

PREM 19/399

Pay and Pensions. Report by the
 Government Actuary on the Superannuation
 deduction. Report of Civil Service

CIVIL SERVICE

Pay Research Unit (PRU) PART 2.

Pt 1: May 1979

London Weighting and travel Costs.
 Range Pay in the Higher Civil Service.

Pt 2: May 1980

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
|---------------------|------|---------------------|------|-------------|------|-------------|------|
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PREM 19/399

Material used by
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— Part 2 ends —

PART

2

ends:-

J. Vercher to Le Cheminant 25/2/87

PART

3

begins:-

LPC to PM 2.3.87.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

| Reference | Date |
|--|----------|
| E (80) 115 | 10.10.80 |
| E (80) 114 | 13.10.80 |
| E (80) 37 th Meeting, minutes 3 and 4 | 16.10.80 |
| E (81) 16 | 06.02.81 |
| E (81) 6 th Meeting, minute 2 | 12.02.81 |
| CC (81) 8 th Meeting, minute 5 | 24.02.81 |
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The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed *Wayland*

Date *15 February 2011*

PREM Records Team

25 February 1981

MR WHITMORE

Chor
f pay

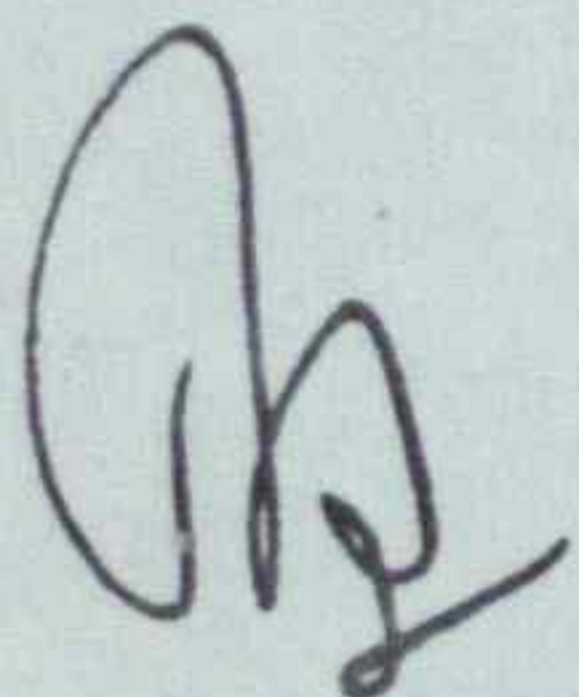
CIVIL SERVICE PAY

John Vereker copied me his note of 18 February and tells me that Sir Ian Bancroft vetoed the central suggestion.

I feel that John Vereker's idea was a good one. It doesn't seem right for you to let Bancroft veto this. I am astonished that Permanent Secretaries would not prefer to exercise this responsibility. They are the management, after all. Peter Parker and his team don't ask Norman Fowler to do this for them, as regards NUR and ASLEF.

I think Permanent Secretaries should explain to their staff that Ministers have decided that the 6% cash limit is the limit of what the Government can afford. They don't have to imply that they participated in this decision. But they should be willing to explain the reasons and, above all, spell out the consequences - eg likely recruitment ban, more unemployment, less efficiency, etc. It might be believed by the "middle-ground people" if they say it - it won't be so persuasive coming from a Tory Minister. (Of course, the message will be rejected by the militants either way.)

Don't you feel that the Prime Minister should have a chance to consider asking Bancroft to get the Permanent Secretaries to play their part? No point in starting a row with the Permanent Secretaries, but at least a quiet talk with Bancroft about the nature of their responsibility might be worthwhile. As matters stand, will she hear of the proposal?



JOHN HOSKYNS



Civil Service

10 DOWNING STREET

Blind cc: Mr Ingham
Mr Duguid
Mr Lankester

25 February, 1981

12

Civil Service Pay Arrangements

Thank you for sending me a copy of your letter of 20 February to Gordon Burrett concerning the establishment of MISC 54 to look at Civil Service pay arrangements, following the discussion in E on 12 February.

This is to let you know that I have agreed with John Hoskyns here that I should represent No.10 on this group.

I am sending a copy of this letter to Gordon Burrett.

J. M. M. VEREKER

P le Cheminant, Esq, CB

CONFIDENTIAL

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File

ds
Civil Service

cc ~~Mr. Ingham~~
~~Mr. Vercher~~



10 DOWNING STREET

From the Private Secretary

20 February 1981

Civil Service Pay: Future Arrangements

The Prime Minister has now considered the Lord President's proposed form of words which he would like to use in the pay negotiations on Monday concerning the future arrangements for Civil Service pay. (Jim Buckley wrote to John Wiggins about this on 16 February.) She has seen the Chancellor of the Exchequer's comments as contained in John Wiggins' letter of 18 February.

As I told you on the telephone, the Prime Minister would like the phrase - "which experience has shown to be relevant" - to be deleted, since she believes this could be misinterpreted to mean that the new arrangements will exclude factors for determining pay which have not hitherto been made use of. Thus, taking in the Chancellor's suggestions, the statement would read as follows:-

"The Government intend to review the arrangements for determining the pay of the non-industrial civil servants with the object of establishing as soon as practicable an ordered and agreed system which takes account of all relevant factors and which will command the widest possible acceptance."

I am sending copies of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

I. P. LANKESTER

Miss Vivien Life,
Lord President's Office.

CONFIDENTIAL

PRIME MINISTER

cc. Mr. Vereker

Civil Service Pay: Future Arrangements

The Chancellor and the Lord President have agreed the following statement of the Government's intentions on a new long-term framework for pay settlements - which the Lord President would use in his pay negotiations on Monday:

"The Government intend to review the arrangements for determining the pay of the non-industrial civil servants with the object of establishing as soon as practicable an ordered and agreed system which takes account of all relevant factors ~~(which experience has shown to be relevant)~~ and which will command the widest possible acceptance."

The underlining above is my own. We do not think it would be wise to include the underlined phrase because it could be open to the interpretation that the new arrangements will exclude factors for determining pay which have not hitherto been tried in the Civil Service. CSD tell me that that is not the intention: what they intended to mean is that experience since the Priestley Commission reported in 1955 should be taken into account - e.g. whereas Priestley ignored job security, experience shows that this is now an important factor.

The phrase does not really add anything, and to avoid misinterpretation I think it would be better taken out.

Agree?

[Handwritten signature]

Duty Clerk.

P.P.

T. Lancaster

Agree that the experience phrase should be deleted for

19 February 1981

the reason is

five. Supply amendments as done above.

CONFIDENTIAL

5/10/81



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

From the Private Secretary

18 February 1981

cc to Verma

Peter Shaw
Private Secretary to the Secretary of State
for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

R.

Dear Peter,

20/2

CIVIL SERVICE PAY

This is just to confirm what I told you on the phone earlier today in response to your Secretary of State's letter of 17 February.

We must ^{indeed} keep in touch about the progress of our respective negotiations. The Lord President is now due to meet the Civil Service Unions next Monday afternoon and there is no intention of moving beyond our existing offer of 6% before then. I understand that our officials are in close touch and will be keeping each other informed of any developments.

Copies of this letter go to the Private Secretaries of Ministers who received your letter.

Yours sincerely,

J. Buckley.

J BUCKLEY

CONFIDENTIAL

vk

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Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213.....6400 GTN 213
Switchboard 01-213 3000

Jim Buckley Esq
Private Secretary to the
Lord President
Civil Service Department
Whitehall
LONDON SW1

18 February 1981

Dear Jim

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for sending Richard Dykes a copy of your letter of 16 February to John Wiggins.

The Secretary of State is content with the wording of a statement on the Government's intentions as proposed in your letter. I am copying this to Tim Lankester, John Wiggins, and David Wright.

Yours sincerely
John Anderson

J ANDERSON
Private Secretary

Gips

12

W

*Civil Service
At-2*

MR WEIGHT

The Prime Minister was grateful for Sir Robert's minute of 16 February about Civil Service pay. She is content with the draft terms of reference for the MISC group of officials, except that she would like the first part to read - "To consider, against the background of the Ministerial discussion in E on 12th February, and the proposals prepared by CPRS, the elements ..."

TPL

18 February 1981

SH



cf
 Mr. Dwyer
 Mr. Watten
 Mr. Voreher

4 pps

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

18 February 1981

J. Buckley Esq.
 Private Secretary to the
 Lord President of the Council

12

Dear Jim,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for your letter of 16 February.

The Chancellor has asked me to make two comments on the draft statement to the unions.

First, he suggests that it would be better to say "The Government intend to review the arrangements ...". E Committee specifically decided to hold open the question of whether there should be an outside review. The use of the passive voice in the draft strongly implies that the Government will ask someone else to do the job, and so prejudices the eventual decision, whereas the active leaves the question more open, since it does not preclude the Government from later asking for outside advice.

Secondly, he suggests adding at the end of the statement the words "and which will command the widest possible acceptance". This reflects a point explicitly made in the Prime Minister's summing up at E Committee.

I am sending a copy of this letter to Tim Lankester, Richard Dykes, and David Wright.

Yours ever

John Wiggins

A.J. WIGGINS
 Private Secretary

CONFIDENTIAL



ELIZABETH HOUSE,
YORK ROAD,
LONDON SE1 7PH
01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Lord Soames
The President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

12 1472

17 February 1981

Dear Christopher,

CIVIL SERVICE PAY

I noted from my copy of your letter to Willie Whitelaw on 13 February that you were expecting to offer 7% to the Civil Service unions in the course of this week; and I understand through our Private Offices that this is likely to be on Friday or perhaps even next Monday. As you probably know negotiations begin this coming Wednesday on teachers' pay in the Burnham Committee and both sides there will be watching closely developments in the Civil Service and the NHS. Thus your timing and Patrick Jenkin's are of considerable interest to me and my representatives in Burnham and I should be grateful if you and he could keep us closely in the picture if there is any thought of bringing forward the offer to your unions or his or if there is any risk of its becoming public before Friday in advance of any formal meeting.

Copies of this letter go to the Prime Minister, all members of E Committee, Francis Pym, Patrick Jenkin and Sir Robert Armstrong.

*Yours ever
Mark*

MARK CARLISLE

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10 DOWNING STREET

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Top Copy:
Econ Aff,
Public Expenditure
Pt 13

From the Private Secretary

17 February 1981

The Prime Minister held a meeting this morning to discuss further the National Health Service and Civil Service cash limits and pay negotiations. In addition to your Secretary of State, the following were present: the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Employment, Scotland, Wales, the Chief Secretary and Sir Robert Armstrong. They had before them Mr. Jenkin's minute of 13 February.

Mr. Jenkin said that he had been dismayed at the reports in last Friday's newspapers about the Government's proposals for dealing with NHS and Civil Service pay. These reports had cut the ground from under the NHS negotiators. In reaching their decision on the six per cent pay factor, Ministers had assumed that if a settlement was reached at seven per cent, the volume of spending would be protected to some extent by savings on account of the 11 per cent price factor. But in fact, volume was unlikely to be unaffected unless the pay settlement could be held to six and one-third per cent. NHS management were taking the view that once they began to offer money from the non-pay cash limit towards the settlement, it would be very hard to avoid further concessions. They did not wish to see volume cut, and accordingly they seemed prepared to stick at a six per cent pay offer even though this would almost certainly result in industrial action. If they did decide to move to 7%, the consequent volume squeeze would cause considerable political difficulties for the Government. For it would fly in the face of the pre-election commitment to maintain the growth of volume spending. He would be seeing the TUC Health Services Committee later that day at one of his regular meetings with them. He would put to them all the arguments about the need for restraint on pay if volume spending was not to be affected. But he thought it most unlikely that they would listen to these arguments. Because of the link with the local authority manuals, it seemed improbable that the unions would accept an offer of less than 7½%.

Lord Soames said that there was bound to be industrial trouble on a major scale if the Government tried to stick to 6% in either the NHS or the Civil Service negotiations. By offering 7%, there was some prospect of avoiding this.

/In view

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27

In view of the reports in last Friday's press, it was necessary for the management sides to put the 7% figure on the table rightaway. Given the fact that it had been decided to set the pay factor at 6%, it ought in his view to be possible to finance 7% settlements by a slight manpower squeeze (though in the case of the Civil Service this would be on top of the reductions already agreed) and possibly by some transfer of funds from non-pay expenditure.

In discussion the following points were made:

- I Given that manpower in the NHS had risen by some 25,000 since the election, the squeeze consequent on a 7% settlement should not cause too much difficulty. When other programmes were being cut back, many people would be surprised to know that the health service was still expanding. Moreover, the recent report by the Controller and Auditor General seemed to indicate that there was scope for manpower savings.
- II On the other hand, it was pointed out that the pre-election commitment had been quite clear, and hitherto Ministers had taken it fully into account in their public expenditure deliberations. The 25,000 manpower increase was an automatic consequence of allowing the volume of spending to increase, and most of the additional posts were medical staff rather than ancillaries or administrators. The increase in spending was itself justified by the UK's ageing population and the resultant increase in the number of patients that the NHS had to cater for. As regards the C&AG's report, DHSS officials were confident that most of its criticisms could be effectively rebutted: for example, the report failed to distinguish the staffing requirements of teaching hospitals from the staffing requirements of ordinary hospitals.
- III Whatever the difficulties, the Government could not afford to increase the pay factor above 6%. If the unions insisted on taking out more than 6% in pay, they should be made to take the responsibility for any consequent volume squeeze. The argument should be turned against them to make it clear that they - and not the Government - were cutting volume and causing unemployment.
- IV If the pay factor was to be held at 6%, the sooner it and the 11% prices factor were announced the better.

Summing up, the Prime Minister said that there could be no going back on the decision to set the pay factor for cash

/limits

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limits at 6% and the prices factor at 11%. Pay settlements for the NHS and Civil Service would have to be negotiated within the cash limits thus set. In both cases, it seemed likely that the management sides would have to offer 7%; and if so, there would have to be some minor volume savings. The cash limit factors should be announced by Written Answer by the Chancellor of the Exchequer tomorrow (Wednesday).

I am sending copies of this letter to John Wiggins (HM Treasury), Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

I would be grateful if you and copy recipients could ensure that this letter has the same limited circulation within departments as the relevant minute of last Thursday's E Committee meeting.

J. P. LANKESTER

Don Brereton, Esq.,
Department of Health and Social Security.

CONFIDENTIAL

MR. LANKESTER

c. Mr. Ingham
Mr. Duguid

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

n

In his letter of 16 February to the Chancellor's Private Secretary, Lord Soames' Private Secretary asks for our views on the form of words proposed by Lord Soames for a statement of the Government's intentions on future arrangements for Civil Service pay.

The Lord President's formula, whether intentionally or not, is so constructed as to be open to the interpretation that the new arrangements will exclude factors for determining pay which have not hitherto been tried in the Civil Service. I do not believe that was the intention of E on 12 February, and indeed even the Lord President's own paper for E referred to the review considering factors such as retention rates, job security and market value.

Therefore, I think you might write to Lord Soames' Private Office proposing that the last phrase of his formula be deleted - as from "which takes account of" onwards. You may feel it necessary to consult the Prime Minister, in view of the terms of the E conclusions.

J. M. M. VEREKER

Tim.

I would shorten the last part less drastically: "...which takes account of all relevant factors"

sd.

17 February 1981



CONFIDENTIAL

Ami Armstrong

Content

PRIME MINISTER

R

Civil Service Pay 15/2

We need to follow up the decision of E last week that there should be preliminary consideration within Government of the elements which might form part of a new long-term pay agreement with the Civil Service unions. Subject to your agreement I propose that we should establish a MISC group of officials for this purpose. The chairmanship would fall naturally to the CSD. Others who would need to take part are representatives of the Treasury, Department of Employment and the CPRS, the No. 10 Policy Unit and, for the big battalions, the Ministry of Defence, DHSS and the Inland Revenue. The terms of reference might be:-

MV

"To consider, against the background of the Ministerial discussion in E on 12th February ^{and the proposals made by CPRS,} the elements which might form part of a new long-term pay agreement with the Civil Service unions; the possible extension of similar arrangements to the NHS; and to report."

2. In addition there will also need to be early consideration of the inter-relationship of any new arrangements with the cash limit system. As recent experience shows the issues here are difficult and contentious - they are indeed at the heart of the problem. I do not think it would help to mix them up with the immediate work. Once this is out of the way, however, the Treasury, in consultation with other Departments, will need to come up with specific proposals. If you agree, I will make sure the point is not overlooked.

REA

Robert Armstrong

16th February 1981

CONFIDENTIAL



cc. A. Duguid
A. Walker
J. Vereker

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

From the Private Secretary

16 February 1981

John Wiggins
Private Secretary to the Chancellor of the
Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

R. M. S.

Dear John,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Last Thursday E Committee agreed that the Lord President should make a statement of the Government's intentions on a new long-term framework for pay settlements, during the course of the present negotiations. The wording was to be agreed with the Prime Minister, Chancellor and the Secretary of State for Employment.

The Lord President would like to use the following words:

"The Government intend that arrangements for determining the pay of the non-industrial Civil Service be reviewed with the object of establishing as soon as practicable an ordered and agreed system which takes account of all factors which experience has shown to be relevant."

Would you let me know, please, if the Chancellor has any comments?

I am copying this, for their views, to Tim Lankester at No.10, Richard Dykes in Employment and David Wright in Sir Robert Armstrong's Office.

Yours sincerely,
Jim Buckley.

J BUCKLEY

CONFIDENTIAL

Top Copy
Econ Pol, PE 13
Public Expenditure

CONFIDENTIAL

VLB



cc: Cabinet
Chief Whip
Sir Robert
Armstrong

FILE
10 DOWNING STREET

hcc: John Vereker
Bernard Ingham

From the Private Secretary

16 February 1981

Dear Mr.

The Prime Minister has considered the Chancellor of the Exchequer's minute of 13 February, and agrees that the 6 per cent factor for pay and the 11 per cent factor for prices should now be announced - subject to the views of the Leader of the House and of the Chief Whip - on the basis proposed.

I am sending copies of this minute to the other Members of the Cabinet, to the Chief Whip and to Sir Robert Armstrong.

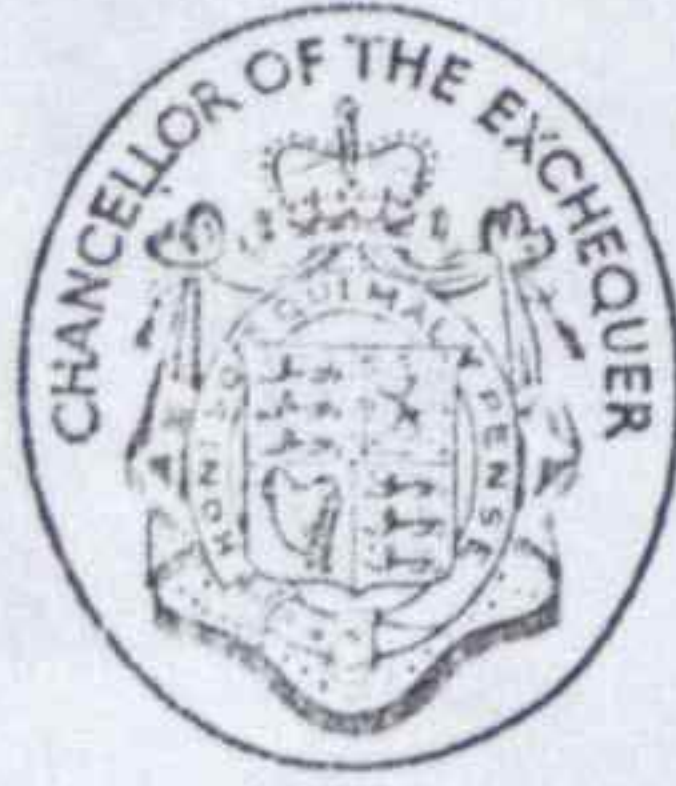
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[Handwritten signature]

A. J. Wiggins, Esq.,
H.M. Treasury.

BK

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Top copy:
Econ Pst, Pt B
Public Expenditure

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

PRIME MINISTER

CASH LIMIT FACTORS

Now that we have decided in E Committee that the cash limit factors for the NHS and for other central government Votes should be 6 per cent for pay and 11 per cent for prices, there would be advantage in announcing this to Parliament.

2. It has become the established practice to tell Parliament when a cash limit factor is fixed, and given to some outside body. It would be in accordance with this for there to be some announcement at the time that the Secretary of State for Social Services tell the NHS management side. Since an announcement about the NHS alone would immediately raise questions about the remaining cash limits, principally for the Civil Service, it would seem preferable to make an announcement covering both groups at the same time.

..... 3. Since confirmation of the 6 per cent is what most people are expecting, the announcement is straightforward. A Written Answer to a PQ - probably given by the Chief Secretary - should suffice. I attach a draft. The Leader of the House and the Chief Whip may wish to consider this procedure, in the light of the criticism at the end of the last session of the announcement of the local authority cash limit factors by Treasury Written Answer. Nevertheless the figures now proposed are those which people will have been expecting, and I rather doubt whether the announcement now warrants an oral statement.

/4.



4. If you agree, I will go ahead on the basis of a Written Answer. I will of course agree the timing with the Secretary of State and the Lord President in relation to their negotiations.

5. I am sending copies of this minute to the other Members of the Cabinet, to the Chief Whip and to Sir Robert Armstrong.

Wiggie
for (G.H.)

13 February 1981

(Approved by the Chancellor & signed in his absence)

CONFIDENTIAL

DRAFT PARLIAMENTARY QUESTION AND WRITTEN REPLY

Q. To ask the Chancellor of the Exchequer whether he will confirm the cash limit factors to be used in calculating the cash limits for the National Health Service and for other central government cash limits?

Draft reply

Yes Sir. As I announced on 24 November last, the cash limits and Votes will allow for expenditure other than pay for an average level of prices in 1981-82 11% higher than the corresponding level in 1980-81. They will allow for increase in earnings of 6% in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual settlements due after that date.

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think they should announce
Top Copy: Econ Pol
PE13 Public Expenditure

MR. LANKESTER

Yes - I think it should be announced. I think they should announce the 6 and 11% now, as proposed by the Chancellor.

cc. Mr. Ingham

CIVIL AND HEALTH SERVICE PAY

So let's do it. Agree subject to changes with? ...

See attached minutes

I understand that the Chancellor has been advised to propose to the Prime Minister that he announce the 6 per cent pay factor by written reply early next week.

If he does so, there are conflicting considerations:

- (i) Everyone will interpret that as a 6 per cent pay norm, which will make it harder to present a 7-7½ per cent settlement (if that can be achieved) as being consistent with Government policy. In the case of the NHS there is some flexibility as between pay and non-pay elements; in the case of the Civil Service the extra amount might be squeezed out of the normal shortfall of staff below manpower ceilings (in which case the Treasury has to accept the risk of breach of cash limits involved in budgeting for more personnel than can be afforded). And if 7-7½ per cent cannot be achieved, there would have to be a very public climbdown.
- (ii) But it will strengthen the hands of negotiators, and quell rumours in the media of Government willingness to go still further. Mr. Ingham thinks it would be helpful to have 6 per cent on the record.

