot. We may need quicker methods of retiring those who are a spent force but the proposed scheme does not provide that kind of stick.

3. I agree with Keith Joseph that relating pay to performance is more relevant, more important and more practicable at lower grades. Like him, I believe that changing the basis on which increments are awarded to those grades could be the key: they used not to be automatic and even today are not wholly automatic in the Northern Ireland Civil Service. I should like to see the scope for change here examined; for I believe it is in the withholding of carrots at lower levels and the introduction of a speedier exit for the inefficient at higher levels that we could make a start on re-establishing energy and drive at all levels in the Civil Service.

4. Copies go to the recipients of the Lord President's minute of 28 October.

H.A.

H.A.

28 November 1980

31/11/80

Mr Buckley for Rayner



CH/EXCHEQUER	
REC.	- 1 DEC 1980
ACHT	MR FER BURN
COPIES	CST
ID	FST
	MSTC
	SIR D WASS
	MR RYAN
	MR MIDDLETON
	MR DIXON
	PS 112 ✓

By FA 2/11/80

PRIME MINISTER

PAY AND PERFORMANCE

*PSICE
DNS
MR MCCANNACHIE IR
MR BUCKLEY*

Following an invitation by E Committee to pursue the introduction of performance-related pay for civil servants, I circulated to colleagues proposals to introduce, as a first step, a scheme for the Under Secretary grade from 1 April 1981. I did this as I was anxious to make progress quickly. But my colleagues have been less than enthusiastic.

My own belief - and this seems to be shared by colleagues - is that a pay and performance scheme would be more effective at lower levels than Under Secretary. In particular I would like to introduce it for Assistant Secretaries and Principals. But this will take time.

Of course there will be problems to be overcome and there are vested interests against such a change. But we should not be diverted. I propose therefore to report further to colleagues in due time with a scheme applying to Assistant Secretaries and Principals that we can implement from April 1982.

I invite colleagues to agree:

- a. we should not pursue the idea of a scheme for Under Secretaries in 1981;
- b. I should inform my officials that we have decided that a scheme for Assistant Secretaries and Principals - and possibly equivalent grades - will be introduced for 1982, and that they should draw up such a scheme, in consultation as necessary with other departments.

Copies go to Cabinet colleagues, including the Minister of Transport, Sir Robert Armstrong and Sir Derek Rayner.

SOAMES
28 November 1980

28/11/80

124

Mr. Biffen

13.12.80
43



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

28 November 1980

CH/EXCHEQUER	
REC.	- 1 DEC 1980
ACTION	<i>M. Dixon</i>
COPIES TO	<i>CST</i>
	<i>PST</i>
	<i>Sir D. Williams</i>
	<i>Mr. Biffen</i>
	<i>Mr. M. D. Linton</i>
	<i>Mr. UNWIN</i>
	<i>Mr. B. J. Smith</i>
	<i>Mr. P. Rayner</i>
	<i>Mr. Biffen</i>

Ch/Ex to deal

Thank you for sending me a copy of your letter of 2 October to Lord Strathcona.

I agree that the level of delegation and the guidelines proposed in the official report is sensible and that we should instruct our officials to implement the recommendations straightaway.

I am copying this letter to Lord Strathcona and to John Biffen.

(Signature)
GEOFFREY FINSBERG

The Rt Hon Paul Channon MP

21
1/12



Mr. Rayner 125
55
RAA

CLASSIFIED BY	SECRET
REC.	DEC 1980
ADD.	MR F. E. A. BURN
CODES	CST FST MST L
TO	SIR D. WASS MR RYRIE MR MIDDLETON MR DIXON PSIR

