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PREM 19/404

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PART 7

Confidential Filing

Pay and Pensions

CIVIL
SERVICE

Civil Service Pay Dispute/
Strike

PT 1: May 1979

PT 7: July 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
23-7-81							
7-8-81							
18-8-81							
18-9-81							
21-9-81							
25-9-81							
29-9-81							
12-10-81							
21-10-81							
5-11-81							
ends							

PREM 19/6/04

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PART 7 ends:-

5.11.81

PART 8 begins:-

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From the Private Secretary

Prime Minister

(4)

MES 6/4

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



S Vercher

Chancellor of the Duchy of Lancaster

5 November 1981

John Kerr Esq
Private Secretary
Treasury
Parliament Street
LONDON
SW1P 3AG

Civil Service

mt

Dear John,

EVIDENCE TO THE INQUIRY INTO CIVIL SERVICE PAY

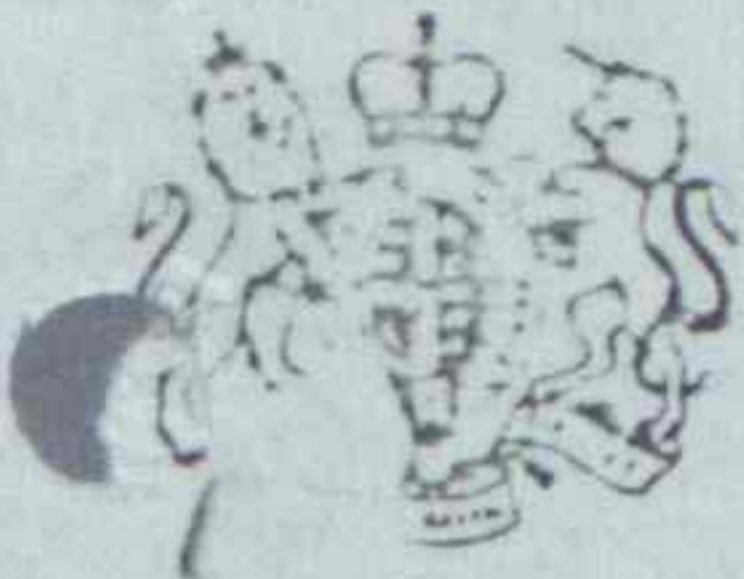
I attach a copy of a letter from Sir John Megaw, the Chairman of this Inquiry, inviting the Chancellor of the Duchy to meet his Committee of Inquiry in early December, together with other colleagues or officials. Lady Young is sure that the Chancellor of the Exchequer would want to do this jointly with her, and that they should have the Minister of State, Mr Hayhoe with them. Whether or not other Ministers or officials are needed from the Treasury and CSD can be considered later.

If the Chancellor of the Exchequer is content, Lady Young will reply to Sir John Megaw accordingly. She thinks it will be useful to take up his suggestion of a pre-meeting - we can sort out the dates for that with the Inquiry Secretariat. We shall also need to be in touch about briefing for the meeting.

I am sending copies of this letter, together with Sir John Megaw's to Michael Scholar at Number 10, David Omand (Defence), Don Brereton (Social Services), Richard Dykes (Employment), Jim Nursaw (Attorney General) and to David Wright in Sir Robert Armstrong's office, and to Mrs Duncan (Lord Advocate).

*Yours sincerely,
Jim Buckley.*

J BUCKLEY



Inquiry into Civil Service Pay

From the Chairman, the Rt Hon Sir John Megaw

CHANCELLOR OF THE
 DUCHY OF LANCASTER
 C 25
 27 OCT 1981
 FILING INSTRUCTIONS

22 Kingsway London WC2B 6JY

Telephone: 01-405 5944 ext. 363

The Right Honourable Baroness Young
 Chancellor of the Duchy of Lancaster
 Civil Service Department
 Old Admiralty Building
 Whitehall
 London SW1A 2AZ

CHANCELLOR OF THE
 DUCHY OF LANCASTER
 Mr Morgan
 PS - Mr Morgan
 PS - Form sec
 26 October 1981
 LP JB /
 Mr Le Clercq
 Mr Pease

Baroness Young

EVIDENCE TO INQUIRY INTO CIVIL SERVICE PAY

I am most grateful to you for arranging for your private secretary to send to the Secretary to the Inquiry the Government's initial evidence (Buckley's letter of 12 October).

The Committee has already had an opportunity to discuss its first reactions to it, and has found it helpful as an annotated agenda. I am sure - given the last paragraph of the evidence - that you will not be surprised to hear that there are indeed a number of issues on which the Committee would be grateful for further elaboration from the Government. I am asking the Secretariat to get in touch direct with CSD and Treasury officials about the main points.

In addition, however, the Committee felt strongly that it would be most useful for it to have the opportunity to discuss directly with a Government Minister or Ministers what provisional views the Government may have formed on some of the key issues. I am therefore writing to ask whether you, together with any colleagues or officials you might wish to bring with you, would be willing to meet the Committee early in December. The most convenient date for the Committee would probably be the morning of Wednesday, 2 December, but a number of other dates would be possible. If you agree perhaps we could leave it for your Private Office to settle the timing with the Secretariat of the Inquiry.

I look forward to hearing from you whether you see any difficulties over this suggestion. In the meantime, I will ask the Secretariat to get in touch with CSD officials to give them some idea of the ground we might expect to cover. I would also be glad to come across to discuss with you what we have in mind, if you would find this helpful, though I suggest that if you should see an advantage in such a meeting, this might best be left until nearer the time of the Committee's session with you.

*Yours sincerely,
 John Megaw*

JOHN MEGAW

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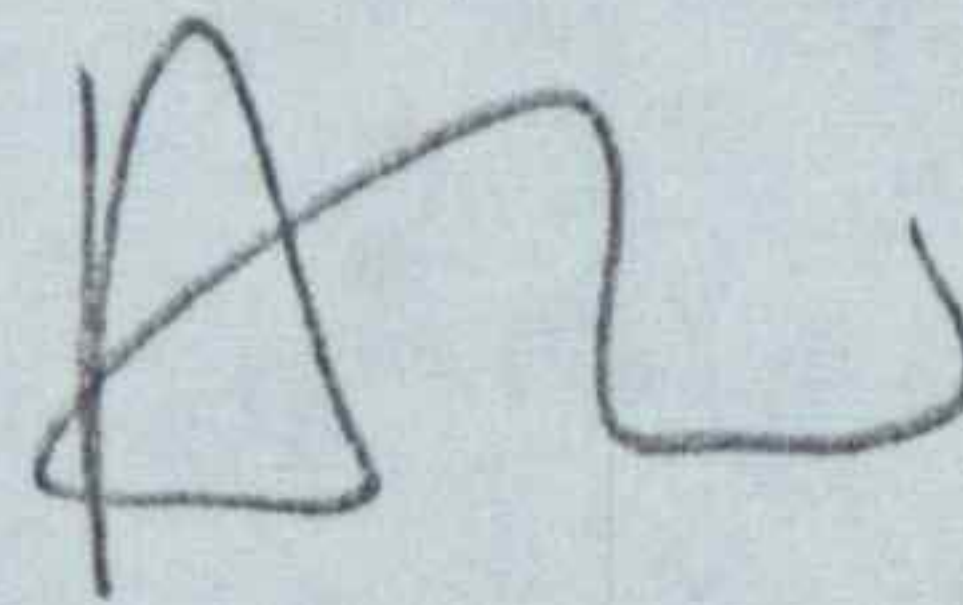
cc Mr. Hoskyns
Mr. Duguid
Mr. Scholar *mm*

Card Service

MR. VEREKER

EVIDENCE FOR THE MEGAW INQUIRY

I think we probably ought to have a meeting on this. I read the paper which you sent me, but found it a bit elusive. I have always taken the view that you didn't need to measure job security as such, since all you need is the wastage rate, which in unusual circumstances during high boom periods might be subsumed by a vacancies index, in order to determine appropriate levels of salary. I see there is some hint of this in para 18, but then the obfuscation gets going again.



