

Confidential Filing

Public Service Pay Negotiating
Machinery

ECONOMIC POLICY

JANUARY 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
12-2-80							
14-2-80							
<p>PREM 19/190</p>							



Kevin Bol

CONFIDENTIAL

Ref. A01401

PRIME MINISTER

Public Service Pay Negotiating Machinery

(E(80) 8)

BACKGROUND

This paper by the Chancellor explores the scope for decentralising pay negotiations in the public services (excluding the nationalised industries). It fulfils a remit given by Cabinet last summer when it was considering the pay of industrial civil servants. The report attached to the Chancellor's paper was prepared by officials under Treasury chairmanship.

2. The report lists the basic objectives of any decentralisation. The most important aims are:-

- (a) To make the maximum use of cash limit controls as a restraint on wage increases, by making the management unit responsible for pay bargaining the same as the unit to which the financial controls apply.
- (b) To make pay bargaining more responsive to the local labour market by allowing greater variation in wage levels between different management units.

3. The paper also points out a number of risks in decentralisation. The main one is that unions would exploit the opportunities it provided for leap-frogging - i. e. if one local unit conceded a higher than average rate, then unions would use this as a floor to seek to bid up the rates in their units on the same organisation. And linked with this are doubts about the capacity of local management, e. g. in the NHS, to bargain toughly when such bargaining is largely outside their experience.

4. Officials in most Departments attached a good deal of importance to these risks. As a result most Departments' officials are distinctly uneasy about decentralisation, with only the Treasury really in favour. This is despite the Ministry of Defence having earlier argued that the existing system made it impossible for them to compete for scarce labour in some of their industrial establishments (a situation where their motive is to pay more not less).

CONFIDENTIAL

AP ✓
L ✓
~~Substant~~
~~Home Sec~~
~~Substant~~

HANDLING

5. You will want to ask the Chancellor to introduce his paper and then seek comments both from Mr. Prior and Sir Keith Joseph, who have a general interest, and from the Ministers responsible for the large blocks of public service employees covered in the paper, (Mr. Heseltine for local authorities, Mr. Jenkin for the NHS, Mr. Carlisle for teachers, Mr. Channon and Mr. Pym for the Civil Service and Mr. Younger for Scotland).

6. You might then like to go through the specific proposals in the paper:

(a) Local authorities

The paper proposes (in paragraph 10a.) terms of reference for a study of the scope for decentralisation of pay bargaining in local authorities. Such a study would require the co-operation of the local authority associations, as the Government cannot compel them to change their arrangements. Local authorities have the advantage of a system of financial control which is already decentralised but have been moving towards a more centralised pay bargaining system in recent years. How far is it possible to reverse the tide? Would local authorities see such a study as a distraction from what they regarded as more immediate problems? Should they be asked for their views before any study is launched?

(b) National Health Service

The paper does not advocate full-scale decentralisation - on the grounds that the imminent major reorganisation of the NHS rules it out as a practical possibility at present. It does however report existing consideration of the scope for a limited increase in the flexibility of local management, especially over grading of posts. Does Mr. Jenkin have any comments?

(c) Non-industrial Civil Service

There is generally recognised to be a problem in the pay of some grades - a good example is personal secretaries: because there is one national pay-scale (modified only to a limited extent by London weighting) the Government tends to pay below the market in London but above it in

CONFIDENTIAL

many other parts of the country. The paper reports that the Civil Service Department are already examining the scope for allowing greater variation in pay for junior grades to reflect local pay rates. The most obvious mechanism would be to collect and analyse PRU data on a regional basis and seek to evolve regionally differentiated rates of pay in negotiation. Does Mr. Channon support this? And is there scope for action in time for this year's pay negotiations (probably not)? Or should preparations be set in hand with a view to action in the new PRU cycle due to start this summer?

(d) Industrial Civil Service

The paper reports:-

- (i) That MOD and CSD Ministers have already agreed to examine, for MOD industrials as a whole, the possibility of a degree of decentralisation in relation to productivity bargaining and allowances. The report suggests that Ministers may not want to go further until this examination is completed. Is this a correct interpretation of Ministers' views? Mr. Pym and Mr. Channon will wish to comment.
- (ii) That there is scope for a study of the possibility of decentralisation in HMSO, due to become a trading fund in April. Does Mr. Channon agree? In commenting on this issue Mr. Channon may raise a separate issue by seeking Ministerial endorsement for a comparability study to determine pay among HMSO staff. This proposal is due to be discussed by E(EA) next week and you might suggest that a decision should be left to E(EA) at least in the first instance.

Sir Keith Joseph has separately proposed - in his letter of 11th February to the Chancellor - that there should be a more radical review of the scope for the disposal of Government Industrial Establishments to the private sector - he mentions the Royal Ordnance Factories and the Royal Mint as examples. He argues that one of the benefits of this

Long (1/2)
Pact -



CONFIDENTIAL

course would be that it would achieve a greater degree of financial discipline and decentralisation into pay bargaining. Most Ministers will probably not have had time to give this letter full consideration. You might suggest that it raises important issues, which could best be discussed through Sir Keith Joseph submitting a paper to E(DL) - the Group under the Chancellor on disposal of public sector assets. In other words it can be kept quite separate from the further work proposed in the Chancellor's paper on decentralisation within the public services.

CONCLUSIONS

7. You will want to record conclusions on each of the main candidates for studies of decentralisation covered above. Where follow-up action is agreed, you may like to give a fairly clear indication of the timescale for reporting back by individual Ministers, to avoid slippage:-

(a) Local authorities

Is it agreed that local authority associations should be consulted about a study? If so Mr. Heseltine and Mr. Younger could be asked to take soundings and report back in, say, two months.

