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PART B

PART B

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PART B

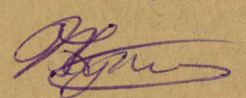
CHANCELLOR'S PAPERS ON
GENERAL PAY ISSUES

PO -CH /NL/0204
PART B

Begin: 18/9/87

DD: 25 years

Ends: 18/1/88 (CONTINUED)



8/9/95



had yrs
team

CBI Presentation - Pay.

Chx.

CST.

PMG.

marck

Kemp ← briefing?

Halligan

Culpin.

Burham
Richard Pree

Director Employment

+ others

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1578

From
John M M Banham
Director-General



37
/ shall I pursue this?

18 September 1987

JMMB/RHP

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

John N. J. J.

As you will recall, in recent years the CBI has prepared a presentation on the prospects for pay bargaining during the year ahead. Past presentations have placed a strong emphasis on the need to improve our competitive position by containing unit labour costs and improving overall efficiency and performance. This year's presentation reflects the progress that has been made in this area and highlights the role that pay can play, by strengthening the links with performance, in closing the unit labour costs gap between the UK and our major competitors.

The presentation will again be shown extensively throughout CBI membership providing us with a forum in which we can discuss with our members the factors bearing on pay settlements.

I would very much welcome the chance of taking the presentation to you and your interested colleagues at the Treasury, and to share with you the response that we are getting from our members.

If you would like to receive the presentation, we will arrange a mutually convenient time with your office.

I look forward to hearing from you.

Yours sincerely

John M M Banham

*Julie
21/9.*

Advice from officials?

*Per fix, as usual.
Try and impress some
of our customers, this?
CST & PMA + keep
officials to attention
(with me).
me*

*Stephen Radley x 2630
26 Nov 2 Dec.
No good.
25 minutes.
1-1 1/2 hrs.
2-3 times.*

18/68

*I have further toughened the draft letter.
21
1/9*

- 1. MR GILHOOLY
- 2. PS/CHANCELLOR

FROM: A P HEFFORD
 DATE: 21 September 1987
 cc PS/Chief Secretary
 PS/Paymaster General
 Mr Butler
 Mr Kemp
 Mr Moore
 Mr Colman
 Mr Truman
 Mr Graham
 Mr Enderby
 Mr Halligan (o/r)
 Miss Hardwick
 Mr Cropper
 Mr Tyrie
 Mr Call

*Ch
 And I have toughened it still further - and suggests it comes from you not me.
 This seems to be outrageous - and a v bad advertisement for flexible pay. It is not at all clear what you'd have been told about this if Call or I hadn't insisted on a report.*

*As you say - outrageous -
 & will be spotted.
 Draft letter OK
 in your.*

CIVIL AVIATION AUTHORITY - ENGINEERS' PAY

You asked for a note on this, following recent press reports of the engineers' decision to drop their industrial action and to ballot their members on the CAA's latest offer. We have been pursuing Department of Transport officials about this for some time.

2. Details of the latest offers as provided by DTp are shown in the attached Annex. In sum, all grades get the civil service increases (this is mainly IPCS grades and hence higher than for others in the civil service) plus amounts ranging from 5.5 to 15 per cent this year, and in some cases with more to come in later years. The overall package will give total increases to individuals of between 12 and 36 per cent.

3. The CAA have made it clear that the entire deal is off unless the CS link is broken. The union is balloting its members with a recommendation to accept but this will take some time. It is unlikely that the offer will be rejected. The majority of CAA engineers work in the south-east where there is little opposition to a break with the CS but the Department of Transport say that in areas like Manchester the unions are more militant and see the severance of the link as the first step towards the destruction

of national pay bargaining which they regard as sacrosanct. However, these are a minority.

4. As to the cost of all this we have already made it clear to Department of Transport officials that there is no question of any adjustment to the CAA's EFL. It is likely therefore that much of the £3.42 million cost of this offer will have eventually to be covered by higher air fares.

5. The exact minutiae of the offer are not known either by ourselves or the Department of Transport. There is, however, one worrying feature and that is the effect of this offer on other CAA groups eg air traffic control assistants. The CAA will wish to be less generous with them because of the limited scope for changes in working practices and so there might be trouble.

✓
✓
6. In principle we have been in favour of breaking this link for some years. But the offers made by the CAA far outstrip anything we would have liked to see. The questions remain as to why such huge offers were allowed to go through unchallenged, and why we were not consulted about them in advance by the DTp. The DTp's only excuse is the thin one that until the CS link is broken CAA are not subject to the normal procedures of notification which apply to other Public Trading Sector groups and that in this case it did not apply to offers required to break the link because the Treasury had agreed in principle. You may therefore wish to send a strongly worded letter of rebuke to the PS/Secretary of State for Transport. I attach a draft.

7. PE and IRD agree.

A.P. Hefford.

A P HEFFORD

Air Traffic Controllers

The increases vary with responsibilities, pressure of work etc, but for the group as a whole the increase over and above that paid to linked Civil Service grades is about 6.8% this year - cost £1.63m - with a further 8.6% next year - cost £2.2m - and a further 2.3% over the following two years - cost £0.6m.

Air Traffic Engineers

Again increases vary with responsibilities, etc, but for the group as a whole the increase over and above that paid to linked Civil Service grades is about 0.2% - costed at £1.36m.

Air Traffic Control Assistants and Specialist Teleprinter Operators

It is proposed to amalgamate these grades and an offer which would increase the cost of the group by 3.7% over and above the Civil Service award has been made - cost £0.39m.

Professional Flying Staff

This is an area where the CAA are competing with the airlines and an offer costing 17.5% for the group as a whole over and above the Civil Service linked award has been made - cost £0.25m.

Operations Officers

An offer which would increase the cost of this group by 6.2% over and above the Civil Service award has been made - cost £0.09m.

Airworthiness Surveyors

A restructuring of grades representing a 15% increase over and above the Civil Service linked increase has been made by the Authority and the IPCS has recommended acceptance - cost £0.45m.

DRAFT LETTER

From: ~~PS~~/ChancellorTo: ~~PS~~/Secretary of State for TransportCopies: ~~PS~~/Prime Minister
~~PS~~/E(PSP) Members
Sir Robert Armstrong

CIVIL AVIATION AUTHORITY: ENGINEERS' PAY

^I
[The Chancellor] was most disturbed at press reports of the latest very high offers made by the CAA to its engineers ^{and other staff} and in particular at the lack of consultation over the CAA's proposals with Treasury officials. *I understand that some individuals will get increases of up to 36 per cent.*

Whilst it is strictly true that since there is still a link with Civil Service pay the normal procedures which apply to Public Trading Sector (ie to give at least 7 working days notice of any offer) would ^{not} apply in this case, ^{also} the size of ^{the additional} increases and the way they have been presented ^{do not fit} ^{at odds} ^{completely} comfortably with the Government's general message on pay restraint.

^{The} Treasury ^{officials} ^{and colleagues in other relevant departments} should have ~~preferred to have~~ had the chance to comment on the size and shape of the overall offer before it was made and in particular the effect of such a high offer on pay expectations ^{elsewhere} generally. *It does not seem to me that the CAA should have been allowed to shelter behind ^{the Prime Minister} a narrow legalistic view of where consultation was required.*

I am copying this letter to Nigel Wicks, ^{(the Prime Minister), the} ^{of E(PSP)} PS/E(PSP) Members and to Sir Robert Armstrong.



QUEEN ANNE'S GATE
LONDON SW1H 9AT

21 September 1987

Dear Nigel,

POLICE PAY

Thank you for your letter of 14 September. I fully accept that the Police Negotiating Board's review of police pay is important for us and for that reason I have already given colleagues the opportunity to comment on my general approach. The replies to my earlier letters indicate a large measure of agreement. Nevertheless I am very ready to see the matter discussed in E(PSP) and will provide a paper in time for a meeting after the Party conference.

I am sending copies of this letter to the recipients of yours.

GH/EXCHEQUER	
REC.	21 SEP 1987
ACTION	MR HALLIGAN
COPIES TO	PS/CST FS/PMG SR P MIDDLETON MR FEL KUTLER MR ANSON The Rt Hon Nigel Lawson, MP MR KEMP MR SURANER MR GILMOR MR MARTIN MR LUCE MR TURNBULL MR GILMOR MR POTTER MR REWLA MR WHITE MR COPPER

*Lawson,
Douglas*



BF 23.9.

FROM: J J HEYWOOD
DATE: 21 September 1987

MR HUDSON

cc Sir P Middleton
Mr Byatt
Mr Scholar
Mr Culpin
Miss O'Mara
Miss Sinclair
Mr Scotter x4981
Mr Short
Mr Eason IR
PS/IR

DEFINITION OF AVERAGE EARNINGS

1. The Chancellor asked (your minute of 5 August) to see statistics based on male earnings and all adults earnings. The attached tables show

- percentage of earnings paid in income tax (Table 1)
- percentage of earnings paid in income tax and NIC (Table 2)
- percentage of earnings paid in income tax, NIC, and indirect taxes (excluding rates) (Table 3)

for 1987-88 and the change since 1978-79, and

- percentage increase in real take home pay from 1973-74 to 1978-79 and from 1978-79 to 1987-88 (Table 4)

All tables give the figures for various multiples of average earnings and a selection of family types.

2. In nearly all cases, the changes since 1978-79 are more favourable to the Government using the male earnings figures. For example, at average earnings the married couple with one

earner and no children has increased its take home pay by 22.4 per cent using male earnings compared with 21.2 per cent using all adult earnings. For the percentage of earnings paid in income tax and NIC, the decrease since 1978-79 is 0.4 using male earnings, but only 0.1 using all adult earnings.

3. The main reason for this pattern of results is straightforward. Inclusion of female earnings in the definition of average earnings lowers it, for example from £227.20 to £202.20 in 1987-88, and the Government's record of tax changes has generally favoured those with higher earnings. There are, therefore, presentational disadvantages in switching from male to all adults earnings.

4. The main reason for the existing practice of using male earnings in illustrative tax calculations in response to PQs or in briefing material is that male earnings are the appropriate figures to use when we are asked for information on 'married one-earner couples' and for 'married couples with no wife's earnings'. It would be very difficult to justify using an all adults figure in these common situations. For two earner couples, no problem arises since male and female earnings are combined as appropriate. The standard approach adopted is to use the earnings statistics relevant to the household type. The exception is for single people where male earnings are generally used unless figures for single males and single females are given separately.

9.12

JEREMY HEYWOOD
Private Secretary

TABLE 1

PERCENTAGE OF EARNINGS PAID IN INCOME TAX

Multiples of average earnings for full-time adults⁽¹⁾

$\frac{1}{2}$ $\frac{3}{4}$ 1 $1\frac{1}{2}$ 2 5

Does less well because he is pushed into a higher marginal rate by real earnings growth.

Single

Male adult earnings

1987-88	15.9	19.6	21.5	23.3	26.2	43.4
Increase over 1978-79	- 1.1	- 2.7	- 3.6	- 4.4	- 3.3	- 7.1

All adult earnings

1987-88	14.5	18.7	20.3	22.8	24.3	41.4
Increase over 1978-79	- 0.6	- 2.4	- 3.3	- 4.2	- 4.2	- 6.3

Female adult earnings

1987-88	10.2	15.8	18.6	21.4	22.8	35.5
Increase over 1978-79	+ 1.1	- 0.6	- 2.0	- 3.3	- 4.0	- 3.1

Married couple, one earner, no children

Male adult earnings

1987-88	9.7	15.4	18.3	21.2	23.7	42.0
Increase over 1978-79	+ 0.1	- 1.9	- 2.9	- 4.0	- 3.5	- 6.8

All adult earnings

1987-88	7.5	14.0	17.3	20.5	22.1	39.8
Increase over 1978-79	+ 0.3	- 1.5	- 2.6	- 3.8	- 4.3	- 5.9

Married couple, two earners, no children

Male adult earnings, split 60/40

1987-88	-	8.0	12.3	17.5	19.9	30.6
Increase over 1978-79	-	+ 0.5	- 0.5	- 2.3	- 3.2	- 3.4

All adult earnings, split 60/40

1987-88	-	5.7	11.0	16.4	19.0	28.6
Increase over 1978-79	-	+ 0.1	-	- 2.0	- 3.0	- 3.5

Male adult earnings and female adult earnings

1987-88	9.9	15.6	18.4	22.6	24.9	40.3
Increase over 1978-79	+ 0.5	- 1.4	- 2.5	- 3.4	- 3.6	- 5.6

Multiples of average
earnings for full-time
adults⁽¹⁾

$\frac{1}{2}$ $\frac{3}{4}$ 1 $1\frac{1}{2}$ 2 5

Married couple, one earner, two children under 11
(net of Child Benefit)

Male adult earnings

1987-88	- 3.1	6.9	11.9	16.9	20.5	40.7
Increase over 1978-79	+ 0.9	- 1.2	- 2.4	- 3.6	- 3.1	- 6.4

All adult earnings

1987-88	- 6.8	4.4	10.1	15.7	18.5	38.4
Increase over 1978-79	+ 0.6	- 0.8	- 2.1	- 3.4	- 4.1	- 5.4

(1) Male adult earnings are £92.80 in 1978-79 and £227.20 in 1987-88; female adult earnings are £59.60 in 1978-79 and £150.20 in 1987-88; all adult earnings are £83.10 in 1978-79 and £202.20 in 1987-88.

TABLE 2

PERCENTAGE OF EARNINGS PAID IN INCOME TAX AND NIC

Multiples of average earnings for full-time adults ⁽¹⁾	$\frac{1}{2}$	$\frac{3}{4}$	1	$1\frac{1}{2}$	2	5
Single						
Male adult earnings						
1987-88	24.9	28.6	30.5	31.1	32.1	45.8
Increase over 1978-79	+ 1.4	- 0.2	- 1.1	- 2.2	- 1.6	- 6.4
All adult earnings						
1987-88	23.6	27.7	29.8	31.6	30.9	44.0
Increase over 1978-79	+ 1.9	+ 0.1	- 0.8	- 1.7	- 2.3	- 5.5
Female adult earnings						
1987-88	17.2	24.8	27.6	30.4	31.6	39.0
Increase over 1978-79	+ 1.6	+ 1.9	+ 0.6	- 0.8	- 1.6	- 2.2
Married couple, one earner, no children						
Male adult earnings						
1987-88	18.7	24.4	27.3	29.0	29.6	44.4
Increase over 1978-79	+ 2.6	+ 0.6	- 0.4	- 1.8	- 1.8	- 6.1
All adult earnings						
1987-88	16.5	23.0	26.3	29.3	28.7	42.4
Increase over 1978-79	+ 2.8	+ 1.0	- 0.1	- 1.3	- 2.4	- 5.2
Married couple, two earners, no children						
Male adult earnings, split 60/40						
1987-88	6.2	16.2	21.0	26.5	28.9	35.3
Increase over 1978-79	- 0.3	+ 2.2	+ 1.2	+ 0.2	- 0.7	- 2.0
All adult earnings, split 60/40						
1987-88	5.0	11.9	19.2	25.4	28.0	33.9
Increase over 1978-79	- 2.8	- 0.2	+ 1.7	+ 0.5	- 0.5	- 2.0
Male adult earnings and female adult earnings						
1987-88	18.1	24.6	27.4	30.8	31.9	43.1
Increase over 1978-79	+ 2.2	+ 1.1	- 0.1	- 1.1	- 1.6	- 4.8

Multiples of average earnings for full-time adults⁽¹⁾

$\frac{1}{2}$ $\frac{3}{4}$ 1 $1\frac{1}{2}$ 2 5

Married couple, one earner, two children under 11 (net of Child Benefit)

Male adult earnings

1987-88	5.9	15.9	20.9	24.8	26.4	43.1
Increase over 1978-79	+ 3.4	+ 1.5	+ 0.1	- 1.4	- 1.5	- 5.7

All adult earnings

1987-88	2.2	13.4	19.1	24.5	25.1	41.0
Increase over 1978-79	+ 3.1	+ 1.7	+ 0.4	- 0.9	- 2.2	- 4.7

(1) Male adult earnings are £92.80 in 1978-79 and £227.20 in 1987-88; female adult earnings are £59.60 in 1978-79 and £150.20 in 1987-88; all adult earnings are £83.10 in 1978-79 and £202.20 in 1987-88.

PERCENTAGE OF EARNINGS PAID IN INCOME TAX, NICs, AND INDIRECT TAXES (EXCLUDING RATES)

Multiples of average earnings for full-time adults ⁽¹⁾	75	100	150
<u>Single</u>			
<u>Male adult earnings</u>			
1987-88	41.6	42.9	43.2
Increase over 1978-79	+ 1.3	+ 0.6	- 0.3
<u>All adult earnings</u>			
1987-88	40.9	42.4	43.7
Increase over 1978-79	+ 1.5	+ 0.8	+ 0.1
<u>Female adult earnings</u>			
1987-88	38.8	40.8	42.8
Increase over 1978-79	+ 2.8	+ 1.8	+ 0.8
<u>Married couple, one earner, no children</u>			
<u>Male adult earnings</u>			
1987-88	38.0	40.3	41.7
Increase over 1978-79	+ 1.5	+ 0.8	-
<u>All adult earnings</u>			
1987-88	36.9	39.5	41.9
Increase over 1978-79	+ 1.8	+ 1.1	+ 0.4
<u>Married couple, two earners, no children</u>			
<u>Male adult earnings, split 60/40</u>			
1987-88	32.0	35.6	39.9
Increase over 1978-79	+ 3.3	+ 2.6	+ 1.9
<u>All adult earnings, split 60/40</u>			
1987-88	28.6	34.3	39.0
Increase over 1978-79	+ 1.3	+ 3.0	+ 2.2
<u>Male adult earnings and female adult earnings</u>			
1987-88	38.4	40.6	43.2
Increase over 1978-79	+ 2.6	+ 1.7	+ 0.9

Multiples of average
earnings for full-time
adults⁽¹⁾

75

100

150

Married couple, one earner, two children under 11
(net of Child Benefit)

Male adult earnings

1987-88	29.6	33.9	37.1
Increase over 1978-79	+ 2.4	+ 1.9	+ 1.1

All adult earnings

1987-88	27.5	32.3	36.9
Increase over 1978-79	+ 2.6	+ 2.0	+ 1.4

(1) Male adult earnings are £92.80 in 1978-79 and £227.20 in 1987-88; female adult earnings are £59.60 in 1978-79 and £150.20 in 1987-88; all adult earnings are £83.10 in 1978-79 and £202.20 in 1987-88.

PERCENTAGE INCREASE IN REAL TAKE-HOME PAY

Multiples of average
earnings for full-time
adults⁽¹⁾ $\frac{1}{2}$ $\frac{3}{4}$ 1 $1\frac{1}{2}$ 2 5SingleMale adult earnings

1973-74 to 1978-79	- 1.0	- 2.1	- 2.8	- 3.6	- 3.9	-18.5
1978-79 to 1987-88	19.5	22.1	23.6	25.7	24.7	38.1

All adult earnings

1973-74 to 1978-79	0.9	- 0.4	- 1.0	- 2.1	- 1.7	-15.8
1978-79 to 1987-88	18.1	20.8	22.4	24.1	25.2	34.2

Female adult earnings

1973-74 to 1978-79	8.5	8.9	8.5	8.1	7.6	- 2.2
1978-79 to 1987-88	22.8	22.2	24.3	26.7	28.4	30.0

Married couple, one earner, no childrenMale adult earnings

1973-74 to 1978-79	2.5	0.5	- 0.7	- 2.2	- 2.3	-16.9
1978-79 to 1987-88	17.9	20.7	22.4	24.8	25.0	36.7

All adult earnings

1973-74 to 1978-79	4.1	2.4	1.2	- 0.5	- 0.6	-14.0
1978-79 to 1987-88	17.1	19.4	21.2	23.1	25.2	32.9

Married couple, two earners, no childrenMale adult earnings, split 60/40

1973-74 to 1978-79	4.3	0.8	0.5	- 1.0	- 2.1	- 7.6
1978-79 to 1987-88	22.1	18.6	19.9	21.4	23.0	25.7

All adult earnings, split 60/40

1973-74 to 1978-79	5.3	1.4	2.3	0.7	- 0.2	- 5.0
1978-79 to 1987-88	24.6	21.2	18.4	20.1	21.8	24.6

Male adult earnings and female adult earnings

1973-74 to 1978-79	4.3	3.3	2.4	0.0	0.2	-12.1
1978-79 to 1987-88	19.8	21.3	23.2	25.1	26.1	34.5

Multiples of average earnings for full-time adults⁽¹⁾

$\frac{1}{2}$ $\frac{3}{4}$ 1 $1\frac{1}{2}$ 2 5

Married couple, one earner, two children under 11 (net of Child Benefit)

Male adult earnings

1973-74 to 1978-79	4.2	2.1	0.7	- 1.1	- 1.3	-16.7
1978-79 to 1987-88	17.4	19.8	21.6	24.0	24.2	35.2

All adult earnings

1973-74 to 1978-79	7.7	4.0	2.7	0.6	0.3	-13.7
1978-79 to 1987-88	17.2	18.6	20.3	22.4	24.6	31.4

(1) Male adult earnings are £92.80 in 1978-79 and £227.20 in 1987-88; female adult earnings are £59.60 in 1978-79 and £150.20 in 1987-88; all adult earnings are £83.10 in 1978-79 and £202.20 in 1987-88.

20

FROM: A P HEFFORD

DATE: 22 September 1987

PS/CHANCELLOR

PS/CHIEF SECRETARY
PS/PAYMASTER GENERAL
PS/SIR P MIDDLETON
PS/SIR T BURNS
MR F E R BUTLER
MR KEMP
MR MONCK
MR ODLING-SMEE
MR CULPIN
MR GILHOOLY
MRS BROWN
MR CHIVERS
MISS O'MARA
MR TRUMAN
MR PRATT
MR FELLGETT
MR PRICE
MR STERN
MR BELL
MR GRAHAM

PAY SUMMARY NOTE

This note updates that circulated on 13 May.

1986-87 PAY ROUND

This officially ended on 31 July. There are a few outstanding settlements to be reached in the Public Services sector mainly in the NHS. The outturn for Public Services is likely to be an average of 7 per cent ($\frac{1}{4}$ per cent higher than the equivalent period last year).

In the Public Trading Sector the outturn is likely to be 5 per cent ($\frac{3}{4}$ per cent lower than the equivalent period last year).

In the Private Sector the cumulative average level of settlements is about 5 per cent, $4\frac{3}{4}$ per cent in manufacturing and $5\frac{1}{4}$ in non-manufacturing.

1987-88 PAY ROUND

It is too early to make any judgements about trends but most pay commentators including the CBI report a slight increase in the level of Private Sector pay settlements.

The only significant Public Service settlement so far has been that for the Police who will have received 7.75 per cent from 1 September. Public Trading sector settlements are not expected until the New Year.

OTHER INFORMATION

Average earnings (whole economy) increasing 7¼ per cent in July, 8¼ per cent in manufacturing. Unit wage costs (manufacturing) up 1.2 per cent in 3 months ending July. RPI increasing at 4.4 per cent in August, same as July (2.4 per cent in August 1986).

DIARY @ 22.9.87

- 24 September - Vauxhall Cars begin negotiations
- 9 October - Ford motor company begin new negotiations
- mid October - Result of ballot on CAA's latest offer to Air Traffic Engineers expected
- 27 October - Merchant Navy - General Council of British Shipping to respond to NUS unspecified claim for over 5 per cent

A.P. Hefford

A P HEFFORD
x5606



C/ CBI PAY PRESENTATION.

You agreed to see the
CBI Pay Presentation &
I have arranged for them
to come to the Treasury on
Tuesday 17 November from
3.00 - 4.30pm. CST & PMG
will accompany you.

Last year the Treasury Team
also consisted of Mr Culpin, Mr Monck,
Mr Kemp & Mr Halligan.