3 November 1981

ALAN WALTERS

CONFIDENTIAL

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cc Mr. Walters
Mr. Scholar

MR. HOSKYNS

Evidence for the Megaw Inquiry

This is just to bring you up to date on the preparation of the evidence for the Megaw Inquiry. I am sending a copy of this note to Michael Scholar, who may wish to know that the machine will shortly start churning out papers for the Prime Minister's approval.

We more or less settled this morning papers on local pay, incremental scales, and merit pay. I have successfully insisted on an unqualified conclusion on local pay that it is desirable in principle, but the practical difficulties are severe and I think that those who have studied it are rather daunted by the prospect of putting it into practice. On merit pay, I have also insisted on redrafted conclusions and we shall have to see how they come out: what I am aiming for is a statement that there is a strong case, but some management difficulties. Here the problem is of course that Ministers keep on rejecting it, even though I find the case absolutely overwhelming. This is certainly a candidate for our discussion with Christopher Foster.

We have also started work on two potentially controversial papers requested by the Committee - some data on trends in Civil Service pay, which will be unwelcome to Ministers since they do not support the hypothesis that the Civil Service has been getting away with it (Under Secretaries and above, for instance, have had very little real change in pay since 1945, although the average earnings index in real terms has gone up by three-quarters); and on job security. I am sending Alan Walters a copy of the present draft of that paper, which the CSD themselves agree is inadequate: I think we are all floundering around looking for ways of measuring job security, and if Alan has any ideas, I know the CSD would welcome them.

The procedural arrangements are that when papers have been agreed by officials they will be sent by Lady Young to the Prime Minister, copied to colleagues most closely concerned, on a

CONFIDENTIAL

"no

"no objection" basis. I would hope that in most cases we can deal with them this end at Private Secretary level, saying that the Prime Minister is content subject to the views of her colleagues, but we shall have to look carefully at the way the final versions of the papers come out.

↓
V.

30 October 1981

CONFIDENTIAL

NOT YET INDEXED

CIVIL SERVICE DEPARTMENT

WEDNESDAY 21 OCTOBER 1981

Lab - West Stirlingshire

No * MR DENNIS CANAVAN: To ask the Minister for the Civil Service, whether he has had any response from Civil Service trade unions to the Government's proposal for a 4 per cent pay norm in the public sector.

Mr Bickell

the answer is fine.

A3 of the Supps would be improved by an amendment as indicated (arbitration has not been offered to the industrial).

Mr Venner may like to see

MR BARNEY HAYHOE

A 12 on the BRB goes a bit far, but I think the PM would approve. 20/X. U. 21/10

The 4 per cent pay factor is not a pay norm. As My Rt hon Friend the Chancellor of the Exchequer made clear in his statement on 15 September it is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public wage bill has to be met. It does not imply that all public service pay increases will or should be 4 per cent. Some may be less and some may be more. In response to enquiries from the Civil Service unions they have been told that the assurances they were given earlier in the year about next year's pay negotiations are unaffected by this announcement.

PS/MINISTER OF STATE

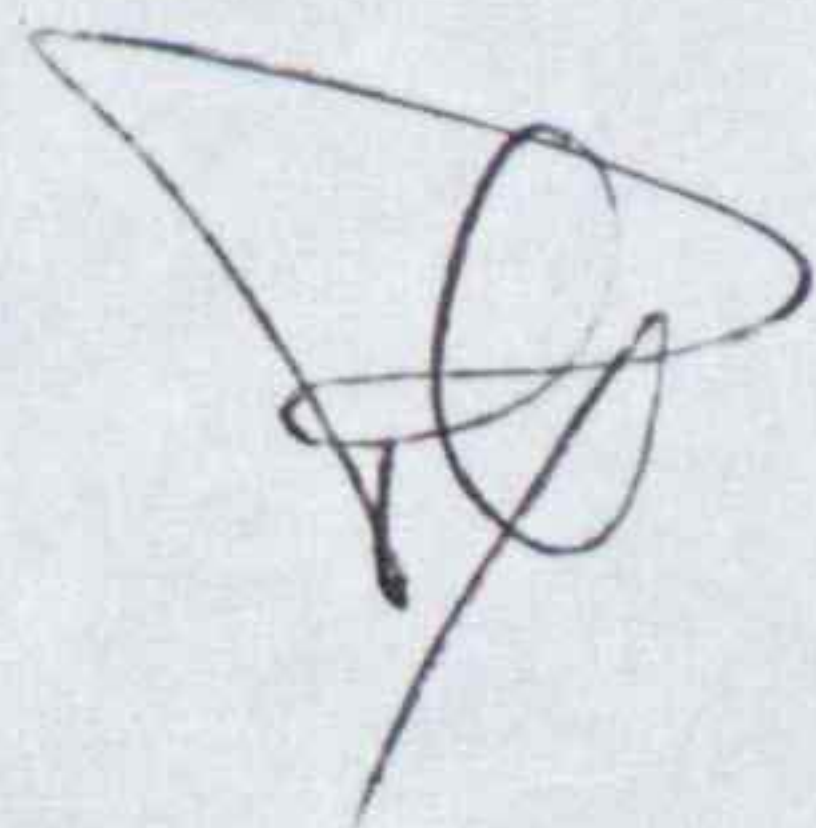
cc - PS/Chancellor of the Duchy
PS/Permanent Secretary
PS/2nd Permanent Secretary
Mr Pearce
Mr Morgan
Mrs Brown
Mr Hawkins

4% PAY FACTOR

In your minute to me of 6 October you recorded the Minister of State's wish to have an answer to Mr Canavan's PQ - agreed with the Treasury - which would provide a peg on which to hang further answers, either to Questions or letters, dealing with the 4% pay factor. I have accordingly agreed the following text with the Treasury. It is a bit long but this is inevitable if we are to do justice to the subject. The answer derives entirely from existing public statements. It would run:-

"The 4% pay factor is not a pay norm. As my rt. hon. Friend the Chancellor of the Exchequer made clear in his statement on 15 September it is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public service wage bill has to be met. It does not imply that all public service pay increases will or should be 4%. Some may be less and some may be more. In response to enquiries from the Civil Service unions they have been told that the assurances they were given earlier in the year about next year's pay negotiations are unaffected by this announcement."

2. If this answer is acceptable Mr Pearce will let you have Notes for Supplementaries in the usual way.



P LE CHEMINANT

14 October 1981

NOTES FOR SUPPLEMENTARIES

1982 SETTLEMENT

Q1 What assurances have been given to the unions?

A1 The Government has said that it will enter into negotiations for the 1982 settlement without a pre-determined cash limit. We have also said that if an agreed settlement cannot be reached we will accept recourse to the Civil Service Arbitration Tribunal, but on the understanding that the Government reserves the right, if necessary, to ask this House to approve setting aside the Tribunal's award on grounds of overriding national policy.

Q2 How can these assurances be reconciled with the 4% pay factor?

A2 As I have said, there is no change in the assurances that have been given to the Civil Service unions.

Q3 Do the Government's assurances apply to the other public services?

non-Industrial

A3 The assurances relate to the particular circumstances of the Civil Service which will not have an agreed system of pay determination in 1982.

Q4 What factors will be taken into account in the 1982 Civil Service negotiations?

A4 The Government has said that either side will be free to raise whatever factors it considers relevant. For the Government, cost will obviously be an important factor.

Q5 Can you confirm press reports that most civil servants will get no increase this year, unless justified by 'market forces' (eg special recruitment difficulties)?

A5 Such reports are pure speculation. Negotiations on the 1982 settlement have not yet begun.