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01- 233 8224

PS/CFE
DNS
MR McCORMACKIE - IR
MR BUCKLEY

1 December 1980

The Rt Hon Sir Geoffrey Howe QC MP

Geoffrey
PAY AND PERFORMANCE: ASSISTANT SECRETARIES

1. Thank you for copying to me your minute to the Prime Minister of 7 November and your reply of 20 November to Christopher Soames's letter of 14 November. The facts about my experience when Deputy Chairman of the Pay Research Unit Board are these.
2. Before the General Election I questioned whether the comparison made between Assistant Secretary posts in the Civil Service and similar posts outside was reliable. I looked at two posts in my own firm (because I could obviously do so easily) and was about to look at some posts in an insurance company when the change of Government intervened and my visit was cancelled on my assuming responsibilities down here.
3. My assessment of the two posts in Marks and Spencer suggested that the PRU staff had done their best with the data available to them and confirmed that the level of pay for able people in the private sector who can be compared with able Assistant Secretaries is high. It would be a mistake to suppose that bright people in their 30s in the private sector are not very well paid or that firms do not have to pay over the odds to hang on to particular people from whom much is hoped.
4. The main issue I am interested in is how best to take account in remuneration of the differences between individuals. During the last 18 months I have met some Assistant Secretaries of superlative ability and others who do not enthuse me at all, but overall I am increasingly conscious of the abundance of talent absorbed by the Government as an employer. I do not think that it is right to reward stodgy officers in the same way as abler and more effective colleagues, whatever the grade, as it makes for cynicism inside and outside the Service. This points to the importance of
 - the current "chain of command" review as a means of both shortening the length of the hierarchy and giving the talent within it more elbow room;

2/4/12

- avoiding so far as reasonable "automatic" entitlements; and
- recognising exceptionally meritorious work.

5. I would not want to leave you with the impression that all this is child's play in the private sector, because it is not. Any large organisation is a potential victim of bureaucratisation not least that that can accompany the emphasis laid by personnel management on treating everyone alike and on avoiding the need to justify differences. But I think that it is one of the duties of management, especially top management, to make sure that the "system" does not usurp the primacy which should attach to getting the work done well and to fostering that high staff morale which comes from a sense of doing something important and being justly valued for it.

6. I am copying this only to the Prime Minister and to the Lord President, but am content for you and Christopher Soames to make such use of it as you wish.


Derek Rayner



CH/EXCHEQUER	
REC.	2 DEC 1980
ACTION:	Mr FER Butler
COMES TO	CST FST MST L Sir D Wass

Mr Payne 2/36
124
174
5

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Mr Pyne
Mr Middleton
Mr Dixon
PS/IR
PS/CEE
PS/DNS.
Mr McConnachie IR
Mr Buckley

1 December 1980

Dear Geoffrey,

Thank you for your further letter of 20 November on performance related pay. Apart from the obvious objection to reducing pay levels which have already been negotiated and agreed, there are anyway legal objections. We should be open to action in the courts by the staff whose pay we tried to reduce. You may therefore like to seek legal advice if you really feel that this would be a felicitous and advantageous line to pursue.

I am copying this to the recipients of your letter.

Yours ever

Christopher

22/12

128

3572

58



Sir D Warr
Mr Payne
Mr Middleton
Mr Dixon
Mr Unwin
Mr P. Payne
Mr Ridley

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

John Hoskyns Esq
10 Downing Street
LONDON SW1

December 1980

CH/EXCHEQUER	
REC.	2 DEC 1980
ACTION	Mr. Buckley
COPIES TO	CST
	FST
	MST C
	MST L

Dear Hoskyns,

PAY COMPARABILITY

In the final paragraph of your letter of 19 November you expressed the hope that it had served to clear up any misunderstanding. Frankly it didn't - if anything it demonstrated others.

But I suspect and hope we have both got better things to do than argue about the inwardness of one man's view expressed at an interview which was reported to you at secondhand. Hopefully the Scott report will give us all a better idea of the real value of index linked pensions - something for which (as in other areas) we have heretofore had to rely on the professional advice of the Government Actuary.

Copies go to the Prime Minister and the Chancellor of the Exchequer.

Yours sincerely
Soames

CONFIDENTIAL

12/36
129
Mr. Rayne
PA 59

1. SIR DOUGLAS WASS
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (L)
Mr. Ryrie
Mr. Middleton
Mr. Dixon
Mr. Buckley /
PS/IR
PS/C&E
Mr. Littlewood (DNS)
Mr. McConnachie (IR)

PAY AND PERFORMANCE

The minute of 28 November from the Lord President to the Prime Minister proposes dropping the idea of a merit pay scheme for Under Secretaries in 1981 but exploring a scheme for Assistant Secretaries and Principals from April 1982.