The Lord President should be given the opportunity to comment (and will be advised to resist, I think); but the balance of advantage does seem to lie with making the announcement.

J.V.

13 February 1981

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cc J Venetia
H. Duguid
A. Watters

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

13 February 1981

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

R
17/2

Dear Willie,

CIVIL SERVICE PAY

I explained to colleagues in E Committee why I thought it necessary to offer 7% to the Civil Service unions and I was authorised so to do. I intend to put this to them next week.

The authorisation was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11% and this is to warn colleagues that they will therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

Copies of this letter go to the Prime Minister, all Ministers in charge of Departments and Sir Robert Armstrong.

Yours ever

Christopher

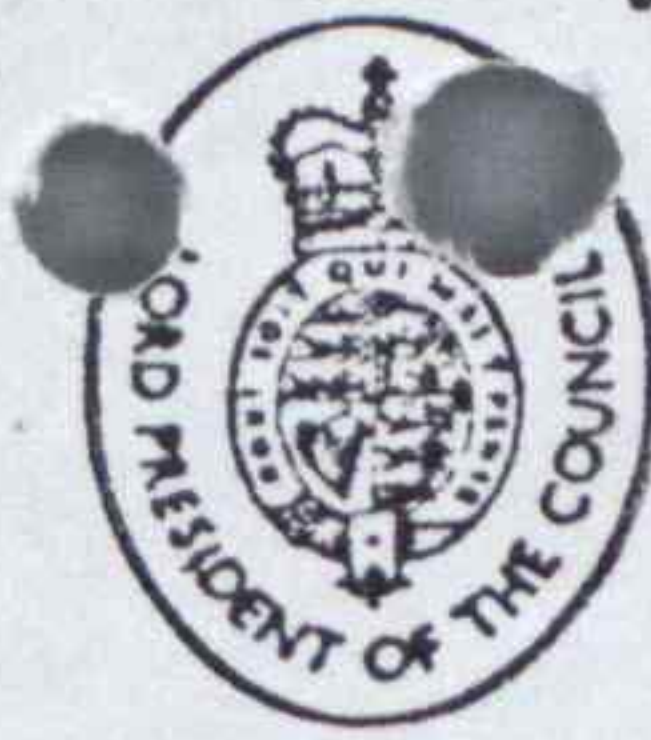
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Civil Service
Pay



Mr. Howe
Mr. Wilt

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

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

copied to
Civil Service Pay
+ Public Sector Pay

11 February 1981

Dear Geoffrey,

Top copy:
Exon Pt, Pt 13
Public Expenditure
Pt 13.

CIVIL SERVICE PAY NEGOTIATIONS

On Monday morning I met representatives of the Civil Service non-industrial unions. They confirmed their rejection of the offer of 6% made to them by officials last week. I undertook to consider their representations. But I held out no hope that we would move from our tabled offer.

The unions made it clear that they also attach great importance to what can be said to them now about the future arrangements for settling Civil Service pay. That is dealt with in the two E papers which we have circulated to our colleagues and which will be discussed at Thursday's meeting. I suggest we also reconsider at that meeting the level of pay increase which we are prepared to go to for the Civil Service.

My judgement is that some industrial action in the Civil Service is pretty well certain; but that a step up from 6% to 7% coupled with a statement on the lines I suggest in E(81)16 would bring about a qualitative change in the intensity of that action in that it would strengthen the hand of the moderates. This outturn would still I believe be widely seen in national terms as a considerable achievement.

So I ask for authority to go to 7% with the unions together with a formula on the future, as and when in my judgement this would be helpful. I would not necessarily use them both together.

I have seen Patrick Jenkin's letter about the NHS pay negotiations. I believe we have to look at the two groups together and deal with the pay factor on the same basis for both. Clearly if Patrick Jenkin is able to negotiate a settlement in the NHS at 7% this would greatly strengthen my hand in persuading the Civil Service to accept similar treatment.

I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

James
Christie



Duty Clerk
11/2/81

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PE13.

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

PRIME MINISTER

ms

PAY AND CASH LIMITS

You will have seen the letters to me from the Secretary of State for Social Services and the Lord President of 10 and 11 February 1981. I agree that, if the timetable of the negotiations requires this, we should discuss this at E Committee tomorrow. It might help the discussion if I set out my views for you and our colleagues before then.

2. It is essential that we should draw a clear distinction between the discussion of the pay settlement and the discussion of the cash limits factor. We did not intend the 6 per cent factor to be a pay norm. It is the basis for calculating the cash limits, which determine the finance available for each service. We have made it clear throughout publicly that particular settlements will diverge from that factor.

The pay negotiations

(a) National Health Service

3. I accept that it may well be necessary to settle at over 6 per cent for the NHS ancillary staff. I think that the negotiators should be instructed to do everything possible to secure 7 per cent rather than 7½ per cent.

4. I would see no difficulty with the move of the settlement date, subject to the conditions which Patrick Jenkin proposes. The first is that the lump sum should be subject to the limit he suggests. The second is that the base level for 1982-83 cash limit should not be increased by more than the pay factor for 1981-82. Payments during the current year would of course have to be contained within the existing cash limit.

CONFIDENTIAL



$\frac{1}{3}$ per cent. It hardly seems worth the opprobrium and other disadvantages in changing the factors to achieve such a marginal effect.

16. I am copying this minute to members of E Committee and Sir Robert Armstrong.

Jas

PP. (G.H.)

11 February 1981

APPROVED BY THE CHANCELLOR OF THE EXCHEQUER
AND SIGNED IN HIS ABSENCE

CONFIDENTIAL



5. But I am not convinced by the arguments that there has to be the same level of settlements throughout the NHS. The ancillaries had a smaller increase in the last round than other groups, so it would not be inconsistent for them to be paid more in this one. Moreover, most of the arguments in the letter seem to be based on comparability in this round. They ignore both the extent to which public sector groups have done relatively better in recent years, and the need to limit settlements to what we can finance.

(b) Civil Service

6. I think we must take a robust line on civil service pay. It would do great damage both economically and politically if we were seen to retreat in this area. The civil service has enjoyed increases in pay rates over the last two years of nearly 50 per cent and, despite our reduction in manpower, is enjoying job security at a time when unemployment is rising sharply in the private sector. There is little public sympathy for civil servants and I believe the unions and their members realise this and are influenced by it.

7. I see no reason why a settlement higher than 6 per cent for the NHS ancillaries requires an increase higher than 6 per cent for the Civil Service.

Cash limits

8. Even if the pay settlements have to be higher than 6 per cent, that does not in itself require a higher factor for pay in setting cash limits. There are powerful reasons to sustain our previous decision of 6 per cent.

9. A change of 1 per cent in the pay factor would cost £120 million for the NHS and Civil Service. We cannot afford additional expenditure next year on that scale, especially after what has happened since November to increase the intended volume for next year.



10. To announce an increase in the pay factor alone would be seen as a major climb-down by the Government. It would rightly draw considerable criticism from our supporters and from private sector employers. It is widely assumed that "broadly the same financial discipline" means 6 per cent. Nothing has happened since we fixed that factor for the RSG which should lead us to a change of view. It will be clear that we have ourselves based the Estimates on that assumption. If the pay factor alone were changed we would either have to delay publication of the Estimates, explaining why, or publish them as they stand and take a whole series of Supplementaries.

11. An announcement now would undermine the position which the Secretary of State for Education has taken in the negotiations on university teachers' pay. We should not prejudice achieving that settlement. The change would lead to pressures to re-open cash limits already announced, for the Universities and for the RSG: we cannot contemplate that.

12. Nor should sticking to the 6 per cent factor lead to an unacceptable squeeze on programmes. The prospect for inflation in the coming year is now somewhat better than I expected when I proposed, and Cabinet agreed, the price factors of 11 per cent. This may give some room for manoeuvre in those cases where the cash limits include both pay and price elements, since the cash limit will overprovide for the latter. In the case of the NHS, improvement by, say, 1 per cent in actual prices is worth £30 million, compared with the cost of an additional 1 per cent on pay of £70 million (for the United Kingdom as a whole). The net effect is that the volume is likely to be 1/3 per cent lower than we had in mind in November when the factors were first discussed. If inflation were somewhat less than 10 per cent - which is quite possible - there would be no squeeze at all. I recognise the Secretary of State's concern to maintain the volume of health spending, but in present circumstances running the risk of a marginal reduction would seem justifiable.



13. Even that risk only arises on the assumption that all NHS staff would receive the higher pay settlements. I have argued above that it would be defensible to give the ancillaries more than others. Since an additional 1 per cent of the ancillaries' pay bill would cost about £12 million, it is clear that it could be afforded within the margin created by the improvement in the prospect for prices.

14. There is less room for manoeuvre between the pay element and the price element on the majority of Votes and cash limits which include Civil Service pay. In those cases holding to the present 6 per cent factor while agreeing a higher settlement would involve a greater reduction in numbers than already planned. But it would be difficult, surely, to defend an increase in the pay factor of 7 per cent on the grounds that 6 per cent would involve an intolerable extra reduction in Civil Service manpower. If colleagues consider that such a reduction is intolerable, then we must go for a lower settlement.

Conclusion

15. I therefore feel very strongly that the right course now is to retain the 6 per cent factor and to accept that any settlements of a higher percentage rate should be financed by the advantage to be gained from retaining the 11 per cent price factor, and from economies within the cash limits concerned. If despite the arguments I have set out colleagues were to consider that we had to increase the pay factors, I would have to propose the reduction of the price factor to 10 per cent for the reasons which we discussed earlier, not least the need to offset the increased cost of £120 million. The effect of the two changes would mainly be a switch between different cash limits with a slight net increase in public expenditure (some £15 million). The effect on the NHS cash limits would be to increase gross expenditure by just over

Civil Service Pay

Top Copy:
Econ Aff, Public
Expenditure, Pt 13

Ref. A04246

MR WHITMORE

I gather that in the discussion of public service pay tomorrow the Secretary of State for Social Services and the Lord President will seek authority to raise their pay offers from 6 to 7 per cent, and will ask that their cash limits should be raised accordingly.

2. It appears that the Chancellor of the Exchequer is at present minded to argue strongly in favour of sticking to the agreed cash limit factors of 6 per cent for pay and 11 per cent for prices; but that, if the sense of the meeting goes against him on the pay factor, he will say that he must reopen the price factor.

3. He is clearly right to try to stick to the agreed factors of 6 per cent and 11 per cent. I fear, however, that, if he threatens to reopen the price factor at tomorrow's meeting, we shall (in the light of the history) have a very bad discussion. I wonder whether the Prime Minister might suggest to him that, if he cannot hold the Committee to the 6 per cent and 11 per cent, he should say no more than that if the Committee decides to go for a 7 per cent pay factor for the Civil Service and NHS cash limits he will have to consider the consequences and come back to his colleagues in a week's time with further proposals without specifying what those might be. That would at least give time for some more considered discussion and the consequences, and would slightly improve the prospects of avoiding another round of disorganised discussion.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

11 February 1981



10 DOWNING STREET

Tikh. T

See X below.

Your note of Wednesday's discussion says a choice needs to be made between Civil servants and all public servants.

Actually the choice is between all white collar employers (the right choice) and public servants.

David.

~~cc Hoare~~
~~Verbatim~~

SECRET



→ AD

Top Copy
Civil Service

2.12 July 80

Contracts of
Employment

PRIME MINISTER

LAYING OFF WITHOUT PAY

In my minute of 2 December I reported that instructions had been given for the preparation of draft Bills to permit the laying off without pay of employees who were without work because of the industrial action of others. I said that knowledge of the Bills would be tightly restricted.

Draft Bills have been drawn up by Parliamentary Counsel in consultation with officials in the Department of Employment, the legal Departments, and my Department. One Bill covers all employees; the other is confined to the civil and public services. In my view it would be unwise to widen knowledge of the Bills at this stage by sending copies of them to other Departments. Jim Prior agrees. Given priority, it should be possible to consult other Departments, and to prepare final versions, within a week of taking a decision to lay either Bill before Parliament.

The draft Bills include wide powers of lay-off but Jim Prior and I agree that this is inevitable. We also agree that we shall have to do without provision for pension protection in the Bills. My minute of 2 December warned that it would be very difficult to achieve this for the generality of employees; the study by officials has confirmed that this is so. (If we wanted to, however, we could amend the relevant civil/public service schemes without a specific provision in either of these Bills.)

In view of the severe damage which would result from a leak, I have instructed that no further work should be done on the drafts until a decision has been taken to introduce legislation.

I am copying this only to the Secretary of State for Employment and Sir Robert Armstrong.

S

CONFIDENTIAL

HS



File

CIVIL SERVICE

10 DOWNING STREET

From the Private Secretary

12 January 1981

Dear Tim,

The Prime Minister has seen the Lord President's letter of 23 December about Civil Service pay research, and - provided other Ministers are content - she agrees with his proposals for dealing with pay research in 1982. The Prime Minister assumes that the arrangements proposed would not in themselves limit our ability to make desirable improvements in the PRU system.

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

A handwritten signature in dark ink, appearing to be 'Tim Laker'.

Tim Laker.

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

CONFIDENTIAL

File



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

9 January 1981

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

Don Chittenden

CIVIL SERVICE PAY RESEARCH

- 1 In your letter of 23 December to Geoffrey Howe you suggest that we should postpone any decision about the role of PRU in the 1981 pay negotiations.
- 2 I think it is most desirable to keep all our options open and I agree with the terms in which you propose to write to the unions.
- 3 I am copying this letter to the Prime Minister, to all Cabinet colleagues and Sir Robert Armstrong.

Evans

Kear



T/L (OR) to see
MS

Treasury Chambers, Parliament Street, SW1P 3AG
, 01-233 3000
8 January 1981

The Rt. Hon. Lord Soames, GCMG, GCVO, CH, CBE
Lord President of the Council

A handwritten signature in dark ink, appearing to be 'D. M. ...'.

CIVIL SERVICE PAY RESEARCH

Thank you for your letter of 23 December.

I agree with you that there is no prospect of our reaching a final decision on whether or not pay research should continue in its present form to meet the timetable under normal pay research procedures. On the other hand, we must keep the options open, even if we decide that pay research in its traditional form should not continue, we may nonetheless want pay research data to be available as one input into the 1982 negotiations. I therefore agree with your view that we need to keep the options open, and I am content for you to proceed in the way you propose.

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

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'G. Howe'.

Andrew . D. Hanford
for many years to see

CAMPBELL CHRISTY (SCPS) - INTERVIEW ON CIVIL SERVICE PAY

Transcript from BBC Radio 4, World at One, 29 December 1980

INTERVIEWER : (Brian Widlake) ... I asked Campbell Christy, assistant general secretary of the Society ~~xx~~ of Civil and Public Servants, what form the disruption of official work was likely to take?

CHRISTY: It would be for the various unions at their consultative conferences, which ~~xx~~ take place in January and February, to decide. But in our Paper to our Conference, it takes place on 28 January, we have ~~said~~ that there should be an all out stoppage in the civil service for a day as a demonstration of the anger that the civil servants feel about the way the Government is treating them. And then that should be followed by selective action in key areas of Government which will be for a long time scale; and that will seek to damage Government's collecting of finance, paying out of finance and other key Government areas where civil servants are employed.

INTERVIEWER : Do your members work in key areas?

CHRISTY: Yes, our members are not quite all bureaucrats as they're often depicted, our members work in key Government computer installations that collect all of Government funds, that pay out bills to farmers and to defence contractors. Our members man the ports and airports - our immigration officers and Customs officers. Our members man key defence establishments, the supply of defence stores and the like. Civil servants are providing services to the country throughout a whole range of Government services, important Government services.

INTERVIEWER: May I ask you this; what right have you got as a union to disrupt the work of a Government which was mandated by the electorate to Govern?

CHRISTY: Well that's a hoary old tale; Governments are elected of course to govern and they have to have their policies and they will seek to implement their policies. But they also, however, have to deal with people fairly, they have to be seen to be dealing with people fairly. We have an agreement that was freely entered into with Government as to how our pay should be dealt with. The Government have renege^dd from that. They have suppressed the facts. The Pay Research Unit's report which would have demonstrated what settlement² there should have been in the civil service has been suppressed by the Government. Now in that situation of course in any democracy people who freely join trade unions are bound to consider their position and consider whether or not they're being dealt with fairly.

INTERVIEWER: The local authority workers have been asked to accept 6%, why should you be treated any differently?

CHRISTY: Well I don't know the basis of the local authority² manual workers settlement. But I know how civil service pay is dealt with, and we are dealt with on the basis of comparisons with what's being paid for the same sort of work outside the civil service. The Pay Research Unit provides the evidence of that so that we can settle pay. The Government have suppressed that information. If that information was made available and we negotiated on it, and if that showed 6% as what was due then of course; that is what the settlement would be. But if, as I believe and we firmly believe, it would have showed more than that - and obviously it would have done else the Government wouldn't have suppressed it - then we should be paid what our agreement says we should be paid. Now local authority settlements: that's for local

authorities to deal with. What we're concerned with is how civil servants are paid, and civil servants should be paid in accordance with the agreement; and that is what's being paid for the same sort of work outside the civil service. Otherwise we'll have a very poor civil service, we won't be able to recruit people, we won't be able to attract people, we won't be able to maintain people in the civil service, we'll have poorer services ~~xx~~ to the country. And that's why fair comparisons has always been the basis of settling civil service pay for the past 25 years.

INTERVIEWER : But will it be your intention to bring the key areas that we have been discussing, computer installations and so on, to a grinding halt if that happened?

CHRISTY: If we have a dispute with the Government we will seek to bring to a halt important functions of Government. No doubt about that, important functions of Government.

INTERVIEWER : Permanently or semi-permanently?

CHRISTY: Well permanent's a long time. We will seek to prevent functions of Government operating for a period sufficiently long for the Government to realise that civil servants have to be dealt with fairly. Now we hope that the message will have got home to the Prime Minister now that that will happen unless we're dealt with fairly. And she can avoid it, she can avoid it by honouring the agreement we have with the Government as to how to deal with civil service pay. Now we don't want to see disruption in the civil service, we want to see civil servants provide the service that they're paid for by the community to provide, but they have to be dealt with fairly. They have to have fair pay levels, and if the Government are prepared to negotiate on that basis then there will be no disruption. But if the Government decides on their say so it shall be 6%, no negotiations and that's what they're going to

apply, then there's bound to be a reaction. Five hundred thousand people are not going to sit back and say yes that the Government will dictate 6% this year, what about next year. Will it be the same again, will the Government dictate to 500,000 people what their pay should be. Will there be no negotiations. That can't persist can it. No one can see that as being a sensible way of dealing with civil service pay. And I hope the Government will see that now and not fall into the same trap as the Labour Government did in 1979 by dishonouring the agreement, by seeking to impose 5%. And at the end of the day after a disruptive damaging action by the civil service we got a proper pay settlement. I hope that can be avoided, I hope the Government have enough sense to see that that's not the way forward.

INTERVIEWER: Campbell Christy, and I should tell you that the civil servants are looking for a 19% increase.



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

with view of

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

23 December 1980

Prime Minister

*La Commis proposes to
postpone a decision on PRU
for 1982 until the summer.
This seems sensible. Content
provided other Ministers are?*

Yes

Dear Chancellor,

CIVIL SERVICE PAY RESEARCH

As you know, we suspended the Civil Service Pay Agreements and the pay research procedures governed by them only in relation to the April 1981 settlement.

TL

23/12

Under those procedures we would need to reach agreement with the Civil Service unions by the middle of next month on the detailed arrangements for external surveys by the Civil Service Pay Research Unit in readiness for the negotiations on the April 1982 settlement. It is much too soon for us to decide whether we shall be able to reach agreement with the unions on the kind of changes we want to the pay research system or even then whether or not we will wish to return to pay research as the basis for the 1982 settlement. At the same time we do not want now to rule out that option.

The sensible thing would be to postpone a decision on this until the summer. Therefore I propose that we should decide now that if in the event we do return to pay research we would ask the PRU to bring up to date in the autumn the information which it has collected this year but has not released to the negotiating parties. This would not prejudice our room for manoeuvre in deciding how to interpret or apply the evidence following the discussions with the unions on pay research procedures.

To cancel the arrangements for fresh surveys would technically involve a further breach of the Pay Agreements. The unions will therefore no doubt protest about it. But since it will keep open the option of a return to pay research in 1982 I hope that they will at least acquiesce in it.

CONFIDENTIAL

Unless you or other colleagues see any objection I propose to write to the Civil Service unions on 9 January to tell them:

- (a) we still have a long way to go in our discussions on changes to the pay research system;
- (b) we do not yet know whether there will be a basis on which both sides will want a return to pay research in 1982;
- (c) against this background we do not want to launch fresh external surveys which might prove to have been wasteful;
- (d) but at this stage we do not want to close any options for 1982;
- (e) and therefore we propose to instruct the PRU not to begin fresh surveys. If a return to pay research is agreed then they should bring up to date in the autumn the information on pay rates collected this year.

I am sending copies of this letter to the Prime Minister, to other members of the Cabinet, including Norman Fowler and to Sir Robert Armstrong.

Yours sincerely,

Quincey

(Private Secretary)

*Dictated by the Lord President
and signed on his behalf.*

SOAMES



John Hoskyns Esq
10 Downing Street
LONDON SW1

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

*Index - game, set and match -
in my view - to Soames.*
copy to Soames

Civil Service 4/12

Albany

December 1980

Linda (Ming unit)

Can I see X

Mr.