Do you want the same people
this year? *Yes*

Do you want briefing? *No*

Julie
29/9.

CC: PS/CST
PS/PMG



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

28 September 1987

John M M Banham Esq
Director General
Confederation of British Industry
Centre Point
103 New Oxford Street
LONDON
WC1A 1DU

Dear Mr Banham.

The Chancellor of the Exchequer has asked me to thank you for your letter of 18 September about the CBI presentation on the prospects for pay bargaining during the year ahead. The Chancellor is happy for you and your colleagues to bring the presentation to the Treasury on Tuesday 17 November from 3.00-4.30pm. The Chief Secretary - John Major - and the Paymaster General - Peter Brooke - will also be present, along with some officials.

I would be grateful if you could let me know, in due course, who will be accompanying you.

*yours sincerely
Julie Thorpe*

MRS J THORPE
Diary Secretary



FROM: A P HUDSON

DATE: 30 September 1987

CHANCELLOR

John Major

DEFINITION OF AVERAGE EARNINGS

You will recall the review before the holidays of whether "average earnings" should be based on "male" or "all adult" earnings.

2. The Financial Secretary advised sticking to the "male" average, because the Government's record looked better. The minute below gives the figures to back this up.

3. The difference between the two is actually not that great, though it matters more in the - important - case of tax and NIC paid by a one earner couple on average earnings. Perhaps more important is that we are often asked for figures about a married man on average earnings, and, as the FST says, it would be difficult to justify using an "all adult" figure here. We then have problems of consistency if we do something different for single people. So, on balance, my vote is for the "status quo".

4. Robert was particularly keen to sort out this area. Shall we ask his views before reaching a firm decision?

5. He also suggested an arranged PQ to make public what definition we are using. I am not sure whether this is necessary, and it would tie our hands. But shall we ask FP for a draft, to be cleared with the FST, and then decide whether to use it?

*I had heard
the unions
explicitly asked,
from an
strange
usage.*

APH

A P HUDSON

FROM: E P KEMP
1 October 1987

PS/CHIEF SECRETARY

cc Mr Monck
Mr Moore
Mrs Brown
Mr Colman
Mr Gilhooly
Mr M L Williams

Handwritten in red ink:
Monck
CSG

BOARD PAY

I have just seen Mr Colman's note of 1 October. As he says he had not had time to talk to us about it before he put it forward.

2. I have not got too much time either. But the main point I would make immediately is that if there is to be any let up, real or perceived, in the Government's line on nationalised industry Board pay, the timing of when this happens, or perhaps more accurately when the perception emerges, will be very important. We are getting concerned, very concerned, about the 1988 TSRB Report. The TSRB have announced that they are doing a "thorough review", for 1988, in the same way as they did such a review in 1985. And it is seared on the memories of all who were concerned with it just what problems that gave us. I think it would be very undesirable for the Government to do anything now in the field of senior peoples' pay which it controls, such as nationalised industry Board members, which could be used by the TSRB to bolster and justify the already pretty high recommendations they are likely to make next April. Per contra, of course, if they do make high recommendations then it might be easier, if the Government wants to let up on nationalised industry pay, to do this in the wake of what the TSRB have said about senior civil servants, senior military and the judiciary. What this points to is holding very firm until May or June of next year.

3. Two other minor points. First, although this is a personal view, I am not wholly persuaded by the arguments in paragraph 12 of Mr Colman's

speaking note that high pay for the bosses necessarily fuels high pay claims for the workforces. I think the workforces will go for what they want whatever happens, and save as a matter of form are not too miffed at what the bosses are getting. Second, I have to say that I think we are always altogether over impressed by the differentials argument. I do not see what is wrong with a senior employee getting less than his boss, in particular cases. In the Treasury for a long time Mr A Wilson was paid more than Sir Peter Middleton, and in the MOD Mr Levene is paid a great deal more than Sir Clive Whitmore; (and both are paid more than the Ministers they serve!), One would not want perhaps to make it a practice that was too widespread or stood for too long, but I do not think we should be over impressed by it arising now and again.

4. I wonder if I could make a final, personal, point. It has always seemed to me that we are also over impressed by arguments from sponsoring Ministers and sometimes the chairmen of nationalised industries that Mr So and So is completely irreplaceable and unless he gets this and that pay increase or this and that pensions easement he is going to push off or alternatively will not take re-appointment. It seems to me that it is very rarely the case that the man in question is rarely irreplaceable. If we wanted to buttress the policy what we might do is to wait until we find somebody who threatens in this way, and who is in fact pretty replaceable; and then call his bluff. It would concentrate minds wonderfully.



E P KEMP



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

BF 9/10

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON. SW1P 3AG.

CH/EXCHEQUER	
REC.	05 OCT 1987 ✓ S10
ACTION	MR HALLIGAN
COPIES TO	CST PMG MR FER BYLER MR KEMP MR MOORE MR COLMAN MR TRUMAN MR GRAHAM MR ENDERBY MRS JACONICA MR CROPPER MR TYRIS MR CALL

- 2 OCT 1987

Dear Nigel

CIVIL AVIATION AUTHORITY: ENGINEERS' PAY

Thank you for your letter of 22 September about CAA engineers' pay. My officials have kept yours in touch with developments in the CAA's pay negotiations as soon as sufficient details have become available to pass on, and I am naturally sorry that you should only have heard of the most recent moves from press reports. That said, I agree that the size of the pay increases offered means that they are a matter of concern, though it would not, in my view, have been right in the delicate circumstances of the negotiations, for the Government to have intervened. Some explanation of the background may be helpful.

Until now, CAA pay scales have been tied to those of the Civil Service. This has been inconvenient for the CAA and even more unhelpful in the context of central Government's pay negotiations with the Trade Unions. Staff employed at air traffic control centres are able to cause major disruption to the public at relatively little cost to their unions, and they have often been used as "shock troops" in central Government pay negotiations in the past. For these reasons, my predecessor agreed with you that one of Christopher Tugendhat's more important, though unpublished, objectives on his appointment as Chairman should be to break the link with Civil Service pay. At the same time, he was asked to secure manpower economies in the National Air Traffic Services at minimum cost consistent with avoiding any disruption of air traffic control services.

Not surprisingly, he judged it best, in conducting this year's pay negotiations, to combine breaking the link with changes in working practices, in order to minimise the overall cost to the CAA. Negotiations have been proceeding in parallel with several groups of staff for some time and it has been far from clear whether the different groups wanted to settle separately or together. These groups have included the Air Traffic Control Officers (ATCO's) about whom there has been considerable publicity for many months, and the engineers, both of whom are represented by the IPCS. My officials wrote to yours on 8 June with details of the CAA's final offer to ATCO's. The IPCS agreed only at the end of August to ballot their members on this offer.

CONFIDENTIAL

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It did not become apparent until early September that the engineers were seeking rises comparable to those offered to the ATCO's. At that time some engineers started unofficial industrial action in support of their claim. We had, of course, asked Christopher Tugendhat to avoid such disruption. My officials wrote to yours on 11 September, giving those details of the offer to the engineers of which we were then aware. A further letter, giving details of a slightly revised offer, and covering other groups of staff, was sent to your officials on 18 September. This offer to the engineers is also now being balloted.

The CAA found that this year's IPCS settlement left them with an undesirably high starting point in the negotiations. They estimate that, on the basis of unchanged staff numbers and working practices, the offers to ATCO's and engineers (each of which number about 1300 staff) would add a little over 9% to the cost of the IPCS settlement. But the pay offers are contingent upon agreement to changes in working practices to improve the efficiency of operation of the NATS. The CAA estimate that, in the case of the ATCO's the savings arising from improved working practices would cover the extra costs about the basic IPCS offer. I have asked for the estimated cost savings in the case of the engineers to be provided urgently.

My officials agreed with yours at the time the Chairman's objectives were settled that it would not be sensible to bring the CAA into the normal pay monitoring arrangements for nationalised industries until the Civil Service pay link had been broken for a major group. I hope that we have now almost reached that position, and I shall be telling Christopher Tugendhat that we shall require still more advance warning in future and an opportunity to agree on appropriate levels of pay increase before negotiations start. We have already impressed upon him that in view of this year's large increases that were necessary to break the pay link and introduce new working practices, we shall expect to see pay restrained to a greater extent than in the Civil Service next year. My officials will be in touch with yours again as soon as we have the final details of the offers and the anticipated cost savings. I would of course expect the CAA to accommodate the costs of these offers within the EFL figures that we shall agree.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

PAUL CHANNON

CONFIDENTIAL

BF 10/11



FROM: MRS J THORPE
DATE: 8 October 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Mr Monck
Mr R I G Allen
Mr de Berker

1987 CBI PAY PRESENTATION

The Chancellor has agreed to see the CBI for their annual Pay Presentation on Tuesday 17 November at 3.00 pm in the Treasury.

2. The Chancellor will be accompanied by the Chief Secretary and the Paymaster General. He would also like you, Mr Monck, Mr Allen and Mr de Berker to attend. The Chancellor has said he does not require briefing.
3. If anyone is not able to attend please could they let me know.

Julie Thorpe

MRS J THORPE

UNCLASSIFIED

FROM: R I G ALLEN

DATE: 9 OCTOBER 1987

~~MR A P HUDSON~~

13/2

C.

Pl. see my comments at end.

AMH

cc PS/Financial Secreta
 Sir P Middleton
 Mr Byatt
 Mr Scholar
 Miss O'Mara
 Miss Sinclair
 Mr Scotter
 Mr Short
 Mr Eason - IR
 PS/IR

DEFINITION OF AVERAGE EARNINGS

Mr Culpin has passed me your minute of 6 October for advice.

2. I have reviewed the previous papers on this subject and have the following reactions.

3. It is striking that the differences between the male earnings and all adults earnings figures (tables attached to Mr Heywood's minute of 21 September) are generally very small: in terms of changes over the 9 year period since 1978-79, they are no more than a few tenths of a percentage point in most cases. Whether such differences would pass the standard tests of statistical significance is not clear. It is also worth noting that at one of the selected income levels (twice average earnings) the changes generally point in the "opposite" direction. And it cannot be certain that, if different periods of comparison were taken, the same pattern of results would necessarily emerge.

4. As is made clear in paragraph 4 of Mr Heywood's 21 September minute, our ability to "choose" which definition to use will in practice, be heavily constrained by the kind of information which is being sought through PQs, etc.

5. Nevertheless, I agree with the general tenor of the comments that it would be sensible, wherever possible, to make more use

X | of the "all adults" figures in public presentation. I say this for two reasons. First, because the figures - subject to the qualifications noted above - are generally more favourable to the Government when expressed on this basis. A second and stronger reason is that, in ordinary language, "average earnings" is surely best thought of as an overall concept combining male and female earnings (and, quite possibly, full-time and part-time earnings also). This is clear from today's press reports on the latest issue of the New Earnings Survey, published yesterday (see attachment). Most of the stories lead off with headlines such as "Average pay tops £10,000 mark" (Guardian), though there are also references to differences between male and female earnings.

Y | 6. You might want to note Mr Culpin's comment (see paragraph 2(vi) of Mr Heywood's minute of 30 July) that it would be worth spelling out our practice and the reasons underlying it in a written PQ soon after Parliament reassembles. Another way of handling this might be a short article or "box" in the EPR.

R I G ALLEN
PP

C,

1. On X, I discussed this with Richard & agreed that the (obscure) tables show ~~in fact~~ that the male figures are actually more favourable to the Govt. Richard nonetheless thinks it better to use "all adults" for his second reason.
2. On ~~5~~^{his para 6}, I ~~won't~~ didn't relay your comment on my para 5 below to him - so he's not actively disagreeing. The EPR suggestion, at Y, would be lower key.
3. How do we take this forward? Discuss at Prayers?

AH
12.10.

Survey shows private sector pay boost

BY PHILIP BASSETT, LABOUR EDITOR

PAY INCREASES are rising significantly faster in the private than in the public sector, according to new government figures published yesterday.

The Government's annual New Earnings Survey may also rekindle ministers' moves for more geographically-based pay bargaining, since it shows the north, and specifically Merseyside, as having the highest rate pay increases among male manual workers.

Key results from the NES - an annual "snapshot" of pay each April which is widely regarded as the most accurate and detailed examination of pay in the UK show that pay for employees in the private sector rose between 1986 and 1987 by 8.1 per cent, while in the public sector the figure was 6.9 per cent.

The overall increase for all industries and services across the economy was 7.7 per cent, leading to average gross weekly earnings for all employees - male and female, manual and non-manual taken together - of £198.90.

Average earnings for manual men were £185.50, for non-manuals £265.90 and for all men £224. Comparable figures for women were £115.20, £157.20 and £148.10 respectively.

Pay levels, as opposed to increases, were highest in public corporations - primarily the nationalised industries - where earnings for all employees stood at £217.60. For men, private sector pay was the highest, at £225, though for male manual workers alone, public corporations again scored best at £208.50 compared with the next

down, private sector earnings, at £185.90.

Female manual workers in public corporations also did best, at £151.50, though earnings for non-manual women in local government at £185.70 pushed it to the best female average, at £174.60.

For all manual workers, pay increases were highest in local government at 7.5 per cent, and for non-manuals in the private sector at 8.7 per cent.

Highest-paid male manual workers were chemical process foremen, on a weekly average of £273.50, and for non-manuals the highest were doctors, on £483.90. For women, the highest-paid manual workers were assembly inspectors, on £141.30, and for non-manuals the highest-paid were policewomen, on £240.50.

Regional workers' pay rose 10.1 per cent in the north, 9.1 per cent in the south-east, 7.7 per cent for this group, and 6.3 per cent in the south-west.

Though the north-west showed the lowest increase, at 6.9 per cent, earnings in Merseyside showed the highest increase, at 8.8 per cent. Greater London's figure was 5.9.

However, pay levels were still highest regionally in the south-east, at £196.20, with London higher still at £208.60.

High increases for non-manual males in the south-east (9.7 per cent) and greater London (10.4 per cent) pushed the figures for all males to 9.1 per cent in the south-east and 9.8 per cent in London.

New Earnings Survey 1987. Part A, SO, £9.50.

THE INDEPENDENT

Earnings in private companies outstrip public sector pay

EARNINGS of workers in the private companies have outstripped those of employees in the public sector, according to new Government figures on what the national workforce is paid.

For the first time in many years the private sector is ahead. The New Earnings Survey published yesterday by the Department of Employment gives the most comprehensive picture of earnings and shows the extent of the Government's success in cutting the size of the public sector with its privatisation programme.

Overall average weekly earnings in the year to last April were £198.90, a rise of 7.7 per cent which closely mirrors the current underlying trend of the increase in average earnings which is running at 7.75 per cent.

The average in the public sector was £197.30, up 7 per cent, compared with £199.70 in the private sector which represented an increase of 8.1 per cent. Last year the equivalent earnings figures were £186.10 for public employees and £183.90 for workers in private companies.

This year's figures highlight the

By David Felton
Labour Editor

effects of the transfer of corporations such as British Gas to the private sector and also the impact of the Government's policy of maintaining a tight grip on the pay of its own employees, such as civil servants and staff in the National Health Service.

But they also provide an indication that the private sector is paying little attention to government exhortations to reduce pay awards and control unit labour costs.

Male workers continue to maintain their earnings differential over women. The survey shows that 50 per cent of all full-time workers earn less than £175.10 a week, a quarter earn less than £128.60 while 25 per cent have earnings of more than £236.90.

Men in white collar jobs earn an average £265.90 a week compared to £185.50 paid to manual workers. Women in white collar jobs were paid only £157.20 and the relatively fewer in full-time

manual work received £115.30 a week, about £70 a week less than men in the same group.

The big earners in white collar jobs were professionals such as specialists in finance, insurance and tax (£475.10 a week), doctors (£463.90) and police and fire inspectors and the more senior ranks (£380.30).

Among male manual workers, staff on national newspapers in London and Manchester again come out near the top of the earnings league and, along with workers in the oil refining industry, had earnings of over £300 a week.

One of the largest earnings increases recorded for manual workers was in metal manufacturing which recorded a rise of 11.6 per cent over the year. This was largely due to overtime working, averaging nearly 11 hours per week for each employee.

The average working week for all groups of employees was 40.4 hours of which 2.7 hours was paid at overtime rates. Of the workforce, 11 per cent worked more than 48 hours a week while 17.6 per cent put in a week of 36 hours or less.

Daily Telegraph

Women still paid less as average wage rises 7.7 pc

By Our Labour Staff

The average adult worker now earns £198.90 a week, a 7.7 per cent rise on a year ago, according to official statistics published yesterday.

Male wages amount to £224 a week, while the average woman's pay is much lower at £148.10 a week, says the Department of Employment's annual earnings survey.

Among male manual workers, farmworkers are the lowest paid at £124.10 a week, while female bar staff's average pay is lowest of all at £93.10.

2/1

Average pay tops £10,000 mark

By Christopher Huhne
Economics Editor

Average earnings are over £10,000 a year nationally for the first time, but the pay gap which opened in the late seventies continued to widen last year, official figures revealed yesterday.

The low-paid have had virtually no real increase in pay over the past eight years, while the earnings of the highest-paid 10 per cent have risen by a fifth in real terms.

The cumulative differences over the past eight years are very striking. Between April 1979 and April 1987, the highest-earning 10 per cent of full-time, male workers got a 137.3 per cent rise in pay — against just 93.5 per cent for the lowest — earning 10 per cent and 111.3 per cent for the median earners.

The Department of Employ-

ment's New Earnings Survey finds that the average pay rise for an adult, full-time employee was 7.7 per cent, to £198.90 a week — £10,342.80 a year, but the overall figure disguises a sharp skewing of differentials.

The 10 per cent of lowest-paid, full-time, adult earners — on less than £99.10 a week — got a 5.4 per cent rise over the year to April. The highest-earning 10 per cent — on more than £316.60 a week — enjoyed a rise of 8.4 per cent.

The median, the figure at which half earn more and half less, rose by 6.9 per cent to £175.10. This is probably a better representation of what has happened to pay for most people than the average figure, which is boosted by the good fortune of a few. It compares with a 4.2 per cent increase in the retail price index over the same period.

The increasing inequality in gross pay is partly due to the smaller pay rises for manual workers, though there are also increasing differentials between well-paid and low-paid manual workers. This probably reflects the higher unemployment among unskilled workers.

The rise in retail prices over the period was 87.5 per cent, so that the real pre-tax earnings increases varied from 26.6 per cent for the top-earning 10 per cent to only 1.6 per cent for the lowest-earning 10 per cent.

The skewing of earnings-rises towards the well-off also occurred among women, although overall women in full-time work caught up with men over the period, showing a 127.6 per cent rise. The real increase (after allowing for inflation) for the top 10 per cent of full-time women was 31.5 per cent, and for the bottom 10 per cent it

was 12.1 per cent. The basis of the figures was changed very slightly in 1983, but the Department still finds them close enough for a direct comparison.

The 136-page report shows that average earnings also vary considerably for different collective agreements, industries, occupations and age groups. Adult males in manual jobs earned on average £185.5 a week, which included £47.20 for overtime, incentive pay and shifts. Non-manual adult males earned on average £265.90 a week, including £20.70 overtime, shifts and incentive pay.

Full-time, non-manual, women workers earned on average £157.20 a week, compared with £115.30 for the relatively few full-time, manual, women workers.

Top women had a slightly smaller rise on average than men.

THE TIMES

Average wages top £200

By David Smith
Economics Correspondent

Average weekly earnings in Britain have probably risen above £200 a week, new figures from the Department of Employment suggest.

The 1987 *New Earnings Survey*, the first results of which were published yesterday, shows that average weekly earnings last April were £198.90 before tax. Since then, average earnings have risen by 2.1 per cent, according to official figures, which would push the average above £200 a week.

The figure of £198.90 — 7.9 per cent higher than a year earlier — concealed a wide variation of income between different groups. Fifty per cent of people earned less than £175.10 a week, and 25 per cent had a weekly income of under £128.60. At the other end of the scale, 25 per cent earned more than £236.90 a week.

Manual earnings for men were an average of £67 a week less than those for non-manual occupations. The average for male manual workers was £185.50, which included £47.20 of overtime pay, incentive pay and premiums for shiftwork.

In contrast, white-collar male workers earned most of their income as basic salary,

with only £20.70 of their average gross weekly income of £265.90 coming from overtime and incentive payments.

Women in white-collar jobs received an average of £157.20 a week, 59 per cent of the gross earnings of their male counterparts. The gap for women in manual jobs was slightly narrower. They received £115.30 a week on average, 62 per cent of male earnings.

The DoE said that the difference in earnings between men and women did not necessarily reflect discrimination by employers.

"The average earnings of women are lower than men's because women tend to work in different jobs and industries and have a shorter working week. Differences in average earnings do not therefore correspond to differences in rates of pay for comparable jobs," the department said.

CONFIDENTIAL

1. MR GILHOOLY *Agreed in draft,*
2. CHANCELLOR OF THE EXCHEQUER

FROM: J de BERKER
DATE: 13 October 1987

cc. Chief Secretary
Paymaster General
Mr F E R Butler
Mr Kemp
Mr Moore
Mr Colman
Mr Truman
Mr Wood
Mr Graham
Mr Enderby
Mr Cropper
Mr Tyrie
Mr Call

C/letter to issue

CR 13/10

OK

CIVIL AVIATION AUTHORITY: ENGINEERS' PAY

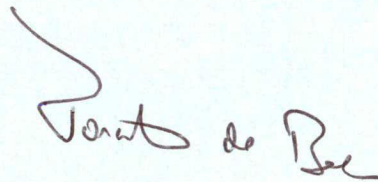
You wrote to Mr Channon on 22 September complaining about the lack of prior consultation over very large pay offers the CAA made to its staff with the aim of buying out the link with the Civil Service. Mr Channon's letter of 2 October goes some way towards accepting the criticisms in your letter of 22 September and it should lead to a shake up of the monitoring arrangements for CAA pay.

2. Mr Channon claims that his officials had agreed with us, at the time the Chairman's objectives were settled (Spring 1985), that it would not be sensible to bring the CAA into the normal pay monitoring arrangements until the Civil Service pay link had been broken for a major group ie. there would be a hiatus whilst it was being broken. No filing system is perfect, so it is probably best not to raise it at Ministerial level, but we have been unable to find any documentary proof for this agreement. But we have asked Department of Transport for it at official level.

3. However, it is clear that the Department of Transport's monitoring arrangements for CAA have been in a state of disarray. Mr Channon says that he will be telling Mr Tugendhat that they will require more advance warning in future, and an opportunity to agree an appropriate level of pay increase before negotiations start. In some cases we suspect that they too have only found out after the event. We have a copy of a letter (dated 5 October) at Official level to the Managing Director of CAA asking inter alia "as a minimum, it would be helpful to know when an offer was made or is planned to be made."

4. You may prefer to let the correspondence with Mr Channon die at this stage. Alternatively you may wish to write welcoming Department of Transport moves to tighten their own monitoring arrangements for CAA and suggesting that henceforth the usual Treasury monitoring agreements for Public Trading Organisations apply. You may also want to note that the CAA have been asked to try and clawback some of the cost in buying out the Civil Service link by depressing next year's settlement, and ask about the existence of monitoring arrangements to ensure that the prospective productivity gains are in fact realised. A draft letter is attached.

5. PE and IRD are content.



J de BERKER

CONFIDENTIAL

~~DRAFT~~ LETTER

From: Chancellor of the Exchequer

To: Secretary of State for Transport

Copies: Prime Minister, members of E(PSP), Sir Robert Armstrong

CIVIL AVIATION AUTHORITY: ENGINEERS' PAY

Thank you for your letter of 2 October.

The moves you have made to tighten your monitoring arrangements for CAA pay negotiations are very welcome. We should now implement the Treasury's usual pay consultation arrangements for nationalised industries.

I also note that you have asked the CAA to claw back some of the cost of buying out the Civil Service pay link by depressing next year's settlement. I assume that you will be monitoring this. I trust that you will also be monitoring the new arrangements to ensure that the prospective productivity gains are in fact realised.