This is a much more sensible approach, and I suggest that the Chancellor puts in a quick minute to the Prime Minister saying so. The only observation to be made on the Lord President's approach is his proposal that the Cabinet should decide now that a scheme for Assistant Secretaries and Principals, and possibly equivalent grades, should be introduced in 1982. It would surely be wiser not to reach a decision until Ministers have had an opportunity to discuss the scheme proposed. It may be right that Assistant Secretaries and Principals are the grades to start with, but it is not self-evidently so; and the fact that these are grades which are on incremental scales will introduce some practical complications. Since the scheme will have to be negotiated with the unions, it is important to get these details right.

It would be wise therefore for Ministers to discuss the scheme before deciding to introduce it, and in good time for modifications to be explored before it has to be put up to the unions. It would also be useful to repeat the Chancellor's previous suggestion that the practice in other countries should be looked at, e.g. France.

I attach a draft minute to the Prime Minister: I have agreed this line with my opposite numbers in the Chancellor's other Departments.

CONFIDENTIAL

F. R. B.
F E R BUTLER
2 DECEMBER 1980

4
12

130
60
DRAFT MINUTE FROM THE CHANCELLOR OF THE EXCHEQUER TO THE
PRIME MINISTER

cc Other members of the
Cabinet
Minister of Transport
Sir Robert Armstrong
Sir Derek Rayner

PAY AND PERFORMANCE

I have seen Christopher Soames' minute of 28 November to you. I support his recommendations that we should not pursue the idea of a scheme for Under Secretaries in 1981 and that he should report further to colleagues in due time with a scheme applying to Assistant Secretaries and Principals from April 1982. I think however that we should have the opportunity for discussion, on the basis of practical proposals, before deciding in principle to introduce such a scheme. It would be as well if we could have this discussion in good time before the proposals have to be put to the Civil Service unions. I repeat my suggestion that, in preparing a scheme, it would be useful to look at what other governments do, e.g. France.

I am copying this minute to those who received Christopher Soames'.

Mr Rayner 131



CH/EXCHEQUER	
REC.	- 5 DEC 1980
ACTION	S/O Wan
COPIES TO	CST
	FST
	MSTL
	Mr Pyrie
	Mr Middleton
	Mr Dixon
	Mr For Ruttie
	Mr Buckley.

63

PRIME MINISTER

PS/UR

PS/C&E

PS/ANS

Mr McCannachie

Pay and Performance

In his minute of 28th November, the Lord President invites agreement to the abandonment of a scheme of performance-related pay for Under Secretaries and the preparation of one for Assistant Secretaries and Principals.

For the reasons which I gave in my minute to you of 6th November, I am relieved to see the former recommendation and gladly agree with it. Although I see less objection in principle to applying such a scheme to the grades immediately below Under Secretary, I should be surprised indeed if the advantages turned out to outweigh the drawbacks. The variety and type of the work these grades perform is such as to make the establishment of easily applicable and objective criteria difficult and the number of staff involved would place a heavy and invidious burden on Permanent Secretaries and their senior colleagues.

I do not think we should take a hurried decision on this and I suggest that the Lord President's proposal should be discussed collectively before we go ahead or ask officials to draw up a plan for our consideration. At the least, we should reserve any decision whether or not to proceed with such a scheme until we have seen in detail what it would look like, what the administrative burden would be and what other difficulties it would raise.

I am sending copies of this minute to Cabinet colleagues, the Minister of Transport, Sir Robert Armstrong and Sir Derek Rayner.

H: of S: M

4ⁿ

December, 1980.

26/12

Chief Secretary
Financial Secretary
Minister of State L
Mr Ryrie
Mr Middleton
Mr Dixon
Mr Buckley
Sir D Wass
Mr Butler



132
Mr Payne
OH

PS/IR Treasury Chambers, Parliament Street, SW1P 3AG
PS/C&E 01-233 3000
Mr Littlewood (DNS)
Mr McConnachie (IR)

PRIME MINISTER

PAY AND PERFORMANCE

I have seen Christopher Soames' minute of 28 November to you. I support his recommendations that we should not pursue the idea of a scheme for Under Secretaries in 1981 and that he should report further to colleagues in due time with a scheme applying to Assistant Secretaries and Principals from April 1982. I think however that we should have the opportunity for discussion, on the basis of practical proposals, before deciding, even in principle, to introduce such a scheme. It would be as well if we could have this discussion in good time before the proposals have to be put to the Civil Service unions. I repeat my suggestion that, in preparing a scheme, it would be useful to look at what other governments do, e.g. France.