12

2/12

Dear Hoskyns,

PAY COMPARABILITY

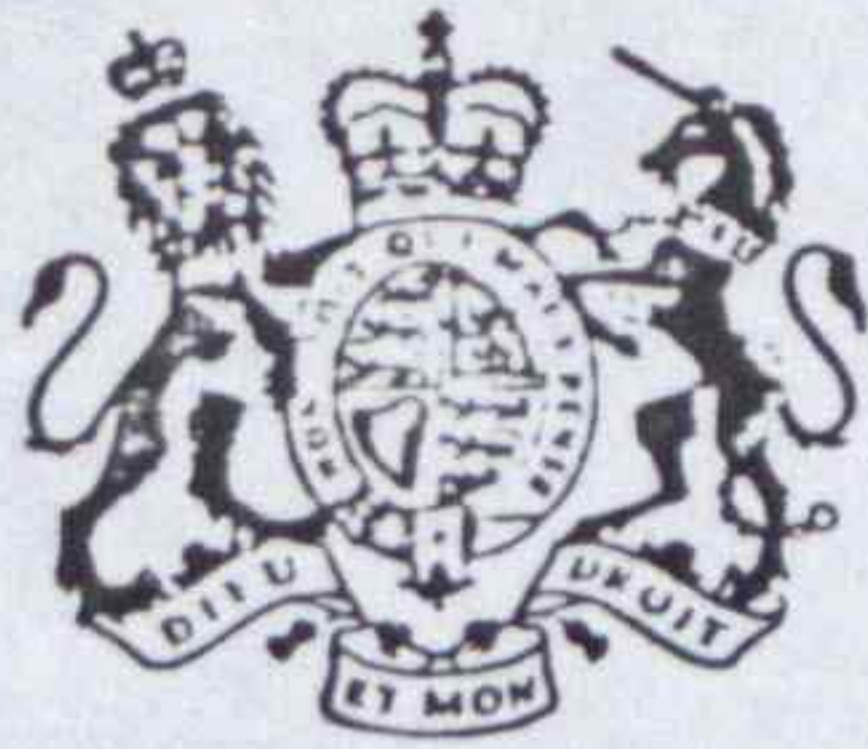
X

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

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

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

*Yours sincerely
Soames*



F. Ray

10 DOWNING STREET

19 November 1980

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

Dear Christopher,

PAY COMPARABILITY

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

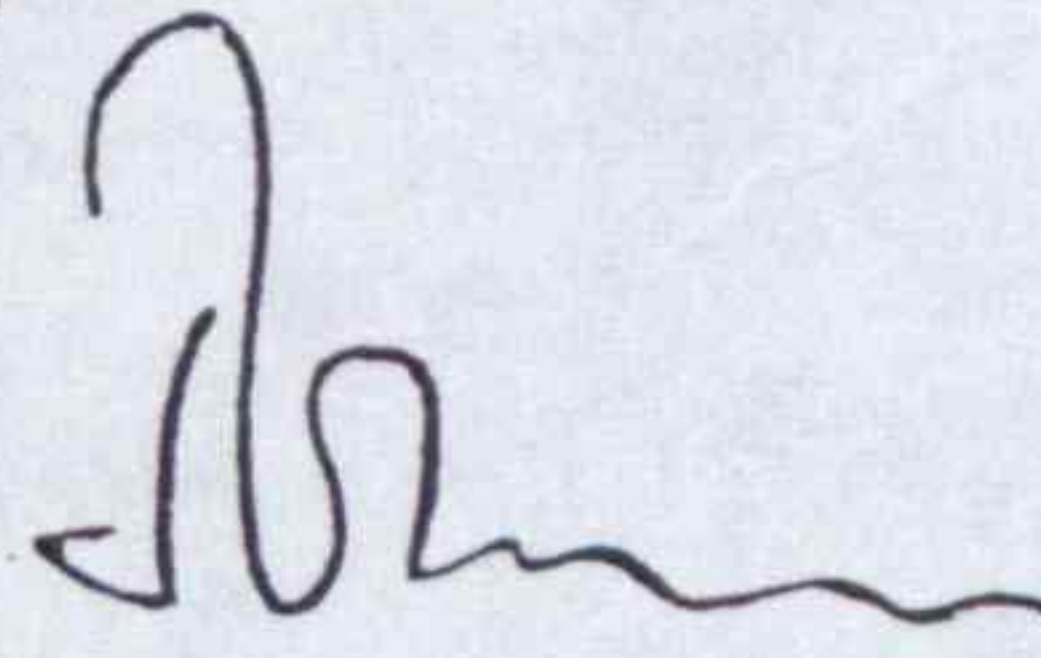
Nevertheless, anecdotes can be helpful (as no doubt Nigel Vinson's letter to Paul Channon was helpful) in that any information is better than no information, provided it is properly evaluated.

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

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

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

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

Yours ever


JOHN HOSKYNS

hinda. Could you look up
my note to Soames



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

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

14 November 1980

Dear Mr Hoskyns,

PAY COMPARABILITY

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

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

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

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

Yours sincerely,

Soames

(Private Secretary)

Dictated by Lord Soames
and signed on his behalf.



H M DEVELOPMENT COMMISSIONERS

The Development Commission *B/F 20 Nov - after chasing Mr Swales for answer.*

01-222 9134

file

13/11

11 COWLEY STREET LONDON SW1P 3NA

From the Chairman

M/S 57 NOV 1980 E 1

5 November 1980

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

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

Mr Swales

for advice and draft reply pl

- " PS / Hd President ✓*
- PS / Asst Sec*
- PS / 2nd Asst Sec*
- Mr Burnett*
- Mr AEA Moore*
- Mr Pease*
- MS.*

David Wolfson

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

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

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

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

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

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

[Handwritten signature]

[Handwritten signature]
NIGEL VINSON

30 October 1980

Policy Unit

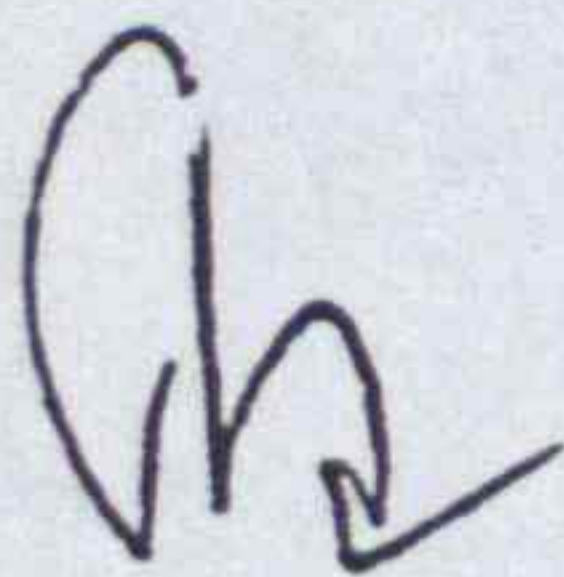
PRIME MINISTER

PAY COMPARABILITY

You may be interested in some anecdotal information passed to me by Dr Bernard Donoughue (head of the Policy Unit in the Wilson-Callaghan Governments) when he rang up to say how glad he was that we had at last suspended comparability.

He said that when recruiting recently for the Economist Intelligence Unit, they were looking for one or two additional economic forecasters in the age group 31-35 years. They interviewed a 32 year old civil servant who was paid more than anyone other than the top three people in the EIU. The civil servants they spoke to were paid in the range £12,500-£14,500. But they would not take the job because they said that they would want at least another £3,000 to compensate for the loss of an inflation-proofed pension. As Donoughue pointed out, if they had joined EIU (which could not afford to pay that salary) at £15,500-£17,500, they might well have then joined the population of analogues for comparability purposes!

I am copying this minute to Geoffrey Howe and Christopher Soames.



JOHN HOSKYNS

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

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

Handwritten signature

Handwritten initials

20 November 1980

Dear Secretary of State

Handwritten initials and date

PAY OF PETROLEUM SPECIALISTS

I have seen the No 10 Letter of 17 November to your Private Secretary recording the Prime Minister's agreement with your proposals. Just for the record, I should add that I was on the point of agreeing with your proposals myself. As you know, my concern was about possible problems of presentation and repercussions. In the light of Paul Channon's letter of 14 November, copied to you, I am sure that the risks on these fronts are not sufficient to stand in the way of your proposals.

I am copying this letter to the Prime Minister, to Paul Channon, and to Sir Robert Armstrong.

Yours sincerely

R. W. F. H.

PP

JOHN BIFFEN

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



+ J. Veckes

Civil Service

10 DOWNING STREET

From the Private Secretary

17 November 1980

Dear Julian,

PAY OF PETROLEUM SPECIALISTS

The Prime Minister has seen the correspondence about the pay of petroleum specialists, starting with your Secretary of State's letter of 23 October to Mr. Channon and ending with his letter of 13 November to the Chief Secretary. She has noted the Chief Secretary's doubts about the proposed settlement, but she believes these are outweighed by the arguments set out by Mr. Howell; and she believes, therefore, that it would be right to proceed with the proposed settlement without collective discussion.

I am sending copies of this letter to the Private Secretaries to the Minister of State (CSD) and to the members of E Committee, and to Sir Robert Armstrong.

Julian West, Esq.,
Department of Energy.



JS

E.P.

Ann Austin
I support the
conclusion at x
below.

MANAGEMENT IN CONFIDENCE

MR. LANKESTER

c. Mr. Ingham
Mr. Duguid
Content?

PAY OF PETROLEUM SPECIALISTS

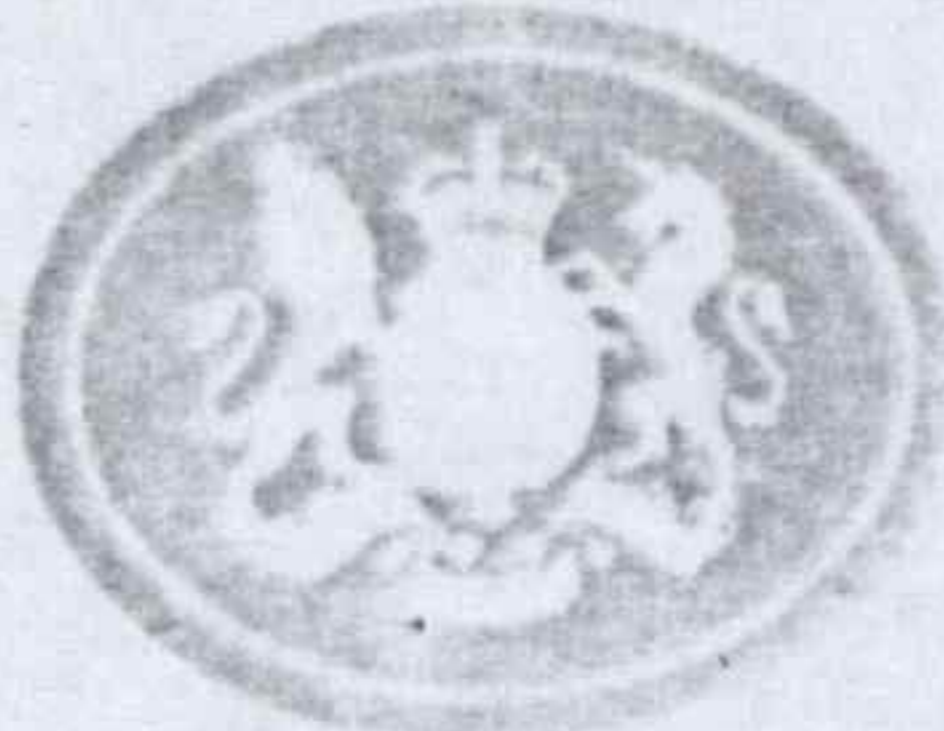
Yes not
D.
14/11

The attached correspondence from Mr. Howell, Mr. Biffen and Mr. Channon concerns the difficult question of what pay rise the Government can agree to for the petroleum specialists in the Department of Energy, with effect from 1 April 1980. On the one hand, the increases indicated by a comparability exercise are both very high in themselves - ranging from 26.5% to 39.7% - and, in view of the suspension of the PRU reports, might cause resentment within the rest of the Civil Service; on the other hand Mr. Howell makes out a convincing case for the need to pay the market rate for this very small group of less than 100 specialists.

I think the case made out by Mr. Howell is too strong to ignore. The potential costs to public expenditure of failing to staff adequately the Petroleum Engineering Division in his Department are massive. Furthermore, this is a settlement left over from the last pay round, and as a result I doubt if it will cause bad feeling within the Civil Service. I think therefore Mr. Howell should be allowed to proceed as he suggests, in his letter of 23 October.

The Chief Secretary does not seem to indicate any great degree of opposition, and if the Prime Minister agrees I suggest that you might write round to the Private Secretaries of E, indicating that she is content for Mr. Howell to proceed without a meeting of E.

J.V.



SECRETARY OF STATE FOR ENERGY

10, WHITE HALL, LONDON, E.C. 4

TELEPHONE: 01-211-6402

01-211-6402

Rt Hon John Biffen MP
Chief Secretary
Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

a h vaker

13 November 1980

Dear John

*R
12/11*

PAY OF PETROLEUM SPECIALISTS

Thank you for your letter of 12 November. As I said in my letter of 23 October we are concerned here with the pay of fewer than 100 people, and although it would be for Paul Channon to assess possible repercussions elsewhere, I cannot believe, even if they occur, that they would be as serious as those which might arise if we fail to pay our people the market rate.

2 The staffing situation is daily becoming more difficult. A number of the Petroleum Specialists involved in Seventh Round licensing negotiations have considerably impressed their oil company counterparts and we are aware that at least 5 of our better people are awaiting the outcome of this pay review before deciding whether or not to accept oil company offers of employment. I cannot stress too strongly that unless we decide very quickly to pay the market rates set out in 5(b) of my letter of 23 October the situation will almost certainly deteriorate beyond remedy especially as the oil companies will be increasing salaries again in January 1981. In that event my Department would no longer be able to discharge effectively its responsibilities in the North Sea and the dire consequences illustrated in paragraph 4 of my letter would become much more likely to occur.

3 I hope that we could avoid too much publicity, but if we could not then we should simply have to state unequivocally:

- (a) that the increases are part of the April/May 1980 settlement for the Civil Service and that the numbers involved are so small that the cost can be contained within cash limits, and
- (b) that the scale of the increases is justified by the need to ensure against expensive accidents and loss of Government revenues.

4 You refer to the need for a collective decision. In view of the urgency of this matter I hope we can avoid formal submission to 'E' Committee. If it would help I should be very ready to meet with yourself and Paul Channon in an effort to reach a quick decision.

5 I am copying this letter to Paul Channon, members of 'E' Committee and to Sir Robert Armstrong.

G. M. C.

David

D A R HOWELL

Civil Service



cc Mr Duguid
 cc Mr [unclear]
 + letter of
 10 Nov.

Treasury Chambers, Parliament Street, SW1P 3AG

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

R, 12/11/80

12 November 1980

Dear Secretary of State

PAY OF PETROLEUM SPECIALISTS

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

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

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

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

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

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

Yours sincerely

R. Watts

PP JOHN BIFFEN

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



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

Minister of State

The Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

10 November 1980

Dear David,

PAY OF THE PETROLEUM SPECIALISTS

Thank you for your letter of 23 October about the pay of the Petroleum Specialist grades. 1971

I accept what you say about the importance of these grades, though I still have reservations about possible repercussions. Important reasons could no doubt be argued for a full market rate settlement for other specialist groups. I note, however, that Keith Joseph would be content to accept a genuine market rate settlement and I believe that the figures which our officials have produced should provide just that.

Since none of our other colleagues has commented I assume that they would be content with your proposals and are satisfied that they can contain any repercussions. Presumably also they see no overriding objection to conceding pay increases to already highly-paid Crown servants of up to 40% at a time when we are prescribing very low cash limits for public service pay generally. These increases may not attract publicity but the possibility cannot be ruled out.

In these circumstances I would not dissent from your proposals although I think we should have the specific blessing also of Treasury Ministers. If that is given, my officials will open negotiations on the proposed basis as soon as possible.

Copies of this letter go to all members of E Committee and to Sir Robert Armstrong.

PAUL CHANNON



Civil
Service

FCS/80/157

THE LORD PRESIDENT OF THE COUNCIL

Range Pay in the Higher Civil Service

1. In your minute to the Prime Minister of 28 October, you invited my comments on how the arrangements for range pay which you are proposing for Under Secretaries in the Home Civil Service might affect the Diplomatic Service. As you rightly point out, Grade 3 Officers in the Diplomatic Service receive the same pay as Under Secretaries in Home Departments. The case which you set out for relating reward more closely to performance is one which, in principle, I strongly endorse. The system which is proposed for the Home Civil Service would, however, be extremely difficult to operate adequately in the dispersed conditions of the Diplomatic Service: over 80% of our Grade 3 Officers are serving abroad at any one time, and 60% are in charge of their own Missions. The problem of assessing their performance systematically and fairly each year is therefore much greater than for Home Departments, where there is closer contact between senior management and Under Secretaries.


2. The Diplomatic Service Administration has, therefore, been working on a variant of range pay which, while preserving the basic principles of reward for performance and no extra cost, would avoid the need for annual assessment across the grade and require less administrative machinery. We envisage a scheme which would cover all three top Diplomatic Service grades in a single grade structure. This would have the important incidental advantage of giving us greater flexibility in matching

/staff



staff to the changing relative importance of our Missions overseas and paying them accordingly. It would also free us from the invidious problem of having to advertise the importance we attach to our relations with a particular country by "labelling" the grade of our Ambassador. We still have a number of issues to resolve before we can be sure that our alternative scheme would be workable. We shall also need to have an eye on progress being made with the Home Civil Service scheme. My officials will therefore be in touch with yours in the course of the next few weeks.

3. I am sending copies of this minute to the Prime Minister and Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office
7 November 1980



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

PRIME MINISTER

Prin [unclear]

CIVIL SERVICE PAY

mf

TL


m/w

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

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

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

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

(G.H.) 

31 October 1980

Civil Service Department,
Whitehall,
London, SW1A 2A

With the Compliments

of the

Lord President of the Council

✓ W. H. H. H. H. H.

CIVIL SERVICE
27 October 1980
sent
180
M
W

Dear Mr Kendall,

When I met the Council of Civil Service Unions on 1 August I said that the cash limit would be the major determinant of Civil Service pay next year although I foresaw pay research playing some unspecified part. I also made it clear that the Government wish to see a number of changes in the present pay research system, some of which involve changes to the existing Pay Agreement.

As you and your colleagues will be well aware, the economic position since then has become increasingly difficult. There is an overriding need to combat inflation and the Government is convinced of the paramount importance of restrained pay settlements generally in this round. This has become even more apparent than it was when I saw the Council and in the circumstances I see no place for pay research in the April 1981 settlement.

Against this background the Government has decided that the Pay Agreement should be suspended so far as the 1981 settlement is concerned. I much regret that this should be necessary. Our discussions with the Council on changes to the pay research system for the longer term have not yet got very far but I attach importance to pushing ahead with them.

Yours sincerely
Christopher James

SOAMES

CONFIDENTIAL

Civil Service



cc/ Mr Ingham
Mr Duguid

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

From the Private Secretary

24 October 1980

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

A handwritten signature in blue ink, appearing to be 'M' or 'N'.

Dear Tim,

CIVIL SERVICE PAY

Following my letter this morning we have now arranged that Mr Kendall and Mr Gillman (Chairman of the Council of Civil Service Unions) will come to see the Lord President and the Minister of State at 1630 on Monday, 27 October. The Lord President has written round to colleagues and CSD officials are briefing management in the Departments. A release will be made to the press immediately after the meeting.

Nick Sanders has been in touch with me about Parliamentary Statements. The Minister of State here would like to answer a Written Question on Monday, and a suitable one has been tabled. Copies of the answer and background briefing, together with supplementaries will be coming across to you for the Prime Minister.

Yours sincerely,
Jim Buckley

J BUCKLEY



cc Mr Ingham
Mr Duguid

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

To see

MS

24/10

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

24 October 1980

MS

Dear Willie,

CIVIL SERVICE PAY

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

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

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

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

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

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

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

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

James

Christoph

SOAMES

CONFIDENTIAL



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

From the Private Secretary

cc Mr Lyham

24 October 1980

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

cc MBM

Dear Tim,

*TJ
24/10*

CIVIL SERVICE PAY

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

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

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

Peter Jenkins

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

CONFIDENTIAL



PRIME MINISTER

MSM

CIVIL SERVICE PAY

T
23/10

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

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

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

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

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

S.

SOAMES

23 October 1980

SV



10 DOWNING STREET

From the Private Secretary

23 October, 1980.

Dear Jim,

Civil Service Pay

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

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

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

[Handwritten flourish]

Tim Laker

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

SV

SV



PRIME MINISTER

CIVIL SERVICE PAY

I have seen Christopher Soames' minute to you of 20 October. I agree that no point is served by letting the pay research evidence come in. But I am alarmed that it now seems that we shall need to breach the Civil Service Pay Agreement to achieve this objective. This is bound to lead to a row with the unions over a matter of principle which it would have been much better to avoid given the inevitable row over the size of next April's settlement.

It has for some time been appreciated that, in order to avoid accusations of bad faith, it would be necessary to serve formal notice before 1 October under the terms of the Agreement that it would not be operated for next April's settlement; and Christopher Soames' letter to Geoffrey Howe of 17 September made clear that a further letter would be sent to the unions in good time to avoid any possible doubt on this important point. I understand that such a letter was sent on 19 September. Would it not be better therefore, in order to minimise the risk of accusations of bad faith, to seek now to rely on that letter as having given formal notice? If this approach were to be followed, the letter that is now to go to the unions would first confirm that the letter of 19 September constituted formal notice; and would then make clear that the pay research evidence would not be forthcoming.

Copies of this minute go to Christopher Soames and Geoffrey Howe.

Coleman
✓ J D Prior Minister
 Mr Prior agrees on the substance - that the Pay Agreement be suspended - but suggests that we can rely on the letter mentioned at X. But CSD say that letter is not enough, and that formal suspension has to be announced quickly (see *Play A* for further details).
 Can I tell them to go ahead?

X

12
23/10

J P

23

October 1980

A

PS/LORD PRESIDENT

cc PS/Minister of State
PS/2nd Permanent Secretary
Mr Burrett
Mr Pearce
Mr Morgan
Mr Jarmany

SUSPENSION OF PAY RESEARCH

Sir Ian Bancroft has discussed the Employment Secretary's minute of 23 October to the Prime Minister with Sir John Herbecq and Mr Burrett. It arrived just as Sir John was reporting that Mr Kendall had told him he had been approached by the Financial Times yesterday for comment on "the proposed meeting on 24 October to announce the suspension of the Civil Service Pay Agreement. Mr Kendall has also said that he was under instruction from the CCSU to ask the Director of the Unit to deliver immediately those of the Unit's reports which were already complete.

In Sir Ian's view, these events indicate the need to move very quickly to give effect to the decision to suspend pay research. I understand that No 10 were on the point of replying in the affirmative to the Lord President's minute of 20 October when Mr Prior's minute arrived and caused them to hesitate. Sir Ian therefore recommends that the Lord President should minute the Prime Minister, tonight if possible, to say that he intends to tell the unions with all possible speed that pay research will be suspended for the 1981 settlement.

As to Mr Prior's suggestion that we should rely on the letter of 19 September to give cover to the suspension of pay research, that letter was drafted specifically to leave open the use of pay research evidence in next year's settlement while confirming that cash limits would be the major determinant. We cannot possibly use it on its own to justify stopping the delivery of the Pay Research Unit's reports, but of course the fact that it gave notice that the Agreement would not fully be adhered to will, we are sure, enable us to make good use of it in defending our decision.

I attach a draft minute to the Prime Minister.

J. G. C.

JEREMY COLMAN
Private Secretary
23 October 1980

DRAFT MINUTE FROM THE LORD PRESIDENT TO THE PRIME MINISTER

CIVIL SERVICE PAY

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

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

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

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

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

01 211 6402

Rt Hon Paul Channon MP
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

R
23/10
23 October 1980

Dea Paul

PAY OF PETROLEUM SPECIALISTS

I was very concerned to read in your letter of 13 October that you do not feel able to authorise the full comparability rates, which emerged from a study by our officials, for the more senior grades of Petroleum Specialists in my Department, particularly since you accept that they are a realistic assessment of the going market rate.

The Petroleum Engineering Division of my Department plays, as you realise, a key role in the development and successful execution of our North Sea oil and gas policies. It is responsible for offshore safety, regulation and inspection, and providing technical advice over the whole field of Continental Shelf exploration policy. This work includes the evaluation of areas for licences, the consideration of development programmes and applications for gas flaring (an Annex ... explaining these responsibilities in more detail is attached).