I am copying this letter to the Prime Minister, members of E(PSP), and to Sir Robert Armstrong.

NL

CONFIDENTIAL

FROM: E P KEMP
16 October 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Paymaster General
Sir Peter Middleton
Mr Gilhooly

CIVIL SERVICE PAY

We had a word about the Chancellor's meeting on Monday morning. The existing papers are my note to the Paymaster General of 25 September and the note of the meeting he held with us on 13 October; I believe he may be letting the Chancellor have a personal note also.

2. I told you that I was not sure that much more was needed, and you agreed we probably had enough. ^{below} A possible agenda which you might like to consider would go as follows :-

a. A general view of the position on pay and industrial relations in the Civil Service, perhaps following up the Paymaster General's meeting and perhaps going through the various broad headings set out in the think piece at Annex A to my note to the Paymaster of 25 September.

b. A detailed look at the various separate areas where pay is involved, going through the items in Appendix A to Annex C to my note to the Paymaster. This is perhaps the most important part of the meeting, because we have now well and truly broken up the monolithic pay structure and pay bargaining structure which we had up to two or three years ago, and individual areas have to be taken separately; on the whole they are all going fairly well, and we have one or two ideas which if they work could prove quite inexpensive in 1988-89 (necessary both for running costs and "example" purposes), but would also continue the momentum we have got on for more flexibilities and better value for money. I would very much like to get the Chancellor's blessing to the way we are proceeding.

c. Finally, whether and if so in what forum the Chancellor wants to raise the issue of Civil Service pay and industrial relations etc with his colleagues outside the Treasury.



E P KEMP

CONQUEROR



CONFIDENTIAL



FROM: PAYMASTER GENERAL

DATE: 16 October 1987

CHANCELLOR

cc Chief Secretary
Mr Cropper

CIVIL SERVICE PAY

You will remember we agreed I should hold a meeting on Civil Service pay in the context of a new Parliament. This was delayed by the recent kerfuffle with the Society while you were in the States but we did hold it this week, and you will be seeing the note of it in anticipation of your meeting on Monday. This note is private to yourself, the Chief Secretary, and Mr Cropper.

2. The consensus of the meeting was firmly against too blue-printed a plan for the life of the Parliament, but there is a central strategic choice which is contained in paragraph 4 of the note of my meeting, and which both should logically be taken at the outset of the Parliament and will set the pattern then for the broad line of policy through the Parliament.

3. Though it is a choice which has substantial implications both for pay and industrial relations, it seems to me a decision in which the Chief Secretary will have a profound interest, since there is a notional trade-off on his side (and I readily recognise his preference could go either way).

4. The cultural aspects of paragraph 8 are more for the unions than ourselves, though they of course inform our attitude. I should perhaps add a gloss to the final sentence of paragraph 8: what I meant was that marginal lubrication made deals easier - not the profoundest pensée of 1987.

5. Finally, the decision on whether you suggest a small meeting of senior Ministers to the Prime Minister might sensibly wait on what conclusions we come to ourselves on the substance. I could myself see virtue in it.

P.B.

PETER BROOKE



FROM: A C S ALLAN
DATE: 16 October 1987

CHANCELLOR

PAY MEETING

Re X, I get to have gratitude for the relevant who she is compared with what has been kept private.

MS FBA grades

This is Ann Mueller's first meeting, and you might welcome her (though she does not move across fully until next month).

Peter Brooker, Ann

2. It would be politic to ask Peter Middleton not Peter Kemp to speak first: he is concerned about Peter Kemp trying to hijack a meeting which he had been in the lead in setting up. His main worry is that we keep giving the odd 1 per cent here and 1½ per cent there in a very unco-ordinated way, with the result that in spite of all the talk of "ratcheting down", the pay bill is in fact expanding quite fast (I very much agree). He is not keen on too much philosophizing about where we would like things to be in 1992.

3. Both Peters come together in suggesting that the main focus for the meeting should be on Appendix A (to Annex C of Peter Kemp's minute of 25 September to the Paymaster General, but identical to Appendix A of the paper attached to Peter Middleton's note to you of 4 August).

A C S ALLAN

Cathy ←

FROM: J de BERKER
 DATE: 20 October 1987

1. MR GILHOOLY *AM. 20/10*
 2. CHANCELLOR OF THE EXCHEQUER

cc. Chief Secretary
 Paymaster General
 Sir Peter Middleton
 Mr F G R Butler
 Mr Anson
 Mr Kemp
 Mr Hawtin
 Mr Turnbull
 Mr Potter
 Mr Fellgett

Nigel

LOCAL AUTHORITY MANUALS PAY

You asked about the pay deal for local authority manual workers, following press announcements that the members of the unions involved had voted in favour of the deal, which was agreed in outline in July. The article in the Financial Times is attached.

2. The deal allows for pay rises averaging 10.6 percent over 14 months, and could add about £350 million in a full year to local authority expenditure. It follows increases of 8.1 percent in 1985, and 6.7 percent in 1986, which also exceeded the rate of inflation.

3. As yet, there have been no repercussions on other groups (eg NHS manuals and Civil Service Industrials), but the example of the local authorities is not helpful and can only add to a general upward pressure on pay settlements.

4. The background is set out in Mr Halligan's submission to you of 3 August (attached), but briefly, the settlement has its origins in a working party set up by the employers and the unions after the 1985 settlement to review the pay structure in the light of a job evaluation study. From the beginning, the Government has tried hard to dissuade the employers from setting up the job evaluation exercise - but with no success.

5. Government criticism of the agreement was restrained when the agreement was announced in July by the concern that local authorities and unions might make unflattering comparisons with the increases in MPs' pay. However, this did not prevent Mr Ridley

issuing a statement describing the award as "excessive", and pointing out that it could add 2 percent to rate bills.

6. We and LG were aware of the likely settlement when the RSG negotiations were finalised in July and, therefore, argued against a fixed grant percentage which would underwrite the cost to local authorities. And in September, at the Consultative Council and Local Government Finance, Mr Ridley refused their requests to increase the grant for the same reason.

7. The Chief Secretary wrote to Mr Ridley on 14 August suggesting that the 1989/90 rate support grant settlement should concentrate on the quantum of grant and not attempt to maintain a given grant percentage. This would give local authorities more incentive to negotiate tough agreements with their employees, as the grant settlement would be tougher.

8. Mr Ridley wrote back on 16 October disagreeing. He doubts whether the suggested changes would have any effect on pay settlements, and he is more concerned with a smooth transition to the new system - the 1989/90 settlement will be the last one under the present set up. LG will be advising the Chief Secretary how to react.

9. There is not much more which can be done, given the present arrangements. There are about 5000 employees in non-departmental public bodies with pay linked to local authority settlements. It has now been decided that when the opportunities arise, their pay should be linked instead to that of the Civil Service which is under the control of Ministers.

10. Some local authorities in Southern England may consider pulling out of the national pay and conditions bargaining system (eg Westminster). In the long run moves to ensure that more local authority services are put out to tender, and the reform of local taxation may induce greater realism amongst the rest.

11. LG are content.



JONATHAN DE BERKER

Financial Times Thu Oct 20 1987, 9

Council workers back pay deal

BY DAVID BRINDLE, LABOUR CORRESPONDENT

UNIONS representing 1m local authority manual workers said yesterday their members had voted by about three to one in favour of the radical pay, flexibility and regrading deal agreed in outline in July.

The deal will be finalised later this month and there will then begin the complex process of local negotiation on introducing the new grades, followed by optional further local talks on flexible working time.

This flexibility made possible by the deal is seen by both the employers and unions as crucial to the ability of local authority workforces to fight off private contractors under the compulsory competitive tendering proposed in the Local Government Bill.

Mr Donald MacGregor, the unions' chief negotiator and na-

tional officer of the GMB general union, said yesterday: "This deal gives council workers and bosses a golden opportunity to be flexible and work together to fend off attacks and to save and improve precious local services."

The deal includes an average pay rise of 10.6 per cent over 14 months. Yet the three unions involved were obliged to promote it extensively to their members because of fears over the flexibility provision.

The TGWU transport union and the Nupe public workers' union, which made and circulated a video film on the deal's terms, both recorded large votes in favour in their individual ballots.

The GMB, which took votes at regional conferences after

branch consultation, encountered more opposition. It is believed that at least one of its regions - London - voted against.

Mr Jack Dromey, TGWU national secretary for local government, said yesterday the deal achieved three things: it was a "decisive" step towards abolition of low pay; it produced a grading structure that did not discriminate against women; and it struck a good balance between maintaining national agreement and allowing local flexibility.

● Nearly 7,000 white-collar employees of Birmingham City Council are expected to stage a one-day strike today in support of some 200 of the council's housing workers who have been on strike since last month over a regrading claim.

ACI.

File

FROM: J M HALLIGAN
DATE: 3 August 1987

- 1. MR GILHOOLY
 - 2. CHANCELLOR
- This is just a more blow against moderation by the local authorities.*
- J.M.H. 3/8*

- cc Chief Secretary
- Paymaster General
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Kemp
- Mr Hawtin
- Mr Turnbull
- Mr Potter
- Mr Fellgett
- Mr Sharratt

LOCAL AUTHORITY MANUALS PAY

You may like to have a report on the outcome of these protracted negotiations, which led to an outline agreement last week for a 10.6 per cent pay increase from 1 July 1987.

Background

2. After the 1985 pay settlement the employers and unions agreed to set up a working party to review the pay structure. After several false starts a job evaluation study was completed and formed the basis of negotiations for a reformed grading structure. The new structure was particularly designed to deal with claims from women workers for the achievement of equal pay for work of equal value, which has been a legal obligation upon employers since 1984.

The Agreement

3. Agreement on the new grading structure was reached on 17 March and negotiations then began on the pay rates for the new grading structure. Simply adopting the revised rankings of jobs to the existing grading structure and pay rates would have added 1.4 per cent to the paybill. However, the negotiations were widened to also cover an allowance for the main 1987 pay settlement and more flexible working arrangements.

4. There was little difficulty in agreeing the overall cost of the deal: 10.6 per cent to cover the period 1 July 1987 to 31 August 1988. However, for several months the talks were deadlocked over the issue of premium payments at weekends. The official side wanted them struck out of the national agreement but accepted that they could be re-introduced following local negotiations. The staff side wanted them to remain in the national agreement with provision for them to be negotiated away at local level. The agreement reached last week was effectively on the union terms and has been criticised as a sellout by the Association of District Councils.

Assessment

5. This is a 10.6 per cent increase for 1987, following increases of 6.7 per cent in 1986 and 8.1 per cent in 1985. The flexibility provisions are very soft and we do not think that they will allow for any offsetting productivity savings. The Department of Environment's request to the official side for quantification of these "savings" elicited the response that they were impossible to quantify. As the official side gave in at last week's meeting it is hard to see how any can be achieved unless the unions become anxious about the competitive tendering process. You may care to read David Brindle's assessment in Wednesday 29 July FT (attached), which reaches broadly the same conclusions.

6. The Government had tried hard on several previous occasions to dissuade the local authorities from this course. At a meeting in September 1985 between the full LACSAB board and several Cabinet Ministers (including the then Chief Secretary) the employers were urged not to set-up a job evaluation exercise. The employers were called in several times over the next 18 months by the Secretary of State for Environment to express concern about developments. None of this had any effect on the official side, which is Labour controlled and has no Government representation on it.

7. Mr Ridley issued a statement on Friday describing the award as "excessive" and pointing out that it could add 2 per cent to

rate bills. You will see that newspaper comment has interpreted this as a surprisingly mild admonishment and speculates that this is because of the projected productivity savings. In fact the mildness of the comment reflects our concern that any rebuke by the Government of this deal will be answered by the local authorities and unions making unflattering comparisons with the recent vote on MPs' pay. We had told DOE officials that we would not press Mr Ridley to make any statement and that if he did make a statement it should concentrate on the financial consequences for ratepayers rather than the size of the award.

Further Action

8. There is no further action beyond noting that the cost of this deal in 1987-88 will be about £270 million and £350 million in a full year and will be an additional pressure on local authority current expenditure.

J.M. Halligan.

J M HALLIGAN

Flexibility deal for 1m council staff

BY DAVID BRINDLE, LABOUR CORRESPONDENT

LOCAL AUTHORITY employers and union leaders yesterday reached outline agreement on a radical pay, flexibility and regrading deal for 1m council manual workers.

The deal, which includes an average pay rise of 10.6 per cent over 14 months, is not being formally recommended by the unions. But they will tell their members in a consultation exercise in September that it is the best that can be achieved by negotiation.

Mr Donald MacGregor, the unions' chief negotiator, said: "There are alternatives, but we as negotiators clearly see the

plan as the most attractive route and as the best way forward in the circumstances."

The package makes provision for local negotiations on abolition of premium payments for regular weekend work, but does not remove the payments from the national agreement as the employers had originally wanted.

This led to strong criticism last night from the Conservative-controlled Association of District Councils. Mr Gordon Wyatt, the ADC's manpower sub-committee chairman, said: "We have given the unions so many protective clauses in this

agreement that we are probably worse off than we were."

However, the employers' negotiators pointed out that the offer had been made unanimously and had been backed by the ADC's representatives in the talks. Mr Bob Gould, the employers' chairman, called the criticism "unfortunate."

The 10.6 per cent rise includes the cost of moving to a new grading structure, incorporating the principle of equal pay for work of equal value. If accepted, the rise will be backdated to July 1-10 months after payment of a previous 6.7 per cent increase.

Union leaders believe the agreement would therefore continue the momentum of their campaign to end low pay in local government.

The deal is designed to give local authorities the flexibility to fend off competition from private contractors under the competitive tendering programme planned by the Government. Mr Brian Rusbridge, the employers' secretary, said: "The agreement is ahead of its time because it provides for the future of local government and all the pressures that they are going to have to face—it is even a question of survival."

Good reasons for both sides to settle

David Brindle looks at the pressures on unions and councils

AFTER MONTHS of talks, the two sets of negotiators at yesterday's final bargaining session in Belgrave Square, London, each had a very good reason for coming to terms.

The Labour-led employers, under fire from government ministers for the rigidity of national bargaining in local government, needed to show the system could be adapted to allow individual local authorities the freedom to vary pay and conditions according to local needs.

The unions, for their part, needed to relax the restrictions of the national agreement sufficiently to give their members the chance to negotiate changes at local level in preparation for the coming compulsory competitive tendering for council services.

There was also a third motivation common to both sides: the necessity to make the national grading agreement "bomb proof" against the disruptive effect of claims from women workers for equal pay for work of equal value.

It was this mutually acknowledged requirement that began the process leading up to yesterday's outline agreement. A job evaluation exercise, the most extensive undertaken in the UK, reassessed all the manual occupations in the light of the 1984 equal-value provisions. The results were always going to cause delicate problems: "caring" jobs such as home help and residential home assistant, usually done by women, were upgraded markedly at the expense of some of the most traditionally powerful male-dominated groups, such as refuse collector.

Because of this, the unions knew they would have serious difficulties convincing their members to accept the regrading alone—costed at 1.4 per cent of the pay bill—and now, in addition, they would have to act in response to the merging pressures for competitive tendering and against the rigidity of the national agreement.

The negotiations therefore

seven day leisure services—likely to be one of the key areas for competitive tendering.

Earlier this month, talks came near to deadlock, with the employers insisting that the premium payment provision should be struck out of the national agreement—but be reintroduceable at local level—and the unions insisting that the

Earlier this month, talks came near to deadlock, with the employers insisting that the premium payment provisions should be struck out of the national deal

moved into a second phase on the basis of employers' proposals for moving away from the 39 hour, five-day week and towards a more flexible structure, more akin to annualised hours, whereby staff required regularly to work at weekends would no longer receive premium payments for doing so.

The price of this, the total average pay rise of 10.6 per cent for a 14 month settlement, was quickly agreed. The problem, which became the main stumbling block, was the union's reluctance to surrender the principle of premium payments.

The debate hinged on workers in residential social services and, most important, the expanding field of

of hours (which can be spread over periods other than a week) and the level of enhanced rates that may apply to weekend work which is a part of the normal working pattern, excluding overtime."

In the event of disagreement locally, the outline agreement provides the conciliation. But it states "under these arrangements, there can be no imposition of a settlement by the parties or by the conciliation machinery and the final decision shall rest with the parties concerned."

Commenting on the possibility of the spirit of the agreement not being followed locally, Mr Brian Rusbridge, the employers' national secretary, said colourfully yesterday "you cannot legislate for damned fools."

However, as the Association of District Councils' criticism made clear, some Tory authorities in particular will feel that the proposals give the unions too much and the employers too little. They will say there is no incentive for the unions to enter local discussions to negotiate away their premium payments.

Against this, national union leaders say the threat of competitive tendering is so great—the Government's plans directly affect about 120,000 full time workers and more than 400,000 part-time—that their local representatives will not bury their heads in the sand and price themselves out of their jobs.

Both sides boasted last night that the outline agreement proved the continued worth and importance of national bargaining. In the long run, this may be the most significant result.

"However the parties to this agreement are in accord in realising that changes in the role and operation of authorities will have to be faced in the years ahead. It has therefore been agreed that in future variations from the standard provisions . . . can be negotiated locally."

"These negotiations can encompass the number and spread

RESTRICTED

ACI



FROM: A C S ALLAN
DATE: 4 August 1987



MR HALLIGAN 3

cc: PS/CST
PS/PMG
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Kemp
Mr Hawtin
Mr Turnbull
Mr Gilhooly
Mr Potter
Mr Fellgett

LOCAL AUTHORITY MANUALS PAY

The Chancellor was grateful for your minute of 3 August, reporting the very bad agreement which the employers and unions have reached on local authority manuals pay. He commented that it was perhaps just as well the RSG settlement was finalised before this was agreed.

A handwritten signature in black ink that reads 'ACSA'.

A C S ALLAN



FROM: MRS JULIE THORPE

DATE: 12 November 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Mr Monck
Mr R I G Allen
Mr de Berker**1987 CBI PAY PRESENTATION**

Following my minute to you of 8 October I am now able to let you know who will be representing the CBI at the Pay Presentation on Tuesday 17 November at 3.00pm in the Treasury:

John Banham - Director General

Richard Price - Executive Director of Government Relations

Esmond Lindop - Deputy Director of Employment Affairs

Stephen Radley - Presentation Co-ordinator

2. Mr Radley will be arriving at about 1.30pm on the day to set up the Presentation.

A handwritten signature in cursive script that reads "Julie Thorpe".

MRS JULIE THORPE

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1578

From
John M M Banham
Director-General

17/11



Handwritten initials

13 November 1987

Mrs J Thorpe
Diary Secretary to
Chancellor of the Exchequer
Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Mrs Thorpe

CBI PAY PRESENTATION: TUESDAY, 17 NOVEMBER 1987

Further to your letter of 28 September 1987 I confirm that Mr Banham looks forward to meeting the Chancellor of the Exchequer and the Paymaster General on Tuesday, 17 November - the Presentation to take place at the Treasury from 15.00 to 16.30.

Mr Banham will be accompanied by Mr R H Price, Executive Director, and Director responsible for Employment Affairs; Mr E Lindopp, Deputy Director, Pay and Manpower; and Mr S Radley, Research Assistant.

Yours sincerely

Handwritten signature of Françoise Bryan

Françoise Bryan
Personal Assistant to John Banham

Copy to: Mr R H Price, CBI

18/11/87



pmf.

NOTE OF A MEETING HELD AT 2.30PM
ON TUESDAY 17 NOVEMBER IN CHANCELLOR'S ROOM, HM TREASURY

Present: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Mr Anson
Mr Kemp
Mr Luce
Mr Scholar
Mr Gilhooly
Mr C W Kelly
Miss Sinclair
Mr Cropper

Mr Battishill - IR
Mr Rogers - IR
Mr Crawley - IR

INLAND REVENUE STAFF FEDERATION PAY DEAL

The Chancellor said he greatly appreciated the work that Mr Kemp and others had put in to the proposed deal. He still had some slight worries about the deal, and would find a discussion helpful before his meeting with Mr Christopher the following day.

2. Mr Kemp summarised the position reached in negotiations so far. The idea of an IPCS-type scheme had been around since the 1987 pay deal: now both sides were nearly at one on a deal which, from a pay point of view, was well worth having. On timing, he hoped it would be possible to reach an agreement ad referendum later this week, to go to the IRSF's executive at the weekend. It would then be a question of selling a deal to members - it would probably go to a ballot - in the hope of signing up in January or February, and going live in April.



3. The Chancellor congratulated the negotiators on the progress made so far. He felt that this was broadly the right sort of deal, but subject to the costs being acceptable, and the eventual deal being presented in a way that would not embarrass the Government. Mr Kemp said that the Federation could of course be asked to exercise decent restraint, but it would not be easy to make this stick: Mr Christopher would undoubtedly get a rough ride at his Conference. The Chancellor said that it would be highly desirable to agree the figures that would be used publicly.

4. The Chief Secretary asked by how much the deal seemed likely to exceed the figure of 6 per cent for pay, agreed in the Survey. He would be very disturbed if the cost of the deal could not be contained within agreed provision for 1988-89. Mr Battishill said that the Revenue should be able to absorb the costs of an IRSF deal at 6 per cent or thereabouts, plus the cost of the Society agreement etc, if the non-Federation staff could be brought in at around 4½ per cent. There was more cause for concern about 1989-90, even taking account of the efficiency improvements that would flow from the IRSF deal. He would have to ask Ministers to recognise that the built-in pay increases for year two would cause the Revenue to come back in next year's Survey. The Chief Secretary said that it has always been recognised there would have to be further discussion of pay and running costs, once the Revenue had formulated an acceptable efficiency plan: this was why they had been held to an increase in line with the GDP deflator.

5. Mr Kemp returned to the problem of 1988-89. He thought it was optimistic to assume that a deal could be done at or near 6 per cent. In his view there was no chance of striking a deal at less than 6½ per cent - the Federation still wanted 7 per cent. Mr Gilhooly concurred. Mr Battishill saw problems with a settlement at this level: this would cost a further £2½ million which the Revenue did not have. Mr Scholar pointed out that pay was not the only variable which could be used to control the pay



bill: the Revenue had announced that it planned to increase its staff by 1100 over previous plans during 1988-89. The Chancellor suggested that the costs of the deal could be offset by building up to this level more slowly during the year. Mr Battishill pointed out that this still did not solve the problem of 1989-90, by which time all the 1100 staff would be in place.

6. Summing up, the Chancellor said that he would be content with a deal at 6½ per cent. He had to ask Mr Battishill to accommodate this deal, with the possibility of a slower build-up of extra manpower as a safety valve if necessary. The Chancellor would still wish to be satisfied with the Federation's proposed presentation of the deal. Mr Kemp should judge how much to offer the IRSF before the Chancellor's meeting and how much to leave the Chancellor as a negotiating margin to clinch the deal. The Chancellor asked for an aide-memoire of points to make to Mr Christopher, and it was agreed that there would be a short briefing meeting before Mr Christopher arrived.

mpw

MOIRA WALLACE

18 November 1987

Circulation

Those present
Sir P Middleton

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Mr Anderson, Mr Kemp, Miss Waller

Mr Gilmore, Mr Hawton, Mr Luce

Mr Turpin, Mr Ginnock

Mr Potter, Mr Revolta, Mr Brock

Mr De Becker, Mr Cooper

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 London
 SW1H 9AT

23 November 1987

Dear Douglas,

POLICE PAY

We are to discuss your paper at E(PSP) on Wednesday.

I think your approach to allowances is absolutely right. Some are anachronisms and others, such as rent allowance, are also very expensive. Your proposal to remodel the rent allowance into a housing grant targetted towards the retention problem in London is worth pursuing. I also agree that we should try and phase out compensatory grant and resist any proposals to reimburse the Community Charge.