2. I am copying this minute to those who received Christopher Soames' minute.

A handwritten signature, likely of G.H., consisting of a stylized 'G' and 'H'.

(G.H.)

4 December 1980

10
4/12

PAY/5

133

135

65

195



CHANCELLOR OF THE EXCHEQUER

- cc. Chief Secretary
- Financial Secretary
- Sir D Wass
- Mr Ryrie
- Mr Middleton
- Mr Dixon
- Mr F E R Butler
- PS/Inland Revenue
- PS/Customs and Excise
- Mr Littlewood - DNS
- Mr McConnachie - IR
- Mr Ridley

PAY AND PERFORMANCE: SIR DEREK RAYNER

There are two important clues buried in Rayner's letter.

1. First why did he look at two posts? Was it because there were only two posts to look at? I don't know what Marks' present staff is. It used to be 25,000. It is probably a lot more now. But whether it was 2 posts, or 2 as a sample of 20, the inference is that the number of posts at that level is very small indeed compared with what it is in a Civil Service organisation of a comparable size. This is a point I have made repeatedly before namely that there are people at the top in industry, and people at the bottom, but very few people in between.

2. Second it is clear that Rayner was not comparing jobs at all: he was comparing people - witness his descriptions "able", "bright" and "particular". This confirms the criticism of "pay comparability" I made in my minute of 18 November namely that "there are few if any jobs in private industry which bear any real comparison with jobs in the Civil Service". While ostensibly "pay comparison" is based on job comparison, in fact is isn't. I suggested that in practice it was more likely to be based on rank: Rayner's approach suggests it is based on individuals of a comparable kind.

5457/12

134
16

I suspect that both enter into the reckoning. But the important point is that either or both of these approaches will tend to perpetuate or even increase over-grading of jobs so that you end up employing far too many people in these upper, or upper middle, salary ranges. It is not that the salaries are too high in relation to the chaps or their status: it is just that there are too many of them because the work is being done at too high a level. Once you get into this sort of situation it breeds upon itself.

A.C.

LORD COCKFIELD
5 December 1980

135
for Rayner - PAd
12/36
67

CLIFFER & QUER	
REC. 1	- 8 DEC 1980
MR D. E. R. BURN	
CST	
FST	
MST C	
MST L	
SIR D. WASS	
MR D. SYLIE	
MR M. DODDINGTON	
MR D. WREN	
PSI M	
PSI C/E	
PSI DNS	
MR MCCORMACHIE - IR	
MR BUCKLEY	

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

8 December 1980

Dear Jim

The Prime Minister has seen the Lord President's minute of 28 November, with his further proposals on pay and performance. She has also seen comments in the Chancellor's minute of 4 December and the Lord Chancellor's minute of the same date.

The Prime Minister believes that there should be a collective discussion of the subject before the matter is remitted to officials for a scheme to be prepared. She has asked that the Lord President should prepare a short paper as a basis for a discussion in Cabinet after Christmas.

I am sending copies of this letter to the Private Secretaries of Cabinet Ministers including the Minister of Transport, and to Clive Priestley in Sir Derek Rayner's Office and David Wright (Cabinet Office).

*Yours ever
Mike Pattison*

Jim Buckley, Esq.,
Lord President's Office.

CONFIDENTIAL

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PS/CHANCELLOR OF THE EXCHEQUER (MR JENKINS)

CIVIL SERVICE MANPOWER: ESTIMATES 1981/82: C(80)74

I attach the brief for C(80)74. I am sending this early because the Chancellor may wish to discuss it with his Permanent Secretaries at the meeting already arranged for 3 pm this afternoon.