Since July last year when we reduced BNOC's advisory role, we have lost access to advice, expertise and information in a number of areas, but particularly in relation to project planning and development in the North Sea. To compensate for this loss a number of additional Petroleum Specialist posts were approved. But at the salaries we have been able to offer we have simply not been able to recruit adequate staff. We have only 51 people in post against a requirement of 88. Our resources are, as a result, already dangerously over-stretched. And the situation far from improving is getting worse. Because of the delay in reaching a settlement (the analogues were settled last July) not only are we unable to recruit, but we are losing at a steady rate the people we have. The situation is likely to deteriorate further in the near future since the award of licences to British companies under the Seventh Licensing Round will create an additional demand for specialists in the companies, and oil company salaries will again be increased in January. Some of our existing staff are bound to be tempted by offers of higher salaries elsewhere.

Not copied to us

(2)

I cannot stress too highly the importance of the Division and the potentially grave consequences should it fail or be unable properly to discharge its responsibilities. Let me give you two examples:-

A blow out of the size of the Ekofisk could easily cost some £10m. or more in the loss of natural resources, pollution damages and compensation. An accident such as happened to the Alexander Keilland would involve almost certain heavy loss of life. The political consequences of such an accident in UK waters, if we failed or if it could be argued we did not have adequate staff to take every possible precaution against its occurrence, would be extremely damaging.

PED is responsible for assessing plans for field development and for monitoring production to ensure optimum recovery in the national interest. If acceptance of poor development plans or production practices should lead to the non-recovery of even 1% of our resources - the loss would be £3 billion. Government take from royalties, Petroleum Revenue Tax and Corporation Tax already amounts to some £4-5 billion per year. A 1% loss, which could occur unless the industry's achievements are properly monitored, would cost the Exchequer £40-50m. per annum in lost revenues.

The table below shows (a) the current maxima of the scales for the Petroleum Specialists grades, (b) the salary maxima which arise from the comparability study, and (c) the rates which would be consistent with your proposal for a settlement following the comparability evidence for the lower grades, holding the Under Secretary post at the common rate for that grade, and filling the other grades in between.

| | (a) | (b) | (c) | (d) |
|-----------|--|-----------------------|--|-----------------------|
| | Current scale maxima (1979 settlement) | Fair Comparison Rates | Proposed Basis for Negotiated Settlement | % increase (a) to (c) |
| | £ | £ | £ | |
| Under Sec | 20,500 | 26,500 | 20,500 | NIL |
| PS I | 17,650 | 23,000 | 20,150 | 14.2 |
| PS II | 16,998 | 21,000 | 19,000 | 11.8 |
| PS III | 13,600 | 19,000 | 17,750 | 30.5 |
| PS IV | 11,500 | 15,000 | 14,750 | 28.3 |
| PS V | 8,300 | 10,500 | 10,500 | 26.5 |

The most desperate shortage of Petroleum Specialists is in the middle and senior ranks particularly at PS IV and PS III level. There are very few potential candidates for these posts (which require experience of the oil industry) and if we are to attract our fair share, and retain those we have, we must be able to compete on at least an equal basis with the oil companies. The differences of £250 (PS IV) and £1250 (PS III) between Columns (b) and (c) above

(3)

may not seem large, but could prove vital to our efforts. The adverse effect of these minor trimmings would be out of all proportion to the savings on the salary bill.

The salaries fixed for the two top posts are also critical. The Head of PED is the Government's main expert on North Sea exploration and the chief expert source of advice to Ministers. The present incumbent is due to retire next year and there is no hope whatever of our being able to recruit a replacement, of any standing in industry, at Under Secretary pay. The differential between what we need to pay and retain PS IVs and above and Under Secretary salary is a totally inadequate recognition of the responsibilities of the top post. Moreover when the PS I post was advertised only one suitable candidate emerged, and he was not prepared to accept the appointment at the salary on offer or even something like 20% above it. The post remains vacant and there is no hope of filling it at the salary proposed in (c) above.

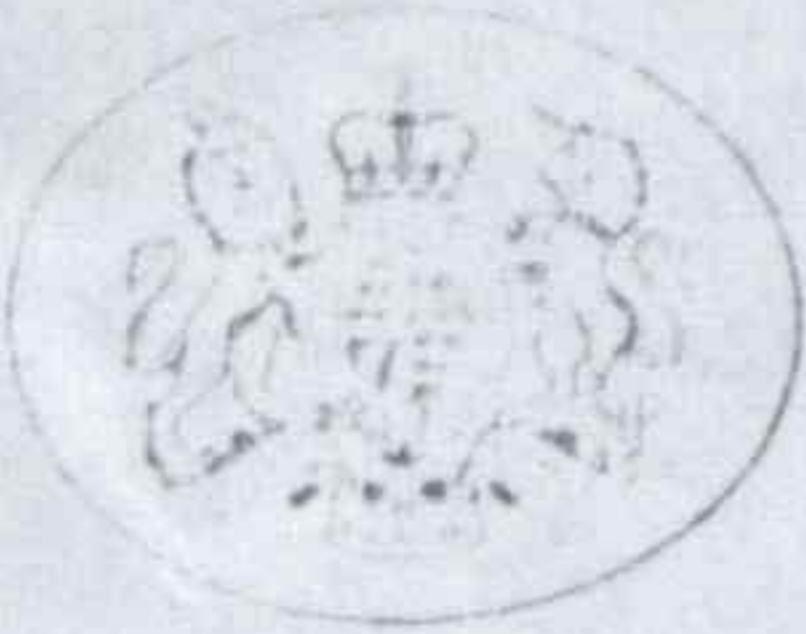
The newspapers and specialist press are currently full of advertisements for the sort of people we are trying to retain and recruit. An unsatisfactory pay settlement now is bound to lose us more people. I have no doubt that an award based on the comparability rates in Column (b) of the table in paragraph 5 is the minimum necessary to hold what we have and to begin to fill our vacancies. Moreover I consider it essential that to counteract increases in oil company salaries which in most cases run from January 1st each year, we must, in future years, adjust our Petroleum Specialist salaries at a much earlier stage in the pay round and that the increases should be announced not later than 1 April.

We are concerned here with fewer than 100 people - less than half the number employed by the Norwegian Petroleum Directorate, despite the fact that the activity on the Norwegian shelf in terms of both wells being drilled and oil being produced is much less than on the UK shelf. I appreciate your concern about reconciling the rates with the decisions we have already taken about civil service pay. But I cannot believe that there is any other case where failure to fill vacancies could have such severe consequences. Nor do I believe that recruitment and retention is so susceptible to remuneration elsewhere in the public service.

I am convinced that the present situation is so disturbing that it demands special treatment and that the rates which have emerged from the comparability exercise should be paid in full. You suggested we would need to consult colleagues on this. I am therefore copying this letter to the members of 'E' Committee and hope that we can quickly clear the matter by correspondence.

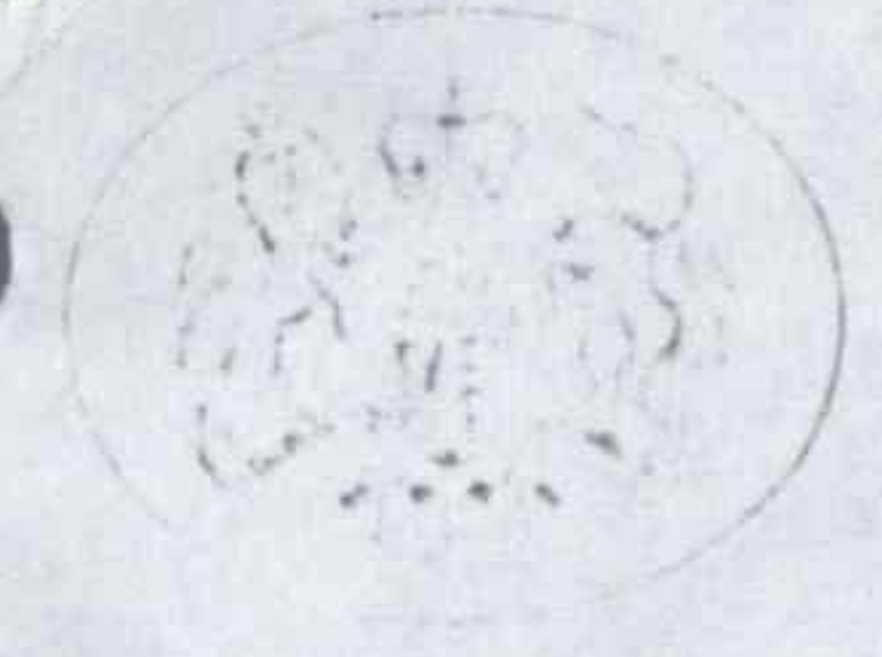
D A R HOWELL

Jan e
Daw



The main objectives of the Petroleum Engineering Division (PED) are :-

- (a) to acquire a comprehensive and up to date knowledge of the structure of the UK Continental Shelf and its actual and potential hydrocarbon sources. The Division's performance of this function must be at a level at least equal to that of a major international oil company;
- (b) to maintain a capability to provide a critical appraisal of each of the proposed oil/gas development programmes of a UK operator in order to approve or disapprove of the operators' proposals for equipment and civil engineering works (each programme is likely to cost something between £100 m. and £1000 m., and there are likely to be several new ones each year for some years); to approve or disapprove each operator's proposed oil/gas production programme (each of which will be worth something between £300 m. and £10,000 m.); and to approve proposals for submarine pipelines (each costing something between £50 m. and £300 m.);
- (c) on the basis of the foregoing knowledge and capability, to advise Ministers on :-
 - (i) the approval of development programmes;
 - (ii) the imposition on operators of specific provision for Government cutbacks of oil production levels in future years (i.e. to implement Government depletion policy);
 - (iii) whether to permit the flaring or re-injection of gas (each proposal will involve the risk of loss of, say, £3 m. or more worth of gas);
 - (iv) the determination of oilfield boundaries, as a basis for charging Petroleum Revenue Tax.

- 
- (d) to advise Ministers in the preparation of regulations and other legislation relating to safety on, and safety in the design and construction of, offshore installations, including the appointment of Certifying Authorities;
 - (e) the enforcement of the Mineral Workings (Offshore Installations) Act 1971 and of the regulations issued under this Act.

21,10.1980

21 October 1980

MR LANKESTER

CIVIL SERVICE PAY

Civil Service

1. I find it surprising that the Lord President wants to suspend the pay agreement now. The Chancellor wrote to him in September suggesting that he should do this before 1 October, in order to give the six months notice that I understand the agreement requires. Suspending it with less notice will provide one more legitimate source of grievance.
2. The implication of X in the last paragraph is that by moving quickly we could prevent the delivery of the PRU reports. Does the Lord President think that this will prevent the PRU findings from being leaked - or have they not been formulated yet?
3. I'm afraid we don't have a substantive comment to offer.

AD.

ANDREW DUGUID



PRIME MINISTER

CIVIL SERVICE PAY

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

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

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

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

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

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

Prime Minister

Ld Soames wants to suspend the Civil Service Pay Agreement. This seems inevitable, and I am sure the Chancellor will agree. Content?

Yes not

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

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

SOAMES

20 October 1980

Enc.

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CONFIDENTIAL

DRAFT LETTER FROM THE LORD PRESIDENT TO MR KENDALL

MB

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

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

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

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

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PRIME MINISTERw hawkester
Copy on: ECOM POL
COMPARABILITYCOMPARABILITY AND CASH LIMITS: FUTURE OPTIONS

1. As the Chancellor's covering note to E(80)115 says, the paper by officials does not deal sufficiently with the fundamental issues. Nor do we think the real choice is, as the Lord President argues in E(80)114, between comparability and determining Civil Service pay by Government fiat.
2. We see the fundamental choice as between the following two approaches to Civil Service pay:
 - (a) Free collective bargaining. If we go down this route, then it is essential to change some of the ground rules. These would include:
 - (i) Allowing management to withhold pay from those laid off as a result of strike action by others. This would reduce the power of the selective strike weapon - though by no means eliminate it. The power that small groups of workers in the public service have to disrupt an increasingly complex system is a fact of life. We can try to make contingency plans in the most obvious cases.
 - (ii) Decentralising the bargaining arrangements might make sense. (We have not yet seen CSD's promised study of this - though no doubt it will present many difficulties.)
 - (iii) Various changes - including management style and merit payments - might increase the motivation, toughness and skill of management negotiators.
 - (iv) The present pay agreement and conditions of service might need to be changed. This would include changing the arbitration provisions, though according to the Secretary of State for Employment's paper, it is firmly established by convention that the Government is not bound to honour the arbitration provisions in the agreement.

(b) A comparability-based system. This would have to incorporate some of the improvements on the old system that the Lord President is now trying to negotiate. It might also involve a "step change" downwards in pay levels to reflect the value of an indexed pension. Alternatively, the pension arrangements themselves could be modified. Although it sounds ambitious, in the longer term we think the price for a comparability-based system (a genuine one, with certain minimum guarantees) should be a no-strike agreement. The Police and Armed Forces are, of course, already unable to strike. The continuation of the indexed pension could be another negotiable element in achieving this.

3. In thinking about our choice of approach for the longer term, we should distinguish between the requirements of Transition and Stable State. When inflation is under control, a sensibly designed comparability system, with a no-strike agreement, might be a better way of paying the Civil Service. In the interim, with high unemployment in the private sector, we know that an early return to backward-looking comparability can make no sense.

Next year

4. We strongly support the Chancellor's view that the right level for the next settlement will be close to the bottom end of the present money supply target range. Paragraph 5 of the Lord President's paper says that two factors are important: avoiding an "unrealistically low" cash limit; and avoiding a charge of discrimination. A third important factor may be what we are able to tell the Civil Service about our broad approach for the future.
5. I am sending a copy of this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

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Original on
Public Sector Pay

Ref. A03237

PRIME MINISTER

Public Service Pay in the 1980-81 Pay Round

(E(80) 118)

BACKGROUND

Without suggesting actual numbers at this stage - they are for Cabinet on 30th October - the Chancellor of the Exchequer is seeking in this paper to obtain assent in principle to the main elements which will determine the negotiation, and the financing, of public service pay settlements in the next 12 months. The style is bland, the objectives are unexceptionable, and there are no figures; but the subject matter is potentially explosive. Colleagues are not likely to be prepared to give the Chancellor assent in principle to most of his propositions without further and more specific consideration of their implications. Nevertheless it will be salutary, as a ground-clearing operation, to work through the conclusions set out in paragraph 11 of his paper and collect comments on them. Points which might arise on each are:-

11(a): Cash limits "well down into single figures". Colleagues are unlikely to object to "single figures" but will want to see the colour of the Chancellor's money before assenting to "well down". Some (e.g. the Lord President) are likely to be concerned at the base-line from which the percentage applies (conclusions 11(b) and (c)) and others will remember that the report of the Scott Committee on public services pension contributions is imminent. Taken together it is not inconceivable that these two factors might reduce say an 8 per cent cash limit to a 4 per cent increase in take-home pay - and thus imply a cut in real wages approaching 10 per cent when set against the likely movement in the RPI.

11(b): Staging to be dealt with as proposed in E(80) 71 and avoided from now on. Colleagues may not object to this proposal in principle - it reflects the battering the Chancellor had this year at the hands of the

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Treasury and Civil Service Select Committee over Civil Service pay - but it would remove from the negotiating armoury one means by which a pay settlement above the cash limit guidelines can be reconciled with those limits. Some colleagues might also ask about the implications of such a principle on the pay settlement for MPs and Ministers due next June.

11(c): The overhang of staging from the 1979-80 pay round. This is a specific facet of the principle in 11(b). The Chancellor suggests in paragraph 6(a) of his paper that some flexibility may be needed. He must be right, not only because of the difficulty of negotiating against tight cash limits further constrained in this way but also because, strictly applied, university teachers would presumably get no pay increase at all next year. He might be asked to make specific proposals so that the Committee can properly judge the implications of the proposal.

11(d): Impact of this year's pay settlements on next year's cash limits. This proposal reflects the awkwardness that individual pay years and financial years do not always coincide. The Home Secretary might well ask about the implications of the Chancellor's dictum for the financing of the police pay settlement reached this September. The answer may be that police expenditure is covered as to 50 per cent by specific Exchequer grants not subject to cash limits; but another 11 per cent is covered by RSG, and local authorities have to find the balance out of rate revenue. Are local authorities next year supposed to finance this September's pay award to the police at the expense of other services? And will it be necessary next year to abandon the present arrangements for indexing police pay?

11(e): Adopt provisional pay assumptions relating to the 1981-82 pay round, i. e. for FY 1982-83. This proposal goes to the heart of the argument which will emerge under Items 3 and 4 of the agenda. The Chancellor is in effect saying that for at least the next two years public service pay must be determined by financial needs rather than by market forces. The Lord President and others will challenge this. The basis of the challenge will be that unless pay in the private commercial and service

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sectors falls in a parallel way - and there is no reason to suppose that it will - there will be a growing disparity between the pay of public servants and that of their peers. In this situation there could well be industrial action and a major catching-up exercise in two or three years' time. Moreover, it will be argued, the Chancellor's concept here of a declining cash limit for public service pay over the years ahead is incompatible with the options for longer-term arrangements for Civil Service pay set out in E(80) 115 which themselves derive from the Chancellor's own options in his July paper E(80) 71. And in that paper the Chancellor argued against seeking to establish public service pay simply by reference to tough cash limits (it would, he said, play into the hands of the militants and lead to demands that the unions should "participate in the decisions about the level of the pay element in cash limits which is where the crucial decisions would lie"). This does not mean that the Government cannot get away with a tough cash-limited settlement next year (though something will depend upon what promises they are able to make for the future), but the Lord President and others will argue that the usefulness of the cash limit as a determinant of pay is almost played out, that keeping the lid on will become increasingly difficult, and that after next year pay settlements will inevitably, by one means or another, determine cash limits.

11(f): Changes in the arrangements for arbitration. This issue will be discussed in greater detail under the next item on the agenda.

Colleagues can be expected to point to the difficulties. The Chancellor will no doubt argue that the prize is large - as he says in the first paragraph of his paper, each 1 per cent off public services pay would save nearly £300 million in FY 1981-82. But a glance at the annex to his paper shows that that prize will be very difficult to attain. Half of the public servants concerned are local government employees with either negotiated or statutory rights to arbitration (plus, in the case of the police, specific Government pledges). And of the Government's direct employees, half again are in the National Health Service and a

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substantial number in the Armed Forces. With the exception of the Doctors and Dentists Review Body, most of the National Health Service employees do not have a right to arbitration but, in the case of the nurses, enjoy both public sympathy and the benefit of promises of protection against the erosion of their pay. The Armed Forces have the protection both of the Review Body and of Government pledges. The residue, the Civil Service proper, have an arbitration agreement with the Government which in form guarantees unilateral access to binding arbitration - though the Government has frequently ignored it. Thus the Chancellor's £300 million could turn out to be a mirage unless the Government is prepared and able to be very tough indeed.

11(g): Override the Review Bodies. The Government successfully overrode the TSRB recommendations this year and could no doubt continue to do so, except perhaps in the case of MPs. But overriding the Armed Forces and Doctors and Dentists Review Body recommendations presents political problems of a wholly different order.

11(h): Announcements "relating to the above" should be made on 19th November. No problem is likely to arise here unless the Chancellor envisages the announcement extending beyond the cash limit factors into the areas of Review Bodies, arbitration and future pay determination in the public services generally. He should be asked about his intentions.

HANDLING

2. You might call on the Chancellor of the Exchequer to introduce his paper and then take the Committee seriatim through the conclusions in paragraph 11.

CONCLUSIONS

3. If the Chancellor's paper arouses strong opposition, the sensible main conclusion may be simply to note it and agree to return to the issues at a subsequent meeting. Additionally it may be possible to record specific agreement on some points, for or against the Chancellor's proposals, and, where appropriate, to ask for further papers (e.g. the Chancellor could be asked to bring forward specific proposals for dealing with the "overhang of staging" referred to in conclusion 11(c)).

ROBERT ARMSTRONG

ROBERT ARMSTRONG

15th October, 1980

CONFIDENTIAL

*Original on
Public Sector Pay*

Ref. A03235

PRIME MINISTER

Arbitration Arrangements in the Public Sector

(E(80) 113)

BACKGROUND

The Secretary of State for Employment's paper provides a useful summary of the nature and extent of the arbitration arrangements which exist in the public services. The paper is expressly presented as a "progress report" and does not seek to draw conclusions. Nevertheless it is clear that the central issue is whether the Government, or in appropriate cases the management, should seek to withdraw the right, where it exists, for arbitration proceedings to be triggered without their consent - and thus seek to avoid binding arbitration awards which are incompatible with cash limits. Mr. Prior suggests (and colleagues will perhaps readily accept) that, if this subject is to be further pursued, each sponsor Minister should consider the arbitration arrangements for the groups for which he is responsible and submit his conclusions separately to the Committee. There are however broader issues which will figure in the E Committee discussion.

2. The first - and this will be highlighted by the Committee's discussion of the paper on comparability and cash limits which the Chancellor will be bringing to the same meeting of E - is whether cash limits can continue to be used, and if so for how long, as an independent determinant of the level of pay settlements in the public services or whether they should be set, as they were before last year, with an eye on the likely outcome of wage bargaining. If the Committee envisages a prolonged period in which public sector pay will be determined by fiat, the staffs concerned can be expected to fight hard to retain their rights - whether by agreement or statute - to arbitration in an attempt to defend their standards of living. And conversely it will be in the Government's interest to whittle these rights away. On the other hand if your colleagues envisage a fairly early return

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to public sector pay settlements broadly related to market forces, then major recourse to arbitration becomes less likely and reforming the system may not be worth the expenditure of much negotiating effort or political capital.

3. The second - and some of your colleagues may well argue for this - is that whatever the merits of arbitration as a principle, the nature of the arbitration processes should be changed so as to weight the outcome more in favour of the management. Sir Keith Joseph's recent minute to you of 2nd October (on which Mr. Prior commented in a letter of 13th October) is an indication of this line of thought. If the point does surface the sensible course might be to have the possibilities further studied either generically or as part of the consideration which individual Ministers will be giving to the arrangements in their own spheres.

4. The third issue which is almost certain to arise is that touched on in paragraph 15 of Mr. Prior's paper, namely the compatibility of a more restricted approach to arbitration - going beyond the letter of existing agreements - with the Government's general view that both sides of industry should be encouraged to honour agreements they have made. Mr. Prior is particularly sensitive on the point both because he has been a prominent public advocate of the Government's view and also because he is currently facing a legal action in which one of the main Civil Service unions will be arguing that the Government is reneging on its arbitration agreement with its own staff. The circumstances of the particular case are unusual and it is by no means certain that the staff will win at law. Nevertheless, the possibility of political embarrassment is real and Mr. Prior can be expected to voice it.

5. The fourth issue is that, while the main concern has been, and will no doubt be in this discussion, the difficulty which can be created, for cash limits and for comparability, by over-generous arbitration awards, we should not lose sight of the value of arbitration as a safety valve which could be useful to Government as well as unions. If this winter produces damaging industrial action (e.g. in sensitive parts of the Civil Service or the NHS), it may be convenient to keep some form of mutually acceptable arbitration available as a possible way out.