- Q6 Will arbitration not put at risk the cash limits /or chance of a low settlement/ this year?
- A6 We hope there will be an agreed settlement on Civil Service pay in 1982. But the Government's assurances on arbitration remain.
- Q7 4% an incomes policy/cash limit/norm?
- A7 The pay factor is a planning assumption [not an incomes policy/cash limit/norm] As I have said, it represents a broad measure of what the Government thinks reasonable to allow for public service pay costs overall.
- Q8 When will the cash limits for the Civil Service be set?
- A8 No decisions have yet been taken.
- Q9 Will the 4% factor apply to public service pensions?
- A9 The whole question of the cost and financing of public service pensions is being considered in the light of the Scott Report. The Government expects to reach conclusions on the report's recommendations before long.
- Q10 Will the 4% apply to other groups (eg Armed Forces, Police)?
- A10 As I have said, the 4% is a planning assumption for increases in public service pay overall. The question of how much should be provided in programmes for individual groups is a matter to be decided later in the light of their particular circumstances.
- Q11 Will the Government's assurances apply to industrial as well as non-industrial staff?
- A11 The industrial Civil Service unions have been told that the Government is prepared to have discussions about the 1982 settlement before the cash limit is finally set. There is no change in this assurance.

Q12 How will top Civil Service salaries be determined in 1982?

OK
A12 The Top Salaries Review Body is preparing its report for 1982.

THE MEGAW INQUIRY

Q13 Is the Government making its evidence publicly available?

A13 Yes. As I have said in reply to a Written Question from my hon Friend the Member for 7 the Government is making its evidence publicly available. Copies of two memoranda which have so far been submitted to the Inquiry have been placed in the Library.

Q14 Why is the Government not prepared to return to the pay research system?

A14 The pay research arrangements were introduced 25 years ago. Conditions have changed, and they no longer command public confidence. The time has come for a thorough overhaul, which takes account of all relevant factors.

Q15 Queries about future pay arrangements:

A15 The Committee of Inquiry, chaired by Sir John Megaw, is now sitting. I cannot anticipate their recommendations.7

PAY RESEARCH UNIT

Q16 Has the Pay Research Unit been abolished?

A16 Yes. The Unit was formally closed on 30 September.7

BACKGROUND NOTE

The Minister of State is aware of the background to this question, which has been agreed with Treasury officials. The draft answer makes clear that the overall cash factor does not invalidate the Government's assurances to the Civil Service unions about 1982. Mr Canavan is a regular questioner on Civil Service pay.

The following background papers are attached:-

- | | | |
|---|---|----------------|
| A | Announcement of membership of Megaw Inquiry
(plus terms of reference) | - 31 July |
| B | Lord President's letter
(covering 1982 assurances) | - 6 May |
| C | Mr Burrett's letter
(Government's final offer for 1981) | - 17 July |
| D | Mr Kendall's letter
(accepting final offer) | - 31 July |
| E | Treasury announcement of cash factor | - 15 September |
| F | Mr Jones's letter
(querying effect of cash factor on 1982
assurances) | - 16 September |
| G | Mr Le Cheminant's letter
(reaffirming 1982 assurances) | - 17 September |
| H | Press reaction to Government's "Issues"
Memorandum | - 16 October |

Civil Service Department
Whitehall London SW1P 2JZ
01-273 4400

W L Kendall Esq
Council of Civil Service Unions
19 Rochester Row
LONDON SW1P 1LP

6 MAY 1981

Dear Mr Kendall,

As you know, I was surprised and disappointed at your letter of 23 April and at your Council's unwillingness to discuss the proposals which I put to you that day as a means of resolving the present pay dispute. I have deferred my reply to your letter in the hope that wiser counsels would prevail on your side but there is still no sign of that.

I recognise that your Council holds strongly to the view that the Government's offer of a 7% increase in pay this year is not an adequate one. But the Government has consistently reaffirmed its determination to uphold the 6% cash limit and in the Government's judgement the offer of 7% is as far as it is safe to go in stretching these limits. As I pointed out to you at our meeting some two million other public service workers have already settled at around the same level as the present offer to the Civil Service. Against this background the Government fails to understand why the 7% figure of itself should be a cause for dispute between us, let alone the sort of disruptive action the unions have been taking. What is more, the average level of settlements in both the public and private sectors in this pay round is now well within single figures.

However, there are important matters for us to discuss about the basis of negotiations in 1982 and the need for an urgent review of pay arrangements with a view to returning to an agreed and ordered system at the earliest opportunity.

Naturally the cost of a settlement will be a factor in next year's negotiations. But I repeat my assurance that the Government will be prepared to enter into negotiations without a pre-determined cash limit. There will be room for genuine negotiations. In your letter you say that I referred in vague terms to other factors which would have to be taken into consideration. At our meeting I said that each side would be free to base its case on whatever factors it considers relevant and appropriate. We are ready for further discussions with you about the implications of this approach for the 1982 negotiations.

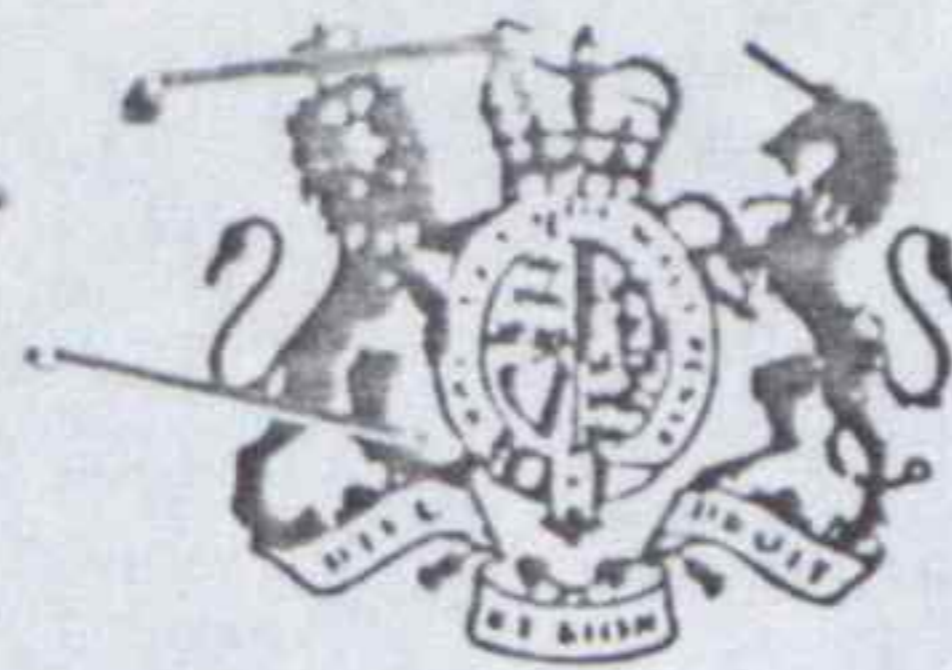
CASH
LIMITS

For the longer term I suggested that it might be helpful to set up an authoritative outside inquiry to provide independent recommendations which would be a starting point for consideration by both sides. I made it clear that we would be ready to discuss the terms of reference and the membership of such an inquiry with you. I very much regret that you have been unwilling to explore this possibility with us.

I believe that we can and should reach an early resolution of the dispute on the lines I have suggested. I still hope that your Council will on reflection conclude that it is prepared to join with us in further discussions to this end.

Yours sincerely,
Christopher Soames

SOAMES



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273 4253

Switchboard 01 273 3000

17 July 1981

W L Kendall Esq
Council of Civil Service
Unions
19 Rochester Row
LONDON SW1

Dear Kendall,

Following our recent informal discussions about the position reached in the dispute over Civil Service pay, I have consulted Ministers and am authorised to convey the following to you.

2. The 1981 settlement must be contained within the cash limit of 6%. The Government's offer of 7% was the most that was thought possible without putting the cash limit at risk. The Government has reassessed the position and is able to offer additionally a flat rate increase of £30 per head (consolidated into basic rates). The additional cost amounting to $\frac{1}{2}\%$ on the pay bill would be found by making a further reduction in Civil Service staff costs to the extent necessary to ensure that the cash limit is not exceeded.