However, I believe we can go further and also look at the formula we use for uprating police pay. I accept that we are committed to maintain the broad outline of the Edmund-Davies arrangements, but in view of the need to restrain the growth in cost which you acknowledge, we should change the details. The present formula links the change in police pay rates to the movement of earnings in the economy as a whole. The latter includes not only pay settlements, but also earnings drift due to overtime, increments etc. If police settlements are linked to earnings in the economy as a whole the police must pull ahead if they have any earnings drift of their own. I think it would be much better to link police settlements to settlements elsewhere.

In your E(PSP) paper you say that one of the obstacles to moving from the index of the underlying increase in average earnings is the absence of any alternative index. Statisticians at the Department of Employment have been working on this and I attach a paper which they have prepared. Norman Fowler has kindly agreed that it may be circulated more widely. I think it would be helpful

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to discuss it at E(PSP) at the same time as your paper.

The paper discusses four possibilities, two based on settlements, and two based on adjustments to average earnings in the economy as a whole to take account of the drift in police earnings. There are no insuperable technical difficulties to any of the four possibilities, and in relation to the possible savings on police pay they would not be particularly expensive to operate. The dearest option, an index of settlements, would cost about £¼ million. So we are free to choose the most appropriate.

In my view the best option is an annual survey of settlements. Although the paper suggests that settlements in the public sector should be excluded, I think they should be included. The Edmund-Davies formula is based on earnings in the economy as a whole and I see no reason to depart from that and tie police pay solely to movements in the private sector. I am not in favour of a monthly index of settlements because it could all too easily set a "going rate" and become a target for pay negotiators to aim at. Adjusting the average earnings index for police earnings drift is likely to be troublesome in subsequent negotiations because drift is difficult to isolate in the statistics on police pay. The Department of Employment suspects that it has been masked by the effects of continuing police recruitment.

At E(PSP) I hope that colleagues will be able to endorse the use of a survey of settlements in the economy as a whole in place of the underlying increase in average earnings which is currently used in the Edmund-Davies formula. I also hope that we will be able to give the Department of Employment a remit to undertake the work necessary to have the survey in place for the 1988 police pay settlement.

I am copying this letter to Norman Fowler, other members of E(PSP), Malcolm Rifkind, Tom King, and Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

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POLICE PAY

1 As an alternative to basing police pay settlements on the movement in the average earnings index, three alternative possibilities were mentioned in Mr Cope's letter of 5 August to the Home Secretary. Each of these alternatives would require the construction of a new statistical series. This paper considers the practicalities of establishing the alternative measures.

An index of settlements

2 An index of settlements, presumably published and maintained on a regular monthly basis, would be a major new departure. Since there is no precise definition of a settlement, a number of technical issues would need to be resolved. These are listed at annex. None of these problems appear insurmountable.

3 The required information would have to be collected from employers using a questionnaire sent out before the expected settlement date. Until the completed questionnaire was received, occasional contact by telephone with the employer would be required in order to check that a settlement had not yet been made.

4 Under this option, there would be the question of whether or not to have an "occasional levels" review e.g. similar to the element in the IPCS long term pay deal.

5 A new settlement index could take up to a year to become operative and so might be too late for use in the 1988 police settlement. Time would be required for consultation on the technical issues, the selection of a sample of firms, collection of data and the compilation of a computer system for the take on and analysis of the results.

6 The running cost of a system to collect and publish settlement data would depend on the level of detail required. A minimum cost would be around £150,000 but it is more likely to be around £¼ million. The

start-up costs would probably be of a similar order.

7 There would be a danger that such an index could effectively set a going rate or a pay norm. Other countries generally do not produce settlement statistics. Instead they produce wage rate indices based on national agreements mainly affecting manual employees in production industries. Such indices were discontinued in the UK in 1983 following the Rayner review of the statistical service. The collection of the data from employers would add to their form-filling burden.

Annual survey of settlements

8 Annual surveys of settlements have taken place in the past e.g. a survey of private non-manual settlements has been carried out by OME in order to inform civil service pay negotiations and will continue as part of the long term pay arrangements for IPCS grades. One of these information sources could be used for the police settlement or a new source could be established. Since the operative date of the police settlement, September, is coincident with the IPCS operative date, the same set of statistical data could possibly be used to determine both settlements. However, there may be reasons why a new settlement source should be established e.g. a different coverage may be required.

9 To set up a new annual survey of settlements would require similar steps to those for an index of settlements. However, it is likely that less detailed information would be required than for the index of settlements largely because there would be no need to interpret short-term movements. Also, the public sector would probably be excluded from such a Survey.

10 The required information would have to be collected from employers using a questionnaire sent out one a year. In order to improve the response, telephone contact with employers would be needed.

11 The running cost of a system to collect and publish the annual settlement data would depend on the level of detail required but it might be around £100,000. The start-up costs would probably be of a similar order.

2 An annual survey of settlements could be in place in time to be used for the 1988 police pay settlement.

Average earnings data adjusted for police earnings 'drift'

13 There are at least two alternative options under this approach.

14 As mentioned in Mr Cope's letter, one option would be to subtract each year from the underlying average earnings index a notional element for police earnings drift. This would ensure that police earnings rise as fast but no faster than earnings in the economy. However, DE believe that police drift may be negligible, partly because the increased manpower requirements has led to continuing recruitment which reduces average earnings. The required data to estimate police earnings drift would necessitate the collection of additional earnings information for the police. This formula would have similarities to the firemans' settlement formula.

15 Another option mentioned by the Home Secretary in his reply of 26 August to John Cope would be to use average earnings information from the New Earnings Survey (NES) excluding overtime, performance related payments and shift premia. This option would not require the collection of any new information. However 'residual pay' is not the same as basic pay and is affected by factors other than annual pay settlements e.g. merit payments in the private sector, incremental schemes, changes in the composition of employment. The timing of the NES results, published in October, would necessitate a change in the police settlement date from September. No significant costs would be incurred under this option.

POLICE PAY - COMPILATION OF A SETTLEMENTS INDEX

TECHNICAL ISSUES

(a) The basis of the settlement costing

This raises substantial issues which include the points set out below. Moreover, even when the basis has been established there could on occasion be disagreement between employers and unions on the cost; presumably the index would reflect the employers' estimates since they would be completing the return.

The issues to be considered include:-

- (i) Basic pay only? In some settlements basic pay changes do not affect overtime rates and this is used by employers in justifying a lower estimate for the settlement cost. A large proportion of settlements are giving merit pay rises as part of the annual pay settlement. Some public service settlements include 'restructuring' e.g. civil service and local authority manuals.
- (ii) Treatment of changes in basic hours and holidays.
- (iii) Treatment of settlements with stages or with lump sums or covering periods other than 12 months. This treatment is particularly important for public sector settlements.
- (iv) How much querying should be made of an employer's settlement costing? How would disputes be resolved? This would be an important issue in the public sector were a Government department may wish to minimise the publicised settlement costing. Would settlements imposed by employers be included?

(b) Settlement date

This could be taken as the operative date or the date of agreement or the date of payment. Choosing the first option would lead to revisions as new settlements were reported e.g. the teachers settlement due in April 1985 was delayed by nearly a year. A settlement index would also need criteria to be set for the proportion of settlements to be reported before publication could take place. The date of agreement would presumably be the date of ratification. Estimates would be required for late responders and revisions made to the index as actual data became available.

(c) Weighting of settlements

The options include:-

- (i) an unweighted series e.g. the CBI series
- (ii) weighting by number of employees.

(d) Detail to be published

Options include the following:-

- (i) mean and/or median
- (ii) distribution of settlements
- (iii) analyses by industry
- (iv) analyses by region
- (v) analyses by public sector/private sector
- (vi) analyses by manual/non-manual.

(e) Disclosure of data for individual units

This could be required on occasions when commenting on the data and for briefing within Government. If this became necessary the settlements data could not be collected compulsorily under the Statistics of Trade Act. A voluntary enquiry would lead to a lower response and hence a drop in accuracy.

(f) Basis of sampling

Would sampling be by size of firm and by industry? What definition would be used for a 'firm' i.e. a local unit or a national company? Non-response would need to be allowed for. The index would need updating for 'births' and 'deaths' of firms.

(g) Sample size

In order to comment on movements within pay rounds, the industry mix of settlements varies significantly during the pay round so a fairly high settlement coverage would be needed in order to weight the settlements by a constant industry mix e.g. at the present time it would be difficult to state categorically whether or not settlements are rising again.

CONFIDENTIAL

CHIEF SECRETARY

FROM: J F GILHOOLY

DATE: 24 November 1987

cc. Chancellor
Financial Secretary
Mr Anson
Miss Mueller
Mr Monck
Mr Burgner
Mr Turnbull
Mr Kelly
Mr Colman
Mr Culpin
Mr Gray
Mr Truman
Mr De Berker
Mr Tyrie
Mr Call
Mr S Willis

EPSP: WEDNESDAY 25 NOVEMBER: POST OFFICE

1. I attach an aide memoire, against the possibility that the position is raised at E(PSP) tomorrow.



J F GILHOOLY

Union claim:

3 hour reduction in working week to 36½ for manuals, 33½ for clericals with no productivity offsets.

Management offer

1 hour reduction for manuals only, if productivity-financed.

Ballot

Voted 55:45 for industrial action (on 45 per cent turnout).

Treasury line

Has been to resist any improvement in offer standing ready to suspend PO monopoly. (Letters, PQ attached).

Points to make

- Merits of conceding more on hours have not changed: repercussive elsewhere.
- Being seen to concede under threat of industrial action undesirable generally, not only for Post Office.
- Public sympathy would be with management.
- Option of suspending monopoly in the open (his PQ answer 24 July attached). Would blunt industrial action.

N/R

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cc - CX, PST, PMG,
for Butler, Mr Kemp
Mr Buzza, Mr Tinsall
Mr Colpin, Mr Gray
Mr Truman, Mr Gough
Mr Cooper, Mr Tref

MR CANN

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

Mr. H. H. Ford

[Handwritten signature]

22 September 1987

POST OFFICE - SHORTER WORKING WEEK

I have seen your minute to the Prime Minister of 18 September. I fear I have considerable worries about your proposals.

Looked at narrowly in the context of the Post Office negotiations, I think there must be a doubt whether the concession you propose would succeed, particularly since it seeks to treat the manuals and clericals differently. However right this is on merits, it may be difficult for Mr Tuffin to accept in the situation he is in. If for this, or other reasons, he was not able to accept a new offer - however informally made - the ante would have been raised for the eventual outcome. And we must not lose sight of the fact that the Post Office's offer is already a substantial one.

Looked at more widely, I am very concerned at the implications of a major public sector employer going further down the route of the engineering employers. An improvement will only increase the problems which will arise from the one-hour concession already made. Against those repercussions, it is not clear from your minute how certain, extensive and expensive industrial action might be if the Post Office stand firm and makes it clear to the UCW that it will stand firm.

For all these reasons, I would be against any concessions being made.

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I am copying this letter to the Prime Minister, to other members of E(PSP) and to Sir Robert Armstrong.

Yours Truly,
JM
JOHN MAJOR



DEPARTMENT OF TRADE AND INDUSTRY

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28 SEP 1987

Mr Gilhooly

Mr Butler Mr Kenyon

Mr Monck Mr Burgess

Mr Turnbull Mr Colman

Mr Culpin Mr Gray

Mr Truman Mr Tyrice

Mr Call

From the Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry

THE RT HON KENNETH CLARKE QC

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

28 September 1987

Dear Chief Secretary,

POST OFFICE - SHORTER WORKING WEEK

Thank you for your letter of 22 September. You set out every point that first occurred to me when I looked at this issue and I share your general sentiments entirely. The only reason that I canvassed any movement is that I found that the Post Office had already offered and had had turned down the one hour reduction. I regret that. We now have to find some non-damaging way of reaching a settlement or fighting a strike in the light of that however.

I fully endorse your point about not raising the ante. That is why I made clear in my minute to the Prime Minister that it would not even be offered unless it was clear that it would conclude a settlement on conditions that marked a major advance by management on a wide range of issues. I also fully share your concerns about the wider implications for public sector pay. This was a further reason for my having emphasised the need for the Post Office to take a tough line and to insist on the conditions set out.

In the event, I met Sir Ronald Dearing, Sir Bryan Nicholson and Ken Young on 22 September and explained our opposition to the Post Office moving from its offer of a one-hour reduction fully financed. I agreed that, subject to the UCW being prepared to live with the provisos set out in paragraph 5 of my minute to the Prime Minister, the Post Office might float the possibility of the one-hour reduction which is on the table being something less than fully financed but only if this was in the context of clear UCW movement on the more general "shopping list" of changes the Post Office requires, including such things as a new productivity deal and increased use of part-timers.



On this basis, Ken Young met the UCW General Secretary, Alan Tuffin, on 23 September but, as you will be aware from newspaper reports, talks broke down and the UCW has announced its intention to ballot its members on industrial action in support of its claim for a three-hour reduction in the working week.

As I understand it the ballot will not be arranged immediately but will be timed for a result in mid-November thereby threatening the Christmas post. For the time being I doubt that we should do more than await further developments.

I am copying this letter to the Prime Minister, Members of E(PSP) and Sir Robert Armstrong.

Your sincerely,

Peter Smith

PP KENNETH CLARKE
(Approved by the Chancellor
and signed in his absence)

SE4ACJ

HANSARD H.O.C. WRITTEN ANSWERS 24.7.87
VOL. 120 No. 26 (II) COL. 554

Postal Dispute (London)

Mr. Forth asked the Chancellor of the Duchy of Lancaster what action he will take to safeguard postal services in the light of the recent disruption of the mail service in central London and the threat of national industrial actions.

Mr. Kenneth Clarke: It is primarily for the Post Office Board to deal with industrial action by its employees. However, subject to certain derogations, the Post Office enjoys the exclusive privilege of providing a letter service in the United Kingdom. The Government consider that such a privilege must continually be justified, and powers are available to suspend the monopoly. The monopoly is long established and we would not lightly suspend the privilege. But Ministers have stated on a number of occasions that we would use those powers in the event of industrial action within the Post Office that resulted in a cessation or serious decline in the quality of service. I confirm that that remains our policy and I would suspend the monopoly in such circumstances but I do not believe that the problems in London's west central district have yet reached the stage of sufficient gravity to justify that step.



CHANCELLOR OF THE EXCHEQUER

E(PSP) WEDNESDAY 25 NOVEMBER 1987

I attach a brief on Police Pay which is the first item on the agenda.

2. The Chancellor of the Duchy of Lancaster is to give an oral report to E(PSP) about the current dispute in the Post Office over working hours.

3. The Union of Communication Workers (UCW) is demanding a three hour reduction in the working week for all the grades it represents. The Post Office has offered a one hour reduction for manual workers only on a self-financing basis. The UCW balloted its members last week on industrial action. A small majority of those who voted, but a minority of those eligible to vote, supported industrial action. Talks are continuing between the Post Office and the UCW, and no industrial action has yet been taken. However the UCW Executive is meeting on Thursday, and the union will want to know the Post Office's final position before then. Mr Clarke is therefore likely to be asking for endorsement on the line he has been taking in discussion with the Post Office, namely that he will support them if they increase their offer to 1 1/2 hours of the working week if such a deal meets the conditions the Government set out earlier. Those conditions are that the deal should be self-financing, that it should be applied business-by-business within the Post Office, and that it should be implemented locally only when the offsetting savings have been identified and agreed locally. There has however been some movement in the private sector towards a shorter working week, and you may wish to ask Mr Fowler in particular if the further concession Mr Clarke proposes would set an unacceptable precedent elsewhere. But unless it can be shown to have severe repercussions of this sort, you will probably not want to stand in the way of a deal.

CM |
G W M

G W MONGER

24 November 1987

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CHANCELLOR OF THE EXCHEQUER

POLICE PAY REVIEW

[E(PSP)(87)13; letter of 23 November from the Chief Secretary to the Home Secretary.]

DECISIONS

The Sub-Committee needs to decide on the line to be taken by the Government in relation to the review of police pay which is being conducted before the September 1988 settlement. There are four main areas to consider -

i. Basic Pay. You are committed to retaining the broad Edmund-Davies approach of uprating police pay in line with movements elsewhere in the economy. You could however consider changes in the detailed interpretation of this principle, eg a move from uprating police pay in line with changes in average earnings to uprating in line with pay settlements elsewhere. You could also seek to freeze or reduce the starting pay of new recruits.

ii. Rent Allowance. This, the largest police allowance, seems anomalous in view of present police pay rates and changes in housing tenure. But outright abolition is unlikely to be a realistic option. Alternatives include consolidation into basic pay and a new housing allowance better suited to present day circumstances.

iii. Other Allowances. There is much to be said for cutting away some of the undergrowth of historic allowances which the police still receive.

iv. London Allowance. The existing undermanning allowance, paid in addition to London weighting, has little remaining justification. Options include abolishing it or converting

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it into a retention allowance paid only to officers with five or more years service.

BACKGROUND

2. The Edmund-Davies report recommended in 1978 that there should be a substantial increase in the level of police pay then prevailing, and that pay should subsequently be uprated in line with the movement in average earnings in the rest of the economy. Since the 1984 review of these arrangements, basic police pay rates have been uprated each September in line with the underlying increase in average earnings to the preceding May. The 1987 settlement was concluded on this basis. However there is an agreement to review the arrangements again in advance of the September 1988 settlement. The review will be carried out by the Police Negotiating Board (PNB).

3. Before the General Election a number of Ministers, including the then Chief Secretary (Mr MacGregor) argued that the Government should avoid entering into commitments which could constrain the scope of the present review. But after some correspondence you agreed with the Home Secretary that the Government should commit itself to continuing with the broad principles of the Edmund-Davies formula, but without ruling out changes of detail, such as a move to base increases on settlements elsewhere rather than earnings. (Your letter of 12 May and the Home Secretary's response of 13 May). This also leaves police allowances open to review.

4. There was further correspondence between Ministers after the Election. You eventually suggested that the Government's approach to the review should be discussed at E(PSP) (your letter of 14 September). The Home Secretary agreed (his letter of 21 September) and provided the present paper.

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MAIN ISSUES

Basic Pay: Uprating Formula

5. There is a strong prima facie case for the view that uprating police basic rates in line with movements in average earnings in the rest of the economy is likely to be unduly favourable. Average earnings are currently rising by 1.5-2 per cent per annum above the level of settlements. Building this pay drift into police basic rates will cause their earnings to rise faster than average earnings if they benefit from any element of pay drift on their own account. However I understand that firm statistical evidence to prove that this has happened is lacking. There may of course be special reasons why average earnings in the police service have not been subject to drift in recent years: eg the heavy recruitment of new policemen on the bottom of incremental scales, or a reduction in overtime. Nevertheless without firm evidence that there is a problem it may be difficult to persuade the Official Side of the Police Negotiating Body, much less the Staff Side, that there is a good case for a revision to the formula.

6. If E(PSP) decide that they do wish to press for a change, there are two options in play -

i. Annex 2 to the Home Secretary's paper notes that the Official Side is considering an option which would relate movements in police average earnings (instead of in basic rates) to average earnings generally.

ii. The Chief Secretary's letter to the Home Secretary of 23 November proposes that police pay rates should be uprated in the light of a survey of settlements in the economy generally, to be conducted by the Department of Employment.

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7. If the conditions of the last few years continue, and there is no substantial drift in police pay, (i) will not save very much compared with present procedures. That is why the Chief Secretary rejected in his letter the closely related idea of adjusting the average earnings index for police earnings drift. Alternative (ii) would make savings, but the result would be that police average earnings would tend to fall compared with average earnings in the economy generally. Arguably, however, this would only reflect continuing police recruitment, and the pay of established police officers would keep pace with average earnings generally.

8. There is another important question on (ii). The Department of Employment paper attached to the Chief Secretary's letter suggests (para 8) that it might be possible to use the data collected for the IPCS negotiations. This point is not pursued. If this did prove to be possible, the difficulties of collecting new settlement data would not arise.

9. The objective might be to get agreement in principle from the Sub-Committee on which option should be pursued. It will then have to be worked up in detail, and you could suggest official discussions between the Home Office, Treasury and Employment. If agreement in principle is reached at this meeting, no further reference to E(PSP) should be necessary. You will however also want to get a clear decision now on which Department should subsequently be responsible for collecting the new data, if the IPCS data cannot be used. If this is not settled now, it could cause continuing argument, since the Department of Employment, the obvious candidate, are reluctant to undertake the task. You could seek an agreement that the Department of Employment should be responsible, unless they can persuade OME to undertake the task.

Starting Pay

10. Starting Pay for police constables is particularly generous in relation to other groups, eg graduate teachers. The Official Side is considering proposals to freeze starting pay at the first

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three points on the scale, and for reducing it markedly during the 31 weeks of initial recruit training. These proposals enjoy general support from Departments, and E(PSP) will probably want to ask the Home Secretary to put his full weight behind them.

Rent Allowance

11. Rent allowance is the largest of the police allowances, costing around £300 million annually. But it is hard to justify paying policemen the estimated cost of rented housing, given present levels of police pay and changes in housing tenure. Changes are also demanded by the forthcoming abolition of rates, currently covered by the rent allowance, and their replacement with the community charge. Outright abolition of the allowance is probably not a realistic option. The local authority members of the Official Side apparently favour consolidation in basic pay. But that is likely to be a costly option, since there would be knock-on effects on overtime rates, superannuation, etc.

12. For this reason the Home Secretary favours replacing rent allowance with a new housing allowance, at the same initial cost. But the new allowance would be based on real housing costs (ie mainly the costs of owner occupation), and in particular would give police officers in London an incentive to stay there by giving them extra help. The new allowance would not cover the liability of police officers or their wives or families or the community charge: unlike rates, they would be expected to find the charge from their own pockets. The Home Secretary also proposes to phase out compensatory grant, which is currently paid to offset tax on rent allowances.

13. You will want to explore the Home Secretary's proposals on housing allowance. In particular you will be concerned about its likely cost, both initially (in principle there ought to be savings from the abolition of compensation for rates, although it is unclear whether the Home Secretary intends to plough this back into the housing allowance, eg to provide more in London) and in

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later years (when a housing allowance based on house prices might escalate rapidly). You will want to press for savings.

Nevertheless the Home Secretary's proposals seem the best way forward, and E(PSP) will probably want to endorse them in principle.

Other Allowances

14. Many of the other police allowances also appear anomalous in view of the present level of police pay. The Official Side on the PNB hope to mount a case for abolishing some of the allowances. The Sub-Committee will probably want to press the Home Secretary to take as strong a line as possible on abolishing outdated allowances.

London Allowance

15. The present London allowance, paid in addition to London weighting, was introduced to counter undermanning in the Metropolitan Police. This problem no longer exists. Nevertheless the Home Secretary is concerned about the problem of experienced officers leaving for provincial forces. Rather than abolishing the allowance, he therefore proposes converting it into a retention allowance, to be paid to officers with five or more years service.

16. There probably is a case for action to improve retention of experienced officers in London. But you will want to consider the proposal for a special retention allowance alongside the Home Secretary's separate proposal for a more generous rate of housing allowance in London and any action on London weighting. A package for London might well include action on all three of these, but that need not necessarily rule out some savings in current levels of expenditure on allowances. E(PSP) will probably want to endorse the Home Secretary's proposal in principle, subject to further consideration by officials of the whole package of measures for London.