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HANDLING

6. You will want to ask the Secretary of State for Employment to introduce his paper and then to open the subject to wider discussion. The Lord President of the Council, for the Civil Service, will no doubt wish to contribute as will the Chancellor of the Exchequer, in the context of his wider problems, the Secretaries of State for Education and Science and Scotland, for the teachers, the Secretary of State for the Environment, for local authorities, and possibly also the Secretary of State for Social Services, for the NHS.

7. After the general discussion you will want to concentrate attention on the specific conclusions in paragraphs 19 and 20 of E(80) 113.

CONCLUSIONS

8. Subject to discussion, you will want to record conclusions on:-

- (i) Whether sponsor Ministers should consider further the problems which arbitration poses in the areas for which they are responsible and to report to the Committee at an early date.
- (ii) The future of the arbitration arrangements for the non-industrial Civil Service. The Committee may well feel that they need fuller information about these before reaching a specific conclusion. If so the Lord President could be asked to bring forward a separate paper quickly, making specific proposals in the light of the Committee's discussion.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

15th October, 1980

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CONFIDENTIAL

Ref. A03234

PRIME MINISTER

*Original on
Public Sector pay*

E: Public Services' Pay

At its meeting before Cabinet on Thursday E Committee will be starting on the road to a series of decisions of crucial importance to the Government's strategy over the next 12 months. The five papers before the Committee are interrelated; this note attempts to draw the threads together.

2. The papers before the Committee stem from two discussions which took place in E before the Recess: that on 23rd July (E(80) 27th Meeting) and that on 7th August (E(80) 31st Meeting). The discussion on 23rd July largely revolved around a paper by the Chancellor of the Exchequer (E(80) 71). The discussion then was not conclusive over the whole range of the Chancellor's proposals in his paper. But in essence the Committee agreed that cash limits should be the overriding determinant of public sector pay in the coming year; that for the Civil Service the collection of pay research evidence should continue; that the Lord President should negotiate with the Civil Service unions on improvements in the PRU system; and that the Chancellor should arrange for officials to examine further the longer-term options for pay research which he had identified in his paper (specifically in paragraph 11 of E(80) 71). The Committee also agreed that the Review Bodies for the Armed Forces, the Doctors and Dentists and Top Salaries, should continue with unchanged terms of reference; and that the Secretary of State for Social Services should pursue further, without commitment, options for devising a more satisfactory method of settling nurses' pay designed to protect them against relative pay erosion. Mr. Jenkin was authorised to announce his intention to consult on the options for nurses' pay. The meeting of the Committee held on 7th August resulted in a remit to the Secretary of State for Employment to put in hand a review of the arbitration arrangements in the public sector and the scope for amending them.

3. Since that time a great deal of effort has been spent in "talking down" expectations for public sector pay settlements in the coming year and, on the narrow front of Civil Service pay, the Lord President of the Council has told the

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Civil Service unions that the main determinant of next year's pay settlement for them will be the cash limits set in advance of the settlement. Also since then, however, the police have had a 21 per cent pay settlement (in September) and there are indications that the local authorities are reluctant to upset the pay indexing arrangements they have with the firemen.

4. In addition you have had (though your colleagues have not) the Chancellor's Secret minute to you of 10th October foreshadowing the very difficult decisions on public expenditure with which Cabinet will be faced later this month. In the light of this there can be no doubt that a major effort to restrain public sector pay increases in the coming year is a financial as well as a political imperative.

5. Although the papers before the Committee cover a great deal of ground they do not, for the most part, call for operational decisions - e.g. the actual level of the pay cash limits is for Cabinet to decide on 30th October, more work is needed on arbitration and on the longer-term options for Civil Service pay, and some of the issues touched upon in the Chancellor's paper E(80) 118 involve major political decisions (e.g. abandoning the pledges made to the Armed Forces, the financial provision for police pay next year and the treatment to be accorded to the nurses) which will merit substantial discussion in their own right - probably by Cabinet - before a final view can be taken.

6. In short, I think your aim at this meeting should be to ensure that all of the necessary work is put in hand and as much ground-clearing done as subject matter will allow. But, even if the present discussion must inevitably be of a second reading character, the remaining stages of decision-taking cannot be long delayed. The moment of truth on many of these issues will be the Cabinet discussion on cash limits on 30th October. Given the importance, and the difficulty, of the issues, you may think it prudent to aim for a further meeting of E, devoted to pay, before these Cabinet discussions, with the object of reducing the complexity of the issues to be taken then to manageable proportions.

ROBERT ARMSTRONG
ROBERT ARMSTRONG

14th October, 1980

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PRIME MINISTER

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Civil Service Pay
(E(80) 114)

BACKGROUND

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Although the Lord President's paper is in the form of a progress on his negotiations with the Civil Service unions on reforms to the PRU system, it also conveys his judgments that the Civil Service pay cash limit for 1981 should not be set "unrealistically low"; that the cash limits for the public sector should be applied in an even-handed way so that the Civil Service are not seen to be singled out for discriminatory treatment; and that in the longer run Civil Service pay must be settled by "an improved system of comparability", acceptable to both sides, and not by Government fiat. The Lord President will no doubt be able to expand orally to the Committee on the progress so far made in the negotiations with the Civil Service unions on PRU. But the main thrust of his paper is directed to the longer term and links closely to the options for the future of pay determination set out in the Chancellor's paper E(80) 115 and due to be discussed as the next item on the agenda.

*In Folder 4
Public Sector
Pay*

HANDLING

2. In asking the Lord President to speak to his paper you might particularly invite him to report on the progress made in his negotiations so far and - because it will be an important element in discussion of the later options paper - ask whether he can hazard any assessment of the financial benefits which might flow if the staff were to accept the various proposals he has made to them for improvements in the PRU system. You might also ask him for his assessment of the state of morale - and of militancy - among the Government's employees. There is no doubt - as the Chancellor's first paper E(80) 118 shows - that whatever arrangements are made for Civil Service pay in the coming year will involve a substantial cut in the real value of pay - perhaps compounded by the implementation of whatever recommendations the Scott Committee comes to on the contribution for pensions and the impact of job loss and possible redundancy. Given that the Civil Service

*In Folder 1
Public Sector
Pay*



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3 unions undoubtedly have the power, if pushed too far, to cause very serious disruption to the Government's activities, a judgment from the responsible Minister on the threshold between acquiescence and defiance will be a critical input to the decisions as a whole.

3. When the Lord President has given his views there is probably no need for specific discussion of them outside the context of the next item on the agenda.

CONCLUSION

4. The only conclusion needed will be to invite the Lord President to report further on the progress of his negotiations.

REA

(Robert Armstrong)

14th October 1980

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Civil Service
✓ MA

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 2/2/6

22nd September 1980

Dear Paul,

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

You sent me a copy of your letter to Geoffrey Howe of 11th September, inviting my views particularly on the timing of the introduction of the scheme of advances of London weighting for the purchase of annual season tickets.

The advantage to management of such a scheme for those non-industrial staff (a minority) who work in London lies not only in the recruitment and retention of junior staff, but also in the help it might give in the difficult task of persuading experienced staff to accept postings to London from elsewhere. If, in addition, you can secure the quid pro quo you seek of paying all salaries by credit transfer, wherever staff work, that would be a real bonus.

As to timing, I am having, as you will know, to take special measures to keep Defence spending within this year's cash limit. The main costs of the scheme could well come in the early months and I cannot, therefore, agree to implementation in MOD before 1st April. Indeed I should have thought it would be preferable to have that as a common date for all Departments, which would enable all the details of the scheme's administration to be worked out in good time, and a united front presented to the unions.

The Rt. Hon Paul Channon MP



I am sending copies of this letter to the Prime Minister and Geoffrey Howe; and to Sir Robert Armstrong.

James Lee

Francis Pym

Francis Pym

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cc A. Duguid
Civil Service



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

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17 September 1980

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

Ann Smith

Dear Geoffrey,

ms

T
17/9

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

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

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

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

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

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

Yours ever

Christoph

SOAMES

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c.c. CO ✓

HO ✓

FCO ✓

HMT ✓

DI ✓

D/M ✓

MAFF ✓

D/T ✓

D/N ✓

CS, HMT ✓



11
Civil Service

10 DOWNING STREET

From the Private Secretary

15 September, 1980.

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

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

J. P. LANKESTER

Jim Buckley, Esq.,
Civil Service Department.

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Prime Minister 2

cc [unclear]



*The Treasury are
right to press*

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

CSD on

12 September 1980

lin.

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

PL

129

Dear Lord President, Public Sector pay

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

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

Speed up!

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

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

*Yours sincerely
P. S. Jenkins.*

GEOFFREY HOWE

Approved by the Chancellor and signed in his absence.

CONFIDENTIAL

C. Senior



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

Minister of State

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

✓ MJP

11 September 1980

Dear Geoffrey,

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

Thank you for your letters of 1 August and 4 September commenting on the scheme of advances of London Weighting for the purchase of annual season tickets about which I wrote to Francis Pym on 23 July.

2. Although I take your point about the similarities between this scheme and those operating in the private sector, it is, I think, still misleading to refer to these advances as a "perk". The scheme is not a provision in kind designed to avoid taxation and is in no way comparable with perks such as free cars, expenses and other allowances sometimes given in the private sector and which the Government is seeking to curb. A great many private sector employers in London give their staff interest-free loans for the purchase of season tickets as many of my constituents tell me. All that I am suggesting for the Civil Service is an advance payment of London Weighting which will remain taxable and which the staff would eventually receive on the normal monthly basis. There will be no new money.

3. I do not quarrel with your estimate of £1 million of lost interest. Against this, however, there is the possibility of savings elsewhere. Some of these will result from reductions in the cost of recruiting and retaining new staff for work in London. Although recruitment and retention is, as Michael Heseltine points out, easier now than for some time, Patrick Jenkin's letter of 11 August does underline that high turnover is still a problem for large employers. The "investment" in recruitment and training in each new member of staff is estimated to range from £2,400 for an EO to £400 for a typist. The total annual cost of wastage of grades at EO level and below in the London pay area is at present about £3 millions a year. Anything the advances scheme can do towards cutting down wastage in London will allow this particular investment to be written off over a longer period and help keep costs down. It should also provide us with better (in the sense of better trained and experienced) staff and make the task of improving efficiency and reducing complements that much easier.

MANAGEMENT IN CONFIDENCE

4. Moreover I hope at the same time to obtain in return for introducing the scheme, the civil service unions' agreement that all staff will in future accept payment of salary by credit transfer rather than by Giro cheque on payable order. This move towards cashless pay is I know something which you would like to see encouraged and MISC 14 on 5 August welcomed the steps we were taking towards this. There can, of course, be no guarantee that we should be able to negotiate a quid pro quo, but our chances will be very much increased if I am able to introduce the season ticket scheme before the rise in British Rail fares planned for the end of November.

5. I agree, of course, that introducing the scheme this financial year could bring forward some expenditure from 1981/82 to 1980/81. For this reason Francis Pym favoured postponing the scheme until 1 April 1981. The effect on cash limits would however be small for individual departments and the total amount likely to be advanced this year under this scheme could be accommodated (because of savings arising from the restrictions we imposed on the pay of the higher Civil Service) within the aggregate cash limit already approved for the Civil Service as a whole.

6. If however Francis Pym still feels there are insurmountable difficulties for his departmental cash limit (and this may be the experience of others) an alternative would be to allow individual departments to introduce the scheme once they had satisfied themselves that they had the funds available and could make the necessary administrative arrangements. No department would introduce the scheme before 1 November; all departments would introduce it by 1 April 1981. As regards Willie Whitelaw's worries about the details of the scheme, my officials have been in touch with his and I hope that any problems can be ironed out well before 1 November.

7. I hope that on reflection you will now feel able to agree that the scheme should go ahead. The cost is likely to be very small; it will help with the staff retention problem in London; and will be a modest step towards improving staff relations at a particularly difficult time. Perhaps you could let me have your views in the next few days and perhaps Francis Pym would also let me know whether he would prefer the option of departmental discretion to implementation at a time of their own choosing between 1 November and 1 April.

8. I am copying this letter to the Prime Minister, Ministers in charge of Departments and to Sir Robert Armstrong.

PAUL CHANNON

2

MANAGEMENT IN CONFIDENCE

Civil Service



✓ MAP

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/15886380

Your ref:

8 September 1980

Dear Paul

I am sorry I have not commented earlier on your letter of ^{7pm} 23 July to Francis Pym about the proposal to offer advances of London Weighting to enable staff to buy annual season tickets.

I find myself very much in agreement with Geoffrey Howe's arguments in his letter of 1 August. I realise that in our attempts to recruit sufficient numbers of junior staff in London - and to hold on to them once recruited - we are at a disadvantage compared with outside employers by reason of their ability to offer inducements such as loans to purchase season tickets. But in my own Department wastage has recently been slowing down and I doubt very much if in present circumstances we need to make a change of this sort. It will effectively be an interest free loan. We can not hope always to match the private sector and if we try they will find other ways of getting ahead. Leap-frogging would be the order of the day.

I am sending a copy of this letter to the Prime Minister and to the other recipients of yours.

Yours ever

MICHAEL HESELTINE

PRIME MINISTER

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

You saw and took note of Mr. Channon's letter of 23 July proposing that, in order to improve the recruitment of certain Civil Service grades in London, civil servants should be made a six months advance of London Weighting once a year to help them buy annual season tickets (flag A).

We have not troubled you with the subsequent correspondence, but on the whole other Ministers welcomed Mr. Channon's scheme. The Chancellor of the Exchequer, however, is opposed to it, principally because he believes that Mr. Channon's proposals will be regarded by the public as the Government giving its own employees a perk and he believes that this would be inconsistent with the Government's general policy of encouraging a return to the practice of paying people in cash rather than providing them with perks which might receive more favourable tax treatment. The Chancellor's letter at flag B is his latest contribution to the correspondence. Mr. Channon is now considering how to carry the matter forward.

I do not suggest that you should intervene at this stage, but I thought that you should be aware that Mr. Channon's proposals have run into trouble because it is quite likely that he will now have to bring them to a Ministerial committee, which might appropriately be E.

J.W.

M

5 September 1980



2 pps

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

4 September 1980

The Rt Hon Paul Channon MP
Minister of State
Civil Service Department
No.10 Downing Street

Dear Paul

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

Francis Pym has sent me a copy of his letter to you of 13 August in which he made a number of comments on my letter to you of 1 August.

Francis suggests that your scheme involving short term advances to staff of what is due to them is hardly comparable with the facilities for interest-free loans in addition to salary which many outside organisations offer. I am afraid I cannot agree with him. When a firm makes an interest-free loan to its employees, it customarily requires those employees to repay the loan out of ensuing salary payments, and, where the loan is relatively small, over a comparatively short period. There seems to me to be very little difference between getting a loan and having subsequent salary payments reduced by repayments of that loan, and having an advance of part of one's salary and drawing smaller salary payments subsequently as a result. In each case the employee receives a larger sum at the beginning, is not charged interest on that advance, and thereby derives a benefit.

While I agree with Francis that it is unlikely that "perks" will disappear from the private sector by Government exhortation alone, I feel that it could be a positive encouragement to their continuance if we were to provide a brand-new "perk" for the Government's own employees.

I am copying this letter to the Prime Minister and the other recipients of your original letter.

GEOFFREY HOWE



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

From the Private Secretary

4 September 1980

David Wright Esq
Private Secretary to Sir Robert Armstrong
Cabinet Office
70 Whitehall
LONDON SW1A 2AS

Prime Minister

To see

*KLL
4/ix*

Dear David,

OUTSTANDING CIVIL SERVICE PAY REVIEWS

The Lord President felt that it would be helpful if we were to let you have a short note on the outstanding 1980 pay claims for civil servants. There are some 12,000 non-industrial civil servants whose 1980 pay reviews have not been determined. Some of these are linked to pay research grades and are having their relativities with their pay parent investigated. Others are linked to outside rates for their occupations, eg police or nurses, and will follow them. There is provision for these too to have their linkages reviewed. The numbers concerned for all categories are relatively small and the costs have all been taken into account in the appropriate cash limits. Most of the cases are arbitrable, and could only be stopped by breaking the Pay and Arbitration agreements.

For the most part the increases will be in line with those awarded to the Civil Service generally. However in a few instances, where the Civil Service rate is markedly out of line for a particular group, the percentage increases may appear large. An important example of this are Petroleum Specialist staff where there is a highly paid market.

In addition to the Civil Service staff there are some 3,000 staff in fringe bodies whose 1980 pay reviews have not yet been completed. In those cases the primary responsibility will lie with the Minister for the sponsoring department but the consent of the Minister for the Civil Service is required. Cases which could attract some attention include Industrial Training Board staff (4 boards employing between them 400 staff), the Housing Corporation (400), the Soldiers, Sailors and Airmen's Families Association (30) and the Northern Lighthouse Board (only 3 staff but already the subject of Ministerial correspondence and an adjournment debate).

A copy of this letter goes to Tim Lankester at No 10.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

Civil Service
MP

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PS0/15486/80

Your ref:

18 August 1980

Dear Chancellor

I have been considering Christopher Soames' letter to you of 8 July, together with your reply of 18 July and Willie Whitelaw's of 12 July about cash limits on civil service pay.

I accept Christopher's broad conclusions about the problems of allowing discretion over pay rates to individual Departments.

Copies go to members of E Committee and Sir Robert Armstrong.

Yours sincerely
Paul Bonfield
(Private Secretary)

MICHAEL HESELTINE
(Agreed by the Secretary of
of State and signed in
his absence)

The Rt Hon Sir Geoffrey Howe MP

Civil Service

✓

MS

CIVIL SERVICE PAY RESEARCH UNIT BOARD

Queen Anne's Chambers

41 Tothill Street, LONDON SW1H 9JX

Telephone: 01-273 4465 4603

14 August 1980

CHAIRMAN

The Rt Hon Lord Shepherd P.C.

T P Lankester
Private Secretary to the Prime Minister
No 10 Downing Street
London SW1

Dear Mr Lankester

I am writing to acknowledge receipt of the Prime Minister's letter of 12 August addressed to Lord Shepherd. Lord Shepherd is out of the country at present but on his return I will bring the letter to his attention.

Yours sincerely

Keith Hodgson

K S HODGSON



Civil Service

✓ MAP

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 2/2/6

13th August 1980

Dear Paul,

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

Geoffrey Howe sent to me a copy of his letter to you of 1st August and invited further comments.

As I understand it, you are suggesting that staff should have relatively short term advances of what is due to them. This is hardly comparable with the facilities for interest free loans in addition to salary which many outside organisations offer. I also understand that a major element in London Weighting is compensation for the heavy costs of travelling in London, so I think one could defend providing staff with an advance of the payment which is designed to meet that extra expense. As to the point about extending more favourable treatment to the Government's employees, my reading of your letter of 28th July is that the value of season ticket loans is usually taken into account in negotiations, but not this year for the reasons which you explained. Finally, I share Geoffrey's dislike of "perks" but I doubt if these will disappear from the private sector by Government exhortation alone.

My concern is the management one that we spend considerable sums of money in recruiting and training staff in London, particularly secretarial and clerical grades, where it is in our interest to keep wastage to the minimum (although it is the case that this wastage has shown some signs of diminishing recently after being very high). I would also greatly value the important administrative savings which would result from payment of salary by credit transfer - a really useful quid pro quo.

The Rt Hon Paul Channon MP

1



I take Geoffrey Howe's point about cash limits. I must say flatly in my case that implementation of the scheme would have to be deferred until 1st April 1981 at the earliest. That also gives more time to iron out the administrative problems of introducing the scheme and getting the quid pro quo.

Copies of this letter go to the Prime Minister, Geoffrey Howe, and the other recipients of yours.

James
Malik

Francis Pym



CP. to note

*no B
Civil Service
CSD.*

10 DOWNING STREET

THE PRIME MINISTER

12 August 1980

Since I wrote to you on 27 May we have been giving a great deal of thought to possible improvements to the Civil Service pay research system.

The Lord President has now put a number of proposals to the Council of Civil Service Unions and as you will see from the attached summary these include some of the suggestions you yourself put to me earlier designed to strengthen the independence of the Board, and the Unit. Officials will now be undertaking detailed discussions with the unions about all this and the Lord President will keep you informed of progress.

(SGD) MARGARET THATCHER

The Rt. Hon. The Lord Shepherd

B

IMPROVEMENTS TO THE PAY RESEARCH SYSTEM

a. Independence of the Pay Research Unit

We wish to appoint an outsider as the next Director when Mr. Vernon Morgan retires next year. We would also like to see an increase in the proportion of outside survey officers.

b. Pay Research Unit Board

We wish to appoint a strong successor to Sir Derek Rayner who has resigned.

c. Choice of Analogues

We wish to encourage the Pay Research Unit Board to pursue its examination of the outside analogues used in pay research to ensure that they are fully representative of the range of outside employers.

d. Role of Board

We wish to reinforce the role of the Board as guarantor of the independence and integrity of the pay research system and propose that its functions should be extended to enable it to examine and report on the principles underlying the use of the pay research data. In particular it might be asked to examine the quantification of fringe benefits; the uprating procedure; the value of pensions and job security in the light of the Scott enquiry. There is no intention that the Board would be involved in the annual pay negotiations.

e. Relating Pay and Performance

We wish to seek improvements in the arrangements for encouraging and rewarding merit in the light of outside practice.

f. Regional Pay

We would like to see greater flexibility in the system to match the outside market more closely. There is evidence that the Civil Service pays more than outside employers in some areas and less in others. One way of restoring the balance might be to introduce some regional variation in the national rates produced by pay research.



10 DOWNING STREET

PRIME MINISTER

When you acknowledged Lord Shepherd's letter with suggestions about the terms of reference of the Pay Research Unit Board, you promised to write again. Lord Soames' office have suggested the attached draft.

Duty Clerk

pp MAD

11 August 1980



✓
MAD

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

Telephone 01-407 5522

From the Secretary of State for Social Services

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

// August 1980

Dear Paul,

You will not be surprised that I feel obliged to comment on the thought expressed in Geoffrey Howe's letter to you of 1 August about the scheme for advances of London Weighting, that our problems lie in persuading people to go, not in persuading them to join the Civil Service or stay in it. For the recruitment grades - typists, secretaries, clerical staff, Executive Officers and Local Officers grades I and II - who are essential support staff in our London local offices that is simply not true.

While recruitment at these levels is a little easier now than in the past, wastage rates in the Inner and Outer London pay areas are still worryingly high at annual rates of about 10 per cent for Executive Officers and LOI and 20 per cent for clerical staff and LOII. The fact that it may be easier currently to replace those losses is no answer to that problem. We need to act to encourage staff in these grades to stay with us, and advances of London Weighting for the purchase of annual season tickets to help reduce the high cost of travel for staff in the London area is one practical way of doing so.

Whether or not we can get other savings by paying all salaries by credit transfer in return for this arrangement, there are tangible savings to be set against its cost. If we can keep trained and experienced staff we will save money that is now being wasted in recruiting and training replacements; we can give a more effective service to the public; with a lower turnover of staff we stand to gain overall in improved efficiency and morale; and we would give supervisors and managers more time to get on with the job of managing instead of settling in a constant flow of new staff, or doing for themselves jobs which cannot be done by inexperienced recruits.