3. Throughout the negotiations you have said that a major cause of concern to your members is the procedure for negotiating a pay settlement for 1982 following the setting aside of the Pay Agreement. Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

4. The revised offer in this letter both in respect of 1981 and 1982 is conditional on its providing the basis for an early return to normal working by your members. If it does not do so then the whole offer, including the operative date of 1 April, will be withdrawn.

5. I very much hope that I shall receive an early and positive response to this letter.

Yours sincerely
F G Burrett
F G BURRETT

ARBITRATION

COUNCIL OF CIVIL SERVICE UNIONS

19, ROCHESTER ROW • LONDON SW1P 1LB • Tel: 01-828 2727-9

Secretary General:
W. L. KENDALL

Secretary:
P. D. JONES

Assistant Secretaries:
B. G. SUTHERLAND HELEN E. HUGHES

F. G. Burrett, Esq.,
Civil Service Department,
Whitehall,
London SW1A 2AZ

31 July 1981

Dear Burrett,

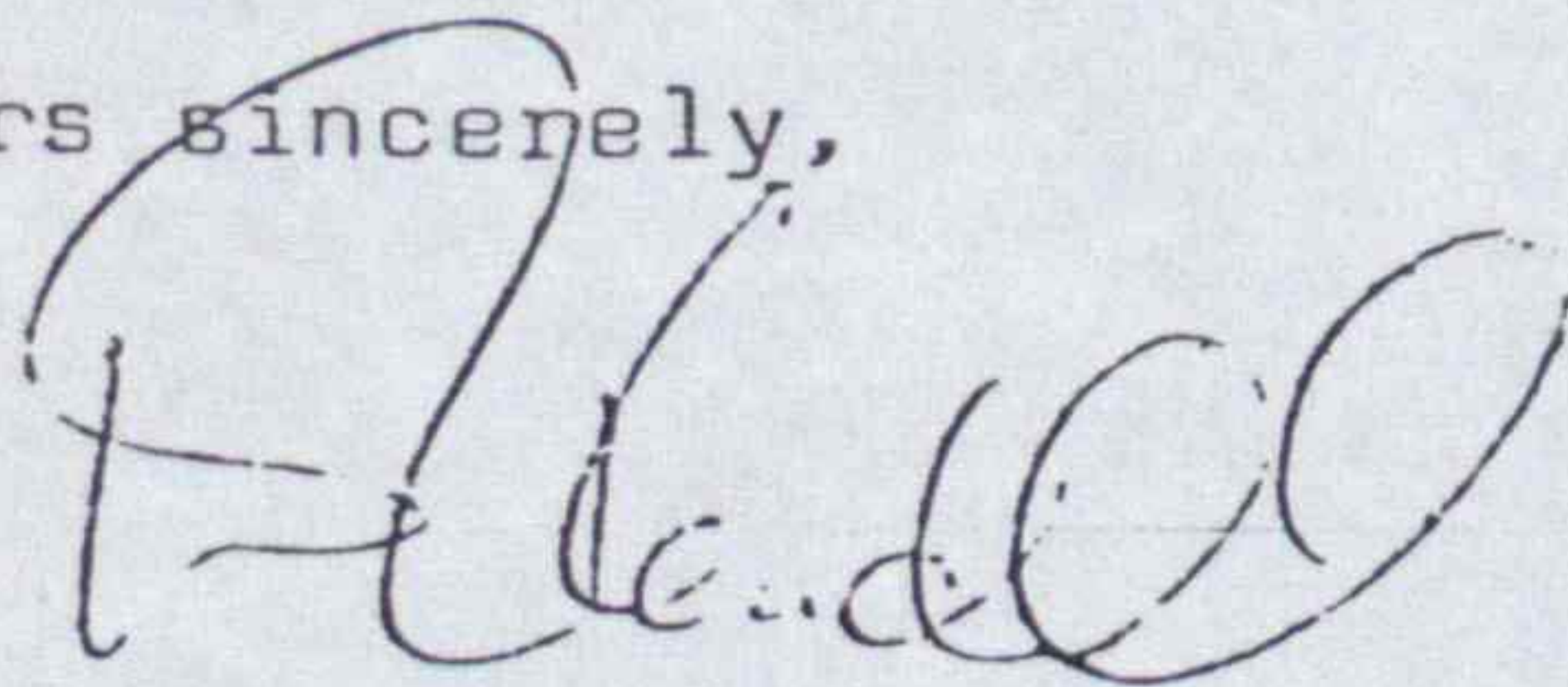
I acknowledged your conditional offer of 17 July by return of post. I said there would be urgent consultation within unions and an early response.

All unions have carried out membership consultation exercises. No union will accept that the pay offer for 1981 reflects the evidence and the claim submitted by the Council. Your offer, on any rational basis, is thoroughly unsatisfactory.

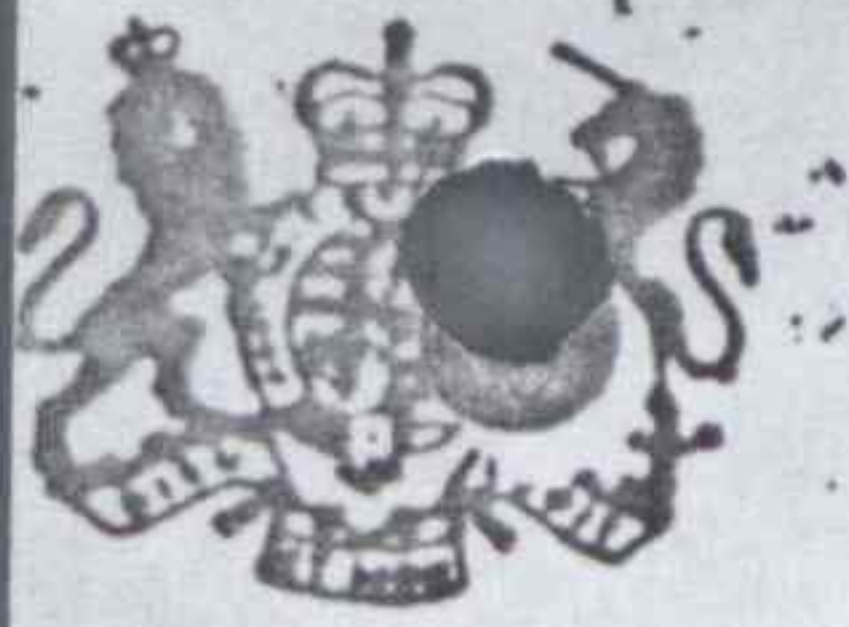
In the event of disagreement in negotiations in 1982, we accept your assurance that there will be unfettered access to the Civil Service Arbitration Tribunal. Nobody can know precisely at this stage what "grounds of overriding national policy" mean, but the TU Side will argue that "national policy" in this context means all sections of the community.

Against this background the revised conditional offer in your letter of 17 July is received by the Council and by decision of the Council on 30 July we will arrange that members return to work on 3/4 August 1981. The "Agreement for an Orderly Return to Work", which was reached in recent discussions, will apply.

Yours sincerely,



W L KENDALL
Secretary General



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

15.9.81

PUBLIC EXPENDITURE PLANNING: CASH FACTORS

The Chancellor of the Exchequer announced in his Budget statement on 10 March, 1981 that the Public Expenditure Survey this year would, for the first time, be conducted in terms of prospective cash expenditure, rather than in terms of "constant prices". For this reason, the plans in the last Public Expenditure White Paper (Cmnd 8175) were, at the outset of the Survey, put onto a prospective cash basis, which included an allowance for cost increases between now and future years.

In the spring a provisional allowance was made for general increases in costs of 7 per cent between 1981-82 and 1982-83 and of 6 per cent and 5 per cent respectively for the following two years.