(b) NHS

Is it agreed that consideration of full-scale decentralisation should be put off until the NHS reorganisation is out of the way? Should Mr. Jenkin be asked to report progress on the more limited study he already has in hand - again perhaps in two months?

(c) Non-industrial Civil Service

Is there any guidance the Committee wishes to give Mr. Channon on his consideration of the scope for geographical pay variations in non-mobile grades? When should he report progress - in one month or two?

(d) Industrial Civil Service

How soon can Mr. Pym and Mr. Channon report back on the limited exercise (i. e. on productivity bargaining and allowances) they are already considering? Do Ministers want them to go further and to study full-scale decentralisation in this area?

CONFIDENTIAL

(e) HMSO

As this is due to be considered by E(EA) next week you might simply ask for the decision to be reported to you after that meeting.

(f) Disposals of Government Industrial Establishments to the private sector

Sir Keith Joseph might be asked to submit a paper to E(DL).

J. Knight
PP. (Robert Armstrong)

12th February, 1980

Personal



NRK

Civil Service Department

Whitehall London SW1A 2AZ

Telephone 01-839-7733 ext

273 3174

15th Jan 1980

Dear Anne
I am sure you will be interested in the copy of the letter from the Minister of State to MOD on delegation of industrial pay.

You might like to see the attached copy of our Minister of State's letter to MOD on delegation of industrial pay.

Our understanding is that MOD will reply welcoming it. The suggestion to confine delegation to productivity pay is after all the conclusion of their own

study.

It may be therefore, as I suggested on the telephone, that there is no need for any intervention from the Prime Minister. Only you can judge whether a word on the Private Secretary not with MOD is needed.

Yours ever,
Neil

(NEA MOORE)



Minister of State

21/1/80
Mr NEA Moore
C PS / Lord President
PS / Perm Sec
PS / 2nd Perm Sec
Mr Burrell
Mr Pestell
Mr Whitbread

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

4 January 1980

Lord Strathcona
Minister of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

Dear Fran,

PAY OF INDUSTRIAL CIVIL SERVANTS - SCOPE FOR DELEGATION TO DEPARTMENTS

The Ministry of Defence paper on this topic (MISC 18(79)10) was discussed by officials in MISC 18 on 7 December, as part of the wider issue of decentralising public service pay. There was, I understand, no dissent from your conclusions in the MOD paper that there should be no fundamental change in the existing arrangement. Now I think we should deal with the specific proposals set out in the MOD paper.

I propose, therefore, that officials of our two departments, together with those of the Department of the Environment, should jointly study possible areas and extent of delegation as proposed in paragraph 21c. and d. of the MOD paper, taking into account the position of other departments employing industrial grades, who would need to be consulted as the study proceeds. I think the study should be conducted under our joint general oversight and that officials should be required to report jointly to us. Do you agree?

There are some important considerations which the study will need to take into account. To avoid misunderstanding later, I set them out below.

CSD Ministers have a statutory responsibility, under the Civil Service Order in Council, for the pay of all civil servants, including industrial. They also have the separate, but related, responsibility for approving the provision in departmental estimates and cash limits for Civil Service pay. These facts do not rule out some degree of de facto delegation; but that delegation cannot release CSD Ministers from their accountability for the results.

The purpose of this central ministerial control over Civil Service industrial pay, briefly stated, is to ensure the following:

- (a) that the expenditure on Civil Service pay is generally acceptable;
- (b) that the Civil Service conforms to any general Government policies which bear on pay and control of resources;
- (c) that changes in pay and conditions do not unwittingly lead to expensive repercussions either internally, as between one group of industrials and another; or as between industrials and non-industrials; or in the wider national context.

Any measure of delegation must be consistent with these purposes and we shall have to look at specific proposals in that light. We shall certainly approach the exercise with an open mind but it is very likely that any changes will be ones of detail and emphasis rather than of principle; and I doubt whether it will be possible to delegate all sectional issues and productivity schemes.

More generally, I think it is fair to say that in large measure the understandable frustrations felt by MOD line managers over the past few years are attributable to the rigid incomes policy of our predecessors rather than to the division of responsibility between CSD and MOD. The substitution of cash limits as the main method of control obviously has a bearing but a cash limit cannot be regarded as a substitute for other methods of control. Nor will all departments be in the same position when it comes to containing the costs of changes in pay and conditions, whether nationally or locally negotiated, within their respective cash limits. Some departments, like the MOD, will almost certainly have more elbow room than others; but, if such a department were to act without due regard to the position of others, the credibility of a common structure of pay and conditions of service would soon be seriously undermined.

For many years now pay and conditions of service for the JCC Group have been negotiated in national bodies (the JCC and the four Trades Joint Councils) of which the Ministry of Defence has a majority membership representing its central management organisation and its major line management commands. In short, we have tried to operate on the basis of a partnership where the role of the CSD has been in practice more that of "primus inter pares" than that of an independent controlling department. And I think that the best hope of solving the problems of employing departments within the varied constraints which inevitably apply is to develop that partnership still further - as, for example, has recently been done very successfully over the problem of differentials. It is within that framework that we should consider what useful measures of delegation are possible.

I am sending a copy of this letter to Geoffrey Finsberg because I think it would be right for officials of DOE to participate in the study from the outset since his department is represented on the JCC and the four Trades Joint Councils. If you broadly agree, I am sure we ought to press on with this as speedily as practicable.

Yours,

PAUL CHANNON

Paul

15 JULY 1960