As you know, I fully support the proposed scheme and hope that colleagues to whom I am copying this letter will also feel able to endorse it.

Your ever
Paul

May I add that, unlike the Inland Revenue, DSS cannot locate its local offices serving Londoners outside London!



Civil Service

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

From the Private Secretary

8 August 1980

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

Dear Tim,

CIVIL SERVICE PAY RESEARCH UNIT BOARD

Lord Shepherd wrote to the Prime Minister on 22 May with some suggestions for the terms of reference of the Pay Research Unit Board. The Prime Minister replied on 27 May and promised to write again.

Now that negotiations have been opened with the Council of Civil Service Unions it would be appropriate for the Prime Minister to send a further note to Lord Shepherd along the lines of the attached draft.

...

Yours sincerely,

J. Buckley

J BUCKLEY

DRAFT LETTER FROM THE PRIME MINISTER TO:

Lord Shepherd
Chairman
Pay Research Unit Board
41 Tothill Street
LONDON SW1

Since I wrote to you on 27 May we have been giving a great deal of thought to possible improvements to the Civil Service pay research system.

The Lord President has now put a number of proposals to the Council of Civil Service Unions and as you will see from the attached summary these include some of the suggestions you yourself put to me earlier designed to strengthen the independence of the Board, and the Unit. Officials will now be undertaking detailed discussions with the unions about all this and the Lord President will keep you informed of progress.

IMPROVEMENTS TO THE PAY RESEARCH SYSTEM

a Independence of the Pay Research Unit

We wish to appoint an outsider as the next Director when Mr Vernon Morgan retires next year. We would also like to see an increase in the proportion of outside survey officers.

b Pay Research Unit Board

We wish to appoint a strong successor to Sir Derek Rayner who has resigned.

c Choice of Analogues

We wish to encourage the Pay Research Unit Board to pursue its examination of the outside analogues used in pay research to ensure that they are fully representative of the range of outside employers.

d Role of Board

We wish to reinforce the role of the Board as guarantor of the independence and integrity of the pay research system and propose that its functions should be extended to enable it to examine and report on the principles underlying the use of the pay research data. In particular it might be asked to examine the quantification of fringe benefits; the uprating procedure; the value of pensions and job security in the light of the Scott enquiry. There is no intention that the Board would be involved in the annual pay negotiations.

e Relating Pay and Performance

We wish to seek improvements in the arrangements for encouraging and rewarding merit in the light of outside practice.

f Regional Pay

We would like to see greater flexibility in the system to match the outside market more closely. There is evidence that the Civil Service pays more than outside employers in some areas and less in others. One way of restoring the balance might be to introduce some regional variation in the national rates produced by pay research.



B/F Friday

NBPM yet

MA

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

/ August 1980

The Rt. Hon. Paul Channon, MP.,
Minister of State,
Civil Service Department

Dear Paul

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

You sent me a copy of your letter of 23 July to Francis Pym, outlining a scheme which you propose should be put into effect from 1 October, under which London Weighting would be paid six months in advance to enable London staff to purchase annual season tickets. You hope in return that all staff will accept payment of salary by credit transfer.

Whilst I am in favour of obtaining administrative savings by paying all salaries by means of credit transfer if that can in fact be negotiated in exchange, I must draw your attention to the fact that, by making advances to staff to enable them to purchase season tickets, we should in effect be providing them with a "perk". As interest-free loans these advances would attract liability to tax in the hands of higher-paid employees, that is, those earning more than £8,500, although, since the amounts involved would be below the de minimis limit laid down in the legislation, tax would not ordinarily in practice be payable on them.

We have as you know publicly stated that, in the light of our policy of reducing tax rates, we would like to see a return to the practice of paying people in cash rather than providing them with "perks" which might receive more favourable tax treatment. There is a real risk that we should be open to a charge of inconsistency in failing to practise what we preach, if we now extend to the Government's own employees a "perk" which is already widespread in the private sector, but which we hope our statements will have some effect in curbing.

As an extension of this point, I think we need to consider the proposal in the context of our wider attitude to the Civil Service and to public sector remuneration. What you propose will look like - indeed will be - a improvement in

/the conditions



the conditions of service. It may well, in logic, be defensible on the grounds you suggest but I think we need to be very careful to think about how we should present this in current circumstances. And apart from the question of comparative total remuneration packages in the public and private sectors, there is also the question whether, with 1.9 million unemployed many of them school leavers we actually require to improve our conditions in the way you suggest. Is recruiting and retention of staff really all that difficult at the moment? I had thought our problems lay in persuading people to go, not in persuading people to join or stay.

Then there is the question of cost. As you say, this depends on the take-up of advances. However I cannot agree that it will necessarily be modest. It seems to me that if there were a good take-up (and if I were a civil servant I would jump at it) then at current interest rates and allowing for non-recovery from people who die, disappear, and so on, the cost could be \$1 million per annum or more in terms of lost interest and bad debts. This would all add to public expenditure. In addition, it seems to me there could be a bringing forward effect of expenditure from 1981-82 to 1980-81, with adverse effects on the PSBR in this current very difficult year. I think these effects ought to be more clearly examined and quantified before we go forward.

I also note from your letter that this is just one proposal among a number of suggestions which has been considered by an Inter-Departmental Working Group looking at ways of alleviating this apparent problem of retaining and recruiting certain key grades of civil servant in London. What you want to go forward with now may, as you say, be the single most important item among these. But I must say that I think it is in principle undesirable to take a decision on one of these proposals without having considered the others, nor having seen how they shape up as a total package against the problem as we perceive it. Would it not be better to see this as a whole?

If we were to adopt your proposals I would want to urge strongly that its detailed working should be kept as simple as possible so that administrative costs could be kept to a minimum. I think there is a danger with schemes of this sort for special procedures and rules to proliferate and we should guard against this from the outset.

It would be helpful, I think if I could have your reaction to this letter, and hear from other colleagues', before we reach any decision.

I am copying this letter to those who had copies of yours.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.



QUEEN ANNE'S GATE LONDON SW1H 9AT

31 July 1980

MANAGEMENT-IN-CONFIDENCE

✓
MAD

Thank you for your letter of 23rd July about railway ticket advances.

I am in agreement with what I take to be your general proposition that an advance equal to six months' London weighting should be payable. I attach importance to getting an agreement about paying salaries by credit transfer and would favour delaying the commencement date in order to pursue negotiations on this point.

Indeed, unless your proposed commencement date of 1st October is the date after which an officer may apply for an advance, it is probably already too late to make, publicise and process cases in time for the money to be paid at the end of September. In addition, there are important matters to sort out such as the categories of cases in which advances may be refused, (such as officers with records as bad payers or likely to leave the Department within the next 12 months), which also militate against the 1st October date.

In short, I favour the proposal but think we should get the details right and secure the credit transfer point before we go firm on a commencement date.

The Rt. Hon. Paul Channon, M.P.



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 8000
DIRECT DIALLING 01-218 2111/3

MO 2/2/6

30th July 1980

*Dear Paul,*CIVIL SERVICE STAFFING PROBLEMS IN LONDON

In general I welcome the suggestion in your letter of 23rd July that pay advances, within the limits of six months London Weighting, should be made available to enable London-based staff to purchase season tickets, particularly if a quid pro quo can be obtained of the payment of salary by credit transfer.

I expect pressure by the unions for similar treatment of provincial staff. Although London staff may in general travel longer distances to work, rail travel to large conurbations from suburbs and dormitory areas is fairly common and has become increasingly expensive. I imagine, however, that it would be possible to resist such pressure on the grounds that employers' practice of advances to pay for season tickets is widespread only in the London area.

There are, of course, the obvious risks of overpayments should staff leave the Service before repayment of the loan. The proposal will also need additional administrative effort at a time when staff reductions are being sought from all possible sources, but if it will cut wastage rates and aid recruitment, I believe that it will be justified.



I am, however, worried about the implications of this proposal for our cash limits, even though the additional cost this year would be relatively small. This effect could be avoided if the introduction date were 1st April 1981; I therefore very much favour postponement until then.

Finally, I hope that the mechanics of the scheme will, so far as possible, be left to departmental discretion so that the arrangements introduced may be those most conveniently operable by computer payroll offices.

Copies of this letter go to the Prime Minister and the other recipients of yours.

Handwritten signature

Handwritten signature

Francis Pym

Civil Service



✓
MAD

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Rt Hon Paul Channon MP
Minister of State
Civil Service Department
Whitehall
LONDON SW1A 2AZ

30 July 1980

Handwritten signature

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

Thank you for sending me a copy of your letter to Francis Pym of 23 July.

We continue to have problems of high turnover and wastage in DE Group offices in London, especially at Executive officer and clerical levels, which is very costly and reduces the efficiency of the offices concerned. We therefore welcome action which would help us to retain staff in these grades and I strongly support your proposal to pay London weighting six months in advance to enable London staff to purchase annual season tickets. I note that you hope, subject to negotiations with the Council of Civil Service Unions, to introduce the new scheme on 1 October. We shall be considering in the meantime how best to implement the new arrangements on our computer payroll system.

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

Handwritten signature

Civil Service

25 July, 1980

The Prime Minister has seen a copy of your Minister's letter of 23 July to the Secretary of State for Defence, about Civil Service staffing problems in London.

She has noted the proposals for a new scheme to permit advances against London Weighting to assist in the purchase of annual season tickets. She has also noted the increases in London Weighting which are shortly to be implemented.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. A. PATTISON

G E T Green, Esq
Civil Service Department

TRK

E.R.

PRIME MINISTER

Paul Channon reports a new scheme to help recruitment of certain Civil Service grades in London. Recent pay research evidence shows that advances of travel costs are now widespread among London employers and Mr. Channon has designed a scheme to allow a six months advance of London Weighting to be available once a year to help London staff buy annual season tickets. He is prepared to introduce it from 1 October this year but hopes first to negotiate an agreement in principle that all staff should be paid by credit transfer, and that new recruits should be told this. The savings will help to offset the interest costs of the advances.

He also reports that London Weighting rates are due to be increased, to £1016 from £780 for Inner London and to £424 from £325 for Outer London. Costs will be met out of the cash limits approved in February.

ms

MAP

24 July 1980

A



Minister of State

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

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

23 July 1980

Jan Francis

CIVIL SERVICE STAFFING PROBLEMS IN LONDON

As you know, retaining certain key grades of civil servants has for a number of years been consistently more difficult in London than in the rest of the country. High turnover and staff shortages were a feature of evidence from both management and unions to the Fulton Committee as long ago as 1967 and in 1975 a joint Central/Local Government Study Group reported on the problems of manning public services in London. Sir Derek Rayner recently referred to this problem in his paper for Cabinet in May. There have also been problems in recruiting some key grades in the Civil Service - such as in the data processing field. This has now become a little easier but there is evidence that wastage rates in London are higher than average, particularly amongst Clerical Officers, Clerical Assistants, Typists and Personal Secretaries.

After Permanent Secretaries discussed this problem at the end of 1979 an interdepartmental working group was set up to consider ways of alleviating the difficulties. That group is about to produce its report which will contain a number of suggestions which should help Departments to retain staff in these grades. The report will in due course be discussed with Establishment Officers and the Council of Civil Service Unions. The single most important item in it will, however, be a proposal that a scheme should be introduced to help with advances of travel costs. This is not a new idea, but so far it has been rejected on the grounds of insufficient evidence that outside employers generally gave such assistance.

The outside position has now changed. This year's pay review showed clearly that an advance of travel costs is now widespread amongst employers in London. I know it too from my personal constituency experience. Normally the value of these schemes would have been taken into account in the "unquantifiable" element in the calculation of pay. But it seemed more sensible to devise a scheme for direct assistance with these advances for those people for whom it was a real problem. So the Council of Civil Service Unions were told that we would look at this problem during the annual consideration of the rate of London Weighting.

We now believe that the most effective and, incidentally, the cheapest method of solving the problem would be, once a year, to pay London Weighting six months in advance to enable London staff to purchase annual season tickets. The Treasury Officer of Accounts has raised no objection to this. The Scheme has been devised for easy processing by computer payroll installations. The repayments will be spread over a reasonable period, say ten months, so as not to impose too big a burden on staff. In the first period of operation, before the number of applications settles to a pattern, it is difficult to estimate the extent of carry over of outstanding advances at the end of the financial year. But we do not think that this will lead to any great difficulties. Apart from this, the scheme will not lead to any new expenditure either in cash or staff, although there will be some modest cost in terms of lost interest, due to the advanced payments. This cannot be estimated precisely, because it depends on the take-up of advances but obviously will be small.

I hope that the new scheme can be introduced from 1 October this year. This will, however, depend on how negotiations with the Council of Civil Service Unions progress. In return I hope to negotiate an agreement in principle that all staff will accept payment of salary by credit transfer and that new recruits will be told on appointment that this is the normal method of payment. This change will produce useful administrative savings to offset the interest costs of advance payments.

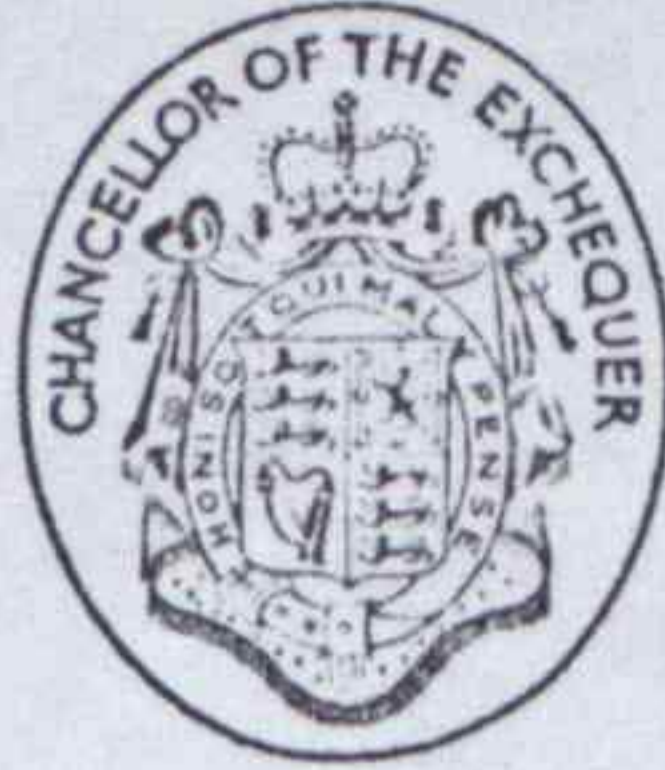
I believe these advances of London Weighting will help to retain trained staff particularly in the more junior grades and also help recruitment in London in those grades where it is still necessary. I should be grateful if you, and the other colleagues to whom I am copying this letter, would let me know as quickly as possible that you are content for me to proceed in this way. May I assume that you have no objection if I do not hear by 31 July?

You will also wish to know that the rates of London Weighting are due to be increased to £1,016 for staff in Inner London and £424 Outer. The cost of this is of course within the cash limits for Civil Service pay and manpower approved by Cabinet in February.

I am sending copies of this letter to the Prime Minister, Ministers in charge of Departments, and to Sir Robert Armstrong.

PAUL CHANNON

Civil Service



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

18 July 1980

12
u/p

The Rt. Hon. Lord Soames, PC, GCMG, GCVO, CBE, CH
Lord President of the Council

Dear Lord Soames

*See final para, we have requested from
HMT. AJ 21-7.*

CASH LIMITS AND CIVIL SERVICE PAY

Your letter of 8 July proposed that we should put aside for a future date the remit from the meeting of E Committee on 17 June to consider the possibility of splitting the present cash limit on civil service pay between departments.

As you say, the central Vote for civil service pay was in fact distributed to departmental cash limits after the award to the non-industrials. In that sense the remit does not take us any further forward.

If we are to look for further flexibility it would have to come from decentralisation of pay bargaining or from a restructuring of Votes. On pay bargaining, I too doubt if our Victoria forefathers knew all the answers. Many things have changed in the last 100 years including the size of the civil service. I do think it would be useful if your Department could provide an analysis of the extent to which other countries are able to pay different rates to civil servants in different departments.

I do not think we need do more than that at present. E Committee considered decentralisation of pay bargaining in February and in general found it unattractive. It might be of some value with the Ministry of Defence industrials but here there is already the flexibility of the defence budget.

A restructuring of Votes would not help all departments. In particular the smaller departments who probably at present have least flexibility would gain nothing. A

/restructuring



restructuring could not, in any case, be undertaken in time for setting the 1981-82 cash limits.

We will, of course, have to consider the future of the central Vote at a later stage when we are clearer about the arrangements for setting civil service pay. In the meantime I share your view that this particular remit should be put aside.

I am copying this letter, together with yours, to other members of E Committee and to Sir Robert Armstrong.

A handwritten signature, likely "Geoffrey Howe", is written in the center of the page. It is flanked by two horizontal lines, one above and one below the signature.

GEOFFREY HOWE

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

26 June 1980

The Rt. Hon. Paul Channon MP
Minister of State
Civil Service Department

12

Dr Paul

N.B. Previous correspondence not copied to us - will request if necessary.

ALIGNMENT OF INDUSTRIAL WITH NON-INDUSTRIAL PAY
SETTLEMENT DATE

Thank you for sending me a copy of your letter of 6 June to Francis Pym. I have also seen Francis Pym's reply dated 13 June, Michael Heseltine's letter of 23 June and Grey Gowrie's letter dated 16 June (which only reached my Office yesterday afternoon).

I entirely agree with the line taken in your letter. It is by no means clear that alignment of Civil Service settlement dates is in our best interests; nor can we take a decision on this question until we have decided our policy on the future of Civil Service pay generally. No doubt the unions representing the industrials see alignment as a potential first step on the road to inclusion in PRU.

Further, if we eventually decided to fix a common settlement date, July might prove a better choice in terms of our policy objectives than April. But in view of the unions' failure to produce a convincing case for a common settlement date, I am sure that you are right to refuse to make concessions or enter into any form of commitment which might restrict our freedom of action.

I regret that I cannot agree with the suggestion in Francis Pym's letter that the strength or otherwise of the union side's case is not particularly important. The desire of the unions representing the industrial Civil Service for a common 1 April settlement date is not a valid argument for making hasty and ill-considered changes.

/The Ministry

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The Ministry of Defence is a typical of government departments, insofar as it employs, either directly or indirectly, the bulk of the industrial Civil Service. So whilst accepting Francis Pym's judgment that successive industrial action by the non-industrial and industrial Civil Service could prove more damaging than a joint strike, I am not yet convinced that the same is true for central government as a whole. Indeed, Michael Heseltine appears to take precisely the opposite view as far as the likely effects on some of the services provided by the Property Services Agency are concerned.

Should you reach the conclusion that Minister collectively need to consider changes in the present arrangements, I think more work will have to be done at official level to enable us to take a considered decision.

I am copying this letter to the Prime Minister, Francis Pym, Michael Heseltin, Jim Prior, and Grey Gowrie, and to Sir Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to read "Jim Prior", with a horizontal line underneath.



cup
22/5

Civil Service

10 DOWNING STREET

THE PRIME MINISTER

27 May 1980

Thank you for your letter of 22 May with which you enclosed suggested new terms of reference for the Civil Service Pay Research Unit Board, following our meeting last week.

I am grateful to you for offering these ideas. My colleagues and I will now look closely at them, and I shall write to you again as soon as possible.

(SGD) MARGARET THATCHER

The Rt. Hon. The Lord Shepherd

Copied to
LPS office

ds



10 DOWNING STREET

PRIME MINISTER .

Lord Shepherd has now written to you following up your meeting last week.

Mr. Channon is already studying the suggestions he has made.

Would you like to acknowledge Lord Shepherd's letter as in the attached draft?

MA

22 May 1980



CIVIL SERVICE PAY RESEARCH UNIT BOARD

Queen Anne's Chambers

41 Tothill Street, LONDON SW1H 9JX

Telephone: 01-273 4465

or M/S CSD.
LPS Office

CHAIRMAN

The Rt Hon Lord Shepherd P.C.

22 May 1980

The Rt Hon Margaret Thatcher MP
Prime Minister and
Minister for the Civil Service
No. 10 Downing Street
London SW1

Margaret Thatcher

At the end of our meeting on Wednesday last you asked me to put to you suggestions for new terms of reference for the Civil Service Pay Research Unit Board. These are enclosed. The Board's existence and role stem from the terms of the National Pay Agreement for the non-industrial Civil Service. The amendments I have suggested to the terms of reference recognise this fact. They are not extensive in wording but are sufficient to give the Board oversight of all the work of the Unit, however arising, and the right to comment on the principles underlying the use made of the data produced by the Unit.

In the first place, I should make it clear that I believe fair comparison, as proposed by Priestley and accepted by successive governments since 1956, to be the right principle on which to settle Civil Service pay. I have no doubts about that. In arriving at appropriate comparable pay levels account clearly needs to be taken of the total remuneration package outside, which includes pay bonuses and all other benefits and conditions of service.

I should also like to place firmly on record that the Board is satisfied that the pay research system rests on a sound base. At the meeting some doubts were expressed about the selection of outside organisations and analogues. May I clarify the position further. Responsibility for the selection of the outside organisations rests fairly and squarely on the Pay Research Unit. They consult the negotiating parties in the preliminary stages but this in no way detracts from their ultimate responsibility. They are guided by the recommendations of the Priestley Report and seek to establish fields which are properly representative of the different types of industrial and commercial activity throughout the country. Although the Board has no formal responsibility for the choice of external organisations its role in overseeing the work of the Unit extends to guidance on these matters and its influence is real. The Board has in fact spent a good deal of time reviewing the number and type of organisations chosen for the outside surveys and has commented on aspects of this in its reports. The number

of organisations from which analogues are chosen has been increased since the Board was established; and its review of the comprehensiveness of the Unit's surveys is continuing.

Another point raised at our meeting related to the range of information on which data was collected. This is clearly the responsibility of the Steering Committee of the National Whitley Council, but you will see in paragraph 22 of our current report that we have looked at this and cannot think of any relevant matter omitted from the Unit's reports. They present a very full picture of the pay and other conditions of service of the analogue jobs.

The Board, within its present terms of reference, has in my view made a good start. As I have indicated above, and as is set out in our report, we have satisfied ourselves that the Pay Research Unit carries out its tasks with integrity and to high professional standards. But I should like us to be able to build on this initial achievement. I would see considerable advantages in some oversight by the Board of the principles underlying the comparison of pay and conditions of employment. The extension of the Board's role into this area would be a natural development.

As I explained at the meeting the way the information collected by the Unit is processed is a matter for the negotiators and is generally governed by the provisions of the Pay Agreement. There must be a presumption that the Service uses the data properly and that the principles governing the adjustments are sound. I have no reason to doubt that this is the case, but scrutiny and confirmation by an independent body would surely be of value in strengthening the public credibility of the system. If the Board found cause to make some critical comment on any of the principles applied within the pay research system, an informed debate resulting in the practices being defended and maintained or, where appropriate, modified, could only again strengthen confidence in the system.