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VIEWS OF OTHER MINISTERS

17. The Home Secretary's detailed proposals are discussed above. But his overriding concern will be to avoid being put in a position where he appears to be attacking the police or seeking to worsen their position in the pay league. The Secretary of State for Northern Ireland is likely to support the Home Secretary's proposals. He will be concerned to take action on the rent allowance, where he was embarrassed by an increase of around 34 per cent in the latest uprating. The community charge is not at present being introduced in Northern Ireland, but he is likely to argue that compensation for rates should nevertheless be abolished at the same time as in England. Lord James Douglas-Hamilton, Scottish Office is also likely to support the Home Secretary's main proposals. He will be particularly concerned to get a decision on the community charge issue, since the charge is being introduced from 1 April 1989 in Scotland. Both Ministers are likely to support the idea of basing police settlements on settlements elsewhere in the economy (rather than average earnings), provided that a defensible basis can be identified which will not be seen simply as an attempt to reduce the level of police pay. The Secretary of State for Employment is likely to welcome the idea of uprating police pay in line with settlements elsewhere rather than earnings. He may however be unwilling for his department to take on the job of preparing a survey of settlements each year, as proposed by the Chief Secretary. He is likely to welcome action on police allowances. The Environment Secretary will be concerned about the cost of generous police pay settlements for local authorities, and the implications for the community charges they may have to levy to meet police expenditure after 1 April 1990. He is therefore likely to favour proposals which might cut the overall bill for police pay and allowances, including a move to base uprating on settlements elsewhere rather than earnings. He will also argue that it is essential for the Government's general policy on the community charge that the police should be seen to pay it, without compensation through housing allowance.

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HANDLING

18. You will want to ask the Home Secretary to introduce his paper. The Northern Ireland Secretary and Lord James Douglas-Hamilton will wish to comment as the representatives of the other Home Departments. The Employment Secretary, the Environment Secretary and other Ministers will also wish to contribute to the discussion.

Chyfer
Chyfer

G W MONGER

Cabinet Office,

24 November 1987

argue with for paper
argue with for use of paper


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JdeB/22

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FROM: J de BERKER
DATE: 24 November 1987

- 1. MR GILHOOLY
- 2. CHIEF SECRETARY

I agree.


- cc: Chancellor
 Paymaster General
 Sir P Middleton
 Mr Anson
 Miss Mueller
 Mr Kemp
 Mr Kelly
 Mr Gilmore
 Mr Hawtin
 Mr Luce
 Mr Turnbull
 Mr Gilhooly
 Mr Potter
 Mr Revolta
 Mr Brook
 Mr Cropper

E(PSP) 25 NOVEMBER: POLICE PAY

General

Now revised //

- 1. You have reached a compromise with Mr Moore in the pay of NHS senior managers so the only item in the agenda is police pay.
- 2. Apart from yourself, the Chancellor and Mr Hurd, we understand that the meeting will be attended by Mr Fowler, Mr Baker, Mr Clarke, Mr Ridley, Mr King and Mr Rifkind.

The Issues

3. Gross police pay and allowances in England and Wales will cost about £2.3bn in 1987/88. Pay accounts for about £1900m (the figure quoted in the Home Office paper) and the rest is for various allowances. The most important allowances are rent allowance and compensatory grant which refunds the tax payable on rent allowance. In England and Wales the combined cost of rent allowance and compensatory grant will be about £300m. Gross police pay and allowances for the UK as whole cost over £2½bn.

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4. There are two papers for discussion, one from the Home Office (E(PSP)(87)13), and the other, on alternatives to using the underlying increase in the index of average earnings in the Edmund-Davies formula, which is being circulated with your letter to Mr Hurd.

5. The police are not allowed to strike by law, which is one of the reasons they have special pay arrangements. We would like to scrap the present arrangements but prior to the Election the Prime Minister ruled out any solution which is not broadly in line with Edmund-Davies. Mr Hurd is seeking the endorsement of colleagues for his general approach. This is to concentrate on police allowances rather than the choice of index for uprating police pay. He acknowledges the importance of containing the growth in the cost of police pay, and retains an open mind on moving away from the index of the underlying increase in earnings which is currently used for uprating police pay to a less costly index. But the main stumbling block here is the absence of an alternative index.

6. The paper circulated with your letter offers four alternative comparators to the index of the underlying increase in earnings. In the covering letter you are seeking the endorsement of colleagues for the use of an annual survey of settlements in the Edmund-Davies formula. You also seek a remit for the Department of Employment to undertake whatever work may be necessary to have the survey in place for the 1988 pay settlement.

Background

7. Police pay is negotiated by the Police Negotiating Board (PNB). The Official Side consists of Home Office and local authority representatives. Whilst they are influential, the Home Office representatives do not control the official side because local authorities have the dominant voice. This means that the

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Official Side must be persuaded to go along with what is decided at E(PSP), although we understand from Home Office officials that this will not be too difficult if they are able to make a good case.

8. When agreement is reached between the Official Side and the Staff Side the PNB makes recommendations. In the absence of agreement either side can go to arbitration. The Home Secretary can accept the PNB recommendations or the results of arbitration. Alternatively he can impose his own settlement - something successive Home Secretaries have been reluctant to do. A settlement for a negotiable matter has not been imposed since 1976 when the Official Side of the PNB's predecessor refused to make a recommendation.

9. The current arrangements were set up following the Edmund-Davies enquiry which reported in 1978 - a time when the police had severe recruitment difficulties. This recommended substantial increases in the level of police pay which were paid in full by May 1979. From 1980, police pay has been increased from 1 September each year in line with the increase in average earnings in the twelve months to the preceding May. In 1984 it was agreed that from 1985 police pay would be uprated in line with the underlying increase in average earnings. This eliminates distortions due to strikes, late settlements etc. It was also agreed that there would be a further review of the pay arrangements after the 1987 settlement which is why the issue is being discussed at E(PSP) now. The Government is pledged to maintain the broad Edmund-Davies arrangements. This does not preclude changes to the details eg the choice of index for uprating police pay.

10. We have consistently objected to the Edmund-Davies arrangements because they have led to increases in police pay out of line with most of the rest of the Public Sector. This is illustrated in Table 1 which shows that between the 1980/81 and 1986/87 pay rounds police pay nearly doubled compared with increases of around 65 per cent for nurses and the armed forces. The Civil Service got

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less than 50 per cent. The consequences are shown in Table 2 which compares the minimum pay of an adult recruit to the police with other public sector workers. In 1980 a new police constable earned less than an army private, a good graduate teacher, a staff nurse, and an Administration Trainee. By 1986 the constable earned more. Police allowances have risen as a proportion of their pay over the period but for the purposes of this comparison they have been excluded so their true position is even more favourable.

11. We also object to the arrangements for the Police because they are expensive, and they are based on comparability. They pay no attention to market forces. Table 3 shows that recruitment and retention are healthy although the Metropolitan Police have a retention problem, but it does not appear to be as serious as the Home Office lead us to believe

12. And we believe that, logically, the increase in police earnings must have outstripped the increase in average earnings. The rationale is that in the economy as a whole earnings outstrip settlements by about 2 percent a year - see Table 4. If the basic rates for the police are in line with average earnings the additional drifts in police earnings will enable them to pull ahead.

13. The Local Authority Conditions of Service Advisory Board (LACSAB) have produced figures which appear to show that the Edmund-Davies formula has just about done its job. But in our view the statistics on police earnings are unreliable and understate the increase achieved by the formula since 1979. Figures based on the New Earnings Survey (NES) show that police earnings have not kept up with earnings as a whole. But these are distorted because they include rent allowance at the beginning of the period and exclude it at the end. Figures based on surveys of police earnings by the Office of Manpower Economics (OME) which include rent allowance throughout show that police earnings have just about kept up. Both the NES and the OME figures understate the increase

in police earnings because of the fall in overtime since 1980, and the influx of new recruits. Recruitment will have increased the proportion of policemen on the lower points of the incremental pay scales and hence depressed in average earnings, and therefore the increase, for police as a whole.

Handling

14. The discussion should fall naturally into two parts, one dealing with allowances and the other with pay. There is a widespread feeling that police have done very well out of Edmund-Davies and that the best way to tackle this is to rein in their allowances. We understand that all your colleagues have been briefed to take a robust line in favour of controlling police allowances, so this part of the meeting is unlikely to be contentious.

15. On allowances Mr Hurd wants:

to reform rent allowance and spend the money on a housing allowance targetted at retaining police officers in London. There should be no net cost. You will want to encourage this, and other measures aimed at improving retention in London where there is a particular problem of officers transferring to provincial forces.

(ii) to seek to phase compensatory grant. It costs about £75m a year and refunds the tax paid on rent allowance. You will wish to support this. You may wish to point out that in many cases rent allowances will be paid to recipients who are already receiving mortgage interest relief. They are effectively getting tax relief twice over

(iii) to resist reimbursing community charge. Given the line on student nurses Mr Ridley is bound to support this proposal. You will wish to support him.

(iv) a general pruning of other allowances. The police have a range of allowances including ones for policewomen's stockings, bicycles, typewriters, and the reimbursement of NHS charges. These should be reviewed.

16. On pay, Mr Hurd considers it worth trying to freeze starting pay and reduce the pay of recruits under training, although he expects fierce opposition from the staff side of the PNB. You will wish to support this - but not at the expense of progress on the Edmund-Davies formula.

17. On Edmund-Davies Mr Hurd says he retains an open mind on the scope for moving away from the index of the underlying increase in earnings but considers it will be difficult in the absence of any alternative index. The paper by the Department of Employment attached to your letter to Mr Hurd provides a choice of four: an index of settlements, an annual survey of settlements, and two approaches to adjusting the average earnings index for the economy as a whole for police earnings drift before using it to uprate police pay. Your aim will be to get E(PSP) to endorse the use of an annual survey of settlements for uprating police pay and to get the Department of Employment a remit to have it available in time for the 1988 police pay settlement.

18. In discussion, you will wish to point out that in the economy as a whole earnings generally outstrip settlements by about 2 per cent per annum. If Edmund-Davies had been based on a settlements based formula, rather than an earnings based formula, police pay would now cost about £300m a year less. An earnings based formula is extremely costly and over compensates for increases in earnings on the rest of the economy. A settlement based formula would be fairer and do the job more reliably.

19. Logically the present arrangements must allow the police to pull ahead. Their basic rates rise in line with earnings in the economy as a whole, and on top of this they get the benefits of their own earnings drift.

20. We expect departments to brief their Ministers to be cautious but to favour supporting a change in the uprating formula. This includes the Home Office, the Scottish Office, and the Northern Irish Office. However Mr Hurd may point out that whatever the logic of the situation, the statistics on police earnings appear to show that they have just about kept up with average earnings, Edmund-Davies has merely done its job and no more. The response to this is that the statistics are distorted:

- Statistics based on the New Earnings Survey include rent allowance at the beginning of the period and exclude it at the end. They therefore understate the increase;
- surveys of police earnings by the Office of Manpower Economics include rent allowance and show that they have just about kept up with average earnings in the economy as a whole. But neither the OME nor the NES statistics take account of the fall in overtime or the effect of increased recruitment.

21. As a final fallback suggest there is an authoritative study to sort out the statistics. Avoid this if possible, because now is a good time to reform police Pay - a study would delay the issue; there is also the problem of finding someone to do the work. On balance the best choice would be the Department of Employment, but although Mr Fowler will probably support the principle of a study, he is likely to be reluctant to volunteer the resources for it. The Treasury's statistical resources are stretched and acceptance of the results might be prejudiced by the source.

22. Your letter to Mr Hurd makes it clear that you prefer an annual survey of settlements in preference to a index of settlements which could all too easily become a pay norm for negotiations to aim at, or to the methods of adjusting the index of average earnings for the drift in police earnings. Earnings adjustments are likely to be contentious because defects in the statistics have suppressed the drift in police earnings.

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23. Mr Hurd may want to discuss the practicalities of an annual survey of settlements in more detail. Your response should be that these can be sorted out by Officials at the Department of Employment. The important point is that they should start work in sufficient time for the survey to be available for the 1988 police pay settlement. This is probably ambitious, but it would be helpful if E(PSP) were to give the Department of Employment a suitable remit.

24. Home Office attitudes to changing the Edmund-Davies formula are likely to be ambivalent because of the effects of such a move on relationships with the police. But it would certainly save money, and even if it were not possible to implement a change, a credible threat to do so would be useful when negotiating changes on allowances. There is also the wider point, that if the present privileged arrangements are not modified, the police may cease to be seen as part of the community they serve.

Line to take

25. (i) allowances:

- support any changes in police allowances which freeze or reduce the cost
- support changes in allowances aimed at improving retention in London (subject to the usual caveats about seeing the details).

(ii) pay

- support moves to freeze starting pay and reduce pay for recruits in training
- press for the index of underlying increase in earnings in Edmund-Davies formula to be replaced by an annual survey of settlements

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- press for Department of Employment to be given a remit to set up the survey in time for the 1988 police pay settlement.

The fallback position is to get a remit for an authoritative study on police earnings.

26. HE are content.

Jonathan de Berker

JONATHAN DE BERKER

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TABLE 1

POLICE SETTLEMENTS COMPARED WITH OTHER PUBLIC SECTOR GROUPS
(PER CENT)

PAY ROUND	All Public Services	Teachers E & W	Civil Service	Nurses	Police	Armed Forces (AFRB ranks)
1980-81	8.0	7.5	7.5	6.0	21.3	10.3
1981-82	6.5	6.0	5.9	7.5	13.2	6.1
1982-83	5.25	4.98	4.86	4.5	10.3	7.2
1983-84	5.25	5.1	4.67	7.5	8.4	7.6
1984-85	6.0	8.5	5.1	8.6	5.1	7.1
1985-86	6.25	5.73	7.0	7.8	7.5	7.46
1986-87	8.0*	16.4	4.25	9.5	7.5	5.96
1987-88	-	-	-	-	7.75	-
Cumulative incr. from 1980/81 to 1986/87 %	+ 55.0	+ 67.9	+ 46.5	+64.1	+99.4	+ 64.6

Cumulative incr. from 1980/81 to 1986/87 %

* Provisional

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TABLE 2

POLICE PAY SCALES RELATIVE TO OTHER PUBLIC SERVICE GROUPS

SALARIES IN PAYMENT @ 1 APRIL	PC After 1 2 years ¹	Honours Graduate Teacher (min)	As % of Police Pay		Private Band 3 B	Average Earnings NES
			Staff Nurse Max	AT Min		
1980	4881	100.3	104.8	100.3 ²	113.2	117.3
1981	5919	97.2	91.7	89.1	102.8	109.7
1982	6699	91.0	90.9	82.4	96.2	105.6
1983	7389	86.6	82.5	78.3	94.4	96.2
1984	8010	84.0	82.2	75.1	89.7	103.4
1985	8442	85.2	82.4	81.8	95.1	105.8
1986	9075	86.2	85.4	80.7	95.1	105.8
1987	9756	83.6	88.1	84.6	93.7	106.0
% Increase 1/4/80-1/4/87	99.9	66.7	68.0	63.2	65.3	80.5

¹ Lowest rate for adult recruitment² Based on pensionable salary wef 1/4/80 (paid wef 1/5/80)

TABLE 3 : POLICE RECRUITMENT AND WASTAGE

		TOTAL STRENGTH	RECRUITMENT %	WASTAGE %	NET TRANSFERS FROM MET TO PROV.	
					No.	%
1980	Provinces	93100	7.9	4.5		
	Met.	23344	9.9	6.2	38	0.16
1981	Provinces	94278	4.7	3.9		
	Met.	24848	11.3	5.6	41	0.16
1982	Provinces	94527	4.3	4.1		
	Met.	26090	9.2	4.9	69	0.26
1983	Provinces	94532	3.5	4.0		
	Met.	26642	6.0	4.3	7	0.02
1984	Provinces	94061	3.7	4.4		
	Met.	26751	4.4	4.1	-42	-0.16
1985	Provinces	93838	4.6	4.5		
	Met.	26750	4.7	4.6	-85	-0.3
1986	Provinces	94743	4.7	4.2		
	Met.	26848	6.3	4.8	-195	-0.72
1987						
Jan-Aug	Provinces	95733	4.0	2.7		
	Met.	27042	4.8	4.0	-157	-0.58
Jan-Nov.	Met.	27076	5.8	5.3	-178*	-0.65

*Jan - Sept. Met experienced net loss (ie transfers in minus transfers out) of 178 equal to 237 at an annual rate.

Source: Home Office

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TABLE 4

WHOLE ECONOMY: EARNINGS, SETTLEMENTS AND DRIFT

PAY ROUND	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 ^{**}
Earnings	21.5 [*]	10.5	9	7.5	7.5	7.5	7.5	8.0
Settlements	16.5	8.5	7	5.5	5.25	5.75	6.0	6.0
DRIFT	5.0	2.0	2.0	2.0	2.25	1.75	1.5	2.0 (2.31AV)

* Includes Clegg etc

** Provisional

Source: DE

FROM: R G WESTWATER

DATE: 24 November 1987

1. MR REVOLTA *not available*
2. CHIEF SECRETARY

cc PS/Chancellor
Mr Gilmore
Mr Gilhooly
Mr Potter
Mr de Berker
Mr Brook
Mr ~~Dickson~~

POLICE PAY: FUNDING

You asked for a background note on funding in preparation for tomorrow's meeting of E(PSP).

2. Police pay is financed through local authorities, shire counties and separate metropolitan police authorities. Central Government contributes 51 per cent directly through specific grant (estimated to be £1.75 billion for 1988-89) on this expenditure. And the remainder is met by local authorities. Accordingly central government contributes indirectly through the RSG mechanism roughly a further 16 per cent.

3. The effect of police expenditure rising faster than other local authority services is two-fold. First, the growing cost of police squeezes the remainder available for other services. This arises both through higher (51 per cent) specific grant top-slicing AEG leaving less Block grant for local authorities to meet other services and through the (49 per cent) local authority contribution to the cost of the police also increasing.

4. Second, extra police expenditure will cause many local authorities to spend (even more) over GRE. In that case they will lose grant, not only will the ratepayer have to fund the local authority's additional contribution to the police authority, but he will have to make good the grant loss (one way or another).

Roy Westwater

R G WESTWATER

CONFIDENTIAL

FROM: A P HEFFORD
 DATE: 30 NOVEMBER 1987

1. MR de BERKER *I agree. Oliver 2/11/87* cc Chief Secretary
 2. MR KELLY *I endorse the idea that a letter of this kind would be helpful, in a small way.* Paymaster General
 3. CHANCELLOR *Can 30.11.* Sir P Middleton
 Mr Anson
 Miss Mueller
 Mr Kemp
 Mr Monck
 Mr Burgner
 Mr Kelly
 Mr Moore
 Mrs Brown
 Mr Chivers
 Mr R Allan
 Mr Graham
 Miss Simpson
 Mr Price
 Mr Cropper
 Mr Tyrie
 Mr Call
- Ch/content to write as suggested?*
- OK as indicated in para 1/12.*

1987-88 PAY ROUND: LETTER TO COLLEAGUES

At this time of year, before the Public Sector pay round gets underway, you usually send a letter to colleagues about pay attaching some speaking notes, and reminding them of the rule that seven days' working notice should be given to Treasury Ministers before pay offers in the Public Sector are made.

1987-88 Pay Round Prospects

2. Settlement information about the Private Sector (from the CBI and from DE's confidential monitoring) suggests that in recent months there has been a slight upward shift in settlements (see graph). The Private Sector outturn for the 1986-87 pay round as a whole was 5 per cent. The prospect for 1987-88 is for Private Sector settlements averaging 5½-6 per cent. Assuming drift of around 2-2½ per cent, Private Sector earnings are expected to increase at about 8 per cent during the 1987-88 pay round.

3. Most of the important Public Sector negotiations do not begin until the new year. In the Public Trading Sector it is expected that increases will continue to reflect Private Sector trends closely since both are subject to similar market conditions. *On this basis one might* expect settlements of 5½-6 per cent and an earnings increase of around 8 per cent for the Public Trading Sector in 1987-88.

4. We are likely to continue to have problems with the Public Services. Public Expenditure restraint may, of course, have a dampening effect but there are a number of upward pressures. The police have already received $7\frac{3}{4}$ per cent and the firemen should get $7\frac{1}{4}$ per cent from their indexed arrangements. We can also expect pressure from the Pay Review Bodies, the Civil Service and the NHS Non-Review Body groups who will, as usual, be looking for "catch-up" increases; particularly so given the level of increases awarded to Teachers and Local Authority Manuals. There are also other factors which apply in some parts of the public services as well as the private sector and will add to upward pressure: including recruitment and retention problems, and management's desire to improve performance through merit/productivity pay. For Public Services overall our estimate is that settlements will average $6-6\frac{1}{2}$ per cent and if "drift" is at a typical level of about 1 per cent, the outturn could be about 7 per cent or so.

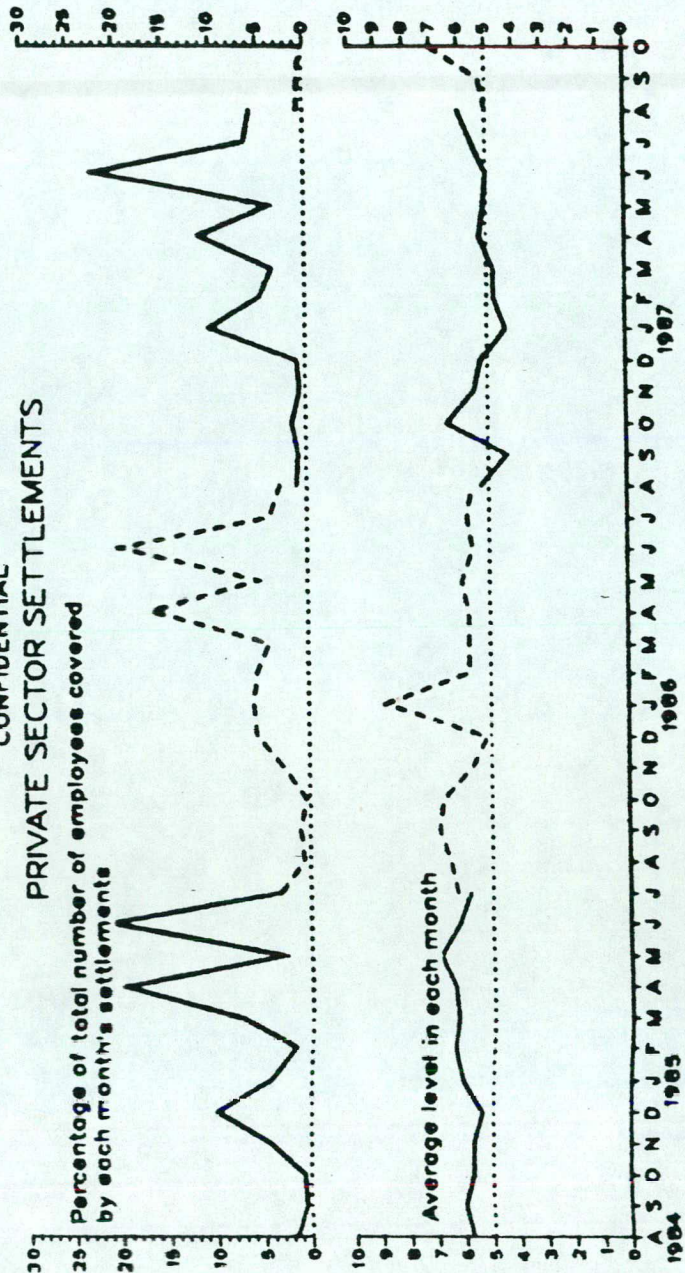
5. In the economy as a whole the underlying increase in average earnings is expected by DE to reach 8 per cent or more by the time the November/December figures appear in January/February. This is worryingly high. It is no comfort that during 1987 the increase in manufacturing unit wage costs declined because increased productivity growth more than offset high earnings growth. There can be no guarantee that productivity will grow so rapidly over the next year. But productivity growth is unlikely to continue at that level indefinitely: you will want to remind colleagues that every 1 per cent reduction in real wages growth means, over time, an extra 110,000 to 220,000 new jobs. There is no room for complacency because of improvements in our international competitiveness.

6. I attach a draft letter for you to send to colleagues together with some draft speaking notes. It is confined to generalities: particular pay issues eg police pay review, teachers, are being handled separately. It also includes a reference to geographical pay.

A.P. Hefford.