In now preparing for the main decisions on the cash totals for each programme, the Government has reviewed the provisional allowance for 1982-83 and has decided to use separate factors for pay and for other cost increases. These factors will be, for earnings, an increase of 4 per cent from due settlement dates in the coming year, and for other costs an increase of 9 per cent between this financial year (1981-82) and next (1982-83). This change has little net effect on the overall cash total of public expenditure, but it does affect the distribution between programmes.

The pay factor does not imply that all public service pay increases will or should be 4 per cent. Some may be less, and some may be more. There is no automatic entitlement to any particular pay increase: each must be justified on its merits. The pay factor is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public service wage bill has to be met.

All public service wages are paid for from rates, taxes or borrowing. Excessive wage increases can only mean higher rates or taxes or further cut-backs, for example in public sector capital investment, which will cost jobs in both public and private sectors. The lower the level of pay settlements, the more there could be available for job creating investment throughout the economy.

The cash expenditure figures arrived at by applying these pay and price factors provide a framework for the further Ministerial decisions to be taken later. The final cash provisions for individual programmes, and where appropriate cash limits for next year, will follow from those further Ministerial decisions to be taken subsequently.

The Rate Support Grant paid to the local authorities for 1982-83 will be determined by Ministers' decisions on the cash provision for local authority services which may themselves be affected by overspending in the current year. But the

framework will be the plans revalued using these factors of 4 per cent for pay increases and 9 per cent for increases in other costs.

Press Office
HM Treasury
Parliament Street
LONDON SW1P 3AG

136/81

Tel: 233 3415

Notes for Editors

Public expenditure surveys, Ministerial decisions on them, and public expenditure White Papers have hitherto been expressed throughout/priceⁱⁿ ruling at an earlier time, known as "constant prices" or "survey prices", rather than the prices which might be expected to rule at the time the money is actually spent. For example the March 1981 White Paper set out the plans for 1981-82 and later years in terms of "1980 survey prices": these were broadly the prices ruling in autumn 1979. The Chancellor announced in his Budget/^{speech} the decision to express plans in future in terms of the prospective cash spend. He explained the objectives of the move to be to get away from the presumption inherent in the old volume system that what was once planned could always be afforded, however much its costs might have risen, to focus much more closely on the money actually spent, and to relate decisions to the cash that would be available. (Hansard, 10 March 1981, Col 768-9)

2. This year, as part of the change to cash planning, it is necessary to convert the existing plans in constant prices - 1980 survey prices - in the last public expenditure White Paper (Cmd 8175) to the new prospective cash basis, to act as a starting point for this year's survey.

3. This conversion was done on a provisional basis in the Spring so that work on the survey could be in cash from the outset. It allowed for a general increase in all costs of 7% between 1981-82 and 1982-83, and increases of 6% and 5% respectively for the following 2 years.

was envisaged from the outset that this provisional basis of revaluation would be reviewed at this point before the final stages of the survey, in which Ministers take their decisions. This review has now been made.

4. The 7% general factor provisionally applied for increases in all elements of cost between 1981-82 and 1982-83 is, as the notice says, to be replaced by separate factors of 4% for pay and 9% for other costs. The weighted average of these two factors is close to the provisional 7%. The change therefore will have very little net effect on the total for expenditure plans in 1982-83 in the last White Paper revalued to cash. But it does affect the split of totals by programmes.

5. The single factors for general increases in the subsequent 2 years, 6% and 5% respectively, are not changed.

6. The switch to cash planning has changed the sequence of decisions.

Decisions are no longer taken first on the plans in terms of "survey prices" and then on the cash limit factors to be used as part of the conversion of those decisions to cash limits/ and Estimates. Discussions and decisions on the survey are taken in cash throughout. This requires, at least for this year of the change, the general cash factors used in revaluing the existing plans from the old price basis to be confirmed - or to be revised - before the main decisions are taken. (This is some weeks earlier than the first cash limits factors would have been settled under the old system.)

7. Decisions on programmes may lead to reductions in some, increases in others compared with the last White Paper converted to cash. Such

decisions may include among other things, an adjustment upward or downward to the cash provision for a particular programme to allow, in whole or in part for movements in pay and prices which are especially affecting that programme and which are expected to differ significantly from these general factors.

8. As the decisions will be in cash, it will be possible to derive the cash limits from them without any further change in price basis. The presumption will be that cash limits will be set to correspond exactly to the decisions on programmes. Also, as now, the presumption will then be that cash limits, once set, will not be changed. If in an exceptional case, Ministers decide later to provide more cash than allowed in their original decisions on the programmes, that increase will have to be met from within the Contingency Reserve.

9. The 9% price factor represents what is considered realistic provision, on the basis of the information at present available, for the prices to be paid by departments. It is not a precise forecast.

10. The pay factor applies to the increase in earnings (basic pay plus overtime etc), not basic rates, and applies from settlement dates.

11. If a reduction in ^{manpower} numbers is planned (as in the Civil Service) that will be taken into account in the calculation of the provision for the relevant programmes.