I am certainly not suggesting that the Board should seek to become involved in the details of the negotiations - that would be neither possible nor appropriate in my view. But it would, I think, be useful if the Board were able, from time to time, to examine the principles governing the way in which data on pay and conditions of employment are taken into account by the negotiators. For example, I would like to have seen the questions of inflation-proofed pensions and job security referred to the Board as was originally envisaged, though I appreciate the considerations which led to the decision to set up a wider-ranging enquiry into the implications for the whole of the public sector. There may nevertheless still be a role for the Board to play when that enquiry has reported and the particular implications for the Civil Service fall to be considered. We may well want to say something in due course about the study on merit pay which the Unit is currently undertaking.

I fully recognise that the proposals I am making will raise considerable difficulties in obtaining the agreement of the Civil Service unions, who would see this development as a restriction on

their negotiating role. I think it is worth trying to achieve them in the public interest, but general acceptance of any pay system for the Civil Service by both management and unions is itself of considerable importance.

Yours sincerely,


H. D. Shepherd

SHEPHERD

PROPOSED TERMS OF REFERENCE FOR THE
CIVIL SERVICE PAY RESEARCH UNIT BOARD

The amendments are shown underlined.

The Board shall:

- a. safeguard the independence and impartiality of the Unit in all its work, including any undertaken outside the provisions of the National Pay Agreement;
 - b. comment on any matters referred to it, or which it thinks appropriate, relating to the principles underlying the use of the data collected by the Unit for the negotiating parties;
 - c. receive an Annual Report from the Director about the work of the Unit and the discharge of the responsibilities laid upon the Unit and satisfy themselves that the Unit has exercised its responsibilities properly and efficiently;
 - d. discuss with the Director from time to time as they judge necessary points arising on the work of the Unit;
 - e. submit an Annual Report to the Prime Minister which would be published; and give guidance to the Director on the release of such information about the Unit's work and findings as is compatible with the effective operation of the system. In both contexts, the Board shall have a duty to take account of the need for confidentiality specified by co-operating organisations and the views of the National Whitley Council on the effect of disclosure on the subsequent confidential negotiations by the Official and Staff Sides on material provided by the Unit.
- 

Note for file

For record of meeting
on Monday 19th May at 4.00 pm

see Econ Pol July 79
(Public Sector Pay) - enclosure
to Cabs. Office to Home Office of 21/5.

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NOTE OF MEETING HELD AT 4pm ON MONDAY 19 MAY IN THE PRIME MINISTER'S
ROOM AT THE HOUSE OF COMMONS TO DISCUSS PUBLIC SECTOR PAY POLICY

PRESENT:

The Prime Minister
Secretary of State for the Home Department
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for the Environment
Secretary of State for Social Services
Chief Secretary, Treasury
Minister of State, Civil Service Department
Mr J R Ibbs, CPRS
Mr J Hoskyns, No:10 Policy Unit

Secretariat:

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

The Meeting had before it a paper on Public Sector Pay Policy by the Chancellor of the Exchequer, circulated under cover of a letter of 15 May to the Prime Minister's office; a paper by the Minister of State, Civil Service Department on the Pay Research System, circulated under cover of a letter to the Prime Minister's office of 16 May; and a Report by Officials on the prospects for industrial trouble in the next pay round, circulated under cover of a minute of 15 May to the Prime Minister from the Secretary of the Cabinet.

THE PRIME MINISTER said that the purpose of the meeting was a preliminary and general discussion on the Government's approach to dealing with pay in the three public sector areas: the Civil Service, the nationalised industries, and the local authorities. Her meeting with Lord Shepherd, the Chairman of the Pay Research Unit (PRU) Board, on 14 May had revealed considerable deficiencies in the role of the PRU Board and weaknesses in the application of fair comparisons in the Civil Service. The analogues which were the basis for comparability with the private sector were chosen in negotiation between the two sides of the Whitley Council, and included too many public sector bodies and too few small firms. The process was not in practice a true measure of comparability. All parts of the public sector expected to be treated well, even when living standards were falling generally. In contrast the pay of employees in the private sector depended on how well their firms were doing. She had asked Lord Shepherd to set

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out his views in writing for changes in the pay research process and in the role of the PRU Board.

THE CHANCELLOR OF THE EXCHEQUER said that it was crucial to influence pay settlements in the public sector where the Government was responsible directly or indirectly. If the Government's monetary targets were to be met, the 1981-82 cash limits for central and local government had to be struck at levels below those in previous years. These cash limits should be given primacy; and the Government should not accept an obligation to allow pay in the public services to be determined solely by comparability. This would be so even if the present system of comparability could be improved. But he did not recommend abandoning comparability altogether; otherwise the unions would continue to make their own calculations and in due course demand a major review to restore what, in their view, they had lost by comparison with the private sector. His preference, therefore, would be to attempt to dethrone comparability so that it survived as only one among many considerations in pay determination. The Government would take it into account in negotiations but would not be bound by the results. For the nationalised industries it would be necessary to use a variety of weapons: External Financing Limits; more pressure on Chairmen to hold down settlements; and the development of performance targets and further references to Monopolies and Merger Commission on efficiency. The Rate Support Grant should be used to set the framework for limitations on pay in the local authorities. This approach should be accompanied by an intensive public campaign to create an atmosphere in which pay bargaining beginning in the autumn would be at levels very substantially below the rates of the past year.

In discussion the following main points were made -

- a. It was agreed that the terms of reference and the method of operation of the PRU should be reviewed urgently. However, the question of how the method of comparability might be improved was secondary to that of whether comparability should continue to have a role in the determination of public sector pay.
- b. There were serious objections to abandoning the pay research system altogether in the Civil Service. The militants in the Civil Service unions had always wanted it abandoned, and to do so would be to play into their hands.

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There would be an early and major confrontation. The choice would then be either to fight the changes through, and to accept the disruptions which would result, or to retreat.

c. In making any changes to the present system it would be important to bear in mind the lessons of the late 1950s and early 1960s. Public sector pay had then been held down with the aim of influencing private sector pay. The private sector had not responded and public sector pay had lagged badly behind. This had led to confrontations with major public sector groups such as the nurses, the police, the doctors and prison officers, to embarrassingly large "catching up" increases, and to the creation of new institutions for determining pay in the hope of avoiding these problems. It was essential not to get into this cycle again. This pointed towards a compromise on the lines of the Chancellor of the Exchequer's proposal, whereby comparability studies would be continued but would be no more than one factor in the determination of pay. In future it would be necessary to be flexible and to recognise the fact that while there might be over-manning in some parts of the public sector there were shortages in others. The present structure of links between different grades should be broken.

d. On the other hand there was a danger that the approach recommended by the Chancellor of the Exchequer could lead to the Government getting the worst of both worlds. The comparability studies would tell the unions what in their view they ought to be getting, and the Government through the cash limits system would be telling them that they were to be denied those increases. All the signs were that pay was the one issue on which the militants in the Civil Service unions could hope to attract widespread support.

e. Hitherto the Government had tended to be reactive in dealing with public sector pay problems. It was now necessary to take the initiative and mount a campaign for improved productivity and the removal of restrictive practices throughout the public sector. The public generally, and the public sector unions in particular, should be brought to recognise that if national living standards were not to fall the present levels of public sector pay increases could not be continued. There would be a major task of negotiation to secure recognition by the Civil Service unions that in future comparability could not be paramount.

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f. It would be helpful if the Departments of Industry, Employment and Environment could bring up to date their lists of over-manning and restrictive practices within the public sector.

g. The Secretary of State for the Environment was putting forward proposals separately to the Ministerial Committee on Economic Strategy on ways for securing improvements in the local authority field. He was also examining the method of determining pay by the water authorities. His Department would be discussing further with the Department of Employment the possibilities for getting better undertakings on working practices from the workers in the water industry.

h. One of the earliest, and most difficult decisions, facing the Government would be that to be taken at the end of June on the pay of Members of Parliament. The combined process of catching-up and uprating to 1980 levels was likely to point to high increases. However, it would be very difficult to avoid accepting these increases in view of undertakings which the Government had already given on the pay of MPs.

THE PRIME MINISTER, summing up the discussion, said that the next step would be for the Ministerial Committee on Economic Strategy (E) to consider papers on these questions. The Chancellor of the Exchequer should now prepare a paper for E, based on the paper before the meeting and taking account of the points made in discussion. He should include an analysis of the implications of the options for each of the main public service groups. This analysis should indicate, if possible, what might be the difference between pay settlements which the groups could expect if comparability were to be maintained and what they might get if his proposals were to be implemented. It should also indicate what might be the costs, results and likely course of pay disputes in the public sector as a whole which might result from following this course. It would be helpful to have a time-table of the critical dates on cash limits and External Financing Limits. The Chancellor of the Exchequer should also bring forward proposals, in consultation with the Paymaster General and her own Press Office, on a publicity campaign to create the atmosphere for pay bargaining beginning in the autumn. He should also make proposals for the future of Professor Clegg's Group on comparability and of other review bodies. The Secretaries of State for Industry, Employment and the Environment should send notes to her on

examples of over-manning and restrictive practices in the areas for which they were responsible. The Lord President of the Council should bring forward proposals in due course for changes in the terms of reference and method of operation of the PRU taking into account the further letter which Lord Shepherd would be sending.

The Meeting -

1. Invited the Chancellor of the Exchequer to circulate to E Committee, in time for discussion on 5 June, papers on the lines indicated by the Prime Minister in her summing up of their discussion.
2. Invited the Secretaries of State for Industry, Employment and the Environment to send notes to the Prime Minister, with copies to members of E Committee, on examples of over-manning and restrictive practices in the public sector areas with which they were concerned.
3. Took note that the Prime Minister would arrange for the Lord President of the Council to report to E and to make recommendations on the terms of reference and method of operation of the PRU, taking account of the further letter which Lord Shepherd would be sending.

Cabinet Office

21 May 1980



Minister of State

Tim Lankester Esq
10 Downing Street
LONDON SW1

A. Bignold
Civil Service

Civil Service Department

Whitehall London SW1A 2AZ

Telephone 01-273 3000

19 May 1980

Dear Tim

PUBLIC SECTOR PAY

On Friday evening Martin Hall circulated an article from the RIPA Journal by Mr Roy Marris as "a background paper" for the Prime Minister's meeting this afternoon. We do not know what motives Mr Marris may have for writing such an article. Nor do we know how qualified he is to write about pay research. (The RIPA Journal describes him simply as an economist working in the pay field and a former civil servant.)

The attached reply to Mr Marris' criticisms as they affect the Pay Research Unit has, I understand, been sent to the RIPA Journal by the Director of the Unit. The rest of the article is a mixture of assertions, half-truths and misunderstandings. An example of these is when Mr Marris asks "Can it seriously be maintained that civil servants in general should actually be paid more than their outside equivalents?". The fact is that they are not. Pay research aims to pay civil servants at about the middle of the rates paid by good outside employers for comparable work. Good employers were defined by Priestley, not as those paying the highest rates, but as those offering stability and continuity of employment, and good consultation, training and other personnel practices. Nobody is surely suggesting that we should cease to be good employers in this sense.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for the Home Department, Industry, Employment, Environment, and Social Services and to David Wright and Robin Ibbs.

Yours sincerely

G E T Green

G E T GREEN
Private Secretary

SECRET



PRIME MINISTER

PUBLIC SECTOR PAY

The Chancellor of the Exchequer's paper which you are to discuss on Monday outlines various ways of dealing with the problems of Civil Service pay.

In reality, however, there are only two ways of dealing with this. Either it can be dealt with on some form of pay research basis, however improved, or we can have an annual confrontation.

The latter has been the dream of the Left-Wing militants in the Civil Service. It would mean a damaging battle each year with the unions.

We have already taken decisions on a smaller more efficient Service. In this I think we can carry the bulk of the staff with us. If at the same time we jettison pay research, we shall lose the co-operation of the Service, with all that means. We would I believe face extensive industrial action in areas which would be very damaging to us.

There is no real half-way house here. We have at present a pay system jointly agreed by the Government and the staff. The pay research system can certainly be improved, but it would need to be agreed.

At a time when we are seeing a much more moderate mood emerge in the Civil Service Unions, it would be a tragedy to abandon a pay research system, and give the militants their best present for years.

I cannot alas be with you on Monday, so Paul Channon will represent me. But I wanted to let you know my thinking.

S.

SOAMES

16 May 1980

SECRET

CIVIL SERVICE PAY RESEARCH UNIT
Queen Anne's Chambers
41 Tottill Street, London SW1H 9JX
Telephone: 01-273 5126

16 May 1980

I Shelley Esq
Editor, RIPA Report
Royal Institute of Public Administration
3 Birdcage Walk
London SW1H 9JJ

I Shelley

In your Spring issue Mr Roy Marris in his article "Civil Service Pay - Why PRU Won't Do" criticises the Pay Research Unit's methodology, the public scrutiny role of the Pay Research Unit Board, and the underlying policy for settling civil service pay. As Director of the Pay Research Unit it is not for me to comment on or debate these last two aspects, but I would like to say something about the Unit's survey methods, which are my responsibility.

I welcome constructive criticism and believe only good can come from open discussion and a better understanding of the way we go about our surveys. As a Unit we are constantly seeking ways of improving our methods of comparison, the accuracy of our surveys, and the fairness of our results. It is unfortunate therefore that much of the criticism by Mr Marris is related to false assumptions about our methods, which could have been avoided if he had taken care to establish the facts.

The comparison of jobs is, as Mr Marris rightly says, the heart of the matter. It is appropriate therefore for me to describe briefly what we do which is quite different from what Mr Marris thinks we do.

The Unit analyses all civil service and external jobs under seven factors (i) function (ii) qualifications and experience (iii) organisational and work environment (iv) staff structure (v) job features (vi) decisions (vii) advice. The fact that there are sufficient jobs of a broadly similar nature outside the Service to those inside enables the Unit on the whole to compare like with like, although of course few jobs are identical. This ability to compare similar jobs obviates the need to use a quantitative points rating system which comes into its own in comparing unlike jobs or creating a grading structure within an organisation.

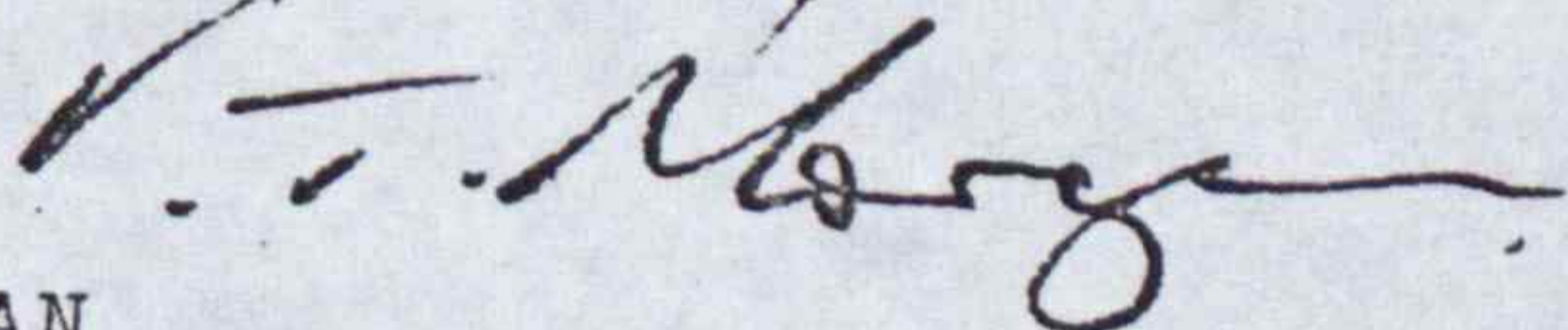
From its study of civil service jobs the Unit draws up grade standards which consist of a broad definition of the work of each grade. These are backed by a data bank of job descriptions and serve both as an aide memoire to the survey teams and a starting point for discussions with outside organisations in identifying possible comparisons.

Within an outside organisation the Unit's survey staff analyse likely comparable jobs by studying job descriptions and interviewing personnel managers, direct line managers, job evaluators, or postholders, with the aim of assessing the scope and complexity of the work. Jobs are looked at invariably within a hierarchical and organisational structure and never in isolation. This assists in establishing the cut off points of responsibility and in identifying the total content, context, and environment of the jobs. For many levels of comparison decision making is a critical factor and requires keen judgement. It is necessary to establish the discretion which is allowed the postholder to advise, recommend, or act upon the matters which arise in his job. The impact upon the well being of the organisation is a relevant consideration in assessing the part played by a postholder in his sphere of operation.

The job comparison process has to be suited to the type and level of jobs being compared. It is not the same for typists jobs or basic clerical jobs, as for senior management jobs. It is not an easy task and we should certainly be lacking in professional expertise if we tackled it in the manner inferred by Mr Marris. In fact our practices as outlined above are so different from those assumed by Mr Marris as to make his criticism irrelevant. Also contrary to what he said the bulk of our effort is spent on establishing job comparisons and not on collecting pay and conditions data.

The final piece of evidence used by Mr Marris to show that the Unit cannot perceive real job differences is that he has found that the pay range between the upper and lower quartiles for jobs found comparable by the Unit is double that identified by at least one independent organisation. The relevance of such a comparison depends on the scope and nature of the surveys and I am aware of other surveys which show pay ranges similar to those produced by the Unit.

It is pertinent to note that the Unit's survey methods are known at first hand by the organisations we visit, many of which have cooperated with us over a long period. It is unlikely they would have maintained this cooperation if we had shown ourselves to be incompetent. Also the Pay Research Unit Board, whatever criticism Mr Marris has of its role, does at least have the role of scrutinising the methodology of the Unit. The Board has endorsed the way the Unit conducts its surveys and has stated so publicly.

Yours sincerely,


V T MORGAN
Director

cc. A. Duguid



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

From the Private Secretary

16 May 1980

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

Dear Tim,

Thank you for your letter of 14 May recording the outcome of the Prime Minister's meeting yesterday with Lord Shepherd and others. The Lord President thought it might be helpful in preparation for the forthcoming Ministerial discussion of public sector pay for me to send you our comments on some of the points which were raised on Wednesday.

The Pay Research Unit Board does have an important role in relation to the choice of analogues. In making clear that the Board itself does not choose each and every analogue Lord Shepherd seems to have understated the very close interest which the Board is fully entitled to take and in fact has taken in the Unit's methods of selection. The Board made extensive comments on these in their 1979 Report and have returned to the subject in their 1980 Report, reviewing the progress made by the Unit in response to the recommendations made last year. In fact the Board spent some considerable time reviewing in detail the way analogues were selected in a number of particular surveys. There is no limit to the Board's ability to interest itself in and influence the whole data collection process.

The Lord President believes, however, that there is further scope for developing the role of the Board and that this could help further to re-inforce the integrity of the system. As the Prime Minister knows, at one stage it was intended to give the Pay Research Unit Board a role in the valuation of pensions and of job security, but in the end the Government decided that a wider enquiry covering the whole public sector would be preferable.

As to the points raised by the Prime Minister, we have been carrying out work touching on all the areas which she mentioned as being possibly ignored by pay research. The scope for merit pay in the Civil Service is being studied and we shall be looking at some of the main possibilities before the recess; we are also working on proposals about performance-related range pay in the

higher Civil Service. Job security already enters into the final stage of pay negotiations, and we shall be looking to the public sector pensions enquiry for advice on any further steps which can be taken to ensure this factor is given its full value. E. Committee considered in February how pay research could be refined so as to relate Civil Service pay more closely to market rates. They commissioned a feasibility study on how to reflect regional pay differences. This has just been completed so we will have something to go on.

The Lord President thought the Prime Minister might find it useful to know how far things had been taken on these various matters.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

cc A Duguid,

CONFIDENTIAL



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

16th May 1980

Prime Minister

A useful article
(though CSD say
it is misinformed!)

T.L.

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

Dr T.L.,

PUBLIC SECTOR PAY POLICY

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

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

Yours ever,

M.A. Hall

M.A. HALL

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Pay Research

PRU Board report
in in form 4.

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PAY RESEARCH AND CASH LIMITS

R.
16/11

NOTE BY THE MINISTER OF STATE, CIVIL SERVICE DEPARTMENT

1. The attached note by officials discusses the advantages and disadvantages of a Pay Research system for determining Civil Service pay. It identifies three main options for the future:
 - a. continue as at present, ie committed to a pay research system but setting a cash limit not based on its findings;
 - b. allow an improved system to determine the cash limit;
 - c. abandon pay research (and therefore inevitably also arbitration) and seek to stay within a cash limit by free collective bargaining.

2. I do not consider option a. to be realistic. We got by this year with the help of a significant manpower squeeze and a modest degree of staging. We had to break the Civil Service/^{Pay} and Arbitration Agreements to do so. We cannot go on doing that indefinitely and hope to remain credible with either unions or staff. We could never hope to renegotiate the Pay Agreement to allow the Government to set aside comparability at will. That Agreement imposes very real constraints on the unions as well as on Government. They will not agree to us relaxing the constraints on our side, whilst maintaining them on theirs. There is, I fear, a straight choice between option b. and c.

3. In making that choice we need to bear in mind the special position of the Civil Service. The Armed Forces apart, civil servants are uniquely our own employees. We depend directly on them to carry out our policies. To some extent our success as a Government depends on this. Also this is the only area of the public services where Ministers are directly responsible for all the elements determining the manpower bill - the tasks and the standards to which those tasks are performed, efficiency, and pay rates. In all other public service areas we can bring pressure to bear on these matters only indirectly and less effectively through cash limits.

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4. What kind of Civil Service do we want? I would say efficient, well-motivated and loyal, and not in the control of the militants. We are actively pursuing the aim of a smaller and more efficient Service. In this we need the co-operation of the staff. We cannot expect this if we do not treat them fairly over pay. I do not know what else this can mean except to pitch pay rates at about the middle of the rates paid by other employers for comparable work. To do less - to go deliberately for a policy paying below the middle market rate - will undoubtedly make the Service believe that we were not interested in treating them fairly. That would have far-reaching and disastrous effects.

No
5. Pay research produces pay levels for the Civil Service which reflect what has already happened outside. It can never lead. *It can't do.*
There is a minority Left-wing extremist element in the Civil Service Union movement who would dearly like to get away from the discipline of that system. They would like to substitute an annual free-for-all. There are many vulnerable targets in Government, eg revenue collection, immigration and customs controls. The extremist element will be fighting every inch of the way on the programme of reductions on which we are embarked. Fair treatment on pay is more important to the average civil servant than anything else. Control of the Executive Committee of the largest Civil Service union, the CPSA, has just been captured by a great moderate majority, through a ballot of all members. Do we really want to prejudice that immensely encouraging development by abandoning what the moderates see as a fair pay system by completely cutting the ground from under their feet? If the moderates do unite behind the militants, the situation could very easily get out of control. It would take a long time to recover.

6. Naturally I understand the Chancellor's concern about the levels of public sector pay. But if we were to abandon pay research and go for option c. we could not be certain even of reaching lower settlements. Almost certainly we would have settlements which corresponded less with differential movements in the

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market. (This year, for example, cleaners qualified for less than 13%, secretaries for 23%.) Most would tend to go to those elements of the Service with most muscle. Who knows what the outcome would be after a prolonged all-out strike say by VAT collectors, or by immigration or prison officers?