A P HEFFORD

CONFIDENTIAL
PRIVATE SECTOR SETTLEMENTS



— 1984-1985 PAY ROUND
 - - - 1985-1986 PAY ROUND
 - - - 1986-1987 PAY ROUND
 - - - 1987-1988 PAY ROUND

DRAFT LETTER

FROM: CHANCELLOR

TO: SECRETARY OF STATE FOR TRADE AND INDUSTRY

COPIES: PRIME MINISTER
 CABINET MINISTERS
 SIR ROBERT ARMSTRONG

*Pl type
 final for
 Ch signature.*

M.
 —

1987-88 PAY

With the new pay round getting underway I am once again writing to you about the handling of pay issues.

During the last pay round earnings rose by $7\frac{3}{4}$ per cent. This is much too high. Taking the economy as a whole, the latest figures show that average earnings are still increasing at an underlying rate of $7\frac{3}{4}$ per cent a year and are likely to reach 8 per cent, $3\frac{1}{2}$ per cent faster than prices. With the Tax and Price Index (TPI) rising at a little under 3 per cent, the average take-home pay is currently rising at approaching about 5 per cent in real terms. Our unit labour cost performance has been good in recent months because of an excellent performance on productivity, which is still continuing. But it is unrealistic to expect our productivity growth consistently to outpace that of our competitors and to make up for our much poorer performance on pay. Average earnings in manufacturing are currently increasing by 1.9 per cent in the US, 2.3 per cent in Japan and 5.1 per cent in West Germany compared with $8\frac{1}{2}$ per cent in the UK. Unless pay increases are reduced employment prospects will suffer.

In the Private Sector, there are now signs that the reduction in the level of settlements experienced earlier in the year is over, and there are worrying indications that some private sector employers are beginning to feel that

they can relax about pay. The CBI and other organisations which monitor pay developments have all reported a slight increase in settlement levels in recent months. We must do all we can to ensure that the situation does not deteriorate, and if possible, improves. We have continued to make it clear that we will not relax our monetary and fiscal policies in order to accommodate unbridled pay bargaining. We expect employers and employees alike to bring their pay settlements into line with this framework. I ask colleagues to continue to press this point home wherever the opportunity arises. But it is also important that we avoid the concept of a "going rate" or "norm" being established. I attach some speaking notes to which colleagues might like to refer.

Settlements in the Public Trading Sector usually reflect those in the private sector. The last round was no exception, with settlements averaging 5 per cent. I should be grateful if colleagues in charge of departments sponsoring public corporations would continue to impress upon the chairmen the importance of moderate pay settlements for both employees and Board Members. I am grateful for the efforts which you have made in the last year to ensure proper consultation with the chairmen over pay and to consult the Chief Secretary at least a week before pay offers were made. But I would be grateful if, as is usual at this time of year, colleagues would make a point of reminding the chairmen of their undertaking to consult Ministers at **least 7 days before pay offers are made.**

X In the Public Services, so far as Central Government groups are concerned we must do our utmost to ensure that we maintain low settlements. The Local Authorities whose pay is largely settled by negotiating bodies under the control of our political opponents, will continue to go their own way - except on Teachers in England and Wales where the Interim Advisory Committee

has of course been set a firm ceiling for its recommendation. We shall have to keep putting across the message that large pay increases will inevitably have to be met by ratepayers. In future, our reforms of Local Government finance ~~will~~ ^{should} force Local Authorities to make a stark choice between justifying large pay increases to their electors or cutting their payrolls.

Finally, I would like colleagues to ~~lay particular emphasis on~~ ^{Emphasise} the need for geographical pay variations. They have a vital part to play in making pay more sensitive to local labour market conditions and thus increasing employment. This is something which needs to be pursued with the nationalised industries, and in the public services as well as for the economy as a whole. Some progress has been made in the last year; but we need to make more.

I am copying this letter to the Prime Minister, other Cabinet Ministers and the Minister for the Civil Service; and to Sir Robert Armstrong.

CONFIDENTIAL

SPEAKING NOTES ON PAY

Facts

- Underlying average earnings growth $7\frac{3}{4}$ per cent - over 3 per cent faster than prices.
- Unit labour costs not currently out of line with major competitors. Unit labour costs in manufacturing may have hardly risen at all between 1986 and 1987. For first time since 1983 have risen faster in other industrialised countries than in UK. But recent improved performance entirely due to productivity growth outstripping rivals. Earnings in UK continue to grow much faster: hourly earnings in manufacturing - latest figures UK $8\frac{1}{2}$ per cent; Japan 2.3 per cent; US 1.9 per cent; Germany 5.1 per cent (OECD). Unwise to assume that UK productivity growth will exceed our competitors' indefinitely.
- Since 1979, real take-home pay of someone on average earnings up $22\frac{1}{2}$ per cent.
- Combination of low inflation and tax reductions in 1987 Budget means that pay rises of just under 3 per cent would compensate the average earner for price rises over last 12 months.
- Every 1 per cent reduction in growth of real wages is estimated to mean an extra 110,000-220,000 jobs over time.

Arguments

- Companies and employees have to negotiate settlements in light of

individual circumstances.

- But also have to negotiate against background (a) of what overseas competitors are doing and (b) of Government's firm fiscal and monetary policies. Will not accommodate excessive earnings growth by allowing it to feed through into higher inflation.
- Will not allow fall in exchange rate to bail companies' out of excessive wage claims.
- Should also negotiate in light of local circumstances, including variations by region in supply and demand for labour.
- If pay rises were lower, companies would have lower costs, so their products would be more competitive. People would more often buy our goods and services - here and abroad. Profits would be more secure. And companies could increase employment.
- Basic reason simple. The smaller the rise in the cost of employing people, the more of them will be employed.
- Profits have benefited from fall in non-oil commodity prices to their lowest post-war levels in real terms. But that can't last forever. And competitors have had at least as much benefit as us from lower commodity prices - without incurring the same costs in excessive growth of pay.
- Productivity gains should be used in part to cut prices and improve non-price competitiveness, so that industry can expand and produce more. Should not all be passed to existing workers through higher wages or increased overtime working.
- In public sector, lower settlements would mean more room within public spending totals for service improvements and public sector investment.

increased overtime working.

- In public sector, lower settlements would mean more room within public spending totals for service improvements and public sector investment.
- Important that general trend throughout the public sector towards more flexibility in pay and greater differentiation, reflecting different skills, performance and location, should continue. Best way of seeing value for money for given paybill increases.
- Nationally negotiated pay settlements impair proper function of labour-market flexibility. Wider regional differences must improve mobility and therefore ease unemployment. Existing regional differences reflect different occupational structures. Outside London, little variation in earnings in same occupation indicates predominating national arrangements. Wider variations in the cost of living must also argue against nationally bargained pay rates. Not talking of actual pay cuts but of differentiated local increases.



pmg

cc CST
PMG

Sir P Middleton

Mr Anson
Miss Muelle
Mr Kemp
Mr Monck
Mr Burgner
Mr Kelly
Mr Moore
Mrs Brown
Mr Chivers
Mr R Allen
Mr Graham
Miss Simpson
Mr Price
Mr Kelly
Mr de Berke
Mr Hefford
Mr Cropper
Mr Tyrrie
Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

3 December 1987

The Rt. Hon. The Lord Young of Graffham
Secretary of State for Trade and Industry

Stan Stan

1987-88 PAY

With the new pay round getting underway I am once again writing to you about the handling of pay issues.

During the last pay round earnings rose by 7½ per cent. This is much too high. Taking the economy as a whole, the latest figures show that average earnings are still increasing at an underlying rate of 7½ per cent a year and are likely to reach 8 per cent, 3½ per cent faster than prices. With the Tax and Price Index (TPI) rising at a little under 3 per cent, average take-home pay is currently rising at approaching about 5 per cent in real terms. Our unit labour cost performance has been good in recent months because of an excellent performance on productivity, which is still continuing. But it is unrealistic to expect our productivity growth consistently to outpace that of our competitors and to make up for our much poorer performance on pay. Average earnings in manufacturing are currently increasing by 1.9 per cent in the US, 2.3 per cent in Japan and 5.1 per cent in West Germany compared with 8½ per cent in the UK. Unless pay increases are reduced employment prospects will suffer.

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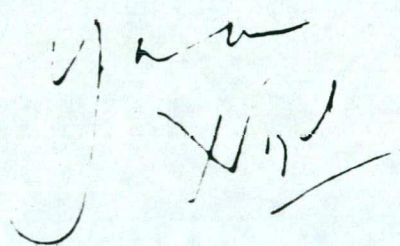
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NIGEL LAWSON



CONFIDENTIAL

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mp

COVERING PERSONAL AND CONFIDENTIAL

LABOUR MARKET STATISTICS PRESS NOTICE

NOTES FOR THE PRIME MINISTER

UNIT WAGE AND SALARY COSTS AND PRODUCTIVITY

I enclose revised pages for unit wage and salary costs and productivity. The revised figures for manufacturing industry are based on the output figures released by the CSO yesterday.

These figures are personal and confidential until 11.30 am on Thursday 17 December 1987.

M J JANES
STATISTICS A1

Department of Employment

16.12.87

UNIT WAGE AND SALARY COSTS

In the three months ending October 1987, wages and salaries per unit of output in manufacturing industries were 1.1 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of nearly 7½ per cent in productivity over this period (see Table 13).

In the second quarter of 1987, wages and salaries per unit of output in the whole economy were 4.1 per cent above the corresponding period of 1986. This increase was below the rise in average earnings in the whole economy as there was a rise of nearly 3 per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q3	125.6	6.4	133.1	6.1
Q4	128.4	6.0	134.3	4.4
1986 Q1	131.6	8.2	136.9	6.2
Q2	130.1	6.2	138.2	6.5
Q3	129.8	3.3	138.9	4.4
Q4	130.0	1.2	140.8	4.8
1987 Q1	131.5	-0.1	141.7	3.5
Q2	131.1	0.8	143.9	4.1
Q3	130.9	0.9	..	..
1987 July	131.0	1.6	..	..
Aug	129.9	-0.1	..	..
Sept	131.8	1.2	..	..
Oct	131.9	2.2	..	..
<u>3 months ending</u>				
1987 July	130.8	1.2	..	..
Aug	130.8	0.9	..	..
Sept	130.9	0.9	..	..
Oct	131.2	1.1	..	..

PRODUCTIVITY

Manufacturing output per head in the three months to October was 2.2 per cent higher than in the three months ending July and 7.2 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the second quarter of 1987 was 0.8 per cent above the previous quarter and 2.9 per cent higher than in the second quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.6	2.6	114.0	2.1
	Q4	130.3	2.3	114.7	2.2
1986	Q1	129.4	-0.3	114.9	1.5
	Q2	133.2	1.2	116.6	1.9
	Q3	135.5	3.8	117.8	3.3
	Q4	139.0	6.7	118.5	3.3
1987	Q1	139.7	8.0	119.0	3.6
	Q2	142.3	6.8	120.0	2.9
	Q3	145.6	7.5	..	..
1987	July	145.0	7.2	..	..
	Aug	145.9	8.0	..	..
	Sept	146.0	7.1	..	..
	Oct	147.4	6.5	..	..
<u>3 months ending</u>					
1987	July	143.3	7.1	..	..
	Aug	144.4	7.3	..	..
	Sept	145.6	7.5	..	..
	Oct	146.4	7.2	..	..

FROM : M.LAWSON
DATE : 16 DECEMBER 1987

mp

Jonathan

- 1. MR DE BERKER *De B.*
- 2. MR GILHOOLY *16/12*
- 3. PS/CHANCELLOR

THE PRIME MINISTER'S SALARY

I attach a revised version of the manuscript table provided by Mr de Berker yesterday afternoon. This shows that between 5 May 1979 and 30 November 1987 the Prime Minister waived salary amounting to £86,750.11p. The total is increasing by £969.17p per month.

2. The monthly increase in the amount waived is not affected by the increase in salary on 1 January 1988. This is because the difference between the Prime Minister's salary and her Cabinet colleagues in the Commons (the amount foregone) remains unchanged.



M.LAWSON

SALARY FOREGONE BY THE PRIME MINISTER (£) FOR THE PERIOD 5 MAY 1979 TO 30 NOVEMBER 1987

<u>Period</u>	<u>Salary Available (1)</u>	<u>Salary Drawn (2)</u>	<u>Difference</u>	<u>Monthly Rate Foregone</u>	<u>Actual cash Foregone during Period</u>
5 May 1979 to 25 July 1979	22,000	22,000	nil	nil	nil
26 July 1979 to 27 July 1980	33,000 (5)	22,000	11,000	916.67	11,059.06
28 July 1980 to 12 June 1981	34,650	23,500	11,150	929.17	9,783.26
13 June 1981 to 22 June 1982	36,725	27,825	8,900	741.67	9,147.26
23 June 1982 to 26 July 1983	38,200	28,950	9,250	770.83	10,102.01
27 July 1983 to 31 Dec 1983	38,987	29,367	9,620	801.67	4,137.65
1 Jan 1984 to 31 Dec 1984	40,424	30,304	10,120	843.33	10,120.00
1 Jan 1985 to 31 Dec 1985	41,891	31,271	10,620	885.00	10,620.00
1 Jan 1986 to 31 Dec 1986	43,328	32,208	11,120	926.67	11,120.00
1 Jan 1987 to 30 Nov 1987	44,775	33,145	11,630	969.17	10,660.87
				Total	86,750.11

Notes

- (1) The salary available is the salary payable under the Ministerial and other Salaries Act 1975 and subsequent Orders. The Prime Minister also draws a reduced Parliamentary salary (currently £13,875 rising to £16,911 w.e.f. 1.1.88.)
- (2) The Prime Minister chose to accept her full salary when she first took office. She chose not to receive any increase when Ministerial salaries were increased in July 1979 and from July 1980 she has chosen to accept the same salary as her Cabinet colleagues in the House of Commons.
- (3) Under the Ministerial and other Salaries Order 1987 the Prime Minister's salary will increase to £45,787 w.e.f. 1.1.88 and a Cabinet Minister in the Commons salary will rise to £34,157 w.e.f. 1.1.88.
- (4) The Prime Minister's pension is worked out on her full entitlement of salary and is equal to $\frac{15}{40}$ of her final salary (current pension would be £16,790.63 rising to £17,170.13 w.e.f. 1.1.88).
- (5) The salary available for the period 26 July 1979-27 July 1980 was recommended by the TSRB but was not ratified by the 1979 Order.



QUEEN ANNE'S GATE LONDON SW1H 9AT

17 December 1987

CH/EXCHEQUER	
REC.	17 DEC 1987 ✓ 1712
ACTION	CST
COPIES TO	

Dear Nigel,

POLICE PAY REVIEW

In my letter of 10 December I said that I would write further about the prospects of the Official Side of the Police Negotiating Board asking the OME to undertake a survey of pay settlements after the meeting of the relevant Working Party on 14 December.

The outcome of that meeting was encouraging. The Working Party accepted that the proposed survey might be helpful but wanted it clearly understood that its purpose was in the first instance simply to inform the pay negotiations and that the approach to the OME would not commit the Official Side in advance to any particular course of action. They were not prepared to ask the OME to conduct the survey if this was seen as the inevitable first step towards abandoning the Edmund-Davies formula in favour of a new system of updating police pay by reference to a survey of pay settlements. Accordingly, before committing themselves to approaching the OME, they asked for written clarification of what the Home Office had in mind. Authority was given to the Official Side Secretariat to make the necessary approach if the Home Office confirmed that the purpose of the survey at this stage was simply to inform the pay negotiations.

The Official Side have gone rather further than seemed likely at this stage. They cannot be expected to commit themselves in advance to any particular course of action when they do not know what the outcome of the proposed survey will be. The time to consider alternatives to the index of average earnings will be when the outcome of the survey is known.

Meanwhile, our main concern is to get the survey under way as soon as possible. I have therefore authorised my officials to provide the Official Side Secretariat with written confirmation that the purpose of the proposed survey is in the first instance simply to inform the 1988 police pay negotiations. A move from the use of the index of average earnings can be assessed once the survey results are known: the Government will need to consider how best to influence the Official Side's thinking on this nearer the time.

If OME do now conduct the survey, it will be important for the Government to take a consistent line on its purpose. The Home Office will use the following form of words and I ask my colleagues to follow suit:

"The Official Side of the Police Negotiating Board have asked the OME to undertake a survey of pay settlements as part of the pay review which is being conducted before the 1988 police pay settlement. The purpose of the survey is to inform the negotiations on that settlement by showing how police pay settlements compare with the general level of pay settlements in the economy as a whole. It remains the intention of the Official Side to conduct the pay review within the broad Edmund-Davies framework. That is also the Government's approach."

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Tom King and Sir Robert Armstrong.

Yours,

Thompson



CONFIDENTIAL

*Mr Major
knows an important
point - 1 point ahead
advise.*

Reference No E 0475

CHANCELLOR OF THE EXCHEQUER

E(PSP): Police pay

The Home Secretary minuted you yesterday about the police pay review. I understand that the Treasury are submitting a draft reply. My concern is with the timing of the next meeting of E(PSP).

2. There are some important points of tactics to consider. The Home Secretary says in his minute that the Official Side cannot be expected to consider a move from the index of average earnings until the survey results are known. This may be right. But the survey results will not be known for some months. It could be argued that the Government should press its view on the Official Side at a much earlier stage. At least it is an alternative tactic worth considering.

3. There is even a flavour in the minute that the Government should not make up its own mind about the case for a change until it knows the result of the survey. But E(PSP) on 25 November were strongly of the view that a change was necessary. That view is unlikely to be changed by the result of a survey which will cover a single year, 1987-88.

4. As it is, E(PSP) seem to have been faced with a 'fait accompli', since the Home Secretary has already authorised his officials to give the Official Side the assurance they wanted that setting up the survey will not commit them to moving from the index of earnings. This may not prevent the Government stating its view before the survey is complete that such a move should be made. But the two do not go very well together.

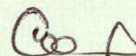
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5. The other main subject is allowances. The Official Side Working Party on allowances is to meet on 22 January. The Home Office are proposing at that meeting to argue for a change in allowances along the lines agreed by E(PSP). But they will not bring forward any specific proposals of their own, for example for the new housing allowance. They say that it is tactically better for such proposals to come from other members of the Official Side or from the Secretariat. Again, this may be right, but there is an alternative tactic to be considered: that the Government should take the initiative in making its own specific proposals for the new structure.

6. My feeling is that the sooner E(PSP) can meet again the better, and in particular that it ought to meet if possible in mid-January, to consider before the Working Party meeting on the 22nd if there are other ways of handling allowances. An early meeting would also be consistent with the conclusions of the last meeting on 25 November. You asked then for work to be done 'urgently' on linking police pay to settlements, and on allowances, and for a joint Home Office/Employment paper to be brought forward 'as soon as possible'.

7. The Home Office have resisted this. They would prefer a meeting in early February, after the views of the Official Side on allowances have been made known at its meeting on 22 January. The underlying question here is of course who is to control the conduct of the negotiations. The argument for an earlier meeting is really that E(PSP) should be able to consider tactics. The Home Secretary may object strongly if E(PSP) try to impose a view on him on tactics, as opposed to substance.

8. Nevertheless, if you agree that a meeting in mid-January is desirable, a sentence could be inserted to this effect in your reply to the Home Secretary's minute.



G W MONGER

Economic Secretariat
18 December 1987

CONFIDENTIAL

CCCCX, PMG
S. R. P. MIDDLETON, Mr. Anderson



Mr Kemp, Miss Muelner
Mr Cuckell, Mr Gurnoff
Mr Hartin, Mr Luce
Mr Turnbull, Mr Gilhooly

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Potter, Mr Revolta
Mr De Becker, Mr Brook
Mr Geppert

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

21st December 1987

Dear Douglas,

POLICE PAY REVIEW

Thank you for your letter of 10 and 17 December to the Chancellor. I am replying on his behalf.

I am content with your proposal to ask the Official Side of the Police Negotiating Board (PNB) to write to OME to institute a survey of settlements. I agree with what you say about the tactical advantages of the survey's being carried out on behalf of the Official Side of the PNB and in the context of the police negotiations, rather than having it done as a separate exercise commissioned by the Government. The survey will have to be conducted to a very tight timescale.


We also, of course, need to ensure that the survey is not done on terms, or presented in a way, which would actually preclude its use for police pay settlements. I do not think that the present text of the draft letter achieves this, and I would be grateful if our officials could agree the text of the letter to the Secretariat of the Official Side of the PNB, and the general text for publicity. I should be grateful if your officials could continue to keep mine closely in touch with the detailed arrangements and scope of the survey.

Lastly, we need to ensure that the Survey of Settlements can be deployed effectively in negotiations. There was a general remit from E(PSP) for the Home Office and the Department of Employment, in consultation with ourselves, to bring forward a joint paper reporting the outcome of work on proposals for

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linking police pay to settlements and on changes to the various allowances. We need to make progress on this urgently. I understand that Home Office representatives will be attending a meeting of the Official Side of the Police Negotiating Board on 22 January. We need to be clear as to what they should say and on how developments should be handled. I would suggest that a meeting of E(PSP) in advance of this would be appropriate.

I am copying this letter to the Prime Minister, Norman Fowler, other members of E(PSP), Tom King and Sir Robert Armstrong.

Yours Ever,


JOHN MAJOR

pmp

[Handwritten initials]



QUEEN ANNE'S GATE LONDON SW1H 9AT

4 January 1988

CH/EXCHEQUER	
REC.	04 JAN 1988 ✓ 4/1
ACTION	CST
COPIES TO	

Dear John,

POLICE PAY REVIEW

Thank you for your letter of 21 December.

A letter in terms agreed between your officials and mine was sent on 21 December to the Official Side Secretariat of the Police Negotiating Board, providing the clarification which had been requested. We have since been informed that, in accordance with the authority given to them by the Official Side, the Secretariat will now be asking the OME to undertake a survey of pay settlements with the purpose in the first instance of informing the 1988 pay negotiations. My officials are in touch with yours about the wording of the text to be used for publicity purposes and they will, of course, keep closely in touch over subsequent developments.

On allowances, there have been no developments since I reported to E(PSP) on 25 November. The Official Side working party dealing with allowances, which last met in September, meets again on 22 January and my officials are not likely to receive papers until a day or two before that meeting. Accordingly, I have at this stage nothing further to report and, since we are already agreed on our basic approach to the question of allowances, I am not clear what we could usefully discuss at an early E(PSP) meeting. In my view, the better course would be to meet fairly soon after 22 January, when I shall be able to report developments at the meeting of the Official Side's working party and we shall be in a better position to consider how best to take this forward. I hope that you and our colleagues can agree to this.

I am copying this letter to the Prime Minister, other members of E(PSP), Tom King and Mr Robin Butler.

*Yours,
Douglas*

The Rt Hon John Major, M.P.

CONFIDENTIAL

ppp

FROM: J de BERKER
DATE: 5 January 1988

- 1. MR KELLY *TK*
- 2. CHIEF SECRETARY

phoned cc. through to Miss Rutter.

- Chancellor
- Paymaster General
- Sir Peter Middleton
- Mr Anson
- Dame Anne Mueller
- Mr Kemp
- Mr Kelly
- Mr Gilmore
- Mr Hawtin
- Mr Luce
- Mr Turnbull
- Mr Gilhooly
- Mr Potter
- Mr Revolta
- Mr Brook
- Mr Cropper

Ch/ Might like to see this advice. If you and CST agree with it, is letter from CST to Home Sec right way to take forward?

On balance, yes. mpw 6/1

POLICE PAY REVIEW

In his letter of 4 January, Mr Hurd reports that the Official Side of the Police Negotiating Board (PNB) have now authorised the Secretariat to ask the OME to undertake a survey of pay settlements. We understand that this request has not yet been relayed to the OME, but that it should reach them in the next few days.