COUNCIL OF CIVIL SERVICE UNIONS

130.72

19, ROCHESTER ROW • LONDON SW1P 1LB • Tel: 01-828 2727-9

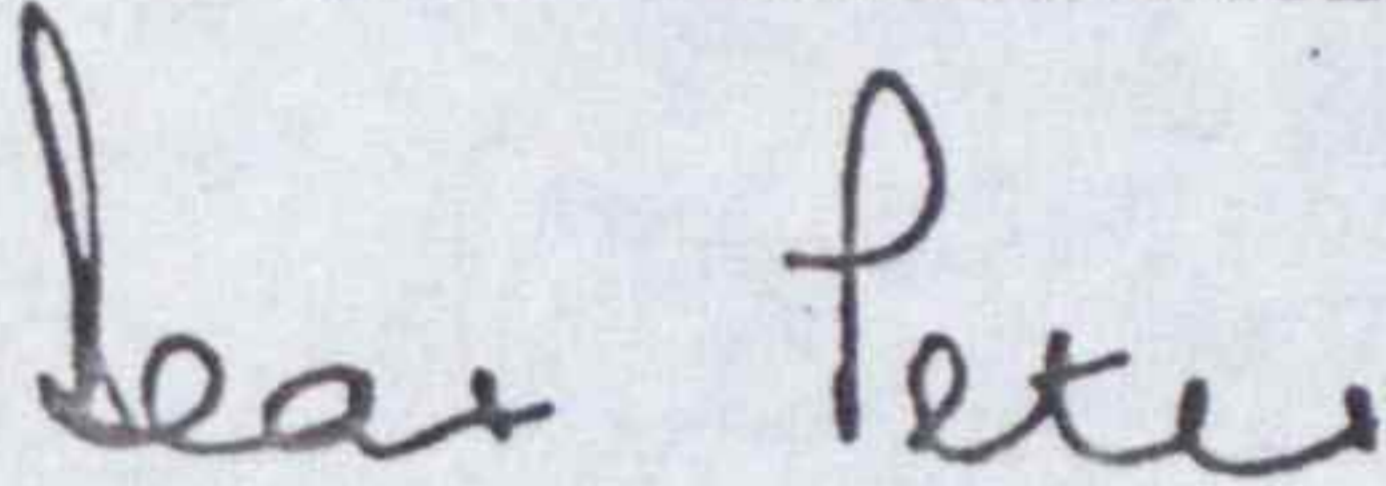
Secretary General:
W.L.KENDALL

Secretary:
P. D. JONES

Assistant Secretaries:
B.G. SUTHERLAND HELEN E. HUGHES

16 September 1981

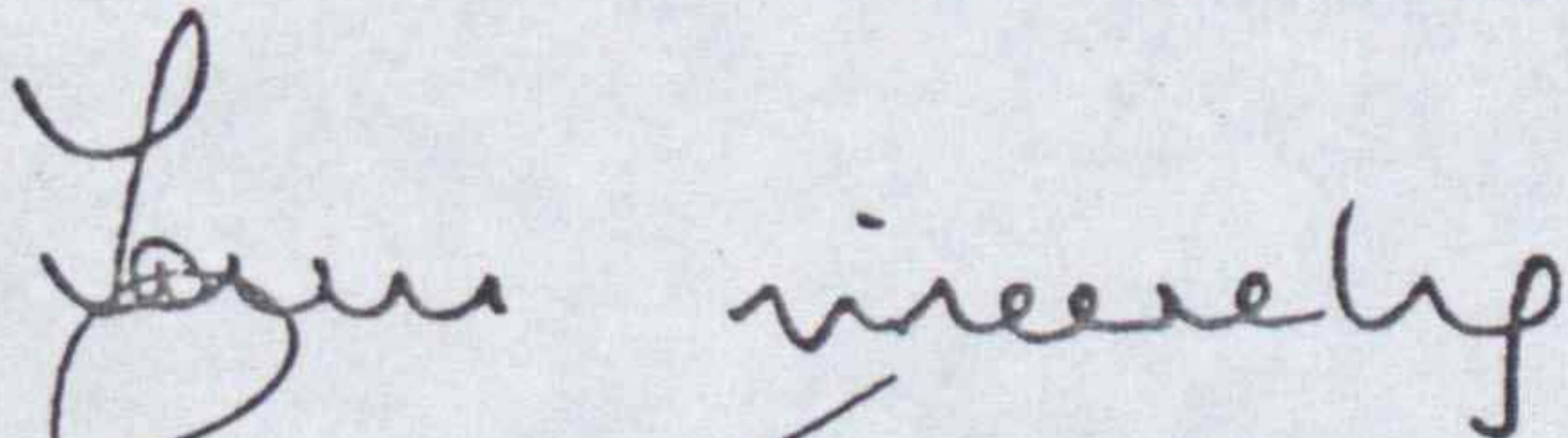
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London SW1A 2AZ



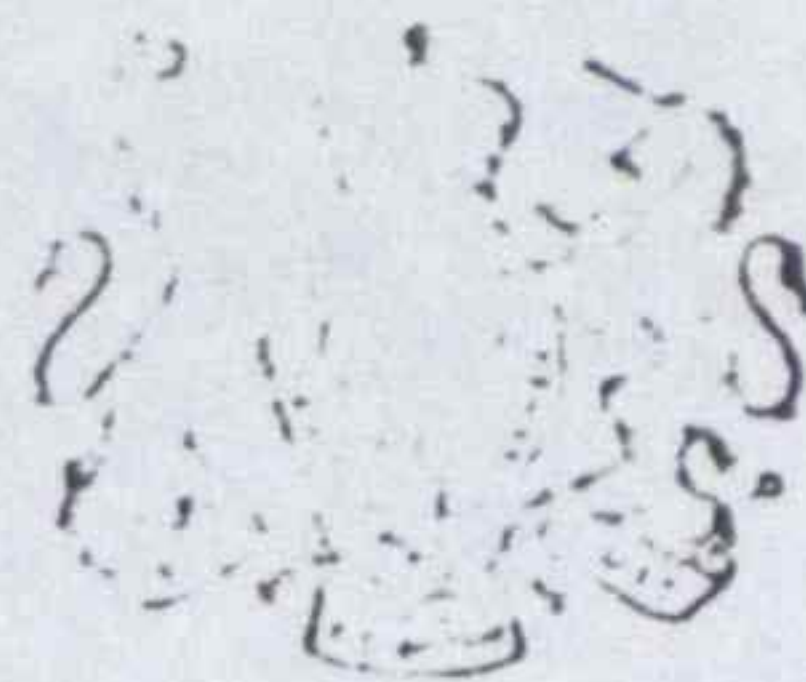
1982 CASH LIMIT

The Council have noted the Treasury's announcement yesterday of a 4% limit on public service earnings increases in the 1982 pay round.

I should be grateful if you would please let me know what effect, if any, this announcement will have on the Government's assurances to us that negotiations on the 1982 Civil Service pay settlement will be genuine, and that the Government would not set the cash limit for Civil Service pay in advance of these negotiations. As I am sure you will appreciate, we are concerned to establish the relevance of the Treasury's statement to the underlying commitments for our 1982 negotiations and, inter alia, for access to arbitration, if this should prove to be necessary.



P D JONES



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273 4253

Switchboard 01 273 3000

17 September 1981

P D Jones Esq
Council of Civil Service Unions
19 Rochester Row
LONDON SW1P 1LB

Dear Peter

CIVIL SERVICE PAY

Thank you for your letter of 16 September 1981.

For the record I enclose a copy of the Press notice on "Public Expenditure Planning: Cash Factors" issued by the Treasury last Tuesday.

As to your question about the effect, if any, this announcement will have on the Government's assurances to the Civil Service unions about next year's pay settlement I should perhaps recall what those assurances are:-

a. In a letter dated 6 May 1981 to the Secretary General of the Council of Civil Service Unions the then Lord President of the Council said "naturally the cost of the settlement will be a factor in next year's negotiations. But I repeat my assurance that the Government will be prepared to enter into negotiations without a pre-determined cash limit. There will be room for genuine negotiations".

b. And in a letter dated 17 July 1981 to the Secretary General of the Council of Civil Service Unions my predecessor, Gordon Burrett, said, with the authority of Ministers, "Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserve the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy".

I can confirm that both assurances are unaffected by Tuesday's
announcement.

Yours sincerely

P Le Cheminant

P LE CHEMINANT

Civil servants and the market

FIN. TIMES

CIVIL SERVICE unions are reacting with predictable outrage to what they regard as the unexpectedly harsh ideas from the Government about how their future pay levels should be determined. But there will be wide public support for the Government's resolve to put civil service pay on a more realistic and less protected basis.

The Government's ideas are contained in evidence to the committee of inquiry into civil service pay under the chairmanship of Sir John Megaw. It needs to be remembered, not least by the civil service unions, that the inquiry was set up after a five-month civil service pay strike which was the longest industrial dispute in Britain since the miners' strike in 1926. Apart from the confusion it brought to the administration of government it also blocked the processing of more than £6bn in PAYE, national insurance and VAT, creating distortions in the economic indicators which still have not been sorted out.

Distortions

The Government, conscious of this background and knowing that in nine of the last 15 years the pay bargaining machinery had failed to produce an agreed result, is adamant that any new structure must be workable and free of all the old bogeys of comparability, back-dating, forward dating and, worst of all, catching up. There never will be a time when the economy suddenly produces a large crock of gold with which to iron out previously built in public sector pay distortions and to repair differentials. That rainbow has been chased long enough and it is time to give it up.

The basis of the Government's proposal is that the civil service and the public sector generally, must be subject to the same market forces as the private sector. The principle is totally correct, but the qualifications and additions contained in the Government's evidence point in a direction which appears to conflict with the emphasis on allowing market forces to work.

The document says that the new arrangements could not exclude regard to the Government's duty to control public expenditure and to manage the economy, which means that the pay fixing process must take proper account of financial and macroeconomic considerations.

The Government claims it must retain the right, in the last resort, to decide whether, on any particular occasion, the wider national interest should take precedence over the operation of any system, however well constructed.

The danger in this approach is that it will tend to diminish respect for any new arrangements which stem from the present inquiry and to perpetuate the "politicisation" of the pay determination process in the civil service. The central criterion for pay settlements must be the need to offer pay and conditions which are adequate to recruit, retain and motivate enough staff of appropriate quality. Civil servants should neither be over-protected from the rigours of the marketplace, nor penalised because they happen to be employees of the central Government.

The Government's attitude to arbitration is equally ambivalent. While accepting that arbitration has a role to play it seems to be suggesting that it would be possible only if both sides agreed to seek it and that the Government should in any case have the right to set aside (or ask the House of Commons to set aside) the results of the arbitration.