Rim

R I McCONNACHIE
9 December 1980

cc: Sir Douglas Wass
Mr F E R Butler
Sir Douglas Lovelock) C & E
Mr Jefferson Smith)
Mr Littlewood) DNS
Mr Standen)

Sir Lawrence Airey
Mr Boyd
Mr Houghton

CHANCELLOR

CIVIL SERVICE MANPOWER: ESTIMATES 1981/82: C(80)74

1. In his paper for Cabinet of 5 December the Lord President proposes severe restrictions on recruitment to the Civil Service starting on 1 January 1981 and continuing until the downward trend in numbers is clearly re-established.
2. In support of his proposal the Lord President quotes the following figures:

Staff in post	1.10.1980	697,000
Estimates bids for	1. 4.1981	698,500
" " "	1. 4.1982	693,000

and says that he cannot guarantee that the number of staff might not go up in 1981/82 compared with the figures announced for 1 October 1980. He refers to the problem caused for DHSS and Department of Employment by rising unemployment and says that your Departments in particular, along with MOD and Transport, should have done more in 1981/82 to cut their Estimates' bids.

3. The Lord President's paper glosses over that his figures do not compare like with like. The position at 1 October 1980 and the target at 1 April 1981 are in terms of staff in post but the 1981/82 figures are in terms of Estimates' bids (and thus cash limits). In fact Departments will usually fall short of their Estimates' manpower totals both because their expenditure has to be within their cash limits and because they will not in practice fill all their posts. For example, only a one per cent shortfall on the 1 April 1981 and 1 April 1982 Estimates would reduce staff in post to 691,500 and 686,000, eliminating the peaking which concerns the CSD.

4. The Lord President's proposals are premature and inequitable:
 - (a) He has not had the final Estimates' bids from all Departments including yours, let alone the results of the

usual Estimates' scrutiny. Some of our figures, and no doubt others, had to be put in quickly in advance of Ministerial consideration because there was no alternative; in other cases CSD may have assumed the worst in their assessment of what Departments might come up with. In either case Cabinet should surely know whether the figures represent Departments' fully considered views about the Estimates before deciding whether restrictions on recruitment are necessary.

(b) There must be substantial differences between Departments. The figures proposed to you by your Departments taken as a whole would account for about half of the reduction of 5,500 between the opening and closing Estimates' figures for 1981/82, although your staff make up no more than about one-sixth of the size of the Civil Service. If other Departments had done anything like as well, there would have been no need for this panic proposal.

(c) Lastly, there seems to be a mechanistic willingness to contemplate DHSS and Department of Employment increasing their staff in line with the trend in unemployment. It is surely incumbent on CSD - or the Departments themselves - to find means of limiting their growth, as we are being asked to do by CSD, eg through examination of Department of Employment's procedures for paying unemployment benefit (is registration for unemployment benefit really required as often as every fortnight given the staffing - and accommodation - implications?).

5. In considering the effect of restrictions on recruitment, the main points are that:

(a) as regards departmental management significant restrictions on recruitment are operationally inefficient, as the experience of 1979 clearly showed, particularly in dispersed Departments. Vacancies arise in the wrong places and the longer they are unfilled the greater is the damage; in

some areas of our work we are only now recovering from the effects of the last ban. Particularly because of the timing proposed we would have to seek exemptions at the very least for key grades. And there would have to be more, not less, flexibility than was allowed last time - the Lord President's paper is less than clear about the extent to which legitimate exceptions to restrictions on recruitment could be allowed or the criteria for variation in individual Departments;

(b) as regards the unions, which the Lord President dismisses in a sentence, this may play into their hands. Staff morale is already weakened by concern over pay and pensions in the year ahead, anger at the suspension of the pay research process, worry about restricted promotion opportunities in the foreseeable future, etc, all of which is widely seen as a concerted attack on them. Restrictions on recruitment leave it open for the unions to encourage staff to refuse to cover for the vacant posts which would be created, so they could more easily if they wished interrupt the flow of revenue by selective action at key points in your two main Departments. It would not seem sensible to provoke the unions into what might be really effective opposition to the Government unless it is inevitable to do so - and we do not think CSD have exhausted other ways of dealing with the problem.