2. But the main purpose of the letter is to suggest that the meeting of E(PSP) which has been arranged for 18 January should be postponed until after the meeting of the Official Side of the PNB to discuss police allowances on 22 January. In your letter of 21 December, you suggested that it would be appropriate for E(PSP) to meet before then so that Ministers would be clear on what Home Office representatives should say, and how developments should be handled.

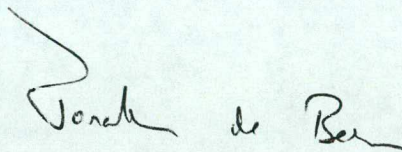
3. Mr Hurd argues that there have been no developments on allowances since E(PSP) met in November. The Official Side working party dealing with allowances last met in September and there will be nothing to report until after the meeting in January. Since E(PSP) has already agreed this basic approach he is not clear what could usefully be discussed before then.

4. This is not satisfactory. At E(PSP) Mr Hurd's proposals on allowances were accepted in principle, but subject to further consideration when detailed proposals had been formulated. The committee invited him and Mr Fowler, in consultation with yourself, to bring forward a joint paper as soon as possible reporting the outcome of work on proposals for linking police pay movements to settlements elsewhere, and on changes to the various allowances.

5. Our view is that the Home Office is taking too passive a role in relation to the Official Side of the PNB. The Home Secretary does not control the Official Side but his representatives can influence its decisions. Their influence is more likely to be effective if they know exactly what is required, how this might be achieved, and the difficulties which Ministers would prefer to avoid.

6. A draft letter is attached.

7. HE are content.



JONATHAN de BERKER

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DRAFT LETTER

FROM: CHIEF SECRETARY

TO: HOME SECRETARY

COPIES: The Prime Minister, Norman Fowler, other members of E(PSP),
Tom King and Sir Robin Butler

POLICE PAY REVIEW

Thank you for your letter of 4 January.

I am glad to hear that the Official Side of the Police Negotiating Board (PNB) has now authorised the Secretariat to ask the OME to undertake a survey of pay settlements. This will need to be taken forward urgently.

However, I do not think that the meeting of E(PSP), which has been arranged for 18 January, should be postponed until after the Official Side meeting on allowances to be held on 22 January. At E(PSP) in November, your proposals on allowances were accepted in principle, but subject to further consideration when detailed proposals had been formulated.

You were also invited to bring forward a joint paper with Norman Fowler, in consultation with myself, as soon as possible so that we could take a view about the whole package of changes which the government should seek to secure during the review.

It seems to me that it would be wise to have that discussion before, rather than after, the PNB meeting, so that the government representatives can be as clear as possible about the objectives that we seek to achieve and how we are to accomplish them. They can then make the best use of their influence before the minds of the other members of the Official Side have crystallized too much.

I am copying this to the Prime Minister, Norman Fowler, ^{and other E (PSP) _{Members}} Tom King and Sir Robin Butler.

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papers
✓pse
(M)

cc
Chancellor
Paymaster General
Sir P Middleton
Mr Anson
Miss Mueller
Mr Kemp
Mr Kelly
Mr Gilmore
Mr Hawtin
Mr Luce
Mr Turnbull
Mr Gilhooly
Mr de Berker
Mr Potter
Mr Revolta
Mr Brook
Mr Cropper

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Home Secretary
50 Queen Anne's Gate
London
SW1H 9AT

7 January 1988

Dear Douglas,

POLICE PAY REVIEW

Thank you for your letter of 4 January.

I am glad to hear that the Official Side of the Police Negotiating Board (PNB) has now authorised the Secretariat to ask the OME to undertake a survey of pay settlements. This will need to be taken forward urgently.

However, I do not think that the meeting of E(PSP), which has been arranged for 18 January, should be postponed until after the Official Side meeting on allowances to be held on 22 January. At E(PSP) in November, your proposals on allowances were accepted in principle, but subject to further consideration when detailed proposals had been formulated.

You were also invited to bring forward a joint paper with Norman Fowler, in consultation with myself, as soon as possible so that we could take a view about the whole package of changes which the government should seek to secure during the review.

It seems to me that it would be wise to have that discussion before, rather than after, the PNB meeting, so that the government representatives can be as clear as possible about the objectives that we seek to achieve and how we are to accomplish them. They can then make the best use of their influence before the minds of the other members of the Official Side have crystallized too much.

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I am copying this letter to the Prime Minister,
Norman Fowler and other E(PSP) members, Tom King and Sir
Robin Butler.

*Yours Ever,
John*

JOHN MAJOR

CONFIDENTIAL

Papers pse (X)

M.



CH/EXCHEQUER	
REC.	13 JAN 1988
ACTION	CST
COPIES TO	

13/1
QUEEN ANNE'S GATE LONDON SW1H 9AT

12 January 1988

pmp

Dear Chief Secretary,

POLICE PAY REVIEW

X Thank you for your letter of 7 January.

In view of what you say, I am content that E(PSP) should have a further discussion on this on 18 January and I have sent a paper to Cabinet Office for consideration at the meeting. I am told by my officials that the Treasury would have liked a different paper. Nevertheless, I hope that mine helps to inform our discussions. It does not propose increases in public expenditure nor preclude Treasury Ministers from arguing their case.

I am in fact concerned about the Treasury approach to the pay review. The belief seems to be that Ministers collectively should decide now, on the basis of detailed costings, the precise tactics to be followed in delivering the Government's strategic objectives. The real world is not, however, like that. Under a statute which we passed in 1980, the pay review falls in the first instance to the Police Negotiating Board, not the Government. The Official Side of the PNB has access to its own technical experts (from the Local Authorities Conditions of Service Advisory Board (LACSAB)) on pay matters. It can also call upon the services of the Office of Manpower Economics (OME), as it has just done on the survey of pay settlements. OME also provide the independent secretariat and technical guidance for the full PNB.

The Treasury seem to feel that the Home Office should second guess this machinery by doing its own costings and analyses. This would, however, entail a duplication of effort for which my Department is not resourced. More seriously, because police authorities usually have to be approached in order to obtain the relevant data, it would rapidly become clear what we were up to and this would be seen as a direct threat to the PNB, provoking what could easily become a serious confrontation with the police service. There is nothing to be gained by this at this stage. Of course the Government should look most critically at the work which the PNB's technical experts produce: this is being circulated to Treasury and the Department of Employment as it emerges and I look to those Departments to continue to advise us, as they have most helpfully done so far (it was, for example, on the basis of a discussion of a paper produced by the Department of Employment on LACSAB figures that we succeeded in persuading the Official Side to commission the survey of pay settlements from OME).

The Rt Hon John Major MP

/over....

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2.

As for the tactics to be pursued if the PNB machinery fails to deliver, it would be absurd to take decisions now. We must wait and see how far we get first in the Official Side and then in the full PNB, considering at the right moment what is at stake and whether it justifies my intervention. The decisions may be difficult enough when we get to actual cases; there is no purpose in getting wrought up over hypothetical ones.

I am sending copies of this letter to the Prime Minister, the other members of E(PSP), Tom King and Sir Robin Butler.

Yours sincerely,

Raw

(Approved by the Home Secretary and signed in his absence.)



From the Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry

THE RT HON KENNETH CLARKE QC MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
London
SW1P 3AG

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215 5147

(Switchboard) 01-215 7877

BF → m 19/10
20/10

21/10

✓

mp

13 January 1988

CH/EXCHEQUER	
REC.	13 JAN 1988 ✓
ACTION	MR HEFFORD
COPIES TO	CST PMG
	SIR P. MIDDLETON
	MR ANSON
	DAME A. MUELLER
	MR KEMP MR MONCK
	MR SURGENOR MR KELLY MR COOPER
	MR MOORE MRS BROWN MR TAYLOR MR GILL
MR CHIVERS MR R. A. LAM	
MR GRAHAM MISS SIMPSON	
MR DE BOKER MR PRICE	

D. R. S.

1987-88 PAY

Thank you for your letter of 3 December to David Young. I entirely agree that we must continue to press for lower pay increases. As you say, we have been fortunate that our excellent productivity performance in recent months has kept down unit labour costs, but in any event our pay increases have still been too high.

As regards the private sector, we shall certainly take every opportunity to try to ensure that there is no deterioration in the current position and that, if possible, there should be a move back to the lower settlements experienced earlier last year. I agree that it is important to avoid any concept such as that of a "going rate".

In the case of nationalised industries, a tight policy can of course sometimes give rise to difficulties in recruiting and retaining people of the right calibre as Board Members but in my view this is something to be tackled on a case-by-case basis should the need arise. It should not be a reason for any more general relaxation in our policy.

I fully share your views on the need for geographical pay variations. But of the three nationalised industries for which my Department is responsible, two, BSC and British Shipbuilders, have their main operations in areas with similar unemployment problems. In their case geographical variations have only limited immediate relevance although this is a further reason for avoiding any kind of "going rate" which is then presented as being applicable on a national basis.



However, the third nationalised industry, the Post Office, offers more scope for introducing regional pay variations, and we have instructed the Board to put forward proposals in good time for the approaching pay round. I have agreed with Sir Bryan that as a first step, the Post Office should move to separate negotiations and differential pay between each of its businesses. In this respect, the agreement reached with the Union of Communication Workers over a reduction in the working week and bonus payments was most encouraging. Management made it a key condition for settlement that the new arrangements had to be agreed and implemented business by business, and office-by-office.

Sir Bryan has made clear to me that, largely as a result of their success in restraining overtime working and achieving a satisfactory settlement on the working week, he and his board expect to come under considerable pressure when the pay negotiations get underway. Over the past year or so average earnings for manual grades have shown an increase of only some 2%. Nevertheless, I have impressed upon Sir Bryan the need to continue to take a firm line, particularly in view of the agreement, albeit on a basis regarded as highly satisfactory by the Board, for a limited reduction in the working week for manual grades.

I am copying this letter to recipients of yours.

A handwritten signature in blue ink, appearing to be 'K. Clarke', with a large loop for the 'K' and a long horizontal stroke for the 'C'.

KENNETH CLARKE

- 1. MR GILHOOLY *Agreed - draft*
- 2. CHIEF SECRETARY

FROM: J DE BERKER
 DATE: 14 JANUARY 1988

- cc
- Chancellor
 - Paymaster General
 - Sir Peter Middleton
 - Dame Anne Mueller
 - Mr Anson
 - Mr Kemp
 - Mr Kelly
 - Mr Gilmore
 - Mr Hawtin *Mr A.M. White*
 - Mr Luce
 - Mr Turnbull
 - Mr Potter
 - Mr Revolta
 - Mr Brook
 - Mr Cropper

yes; but the approach must be to do this

purpose of having support

Ch / No need to read all of this (thankfully). CST not going to write, I understand. But Cabinet Office would find it helpful to know if you wish to discuss departmental handling issue (para 26) at Monday's meeting.

POLICE PAY REVIEW

mpw 14/1

X Mr Hurd's letter of 12 January is in reply to your letter of 7 January. You insisted that there should be a meeting of E(PSP) on 18 January - before the next meeting of the Official Side of the Police Negotiating Board (PNB) on 22 January - so that the government representatives could be as clear as possible about the objectives they should seek, and how these might be accomplished. This would allow them to make the best use of their influence on the other members of the Official Side before their minds crystallized too much. Throughout the Home Office has sought to evade clarifying things, and Mr Hurd's letter is in line with that.

2. We now also have the Home Office paper for discussion of E(PSP). It incorporates some comments we made on an earlier draft. But it is still not acceptable. Your reply to Mr Hurd provides an excellent opening for you to put your views on record before the meeting. We understand that this would be welcomed by the Cabinet Office and that it would be put on the agenda for discussion with the Home Office paper.

3. The Home Office paper is basically a list of things which would be nice but the proposals are still not properly developed, they are not adequately costed, and there is no consideration of how the proposals might be achieved or what our priorities should be. Unless these issues are tackled now options will be closed off and Ministers will be reacting to events rather than shaping them.

4. Paragraphs 5 to 23 describe the Home Office paper and the rest of the submission deals with your objectives at E(PSP) and your reply to Mr Hurd. You will receive a further brief for the meeting.

The Home Office E(PSP) paper

5. The meeting of E(PSP) in November agreed that the aim should be to link police pay to settlements rather than earnings. It also agreed in principle to Mr Hurd's proposals for revising police allowances but subject to further consideration when he had formulated detailed proposals. The Committee invited him and Mr Fowler, in consultation with yourself, to bring forward a joint paper reporting the outcome of work on proposals for linking police pay movements to settlements elsewhere, and any changes to the various allowances. That paper would provide a basis on which a view could be taken about the whole package of changes which the Government should seek to receive during the review, and how they could be achieved.

6. The paper does not meet the E(PSP) remit. The proposals are more detailed than they were, but they are still not sufficiently thought out, they are not adequately costed, and they pay insufficient attention to what the transition arrangements might be. These are important because they might be expensive.

7. Moreover, the paper is still a list of proposals which would be nice. There is no attempt to specify those which are most important and how they could best be achieved. There is no discussion of the timetable of the PNB or of what the Official Side and the Staff Side would like to achieve, and of how the Home Secretary might deal with opposition from either side of the PNB. The paper is discussed below paragraph by paragraph.

Para 1

8. The paper was to be put forward by the Home Secretary jointly with Mr Fowler and in consultation with yourself. Mr Fowler no longer needs to be involved because the arrangements for a survey of settlements are already in hand. As reported in para 2 above, the Treasury was consulted at official level about the paper but we were unable to agree to it.

Para 2

9. This reports that the Official Side of the PNB has agreed to ask the Office of Manpower Economics (OME) to undertake a survey of settlements. The OME have now received the request but at the moment they do not have sufficient staff. They are looking at ways to overcome this. Mr Hurd says that when the results are known "We shall need to consider what scope there is for moving away from the index of average earnings as the mechanism for updating police pay." If the decisions are postponed until then it could well be too late for the September 1988 settlement to change the formula to the settlements basis favoured by E(PSP). We already know on the basis of past experience that the survey is likely to show that settlements are roughly 2 percent below the increase in average earnings. The question is how are we going to achieve the move? The sooner minds are focussed on this the better as it is likely to be very difficult.

Para 3

10. The Official Side of the PNB have concluded that there is a case for freezing police starting salaries because they seem unjustifiably high in comparison with other occupations and quotes the starting salary for constables (£10512) compared with doctors (£8810 for a house officer), nurses (staff nurse £7300) and teachers (£8499 for 1st and 2nd class honours graduates). These are national scales and omit rent allowance, compensatory grant, and London allowances. Taking account of these factors the remuneration of a new constable in London is equivalent to about £17,500 gross before overtime.

11. It is not said how the starting salaries will be frozen, will this have to be imposed or will the staff side agree to it? The implication is that they will be for one year only, but this is not spelt out.

12. The Official Side are also exploring the possibility of reducing the salary paid to recruits during their first 31 weeks of service. This would be done on the grounds that they are engaged in full time training rather than police duties. Mr Hurd does not say whether he considers this desirable although he does say that the effect on recruitment still needs careful consideration. This needs to be done soon.

Para 4

13. This is merely a reference to Annex 1 which summarises what the Home Office believe might be achievable on allowances. There are no costings in Annex 1 nor does it go any way to spelling out the government's priorities on allowances. In our view the first priority must be to ensure that police officers should not be reimbursed community charge - otherwise there could be repercussions for every other group affected by rate reform. The importance of not reimbursing community charge has consequences for the reform of rent allowance (see comments on Para 5 below).

Paras 5 and 6

14. These should be read in conjunction with Annex 2 which discusses possible alternatives to the present rent allowance. The option favoured by the Home Office is to spend the money now spent on rent allowance on a new housing allowance which would be allocated to police forces on the basis of some indicator of housing costs (there is no discussion of what this might be) and then subsequently updated in the light of local recruitment and retention needs. It would probably be necessary to remove the rates element of the rent allowance before recycling it as a new housing allowance. Otherwise police living in free accommodation could claim that colleagues getting the allowance were receiving a contribution to community charge which they ought to receive too.

15. The extent to which the proposal might save money will depend upon the extent to which money previously paid in compensatory grant (which refunds the income tax payable on the rent allowance) is put towards the new housing allowance and upon the uprating arrangements. Mr Hurd is agnostic on the extent to which compensatory grant will have to be recycled but he says there ought to be substantial savings in later years if the allowance is uprated in line with recruitment and retention needs rather than a typical market rent. But there is no estimate of what the savings might be and there is no discussion of the transitional arrangements. For example, if compensatory grant is included in the new housing allowance there is the possibility that the police might effectively receive compensatory grant twice in one year, once in respect of the previous years rent allowance, and again recycled as part of the new housing allowance.

16. The Official Side of the PNB apparently favour the consolidation of rent allowance into pay. This would be expensive as it would add to the elements of pay reckonable for pension and overtime purposes. And if consolidation took place at anything other than the lowest rate there would be a further increase in cost because police officers receiving lower rates of rent allowance would be overcompensated. It would also reduce the geographical variation in police remuneration. The paper provides no costings nor does it discuss the options open to the Home Secretary if the Official Side decides to recommend consolidation.

17. The final alternative is to base the new housing allowance on council house rents and increase it in line with rent increases. This option is not favoured either by the Home Office or the Official Side, perhaps rightly but the E(PSP) paper gives too little analysis for a judgement. There are no costings and no discussions of transition arrangements.

Para 7

18. Mr Hurd advocates abolishing compensatory grants. These cost about £75m a year in England and Wales, equivalent to about 3½ per cent of the police paybill. (The grants are not paid to police officers living in free accommodation). For those who receive it the actual percentage depends upon the salary payable,

and the rate of rent allowance - which is highest in Greater London. For a young constable in London it can be worth about 8 per cent of remuneration. There is no discussion of how compensatory grants might be abolished apart from a passing reference in Annex 1 that phasing might be necessary.

Para 8

19. The Official Side have been told that there can be no question that the community charge will be reimbursed by police authorities. This is right, and crucial for us.

Para 9

20. The Official Side seem likely to mount a case for abolishing three fairly minor allowances. Again, the savings are not quantified but they are likely to be small.

Para 10

21. Police in London receive London Weighting (£945 per annum) and London allowance (£1011 per annum). It is proposed to abolish London allowance and convert it into a retention allowance payable to officers in London with more than 5 years service. The intention is to reduce the flow of experienced officers transferring from the Metropolitan Police to provincial forces. The proposition is discussed further in Annex 3. The problem is that the scheme could have transition costs and it might not have the desired effect.

22. It is envisaged that when the scheme is fully implemented it would be possible to pay experienced police officers in London another £440 per year. Since they already lose nearly £2000 in London allowances and receive a lower rent allowance when they move to the provinces the loss of the retention allowance does not seem much of an additional disincentive. The wastage of less experienced officers will rise so there is a fine judgement as to whether overall wastage will actually fall. Mr Hurd admits the details still need refining.

Paras 11, 12, and 13

23. Paragraph 11 deals with other conditions of service, paragraph 12 does not exist, and paragraph 13 is the conclusion which invites colleagues to endorse Mr Hurd's approach.

Your objectives at E(PSP) and your reply to Mr Hurd

24. The basic problem is to shift the Home Office approach from reacting to events to shaping them. Compromises may be necessary but it is better to make them consciously, otherwise the government will drift into a settlement it would not have chosen, and worse than might have been achieved.

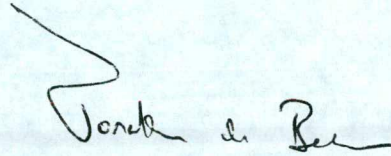
25. If this is to be avoided the proposals and the associated transition arrangements must be properly worked out and fully costed. An assessment of the government's bargaining position is also required. What do the Official Side want, what do the Staff Side want, and what sanctions are available to the Home Secretary? Is the Home Secretary prepared to use these sanctions? It is only when these questions have been addressed properly that Ministers will be in a position to set priorities.

26. Lastly, you will want to get the departmental handling of the police pay review away from the Home Office. Obviously, once Ministers are content that the strategy is broadly correct they will not want to have more meetings on police pay than are necessary. There is an official counterpart to E(PSP), (PSP)O, and a sub-group of this committee would be an appropriate forum in which to take this matter forward. It would not be appropriate for this to be chaired by the Treasury but we understand that the Cabinet Office would be willing to provide a chairman if necessary.

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27. A draft letter to Mr Hurd is attached.

28. ~~HE~~ are content.

A handwritten signature in black ink, appearing to read "Jonathan De Berker". The signature is written in a cursive style with a large, sweeping initial 'J'.

JONATHAN DE BERKER

DRAFT LETTER
FROM CHIEF SECRETARY
TO HOME SECRETARY

COPIES: Prime Minister, other members of E(PSP), Secretary of State for Northern Ireland, Sir Robin Butler

POLICE PAY REVIEW

Thank you for your letter of 12 January. I have also seen your paper for E(PSP).

I had hoped that the discussion on Monday would allow us to assess the changes which we seek in terms of what savings they might give both immediately and in the long-term; how they might be achieved. I recognise of course the constraints associated with the PNB machinery, but I am anxious that unless we have a clear idea of our specific objectives and their priorities now, we will find the options being closed off as the review progresses. There is a risk that we should be reacting to developments rather than shaping them.

In particular, on allowances^c, we need to know

- what the proposed changes would save in the long run, and what transitional costs might be involved;

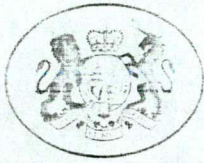
- how easy it is likely to be to make each of the changes you propose given the likely attitudes of both the Staff and the Official Side on the PNB, and what steps you could take to overcome difficulties; and

- in the light of that assessment, what are the changes to which particular priority should be given.

Finally, I do not see why we should delay further consideration of moving the uprating formula for police pay to the settlements basis favoured by E(PSP) until the Office of Manpower Economics

has reported the results of its survey. We already know what this is likely to show. The question is how are we going to achieve this move? The sooner minds are focussed on this the better.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Tom King, and Sir Robin Butler.



SECRETARY OF STATE
FOR
NORTHERN IRELAND

CH/EXCHEQUER	
REC.	15 JAN 1988 ✓ 15/1
ACTION	CST
REFERS TO	

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

10 January 1988

Handwritten signature: Douglas Hurd

POLICE PAY REVIEW

I have seen your paper of 12 January which is to be discussed at E(PSP) on Monday 18 January. As I cannot attend the meeting on Monday, I am writing to reinforce my support for the proposals on pay and allowances covered in your paper.

On pay, I understand that the main issue of linkage cannot be resolved until the results of the survey of settlements is known, but I would certainly hope that progress can eventually be made to move away from the index of average earnings as the basis for negotiating pay settlements. I would also support any attempt to restrict the starting pay of recruits to a more realistic level.

On the question of rent allowance, I agree that we must look at ways to change the basis of how this is calculated. Of the options available I would prefer linkage either with public sector

rents or house price movements. I would also wish to see the abolition of the compensatory grant, and, although less applicable to the Northern Ireland situation at present, the non-reimbursement of the community charge.

In general terms I believe we need to give some further thought to our overall strategy. What we have identified is a shopping list of desirable improvements which could help retention difficulties in London while at the same time start to reign back the spiralling costs which are of concern to all of us, and most certainly to me in my management of the Northern Ireland block. However the constraints of the Edmund-Davies arrangements are such that it is going to be extraordinarily difficult to make progress on them and we need to consider very carefully which are the priorities, which can be best be sold to the local authorities and what our tactical approach is going to be in the subsequent negotiations.

I am copying this letter to the Prime Minister, other members of E(PSP), and to Sir Robin Butler.

TK

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- 1. MR GILHOOLY
- 2. CHIEF SECRETARY

I agree
 Dis 15/1

FROM: J DE BERKER
 DATE: 15 January 1988

- cc. Chancellor
- Paymaster General
 - Sir Peter Middleton
 - Dame Anne Mueller
 - Mr Anson
 - Mr Kemp
 - Mr Kelly
 - Mr Gilmore
 - Mr Hawtin
 - Mr Luce
 - Mr Turnbull
 - Mr Potter
 - Mr White
 - Mr Revolta
 - Mr Brook
 - Mr Cropper

Ch
 To note X
 at para 25

mpw
 15/1

E(PSP) MONDAY 18 JANUARY: POLICE PAY

The only item on the agenda is the Home Office paper on Police Pay E(PSP)(88)1.