What the committee should be looking at is ways of making arbitration an instrument which only acts to check and interpret independently the labour market information on which the pay negotiations should be based. The old idea of arbitrators plucking compromise figures from the air should have no place in the new system.

Variation

The Government hints at the way it would like the inquiry to proceed on a number of issues. The most important proposal, and the one most consistent with allowing market forces to play the dominant role, is that there should be a wider geographical variation in rates of pay. Decentralisation of wage fixing is bound to be resisted by the unions because it reduces their bargaining power, but it is the best way of ensuring that pay rates reflect market realities. The extension of local wage bargaining throughout the public sector—local authorities, health service, nationalised industries and utilities—should be a prime government objective.

16 OCT 1981

Whitehall unions angry at pay reform proposals

DIMES

By David Felton, Labour Reporter

The Government yesterday proposed a complete overhaul of pay bargaining arrangements for the Civil Service which would, in effect, mean sweeping away the negotiating system which has existed for more than 25 years.

In a hard-line document, which bore the hallmark of present Treasury thinking and was personally approved by Mrs. Margaret Thatcher, the Government insisted that any future pay system and arbitration mechanism must be subject to either government or parliamentary veto.

The Government's views are contained in its submission to the Megaw inquiry into Civil Service pay, which was set up after the five-month campaign of selective strikes earlier this year by civil servants.

Union reaction to the submission was immediately hostile. Mr William Kendall, secretary general of the Council of Civil Service Unions, which represents 530,000 white collar staff, said: "It is basically the most dogmatic, reactionary political statement I have ever seen. It is a prescription for anarchic pay bargaining and permanent industrial strife."

"It throws out the whole idea of a fair pay system for the Civil Service and also the whole of the public sector. If this is accepted by the inquiry it will sound the death knell of any dedicated public service. The paper has all the signs of

a rabid and biased witch-hunt against the Civil Service and the public sector", he said.

Ministers have not concealed their dislike for what they consider has been civil servants' privileged pay system and the evidence to the Megaw inquiry can be seen as an attempt to bring Civil Service pay back into a normal pay bargaining sphere where market forces prevail.

The submission suggests that a new pay system should take account of such factors as fringe benefits, like index-linked pensions, merit pay, a revision of the established incremental scales, geographical variation in pay and the possibility of a "no industrial action" clause in agreements.

Many of the proposals would negate the fabric of the system established after the 1955 Priestley Royal Commission

In a new system, the Government would be seeking a means of arriving at rates of pay which were adequate but not excessive, and which would enable the Civil Service to recruit, retain and motivate sufficient numbers of staff of satisfactory quality.

The nine Civil Service unions are expected to make their submission to the Megaw inquiry by the beginning of next month.

The inquiry, headed by Sir John Megaw, a retired High Court judge is due to report by next summer.

Tough Government plans for Civil Service pay

16 OCT 1981

BY PHILIP BASSETT, LABOUR STAFF

FIN. TIMES

PROPOSALS for bringing market forces and the "wider national interest" more directly to bear on the way the pay of Britain's 540,000 white-collar civil servants is determined were outlined by the Government yesterday.

The proposals, which drew a sharp response from Civil Service union leaders, are contained in the Government's initial evidence to the inquiry on Civil Service pay, chaired by Sir John Megaw, which was set up as part of the settlement to the five-month pay dispute earlier this year.

The inquiry is due to report by mid-summer, and the Government hopes to have negotiated a new pay agreement with the civil service unions based on its findings in time for the 1983 pay settlement.

Arguments are already taking place in Whitehall over the 1982 deal. The Treasury and the Prime Minister are understood to be urging a pay package of different offers for different groups in the Civil

Service, with the aim of achieving an effect similar to that of the pay system the Government would clearly like to see as the outcome of the Megaw inquiry.

The aim of the new system the Government would like is that it should last, and provide for good industrial relations; that it should be acceptable to civil servants, Parliament and the public; and that it should "take proper account of broader economic considerations."

According to areas suggested by the Government for the inquiry to examine, the new system would include provision for different pay rates in different regions; rewarding merit; "stringent" valuation of such benefits as index-linked pensions and of such previously "under-valued" elements as job security; no-strike agreements for all civil servants, or for those in sensitive areas; and provision for the Government to override arbitration references or awards on the basis of economic necessity.

Central to such a system is a firm rejection of "fair compar-

sons" with outside rates of pay — the core of the 25-year-old system over which the dispute occurred.

The Government's evidence states that at a time of rapid economic change "fairness" — certainly desirable — may not always be sustainable. Trading concerns have to react to such circumstances by laying off employees or by acknowledging that no pay increase is possible.

One civil service trade unionist described the proposals as "a hard-line, right-wing submission" which, if they became the outcome of the Megaw inquiry, would be completely unacceptable. Mr Bill Kendall, secretary-general of the Council of Civil Service Unions, said the evidence was "the most dogmatic, reactionary, political statement I have ever seen."

"It is a prescription for anarchic pay bargaining and permanent industrial strife." Union leaders will discuss the proposals, their own evidence to the inquiry, and this year's pay, next week.

Details Page 11, Editorial comment Page 18

The Daily Telegraph, Friday, October 16, 1981

4pc PAY OFFER PLANNED FOR CIVIL SERVANTS

By CHRISTOPHER LEAKE Industrial Staff

THE Government plans to offer its 530,000 white-collar civil servants a four per cent. pay rise for next year, which is bound to bring a chorus of protest from Civil Service union leaders.

The Government's written evidence to an independent inquiry into Civil Servants' pay was described yesterday as "a prescription for anarchic pay bargaining and permanent industrial strife."

Mr William Kendall, secretary general of the Council of Civil Service Unions, said the evidence was the "most dogmatic, reactionary political statement I have ever seen."

"It throws out the whole idea of a fair pay system for the Civil Service and the entire

public sector. It amounts to a rabid and biased witch-hunt against the Civil Service and the public services generally."

Death knell

Mr Kendall said if the evidence was accepted by the inquiry headed by Sir John Megaw, a former Appeal Court judge, it would "sound the death knell of any dedicated public service."

The unions settled for 7.5 per cent. this year, within Government cash limits, after a bitter 21-week dispute. Four per cent. is the Government's "ceiling" for next year.

The fresh round of pay talks, which are not due for settlement until next April, are beginning early because of a Government commitment at the end of the dispute to negotiate before setting the Civil Service cash limit for the following 12 months.

The issue is certain to go to the Civil Service Arbitration Tribunal, but the Government reserved the right to set aside any award made by the tribunal on the grounds of "overriding national policy."

In its evidence to the inquiry, the Civil Service Department said the now-scraped method of pay comparability insulted Government employees from the "realities of life" experienced in the private sector. This was mainly because of job security being under-rated.

The Megaw inquiry team is due to produce recommendations to the Cabinet by next summer, leading to a new pay system for the Civil Service for the 1983 negotiations.

Roiling market forces into Whitehall

OCT 1961

THE GOVERNMENT'S evidence to the inquiry into Civil Service pay gives the first indications of its wishes on the shape of a new pay system for the service, reflecting much more closely the impact of market forces.

The evidence to the inquiry, which was set up under the chairmanship of Sir John Megaw following the five-month strikes in the service over pay earlier this year, drew immediate sharp criticism from the Civil Service unions. The unions will now press ahead with preparing their own evidence for presentation, probably early next month. The inquiry is due to report by next summer.

The Government's evidence—a factual background memorandum on the pay and conditions of the 540,000 non-industrial civil servants, and another paper on the issues surrounding future pay arrangements—stems from the outline of a new pay system drawn up by senior Civil Service Department pay officials during the 21-week dispute.

The shape of the new system is indicated almost by implication in the paper submitted to the Megaw inquiry on Tuesday. It can be seen in a series of questions and answers for the eight-strong committee of inquiry to consider, and from a strongly worded preamble which, it is thought, was included after pressure from Treasury Ministers and Downing Street.