6. For the reasons set out above we would recommend that you take the line in Cabinet that:

(i) the Lord President's proposals are unfair because they do not distinguish between those, like your Departments, who have made significant contributions to the 1984 target and are planning to come forward with considerable additional savings in 1981/82 and those who by holding back have caused the problem;

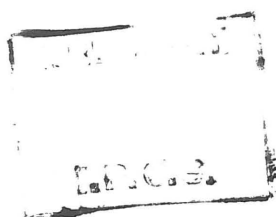
- (ii) to propose severe restrictions on recruitment in any case suggests doubts about the feasibility of setting rational profiles and the ability of Departments to observe them;
- (iii) it might be better to tackle the problem at its roots by inviting those Departments which are responsible for the peaking of Civil Service numbers in 1981/82 (DHSS, Department of Employment, MOD?, Transport?) to review their Estimates' bids urgently and downwards - perhaps as part of the general CSD scrutiny of Estimates - against the possibility of restrictions on recruitment otherwise being imposed;
- (iv) if, as we would expect, this removed the peaking of numbers in 1981/82 there would be no need for restrictions on recruitment which would
 - (a) make it very difficult operationally for Departments to manage the planned rundown to 1984 in a way which matches the diminished resources to the volume and location of work; and
 - (b) be presentationally inept because of the effect on staff.

Rm

R I McCONNACHIE
9 December 1980

CHANCELLOR OF THE EXCHEQUER

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cc Chief Secretary
Financial Secretary
Minister of State (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton ✓
Mr. Dixon
PS/Inland Revenue
PS/Customs and Excise
PS/DNS
Mr. McConnachie (IR)



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PAY AND PERFORMANCE

It is an open question whether, following the Lord President's minute of 28 November dropping the proposal to introduce merit pay for Under Secretaries in 1981, you need reply to his letter of 28 November about reducing the pay of Under Secretaries or Assistant Secretaries. There is no point in unnecessarily prolonging this correspondence which, as Lord Cockfield noted in his minute of 3 December, shows an increasing note of exasperation on the Lord President's side, and I understand that you noted that the dropping of the proposal about Under Secretaries made it possible to introduce a more conciliatory note into the exchange.

On balance, if only because it provides an opportunity to extend the olive branch, I think that it would be worth your sending a brief reply to the Lord President, and I attach a draft.

The other development is that Sir Derek Rayner has sent in his comments on the operation of the PRU, and Lord Cockfield has let you have some comments on that (his minute of 5 December). You ought perhaps to refer to this since you said in your letter of 20 November that you would be glad to pursue the validity of the pay research procedure when Rayner's comments were received. But again this matter is academic for the time being while pay research is suspended; and it would undoubtedly touch raw nerves in the CSD to raise this matter now. So I have suggested in the draft that you say that this raises some interesting points which would be worth discussion in due course.

F.E.R.B.

F E R BUTLER
12 December 1980

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DRAFT LETTER FROM THE CHANCELLOR OF THE EXCHEQUER TO THE
LORD PRESIDENT OF THE COUNCIL

cc Other members of the Cabinet
Sir Robert Armstrong
Sir Derek Rayner

The points raised in our correspondence about performance-related pay have become less urgent as a result of your proposal to examine a scheme for Assistant Secretaries and Principals in 1982 rather than for Under Secretaries in 1981. But in reply to your letter of 1st December I ought to make clear that I did not envisage reducing absolute levels of pay. Pay levels are reviewed each year and have been invariably increased. Increases could be given, at least in part, in the form of merit payments rather than by jacking up the whole scale: the level of basic pay in real terms would be reduced by inflation but the amount available for merit payments - which I am convinced need to be substantial if the scheme is to be effective - would be increased. I apologise for not making myself clear on this point.

I have also now seen Derek Rayner's letter of 1st December about his experience as Chairman of the Pay Research Unit. This raises some interesting points about comparisons between the Civil Service and the private sector which would be worth our discussing at some time; but again they are not of immediate application.



ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn 3201

17 December 1980

The Rt Hon Lord Soames CH, PC, GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall SW1

Dear Lord President

SINGLE OUTSIDE ANALOGUE GRADES

I have seen your paper on this - E(PSP)(80)4 - to be taken at E(PSP) tomorrow. I am concerned with paragraph 4(a) where you say that some of the pay links in question are legally binding and that legislation would be the only safe course if we decide to proceed as the Chancellor suggests.