7. Therefore I am firmly convinced that we should go for option b. We can, if necessary, distinguish the Civil Service from the other public service elements, not only by means of a pay research system but also on the grounds as outlined in paragraph 3 above. We would attempt to negotiate some improvements in the system but it is a jointly agreed system between Government and unions and we would have grave difficulties in imposing changes. We would have to set the cash limit for the Civil Service on the basis of the pay research evidence. As, owing to our manpower policy, the Service is to come down each year, it would be possible to show a "productivity" improvement when we fix the cash limit.

PAUL CHANNON
16 May 1980

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

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

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

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

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

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

The PRU weaknesses favour the civil

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

Methodology

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

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

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

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

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

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

Public Scrutiny

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

linked pensions (subsequently revealed to be 2.6%).

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

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

Underlying Policy

The Priestley Report of 1955 recom-

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

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

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

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

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

What the Government Should Do

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

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

William Plowden on Rayner Exercises

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

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

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

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

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B. *A. August* 1



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Minister of State

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

16 May 1980

Dear Tim

PUBLIC SECTOR PAY POLICY: REVIEW OF THE PAY RESEARCH SYSTEM

... I enclose a copy of a note by the Minister of State, which covers a more substantial paper by officials about the advantages and disadvantages of a pay research system for determining Civil Service pay. These are for the Prime Minister's meeting at 4.00pm, in the House of Commons, on Monday, 19 May.

I am copying this letter, with the enclosures, to the Private Secretaries to the Home Secretary, the Secretaries of State for Industry, Employment, the Environment, and Social Services, and to David Wright and Robin Ibbs.

Yours sincerely

G E T Green

G E T GREEN
Private Secretary

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REVIEW OF THE PAY RESEARCH SYSTEM

This note considers the advantages and disadvantages of the Civil Service pay research system and the arguments for changing it.

The nature of the system

2. The principle on which pay research has operated since it began in 1956 is that the pay of non-industrial grades should be based on "fair comparison" with the current pay of outside employees engaged on closely comparable work taking account of differences in other conditions of service. This principle and much of the pay system which incorporates it derive from detailed recommendations of the Priestley Royal Commission. The note at Annex A describes briefly how the system works.

*It's not fair
it is comparable*

Its Advantages

3. i. it provides an objective and binding system of pay determination (backed by a right of access to a special arbitration tribunal whose recommendations are binding on both parties). Thus, as Priestley intended, it allows Civil Service pay to be kept "out of politics";
- ii. as an agreed and largely mechanistic system it makes for good industrial relations;
- iii. it produces pay rates which are based on the middle of the range of outside rates and (again as Priestley intended) it is in this sense fair both to the taxpayer and to the civil servant;

No.

iv. the use of the middle of the range also ensures that Civil Service rates are broadly competitive in the market. They are thus market-rated by proxy enabling the Government to recruit adequately in normal circumstances but not to secure more than a reasonable share of skills in short supply;

NP

v. as a binding system with tightly drawn rules it confines union claims to the pay levels indicated by the pay research evidence. It thus excludes the possibility of "revaluation" settlements or of excessive claims based on the increases other groups are currently getting;

Continues?

vi. it alone among pay systems provides for an obligatory and precise deduction to reflect the full extent of superior pension benefits (including inflation proofing which is now to be looked at by an independent enquiry); and ensures that proper account is taken of all the other conditions of service which, with basic pay, make up the total reward for the job;

vii. it has become by far the most refined and disciplined comparability based system operating in this country (and perhaps anywhere).

Its Disadvantages

4. The ones that matter are:-

i. a degree of public mistrust, due in large part to ignorance of pay research theory and practice;

ii. alleged defects in the data collection process carried out by the independent Pay Research Unit (PRU);

mistrust is justified as we learned the other way. - a lot of the

iii. alleged defects in the subsequent negotiating process in which government and unions evaluate the data and produce the actual settlement;

iv. any fundamental conceptual weakness in the Priestley philosophy or conflict with wider government policies.

Public Mistrust

non-tone

5. To the extent that this is based on ignorance, it can be cured by greater openness about the nature and workings of the system.

the dist trust would be solved

Complete openness is not possible because of the need to protect the sources of the pay research data and to preserve the negotiating freedom of both sides in the narrow area where differing judgments are possible. The recently established independent Pay Research Unit Board (PRUB) publishes annual reports on the PRU data. The new Select Committee on the Treasury and CSD also provides an opportunity to publicise the system. If the system continues more could and should be done to explain it publicly.

Alleged Defects in Data Collection

6. The PRUB was set up to oversee the work of the PRU and vouch publicly for its impartiality and technical competence. Its

oversight includes such matters as the number and choice of the comparisons, the representativeness of job samples inside and outside the Civil Service, the weighting between large and small firms, the relationship between size of firm and pay levels. It is for the PRUB to satisfy itself that there is no unfair bias or statistical deficiencies in the data collection procedures. So far it has found no important defects. Although the PRUB has no executive control over the PRU it is a potent instrument for changing anything that is wrong and equally for defending what is right in these procedures. It is open to the Government to raise any issue with the PRUB either direct or through the two Official Side board members.

Alleged Defects in the Negotiating Process

7. The procedures which turn the basic data into settlements are for the most part prescribed in the Civil Service Pay Agreement. There is additionally a very small area where judgment and negotiating precedent can affect the outcome. Essentially however the procedures are agreed ones and can only be changed by agreement with the unions. Some are or could be controversial. Of these the important ones are:-

- i. the evaluation of comparative pension benefits and job security;
- ii. the method of evaluating fringe benefits;
- iii. "uprating" ie the method by which analogue rates are adjusted, where necessary, to take account of the time lag

between their settlement dates and that of the Civil Service settlement date of 1 April (see Annex B).

Evaluation of Pension Benefits and Job Security

8. The pay research system is the only one which produces pay rates adjusted for comparative pension benefits, including inflation-proofing, and binds both negotiating parties in advance to accept this adjustment (calculated by the Government Actuary) whatever it amounts to. Thus only civil servants effectively pay a pension contribution which varies year by year. The only important controversial issue is the correctness of the allowance for inflation proofing and this is now to be examined for the public sector as a whole by an independent advisory group appointed by the Government. This group will also consider how best to evaluate comparative job security. No further action is necessary pending its report. It will then be important to ensure that its findings, if they are sensible, are reflected in the pay research process; and this will require the agreement or acquiescence of the unions (except insofar as the findings influence the Government Actuary's calculations).

Fringe Benefits and Uprating

9. The methods of dealing with these elements could be reviewed within government or, possibly, submitted to independent scrutiny, eg by the PRUB. But changes would have to be negotiated or an attempt made to force them through after serving the required notice of 6 months for an amendment under the Pay Agreement. The unions would be likely to resist any change which tended to depress Civil Service rates so that in practice it would probably be

necessary to make it a condition for the retention of the system.

Conceptual Weaknesses or Conflict with Wider Government Policies

10. The Priestley Report, by its own lights, is a thorough persuasive and consistent document. It has proved remarkably successful in achieving its declared objects (i, ii and iii. of paragraph 3 above) over its first fifteen years of life. And it has begun to fail in them only with the onset of chronically high rates of inflation and of counter-inflationary policies which have obliged governments to interfere with the free operation of the system. In its day however by any pragmatic test it has been an effective system and it is more profitable to consider recent difficulties than to attempt to fault the underlying Priestley philosophy. But the following points are worth noting:-

i. over the years there is no evidence that pay research has tended to produce over-generous settlements. The chart at Annex C shows that on the best available data the pay of non-industrial civil servants has followed the wages/salaries indices closely but from behind;

ii. Priestley 'fair comparisons' deliberately exclude taking direct account of market factors such as recruitment/retention. A system which materially did so would not be a fair comparisons system in the Priestley sense. That does not mean that the present arrangements cannot be refined,

consistently with Priestley, to produce a closer local correspondence of Civil Service and outside rates. Work is in hand on this possibility for an early report to Ministers;

iii. the Civil Service recruitment/retention record over the years does not suggest that pay rates are over-generous and in some critical areas it has indeed been consistently poor;

iv. Priestley excluded comparative productivity from his system. The experience of the Clegg Commission has confirmed that there is no sound way of measuring comparative productivity which would ensure consistency with the fair comparison principle. The pay research system rests instead on the assumption that the trade unions will co-operate with management in promoting maximum efficiency and productivity without any cash 'quid pro quo'; and this has worked well until recently. However, with the spread of productivity bargaining generally, the constraints imposed by cash limits and the advent of new technology, there are signs that the unions will seek to exact a price for their co-operation in future. This development is potentially a very important one for Civil Service pay determination whatever form it may take (see paragraph 16 iii below).

Recent Problems

11. There is essentially only one. Pay research is a catching up system producing rates which reflect the levels achieved outside in the preceding year. Thus when the general level of wage increases is rising rapidly pay research settlements will seem

No - this
hasn't
been

comparatively modest. When it is falling they will seem comparatively high; and may be particularly awkward in relation to cash limits when private sector pay (and therefore some of the pay research analogues) has been moving ahead faster than in the rest of the public sector. Over a period these year by year departures from the national pattern balance out. Civil Service pay does no more and no less than reflect the pay levels of its comparators and the degree to which they themselves have been affected by national pay constraints.

12. Thus pay research settlements sometimes seem to set a bad example to others (though in the converse situation they are not regarded as setting a good example). More specially, they are bound to clash from time to time with any counter-inflationary policy (expressed either as pay restraints or as a cash limit) which a government seeks to apply uniformly throughout the public sector.

13. This incompatibility is essentially short term. As already noted Civil Service pay has over the years followed the national movement of wages and salaries sufficiently closely to dispose of any suggestion that there is built-in partiality towards or against it. Thought has been given in the past to possible modifications of the pay research timetable which would help to iron out the peaks and troughs and minimise the possibility of embarrassingly large increases at particular times. In theory this could mean fairer comparisons at the same cost. In practice it would not be negotiable (even if a foolproof system could be

worked out) because the unions would not trust governments to honour such an arrangement in the "plus" years. Their strong instinct would be to fight each year on its own merits.

The Hand-to-Mouth Solution

14. On the other hand "reconciliation" of pay research with annual cost or pay policy limits by arbitrary measures such as staging or departures from the pay research evidence can at best be only a short-term expedient. For this involves dishonouring agreements, destroys good industrial relations, makes Civil Service pay uncompetitive and must sooner or later be fatal to the system. In 1980 we got by with the help of a manpower squeeze which just bridged the gap between the cash limit and the pay research settlement with the help of some modest staging. But the system cannot survive staging as a continuing feature; and it cannot be bailed out indefinitely by reductions in manpower costs of anything like the magnitude of this year's 2½%.

where do
you get
cost for -

More Radical Solutions

15. There are essentially only two ways round this problem. The first would be to apply to the Civil Service a cash limit which allowed for the full cost each year of the annual pay research settlement. The second would be to adopt an entirely different method of determining pay which allowed the government to avoid inconsistency with uniformly applied cash limits by limiting its offers to the extent necessary.

16. The former course would first require the Government to decide that the essential Priestley concept was still sound and necessary;

to satisfy itself that in its application the pay research system was as good as it could be; and then to secure public acceptance both of the system and its implications for Civil Service pay and cash limits. To this end some or all of the following would have to be considered:-

- i. much greater publicity about the system mainly through the PRUB (paragraph 5)
- ii. the identification and introduction of any desirable adjustments to the system at both the data collection and negotiating stages (paragraphs 6 - 9);
- iii. making the continuance of the system dependent upon acceptance by the unions that they must co-operate to the full in measures to improve efficiency and cut costs and that such measures would not be paid for (paragraph 10 iv)
- iv. re-affirmation of the use of arbitration, not industrial action, as the means for solving problems covered by the Civil Service Arbitration Agreement. It would almost certainly not be possible to impose any other restriction on the right to strike. But the Government could for example state its intention of reconsidering its commitment to pay research in the event of what it judged to be politically motivated industrial action.

17. In return the unions would have to be given a firm undertaking that pay research would not be affected by cash limits. And more

generally it would be necessary to re-affirm the Government's commitment to pay research and to honouring the provisions of a revised pay agreement. While no government could commit itself in all circumstances it would be necessary to use language which made clear that the government would breach the agreement only in the most exceptional circumstances.

18. Even so the unions are themselves divided both between one another and internally, over the desirability of retaining pay research; and important sections of union opinion would prefer an annual trial of strength. It is therefore unlikely that the unions would accept major changes in the system even in return for firm assurances about its free operation. By definition an improved agreement could not be imposed. And if it could the task of publicly justifying special cash limit treatment for the Civil Service, however strong the arguments might appear, would obviously be a difficult one.

A Change of System

19. Essentially the object would be to enable the Government to con-
tain Civil Service pay settlements within whatever level of cash
limit appeared to suit the broader national interest interest of the moment but without having to breach its agreements with the unions. No system worthy of the name, ie one agreed with the unions, could provide for such a freedom. It could only be secured by a free bargaining arrangement in which at best there might be a common basis

for establishing certain facts and figures but which allowed both parties to argue whatever case suited them. This would no doubt be buttressed by arbitration arrangements which would be the more hazardous for not being part of a tight and binding system.

20. The choice is essentially therefore a single one between on the one hand an agreed system which limits the freedom of choice of both parties so that unions cannot use their muscle to enforce inflationary settlements and governments cannot easily square some settlements with other national policies; and on the other a non-system in which the parties use whatever arguments and facts they consider relevant, ie essentially a free-bargaining situation without rules or built-in checks and balances. That was in fact the position pre-Priestley and its dangers, though growing even then, were not serious because of the long no-strike tradition in the Civil Service (untried by continuous high rates of inflation). In the current situation trials of strength would inevitably fill the vacuum left by abandoning an agreed system. And the unions have the power and increasingly the will to cause serious disruption to essential government activities such as the payment of benefits, computer operations, tax collection and the implementation of budget changes.

21. To sum up therefore:-

- i. the pay research system cannot in a time of high inflation co-exist for long with cash limits as now conceived and operated, ie a tight cash limit common to the public services and not built upon the increases justified by the agreed Civil Service pay system;

ii. improvements from within the system are possible and are important presentationally. But they would not solve the problem of the clash between pay research and cash limits. Moreover, the unions would be unlikely to agree to any major changes, ie such changes too could prove to be incompatible with the continuance of an agreed system;

iii. more radically, there is no obvious alternative system which would ensure reconciliation of Civil Service pay with a uniform cash limit for the public services; and if there were it could not be negotiated with the unions;

iv. the only alternative to allowing pay research to determine cash limits is therefore to revert to a non-system based ultimately on the muscle of the parties. And clearly this option too, apart from its other disadvantages, could easily produce clashes with cash limits.

Conclusion

22. There are three main options:-

i. to continue as at present, ie to remain committed to the pay research system while seeking each year to confine its result within a cash limit determined by considerations outside that system;

ii. to allow an improved pay research system to determine the level of Civil Service cash limits;

iii. to abandon pay research for "free" pay-bargaining in the belief that that would offer the best hope of reconciling pay and cash limits and of restraining inflation.

23. In the long run options i and iii are probably equally damaging to Civil Service industrial relations, morale and efficiency; and to the effectiveness of cash limits themselves. Option iii is however the more honest of the two and avoids the need to disregard pay commitments. Option ii, although it involves many difficulties is to be preferred. Which of the various improvements should be regarded as a pre-condition for this option is a matter of judgment. At the extreme it would be possible to insist upon more improvements than the unions could possibly accept so that the onus of losing the system could be more readily laid at their door. At the other it would be possible to adopt a more gradual approach which took the unions along no faster than, under pressure, they were prepared to go.

24. The difficulties of option ii might well be insoluble if they were tackled simply as a matter of negotiation between the Government and unions. The best hope of solving them might be to set up a major independent enquiry of sufficient thoroughness and authority to command at least the acquiescence of the unions (and more important even, of their memberships) and to carry public opinion with it. Such an enquiry could make recommendations on some or all of the possible improvements outlined in paragraph 16; or it could propose improvements of its own; and it could be invited to consider in particular the problem of cash limits and pay research on Priestley lines. To carry the

necessary conviction it would have to be of similar stature and authority to the Priestley Commission itself.

25. It would also be possible to ask such an enquiry to consider the possibility of modifications to the 'fair comparison' principle itself; or even to propose fundamentally different principles for determining Civil Service pay. In effect this would amount to a fourth option - to hand over the whole problem to an enquiry without any prior decision by the Government about its own objectives.

26. All three options need to be considered against the background of the Government's attitude towards public service pay determination in general.

THE PAY RESEARCH SYSTEM

The pay research system was adopted following the report of the Priestley Royal Commission in 1956. The report recommended that the primary principle in determining Civil Service pay should be fair comparisons with the remuneration of outside staff engaged on comparable work, taking account of differences in conditions of service. It is the task of the Pay Research Unit (PRU) to collect the facts about outside pay and conditions for similar work based on detailed job for job comparisons. The Unit is independent of both management and unions; it does not make recommendations about Civil Service pay but merely reports the facts to the negotiating parties. This year for example it submitted over 600 reports on the main groups in the pay system. Just under 550,000 civil servants are affected by pay research of whom about two-thirds are directly included in the pay research programme.

After the reports have been received by the negotiators, the information they contain is processed according to precise rules in the Civil Service Pay Agreements. Adjustments are made to each outside rate to take account of quantifiable differences in conditions of service including pensions contributions, fringe benefits, and London Weighting. Negotiations then centre on the median of the adjusted rates, at which stage unquantifiable differences are taken into account and weight is given to factors such as relative job security and accountability.

CHANGES MADE TO PAY RESEARCH IN 1977

Following a searching review a number of changes were made to the pay research system, after negotiation with the unions, as the price for its restoration for the April 1979 settlement. A greater independent element was introduced with the establishment of the Pay Research Unit Board to oversee the activities of the Unit.

The Board has published its first annual report on the work of the Unit, as it was agreed it should in the interests of greater openness about the system.

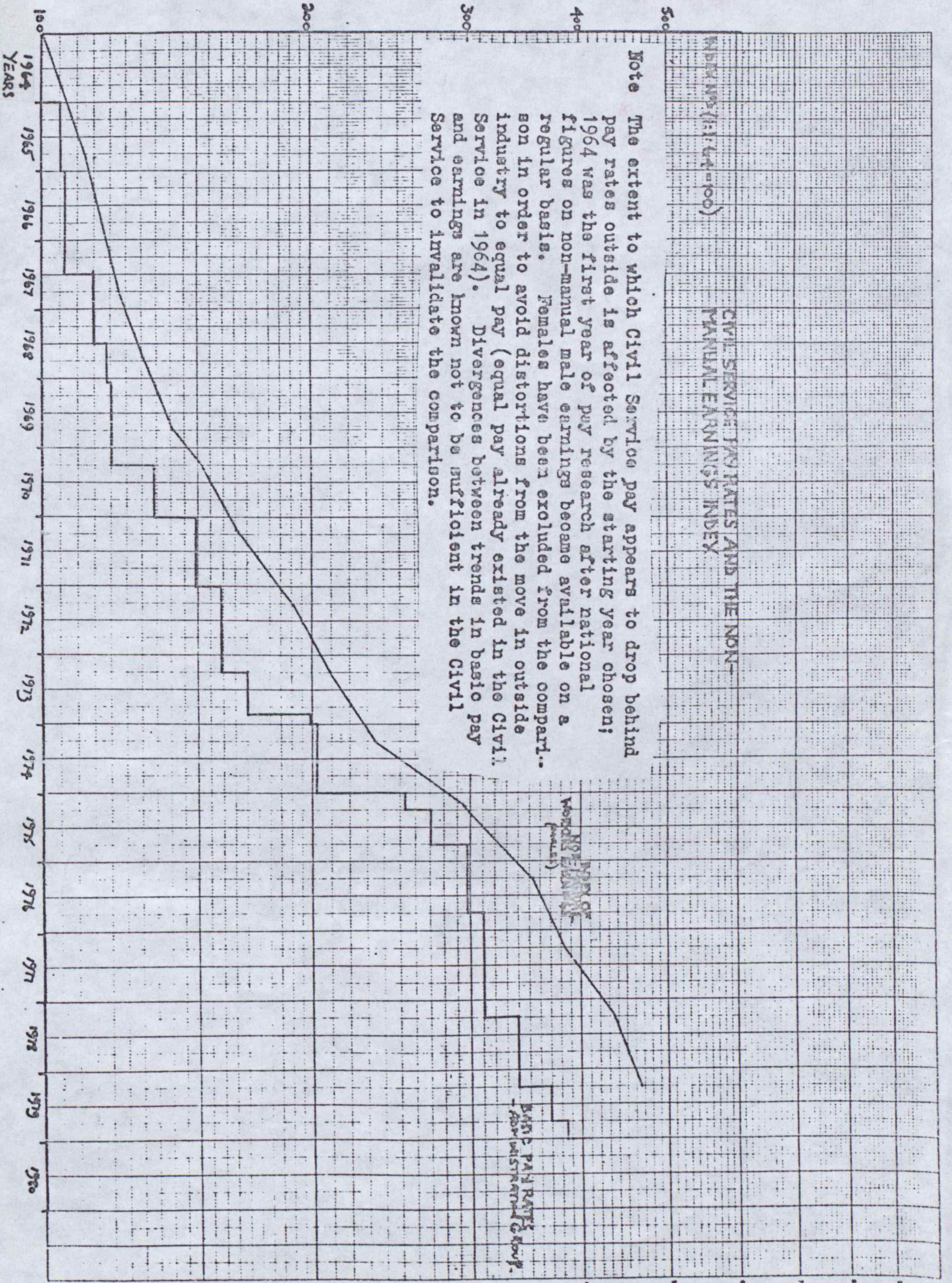
To achieve further independence, outsiders were also appointed to the Unit staff. Other changes to the system included increasing the size and scope of the fields of outside organisations surveyed to include more small and medium sized undertakings and placing the responsibility for choosing fields firmly on the Director of the PRU. Provision was also made for the Government Actuary to publish a report on its assessment of the deduction for pensions benefits.

UPRATING

In processing the pay research surveys, it is necessary to make some adjustment in recognition of the time-lag between outside settlements and the Civil Service settlement date. If backdating of the Civil Service settlement is ruled out (which was the practice before the uprating arrangements were first introduced in 1975), there needs to be some other way of adjusting the pay.

The practice is, therefore, to translate the actual settlement of the outside analogue into its equivalent at the date of the Civil Service settlement. The most neutral assumption for doing this is to maintain its value in real terms. The retail price index is used for this purpose.

Over a long run of years the retail price index has moved less rapidly than most measures of earnings, and in the few years when this is not so, the position is corrected the following year when pay levels are again compared. Hence the adjustment is possibly sometimes too high, in most years it is on the low side, and taking one year with another the formula can be expected to provide a reasonable correction for time-lag.



Note The extent to which Civil Service pay appears to drop behind pay rates outside is affected by the starting year chosen; 1964 was the first year of pay research after national figures on non-manual male earnings became available on a regular basis. Females have been excluded from the comparison in order to avoid distortions from the move in outside industry to equal pay (equal pay already existed in the Civil Service in 1964). Divergences between trends in basic pay and earnings are known not to be sufficient in the Civil Service to invalidate the comparison.

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