2. Apart from yourself, the Chancellor, and Mr Hurd, we understand that the meeting will be attended by Mr Ridley, Mr Fowler, Mr Baker, Lord James Douglas-Hamilton (Scottish Office), Mr Maude (DTI), and probably Mr Newton. Mr Clarke and Mr King who attended E(PSP) in November will not be present. But Mr King has written a generally helpful letter.

3. My submission of 14 January discussed the Home Office paper and what your objectives should be at E(PSP). This submission provides some background material but concentrates on the handling and the line to take at the meeting.

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Background

4. Gross Police pay and allowances in England and Wales will cost about £2.3 bn in 1987/88. Pay accounts for about £1900m and the various allowances come to about £400m. The most important of these are rent allowance (about £225m), and compensatory grant (about £75m). ~~See~~ (Gross police pay and allowances for the UK as a whole costs over £2½bn). The arrangements for negotiating police pay and the Edmund-Davies formula used for uprating it each year are described in paragraphs 7 to 9 of my submission of 23 November 1987 for the previous meeting of E(PSP).

5. At that meeting Ministers favoured moving the Edmund-Davies uprating formula for police pay from an earnings basis to a settlements basis. Officials at the Department of Employment, the Home Office, and the Treasury were instructed to develop arrangements for a survey of settlements for this purpose urgently. The Home Office subsequently persuaded the Official Side of the Police Negotiating Board (PNB) to ask the Office of Manpower Economics (OME) to undertake such a survey. The request was made on the understanding that its purpose would be in the first instance to inform the 1988 pay negotiations and that undertaking it would not commit the Official Side in advance to any particular course of action in the negotiations. This has the advantage that the survey is being conducted within the PNP machinery. But there is no commitment by the Official Side to use the results for uprating Police pay.

6. The meeting also accepted in principle Mr Hurd's proposals on allowances, subject to further consideration when detailed proposals had been formulated. The Committee attached particular importance to achieving the maximum possible geographical variation in the new housing allowance in line with the general policy on regional pay, and the need to have regard to recruitment and retention. Mr Hurd and Mr Fowler were invited to bring forward a joint paper in consultation with yourself, to report the outcome of work on proposals for linking police pay movements to settlements elsewhere, and on changes to the various allowances.

7. Mr Hurd is coming back to E(PSP) sooner than he would have liked for reasons with which he disagrees. As you know, he would have preferred to have waited until after the Official Side Working party on allowances had met on 22 January, and he has also written (12 January) to object to the Treasury's approach which

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he describes as the belief that Ministers should decide now, on the basis of detailed costings, the precise tactics to be followed in delivering the Government's strategic objectives. He feels that this ignores the constraints of the PNB machinery and the fact that the Home Office does not have the resources to do the costings. Getting the necessary information will arouse police suspicions prematurely and it duplicates the work done by the Official Side's technical experts at the Local Authorities Conditions of Service Advisory Board (LACSAB) and the OME. He considers that Ministers should wait and see how things go in the PNB before making decisions on the tactics to be pursued.

8. Mr Hurd's position has not been helped by the letter he received today (15 January) from Mr King. This emphasises the importance of ^{moving} ~~monitoring~~ police pay to a settlement basis, and stresses the need to give further thought to the overall strategy. The proposals are aptly described as a shopping list of desirable improvements, and he considers that the priorities will have to be considered very carefully given the constraints of the Edmund Davies arrangements. Unfortunately it may have arrived too late for many of the participants at E(PSP) to see it before the meeting.

Handling

(i) General

9. The structure of the Home Office paper does not lend itself to a discussion of the strategic issues and Mr Hurd is likely to avoid them. It is probably inevitable that the meeting will begin by going through the paper item by item. We think that it is in Mr Hurd's interest to prolong the discussion here so that time will run out before there can be a discussion of the overall priorities. If Mr Hurd can get colleagues to endorse his approach he can argue that it was endorsed in general terms in November, and again in more detail this time, so he should be left to manage the review of police pay without too much more interference. You will want to make sure that colleagues realise that the individual proposals are still not sufficiently refined, not enough attention has been paid to the transition arrangements, and that costings are not adequate.

(ii) Item by item(a) Pay (Paras 2 and 3)

10. A Survey of settlements is now underway. It will certainly show that on the economy as a whole earnings have again outstripped settlements. The only question is by precisely how much. Since 1979 settlements have averaged about 2 per cent less than the increase in average earnings. We do not know of any year when settlements have been greater than earnings, although this is a logical possibility. The Home Office advocate waiting for the results of the survey before deciding what to do. It is unlikely that the results will be available before July 1988. It will then be too late for the police pay settlement in September 1988. **You will wish to say that since we know that the survey is likely to show we need to concentrate our minds on how the move is to be achieved as this is likely to be difficult and will need careful consideration.** This is the key pay issue. The OME need another statistician which is delaying things

11. Mr Fowler should be sympathetic to your approach but his officials do not know whether he will actually say anything. Mr Newton should support you because the DHSS want their review bodies to pay more attention to settlements and less to the increase in average earnings. Mr Ridley should support anything which reduces the cost of the police because of the effect on local authority spending.

12. Mr Newton is likely to support the reduction in police starting pay because of the comparison with nurses and doctors. Mr Baker may also be sympathetic. You could sharpen their concern by pointing out that the paper quotes national rates. In London the young policeman would get about another £7000 after taking account of all the allowances and grants. You might also ask what Mr Hurd's views are as the paper is non-committal and says it still needs careful consideration. If Mr Hurd repeats this, the obvious question is when?

(b) Rent allowance (Paras 5 and 6)

13. The proposal to abolish rent allowance and replace it with a new housing allowance which will subsequently be uprated in line with local recruitment and retention needs will command widespread support. But will this actually

save any money? Mr Hurd may reply that initially this will depend on the extent to which compensatory grant has to be recycled into the new housing allowance, but thereafter the rate of increase should be lower because it will be uprated in line with local recruitment and retention needs rather than the previous housing cost formula. You should then ask whether he thinks it is likely that it will be possible to save any of the money currently spent on compensatory grant. If some of the compensatory grant is recycled there will be transition costs. Police will receive compensatory grant in respect of the previous year's rent allowance and as part of the new housing allowance. Since the rates of housing allowance are likely to be different from the rent allowance they replace, this could also produce transition costs. Does Mr Hurd have any estimates of these costs?

14. The Official side of the PNE favour consolidation of rent allowance into basic pay. The paper says this would be expensive. You may want to ask Mr Hurd whether he has any estimate of the cost (he has none that we know of) and what he would do if the Official Side seemed likely to opt for this.

(c) Compensatory grant (Para 7)

15. Colleagues are likely to approve the principle of abolishing compensatory grant, but depending on what Mr Hurd says about the reform of net allowance, you may wish to ask whether this will actually save any money. If he thinks it can be abolished with net expenditure savings, what might these be? And will there need to be transition arrangements - if so what, and what will they cost?

(d) Community Charge (Para 8)

16. The proposal to make the police pay their own community charge will command universal agreement and particularly strong support from Mr Ridley. There is a corollary for rent allowance. This contains an element for rates. This ought to be abolished so that police living in free accommodation cannot claim that colleagues receiving rent allowance are getting something towards their community charge.

(e) Other allowances (Para 9)

17. There is not much to be said except, possibly, to enquire whether Mr Hurd has any estimate of the savings if the three allowances were to be abolished.

We have not seen any estimates but the savings are likely to be small.

(f) **London (Para 10)**

18. Needless to say, the proposal requires further development but the general aim is no longer to pay London Allowances to new recruits (they would continue to receive London Weighting). The money will be used to fund a retention allowance for officers with more than 5 years service. The latter would also continue to receive both London Allowance and London Weighting.

19. The proposal would reduce the pay of new recruits in London by £1011 and eventually increase the pay of experienced officers by £440 per annum. Net wastage from the Metropolitan Police to provincial forces is currently running at about 1 per cent and an extra £440 may not have much effect. Officers moving to the provinces already lose about £2000 in London allowances and get a lower level of rent allowance. However reducing the pay of less experienced officers ought to increase their wastage so there must be some doubt as to whether net wastage will fall.

(g) **Other conditions of service (Para 11)**

20. There is nothing which needs to be said.

(h) **Conclusion (Para 12)**

21. You will not want to endorse Mr Hurd's conclusion as it stands. A general discussion of priorities is required.

(iii) **Overall Priorities**

22. In order of importance we think that your overall priorities on police pay and allowances should be:

(a) Change the basis of the formula for uprating police pay from an earnings basis to a settlements basis. If this is achieved it will reduce the rate of increase in the cost of police pay. This will be difficult

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but it could be easier than actually taking money away from them. This is the key pay issue.

(b) Change the basis for uprating rent allowance from one based on housing costs to one based on local recruitment and retention needs. This has the same advantages as (b) but the potential savings are less.

(c) Abolish rent allowance and replace with a new housing allowance allocated to forces on the basis of local housing costs. This might possibly reduce expenditure if compensatory grant is not wholly recycled into the new housing allowance. But there might also be transition costs because it could easily involve redistribution money between policy officers so that there would be gainers and losers. The attractiveness of this option depends upon the precise variant implemented and the costings.

(d) Eliminate compensatory grant without returning the money to the police in another way.

(e) Turn the London Allowance into a retention allowance

(f) Prune the minor allowances

We favour (d), (e) and (f) subject to fully worked out proposals and costings and on how they affect the overall package the Home Office should seek.

23. A separate important objective is not to reimburse community/for the police. Unless this line is held rate reform will be undermined. A corollary of this is that the rates element of the rent allowance should be eliminated (for reasons explained in Para 16 above) whether or not it is transformed into a new housing allowance. You should have Mr Ridley's support on this. *charge!*

24. Apart from (a) the ordering of the priorities can only be provisional and needs to be confirmed by working out the proposals and the associated transition arrangements in detail along with the costings. It is appropriate for this to be done by officials but the Home Office has proved singularly resistant to moving things forward.

25. A subgroup of PSP(0) which is the official shadow of E(PSP), would be a suitable alternative. This might consist of the Home departments plus the

Treasury and the Department of Employment. It would not be appropriate for this to be chaired by the Treasury but the Cabinet Office are willing to do this if necessary. We have also consulted Department of Employment officials who have given this proposal a cautious welcome. We have not consulted more widely because Mr Hurd will be in a better position to resist if he finds out beforehand. In terms of handling it might be better if this suggestion came from the Chancellor in the course of his summing up rather than from yourself during the discussion. You may wish to speak to the Chancellor about this beforehand. The points would not be to takeover the leas from the Home Office but to make sure that others' legitimate and important interests were fully taken into account.

26. Failing that Mr Hurd should provide a further paper for E(PSP) costing the proposals and the transition arrangements considering the government's priorities in this area and how they might be achieved given the likely attitudes of the Official and Staff sides of the PNB and the sanctions available.

Line to take

- Insist that consideration is given now as to how the police pay formula can be moved from an earnings to a settlement basis;
- Make colleagues aware that the proposals need further consideration and adequate costing.
- Colleagues must decide their priorities so that the Home Office can make the most constructive use of its influence with the PNB.

28. HE are content.

Jonathan de Berker

JONATHAN DE BERKER


SECRET

Reference No E 0490

CHANCELLOR OF THE EXCHEQUER

POLICE PAY REVIEW

E(PSP)(88)1

DECISIONS

X E(PSP) agreed on 25 November (E(PSP)(87)1st Meeting) on the Government's principal objectives for the present review of police pay. This meeting has been arranged to allow you to review progress, and consider the instructions to be given to the Home Office representatives on the Police Negotiating Board (PNB) before the next meeting of the official side on 22 January. There are some issues of substance on which you may wish to reach provisional decisions, but the most important questions concern tactics.

2. The key items for discussion are -

- i. Up-rating police pay. E(PSP) has agreed to seek a change to a formula based on settlements elsewhere in the economy, rather than the present formula based on increases in average earnings elsewhere. The first step - commissioning a suitable survey of settlements - has been taken. But you need to decide how and when negotiations are to be opened with the staff side in the PNB. There are also questions about starting pay for recruits.
- ii. New housing allowance. The Home Secretary's paper puts a little more flesh on the bones of his proposal to replace the existing rent allowance. You need to decide the line for the Home Office representatives to take at the PNB.

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- iii. London allowance. You have agreed in principle that the present undermanning allowance should be converted into a retention allowance for experienced policemen. Again you need to decide how this objective should be pursued in the PNB.
- iv. Future handling. You may wish to discuss how inter-departmental discussion of the review should be carried forward.

MAIN ISSUES

Uprating police pay

3. E(PSP) asked the Home Secretary and the Employment Secretary to produce a joint paper reporting the outcome of work to link police pay to settlements elsewhere, and in particular work -

- i. to develop a new survey of settlements as the basis for a revised uprating formula;
- ii. to marshal the evidence that the existing formula has resulted in excessively generous settlements for the police.

4. The Home Secretary has already reported (in his letters of 17 December and 4 January) that the official side of the PNB have commissioned the Office of Manpower Services (OME) to undertake a survey of settlements in the current pay round (1987/88). This will produce the figure which might be used to uprate police pay in September 1988. Such a survey is essential if the new approach is to be applied from that date, and it is therefore a welcome development.

5. However the survey will be no use unless acceptance of the new basis for uprating pay can be negotiated successfully in the PNB. To achieve that it will be necessary first to persuade the official side, on which the Home Office has only minority



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representation, to put forward the new approach. Here there appears to have been no progress. Indeed to secure agreement to the OME survey the Home Secretary has authorised his officials to give assurances that the purpose of the survey -

"was in the first instance simply to inform the pay negotiations and ... would not commit the Official Side in advance to any particular course of action."

His intention appears to be to await the outcome of the survey before prompting the official side to open negotiations. (See for example the final sentence of paragraph 2 in his note, which incidentally appears to ignore E(PSP)'s clear decision in favour of a move to a settlements index.)

6. These may be the right tactics. But you will want to be assured that the Home Secretary has thought carefully about the best way of achieving E(PSP)'s agreed objective. There are clear dangers in awaiting the outcome of the OME survey: the official or staff sides may well say that it is then too late to introduce a radical new proposal into the negotiations. These arguments are that much stronger because the survey is unlikely to produce unexpected results: it will probably show that, as in previous years, increases in average earnings have outstripped settlements by around 2%. One thing it will not do is to demonstrate that the police have received excessive increases under the existing formula in past years, and it is clearly essential that strong evidence on this should be prepared in line with the outstanding E(PSP) remit. (The Department of Employment did produce a short note for the official side of the PNB, but it was confined to questioning the validity of certain earlier figures on police pay, and fell far short of the E(PSP) remit.)


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7. You may therefore want -

- i. to press the Home Secretary to explain the tactics he proposes to adopt to achieve E(PSP)'s agreed objective of uprating police pay in line with settlements elsewhere in future, including his ideas on timing;
- ii. to reiterate the importance of strong and convincing evidence that the existing formula has resulted in excessive settlements for the police, and press for this to be produced as soon as possible.

Starting pay for recruits

8. The Home Secretary's Note repeats his early proposals (agreed by E(PSP)) that the starting pay of recruits should be frozen, and that a lower rate should be paid during the initial 31 weeks of training. It is unclear from the text how long such a freeze should last, but I understand that the Home Office are thinking only of a single year. This seems a very modest proposal, given that their own figures show that a police recruit aged 22 starts on a salary 19% above that of a hospital doctor and 24% above that of a graduate teacher (and this comparison ignores the police recruit's rent allowance). A better approach would surely be for the review to consider what overall reduction in starting pay would be appropriate, and how it might be achieved over a number of years. There is also a new reservation about the effect on recruitment of reducing pay during initial training. You may want to press the Home Secretary to take a robust line on both these issues.

Housing allowance

9. The Home Secretary's Note repeats his proposal for replacing the existing rent allowance with a new housing allowance (based on a suitable indicator of real housing costs in different areas) and

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for abolishing both compensatory grant and assistance with domestic rates. This option was supported by E(PSP) on 25 November in preference to the other two options covered in Annex 2 to the Note (consolidation into basic pay and a housing allowance based on local authority rents). There is no reason to re-open that decision at the present meeting.

10. The Home Secretary envisages setting the national total of the new allowance initially at the amount now spent on rent allowance, less the rates element. But he proposes that the allowance should not be uprated automatically in line with increases in housing costs as at present, but only with his approval when it was judged necessary in the light of local recruitment and retention needs. If this could be achieved it would clearly be a major improvement on rent allowance. But the Note also suggests in paragraph 6 a willingness on the Home Office's part to set the total of housing allowance at a higher level than rent allowance, using some or all of the savings on compensatory grant. It is clearly much too early to be thinking about negotiating concessions of this sort. You will probably want to encourage the Home Secretary to take a robust line at this stage, including the removal of automatic uprating and the full abolition of compensatory grant and help with rates.

11. There is an important point on the tactical handling of allowances. The Home Office intend to argue for the principle of a housing allowance but not to table specific proposals. They think that this might be counter-productive. You might want to consider whether the Government would be more likely to achieve its objectives if it took the initiative and tabled its own specific proposals.

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London allowance

12. The Note repeats the Home Secretary's proposal to convert the existing London allowance (paid in addition to London weighting, originally as an undermanning allowance) into a retention allowance payable to all London policemen with 5 or more years service. Annex 3 discusses a number of options for the trade-off between the level of the new allowance and the overall cost. He seems to favour a higher retention allowance at the same net cost as the existing London allowance. It is probably too early to consider the level of allowance which is justified on retention grounds: this will depend in part on the new housing allowance, which will reflect high costs in the capital, and should itself aid retention. You will probably want to press the Home Secretary to keep all the options in play until the overall position becomes clearer.

Other allowances

13. The Note again proposes support for abolition of three of the minor police allowances (reimbursement of NHS charges, detective duty allowance, and the promotion examination allowance). There seems to be a good case for extending this to some of the other allowances (eg typewriter allowance, bicycle allowance, stocking allowance). But the amounts involved are small, and you will probably not want to divert attention from the main issues by pursuing these allowances at E(PSP).

Next steps

14. The Chief Secretary's letter of 7 January to the Home Secretary and his reply of 12 January illustrate a substantial difference of opinion between the Treasury and the Home Office over the handling of the review. In particular, the Home Office see their role as largely reactive, with the local authorities and LACSAB in the lead, while the Treasury have been arguing for a more active approach. It is clearly unrealistic to expect E(PSP)


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to meet frequently to resolve such differences. I understand that Treasury officials have therefore suggested that a sub-committee of PSP(O) - the official committee on pay of which I am Chairman - should be convened to keep in touch with the conduct of the negotiations.

X
X
15. You will recall that a similar proposal from the Chief Secretary (his letter of 17 July) was strongly opposed by the Home Secretary last year (his letter of 29 July). He argued that PSP(O) was a monitoring group, ill-suited to the proposed task; that PNB papers would seldom be available in time for inter-departmental discussion; and that such co-ordination had not worked well during the last review. Some of these objections could no doubt be overcome by establishing a small sub-group, with representatives of only the key Departments (Treasury, Home Office, Employment, Scottish and Northern Ireland Offices), and developing sensible working arrangements. But the Home Secretary may still oppose this course, his motive being essentially that he will want to keep the management of the negotiation in his own hands.

VIEWS OF OTHER MINISTERS

16. The Home Secretary's detailed proposals are discussed above. He will however be concerned not to be put in a position where he appears to be attacking the police or attempting to worsen their position in the pay league. He is likely to try to persuade E(PSP) that the Government cannot take the lead in the review, but must seek to operate by persuasion in the first instance (as he argued in his letter of 12 January). Lord James Douglas-Hamilton will be briefed to take a very similar line. The Northern Ireland Secretary is not able to attend, but will write with his views today Friday. He is likely to take a rather more radical stance, particularly in view of the direct comparison which can be made between the pay and allowances of the police and



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the army in Ulster. The Environment Secretary is also likely to favour a robust line. However the Employment Secretary will be briefed to stress the need for a sensitive and realistic approach to the negotiations, in view of the implications for industrial relations in the police service.

HANDLING

17. You will want to ask the Home Secretary to introduce his Note. The Northern Ireland Secretary and Lord James Douglas-Hamilton will want to comment on behalf of the other Home Departments. The Chief Secretary, Treasury and other Ministers will also wish to speak.

G W

G W MONGER

Cabinet Office
15 January 1988

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mp
✓

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Paul Gray
10 Downing Street
London
SW1A 2AA

18 January 1988

Dear Paul,

I enclose our standard revised brief for unit wage and salary costs and productivity, which are to be issued tomorrow. The figures are personal and confidential until 11.30am Tuesday 19 January.

I am copying this to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Alison Brimelow (DTI), Sir Brian Hayes (DTI), and Brian Griffiths (No.10 Policy Unit).

Yours,

Angela

ANGELA WILKINS
PRIVATE SECRETARY

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LABOUR MARKET STATISTICS PRESS NOTICE

NOTES FOR THE PRIME MINISTER

UNIT WAGE AND SALARY COSTS AND PRODUCTIVITY

I enclose revised pages for unit wage and salary costs and productivity. The revised figures for manufacturing industry are based on the output figures released by the CSO tomorrow.

These figures are personal and confidential until 11.30 a.m. on Tuesday 19 January 1988.

M J JANES
STATISTICS A1
Department of Employment

18.1.88

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UNIT WAGE AND SALARY COSTS

In the three months ending November 1987, wages and salaries per unit of output in manufacturing industries were 1.6 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of over 6½ per cent in productivity over this period (see Table 13).

In the third quarter of 1987, wages and salaries per unit of output in the whole economy were 3.3 per cent above the corresponding period of 1986. This increase was below the rise in average earnings in the whole economy as there was a rise of about 3½ per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q3	125.7	6.4	133.1	6.1
Q4	128.4	6.0	134.3	4.4
1986 Q1	131.7	8.6	136.9	6.2
Q2	130.8	6.9	138.2	6.5
Q3	130.3	3.7	138.9	4.4
Q4	130.3	1.5	140.8	4.8
1987 Q1	132.7	0.8	141.7	3.5
Q2	131.9	0.8	143.9	4.1
Q3	131.1	0.6	143.5	3.3
1987 Aug	129.2	-1.1	..	..
Sept	132.3	0.9	..	..
Oct	131.8	1.6	..	..
Nov	133.1	2.4
<u>3 months ending</u>				
1987 Aug	131.1	0.8
Sept	131.1	0.6
Oct	131.1	0.5
Nov	132.4	1.6

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PRODUCTIVITY

Manufacturing output per head in the three months to November was 1.6 per cent higher than in the three months ending August and 6.6 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the third quarter of 1987 was 1.7 per cent above the previous quarter and 3.5 per cent higher than in the third quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index	Percentage	Index	Percentage
		1980	Increase	1980	increase
		= 100	on a year	= 100	on a year
			earlier		earlier
1985	Q3	130.5	2.5	114.0	2.1
	Q4	130.3	2.3	114.7	2.2
1986	Q1	129.3	-0.6	114.9	1.5
	Q2	132.5	0.7	116.6	1.9
	Q3	134.9	3.4	117.8	3.3
	Q4	138.7	6.4	118.5	3.3
1987	Q1	138.4	7.0	119.0	3.6
	Q2	141.4	6.7	119.9	2.8
	Q3	145.5	7.9	121.9	3.5
1987	Aug	146.7	9.2	..	..
	Sept	145.5	7.5	..	..
	Oct	147.4	7.0	..	..
	Nov	146.4	5.5
<u>3 months ending</u>					
1987	Aug	144.2	7.5
	Sept	145.5	7.9
	Oct	146.5	7.9
	Nov	146.4	6.6

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