Whether a pay link for a particular category of SOA worker is legally binding or not will depend mainly upon his written terms and conditions of employment. I have not been able to examine these for the categories listed in Annex A to your paper and I think it would be more suitable for this to be dealt with by the legal advisers to the Departments concerned, where the material will be readily available, than by me. But I shall of course be ready to help if any difficult questions arise once the material has been examined.

Some work on the legal issue was carried out by the previous administration, but not I think for all the categories you have listed. This would certainly support the conclusion in some cases that pay links were legally binding, although the contractual terms may have altered since then.

In my view the best course for E(PSP) at its meeting tomorrow, assuming it decides not to maintain the links for the 1981/2 pay

/round

MR BUCKLEY
CST
FST
MSTC
MSTL
SIR D. WASS
MR RYRIE
MR MIDDLETON
MR LITTLE
MR BRIDGEMAN

MR DIXON
MR ROBSON
MR RAYMER

sf 17/12



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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

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pay round, will be to arrange for Departments to look as a matter of urgency at the contracts in which they are interested; and for the Committee to decide now in principle to legislate to overcome any legal problems which are disclosed as a result. I do not think it would be proper or satisfactory to break such links as are legally binding and then to leave the employers unprotected by failing to block off the employees' ordinary remedies. I cannot say what the legislation would have to contain, but I think it would be a short Bill.

I have copied this to all members of E(PSP) and Sir Robert Armstrong.

Yours sincerely

*John Mallison
for
HM Attorney General*

*(Approved by the Attorney General
and signed in his absence)*

PRIVATE SECRETARY/CHANCELLOR OF THE EXCHEQUER

CIVIL SERVICE MANPOWER: ESTIMATES 1981/82

1. We understand from CSD that the Lord President has asked for this topic to be placed on the agenda for Cabinet tomorrow morning, and that he intends to make a statement. This note is intended to provide general briefing for the Chancellor on the position for his departments as a whole. Attached is a note on the position of the Department for National Savings, which, exceptionally for the Chancellor's Departments, is expected to grow by April 1981. GEP will provide separate briefing on the public expenditure aspects of the Lord President's proposals, and on the implications for the Estimates timetable.

2. Following last week's Cabinet discussion, Ministers in charge of Departments were asked to arrange for revised manpower estimates to be submitted to CSD by yesterday, with the aim of agreeing on a total estimates provision for the Civil Service of 695,000 staff by 1 April 1981 and 685,000 by 1 April 1982. This exercise resulted, we understand, in a reduction of about 2500 at both 1 April 1981 and 1 April 1982 in the original estimates bids, which still leaves the Lord President with bids 1000 in excess of his 1 April 1981 target, and about 5500 above the target for 1 April 1982. We understand that he therefore intends to ask Cabinet for approval to impose estimates totals on

CC: PS/Chief Secretary	Sir Lawrence Airey
PS/Financial Secretary	Mr Dalton
PS/Minister of State (Commons)	Mr Boyd
PS/Minister of State (Lords)	Mr Houghton
Sir Douglas Wass	Mr McConnachie
Mr F E R Butler	Mr Pinder
Mr Cropper	Mr Gracey
Mr Cardona	
Sir Douglas Lovelock)	
Mr Jefferson Smith) C/E	
Mr Littlewood)	
Mr Standen) DNS	

Departments, probably by an across the board apportionment of the original shortfall of 3500 (at 1 April 1981) and 8000 (at 1 April 1982). This means that we might be asked for a further contribution of 100 or so staff at 1 April 1981 (but probably nothing further at 1 April 1982) from the Chancellor's Departments.

3. Because Estimates are negotiated separately for each individual Department, the Lord President's imposed targets (which we understand will be circulated, if Cabinet approves, next Monday or Tuesday) will give individual figures for each of the Chancellor's Departments. The fixing of the individual targets will have to await the outcome of Cabinet, and so the position of individual Chancellor's Departments will not be raised. However, in discussion the Chancellor might like to make the following general points:-

(a) The Cabinet discussion last week made much of the presentational problem presented by the projected staff in post at 1 April 1981 (698,500 on the basis of the original Estimates bids) being higher than the actual staff in post at 1 October 1980 of 697,000. Ignoring the point that this does not compare like with like, because of the likely shortfall between actual staff in post and the figures on which the Estimates are based, the reductions achieved in the revised Estimates now submitted to CSD bring the 1 April 1981 figure (696,000) below current staff in post levels. The additional 1000 at 1 April 1981 still being sought by the Lord President is merely trying to make the fall between now and then more pronounced.

(b) The Chancellor's Departments as a whole are playing their part in this fall, in fact more than their share. At 3 November permanent staff in post in the Chancellor's Departments numbered 116,174. Their total Estimates bids at 1 April 1981 amount to 115,225, a fall of almost 1000 in five months. To ask for more on account of growth elsewhere would be unfair.

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(c) Moving on to 1981/82, the Chancellor's Departments are still more than pulling their weight. On the basis of the Estimates figures, Civil Service numbers as a whole are falling by less than 6000. The Chancellor's Departments, with about 17 per cent of the total staff numbers, are contributing 2200 (115,200 down to 113,000) of this fall, getting on for 40 per cent. Even on the basis of the Lord President's targets, which aim at a fall of 10,000 during 1981/82, the Chancellor's Departments are contributing more than their fair share. If all Departments did as well, the fall would be much greater than 10,000.

4. In the light of all this, the Chancellor will wish to press for exemption for his Departments from any further contribution for the cuts, either at 1 April 1981 or 1 April 1982. He has already responded generously to the call at last week's Cabinet for further reductions on the original Estimates bids - the Inland Revenue, for example, have offered a further reduction of 1000 staff by 1 April 1982, over and above the fall of 900 proposed in the original bid. Of this 1000, 500 is being offered by 1 April 1981, to assist with the short term problem. It would not be reasonable to ask him to do more, and indeed it is not possible for him to go further at the moment.

5. It is likely that other Departments, particularly DHSS and Department of Employment, will argue that they have special problems caused by growth in the demand for their services. The Chancellor may wish to respond that he also has this problem of demand-led growth, for example in DNS because of the savings boost, or in Revenue and Customs. Nevertheless, he has still managed to make large cuts, unfortunately not matched by other Ministers.

Alma Curran
17 December, 1980

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Civil Service-wide figures

	1 April 1981	1 April 1982
Original Estimate Bids	698,500	693,000
Revised Estimate Bids	696,000	690,500
CSD want	695,000	685,000

DNS

1. The initial 1981/82 Manpower bid (submitted to CSD on 21/11/80) compares as follows with the revised bid approved by the Chancellor (and since confirmed to CSD):-

	Permanent staff	
	1/4/81	1/4/82
initial	9,936	9,555
revised	10,083	9,665
<u>difference</u>	<u>+ 147</u>	<u>+ 110</u>

2. The differences are accounted for by:

(i) (Fairly modest) provision for further "boosts" (set out in the DNS submission of 15 December) additional to those included in the initial bid (which were only the launch of the second index linked certificate and the then announced later increase in the SAYE contribution limit) partly offset by

(ii) Further savings on the path to the 1984 target.

3. DNS cannot offer any reduction on the revised 1/4/81 bid. The boost is, if anything, gathering pace (vide tomorrow's announcement of a much higher limit for 19th Issue holdings) but in the background the underlying downward trend on the fall to 1984 continues.

CONFIDENTIAL



J. F. Boyd
Director General

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New Wing
Somerset House
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17 December 1980

PRIVATE SECRETARY/CHANCELLOR OF THE EXCHEQUER

CIVIL SERVICE MANPOWER: ESTIMATES 1981/82


I have seen the briefing submitted by Mr McConnachie on behalf of the Chancellor's 4 main Departments.

So far as the Inland Revenue is concerned, the further reduction of 500 at 1 April 1981 offered in the Chancellor's letter to the Lord President of 16 December came entirely from this Department. We cannot do any more. Indeed I have been assured by senior CSD officials that they will not look for any more from us.

J F Boyd

cc PS/Minister of State (Lords)
Sir Lawrence Airey
Mr Houghton
Mr McConnachie
Mr Pinder

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