This preamble states that the Government will seek to negotiate with the unions a new arrangement for determining Civil Service pay once the Megaw inquiry has reported.

It wants the new arrangement to last; to provide a sound basis for good industrial relations; to be acceptable to the staff; to command the confidence of parliament and the public, and to take "proper account of broader economic considerations."

The evidence states: "The Government is under no illusions that it will be easy to reconcile these objectives, but it looks to the committee to help it to do so."

Philip Bassett reports on Government plans for a new Civil Service pay bargaining system

Under this general guideline, the Government suggests issues which the committee should examine, though it acknowledges its own evidence is "in part simply an annotated agenda" and states its readiness to provide fuller evidence on any points if necessary.

It raises questions about: ● How far an agreed factual analysis should determine Civil Service pay, and how much should be left to negotiation.

● The relative weight of pay comparisons and such factors as the recruitment and retention of staff, relative efficiency and relative job security.

● The scope for keeping Civil Service pay in line with the general level of pay rises.

● The reconciliation of Civil Service pay arrangements with the Government's "general economic responsibilities for controlling public expenditure and maintaining the value of money." This is an area of "particular difficulty."

● The reconciliation of parliamentary accountability with an ordered system agreed with the unions.

● The role of arbitration.

The evidence opens with a detailed criticism of the now abandoned method of determination, based on the principle of "fair comparisons" with similar outside rates of pay and conditions, as recommended by the Priestley report of 1956 into Civil Service pay, and as determined by the operations of the Pay Research Unit, which is now being wound up.

It states: "Whatever its abstract merits, the Priestley system has not worked well in recent years, and the resulting damage to its credibility has led to a loss of Civil Service and public confidence in it as a means of setting Civil Service pay."

In nine out of the last 15 years, the system has been over-

ridden because of its conflict with Government incomes policies. "On more occasions than not, it has not provided a means of solving the problem of pay for the Civil Service."

It had two particular defects. Its basis in comparability meant it was retrospective, and so was "likely to generate increases which may be out of line with increases taking place elsewhere in the economy at the time" which caused conflict when the "national interest requires a substantial reduction of inflation and inflationary expectations."

It also established expectations of an entitlement to a pay increase when the cash allocations to meet such expectations were not necessarily available.

It may not have adequately reflected market rates of pay. "It has tended to insulate Government employees from the realities of life as they exist in the private sector, partly because intangibles such as job security, which cannot easily be reduced to a cash value, are underrated.

Rapid economic changes might require equally rapid and often harsh reaction. In such a setting "fairness"—certainly desirable—might not always be sustainable.

The system took as secondary the ability to pay. The availability of finance was only introduced, if at all, as a reason for overriding the system, and not as part of it.

Finally, the Government said it was questionable whether comparisons were made with the right outside analogues; whether circularity—the problem of analogues setting Civil Service pay rates and then following them—was compounded by the use of public sector analogues; whether the valuation of private sector fringe benefits had not become too detailed and mechanistic;

whether adequate allowance was made for the benefit of index-linked pensions, and whether the method of updating of pay comparability evidence was justifiable.

For a new system, the Government recognised there was substantial public interest in maintaining an efficient and fairly paid Civil Service in which good industrial relations were maintained.

However, "on the other hand there is an equally clear public interest in the provision of essential public services at maximum efficiency and minimum cost."

The indications of such a detailed elements of such a system are:

Ability to pay. "The Government's judgment of what it is justified in paying, taking account of financial and macro-economic considerations and the competing claims of other elements in public expenditure, as well as of managerial considerations, must necessarily play an essential part in the process of determining what pay should be."

Comparisons. Comparisons with real outside pay rates, rather than percentage movements in pay, more accurately reflect the position of the labour market. Outside analogues should be as representative as possible—the previous system had taken insufficient account of the realities of the labour market.

Job security, index-linked pensions and efficiency. "Outside pay rates need to be adjusted for differences in other benefits and conditions of service. The committee will wish to satisfy itself that any new arrangements provide for these elements to be properly and stringently valued.

On job security, the factual report states that attempts have been made to obtain an indica-

tion of relative job security, though this has proved difficult. "General indications are, however, that at the present time of high unemployment and redundancy, job security in the Civil Service is higher than in the economy as a whole, but little different from that of people doing comparable, white-collar work."

Arbitration. The Government accepts arbitration will have a role to play, but its evidence states: "For the avoidance of misunderstanding, however, it should be made clear now that the Government attaches the greatest importance to ensuring that, whatever the future arrangement may be, it cannot be forced into an arbitration process with an award which it is required to implement regardless of circumstances."

Merit pay. It notes that outside the Civil Service, "extensive use is made of merit pay arrangements." Merit is mainly rewarded through promotion at present, and it has been felt in the past that a performance-related pay scheme would be too difficult to administer in an organisation as large as the Civil Service.

Regional pay. Provincial pay differences were abandoned in 1958. "National pay rates are logical and convenient where there is an obligation or widespread practice of mobility, but for types of employment where there is considerable regional variation in pay levels (e.g. clerical and typing staff) it can lead to anomalies and distortions: over-payment in some areas and inability to recruit and retain staff in others."

No-strike agreements. "The committee may wish to consider this possibility either in relation to the service as a whole or for limited groups of staff engaged on particularly sensitive work."

Memorandum on Future Pay Arrangements for the Non-Industrial Home Civil Service; and Factual Background Memorandum on the Non-Industrial Home Civil Service; Civil Service Department, London.

MR. GAFFIN

Civil Service
MUS
cc. Mr. Scholar
Press Office

Civil Service Pay

There is speculation in the Guardian (Richard Norton-Taylor) and the FT (Philip Bassett) this morning to the effect that "Treasury Ministers and Downing Street" are contemplating an offer to the civil servants this year of well below 4 per cent, and possibly based on the principle that no one should get anything unless there are specific market factors. Both stories link this possibility to the fact that such an approach would reflect the Government's evidence to the Megaw Inquiry.

There is no truth in the suggestion that the Treasury and No. 10 are actively contemplating this possibility. The story is entire speculation. The fact that it appears in both papers may be because it is known (by the CSD) that these two journalists are in the habit of feeding material to each other.

If we are asked about this story, the line to take is that it is too early to expect the Government to have a position on this year's pay negotiations with the civil servants. The unions have made no claim; and Ministers have not yet considered the offer. The 4 per cent provisional pay factor for cash limits is not, of course, a public service pay norm, and it does not imply that 4 per cent will be offered to all civil servants. Recruitment and retention rates may well play a part. But the suggestions that there are differences of view about this in Whitehall, or that it is under active consideration, are pure speculation.

By way of background, you should know that the most substantial piece of the Government's evidence to the Megaw Inquiry, a memorandum on the issues involved, has only just been agreed by Ministers and has not yet been transmitted to the Committee.


J. M. M. VEREKER

12 October, 1981



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

Chancellor of the Duchy of Lancaster

From the Private Secretary

David Wright Esq
Private Secretary to Sir Robert Armstrong
Cabinet Office
70 Whitehall
LONDON SW1A 1AS

9 October 1981

Dear David,

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES MEMORANDUM".

In his letter to you of 7 October ^{p. r. below} Peter Jenkins records the Chancellor of the Exchequer's view that the word "essential" - or some word of equal force - must be used in paragraph 4c of the "issues memorandum".

The Chancellor of the Duchy feels that further time should not be taken over this point and is prepared to acquiesce in the Chancellor's decision.

In doing so however she remains of the view recorded in my letter to you of 5 October, that the use of an absolute word in this sentence may be used by the Civil Service unions as evidence that the Government is reneging on the undertakings given only a few months ago and risks causing unnecessary controversy with the Civil Service.

Unless anyone has further thoughts by close of play on Monday, 12 October we propose to send the "issues memorandum" to Sir John Megaw that evening.

I am copying this letter to Michael Scholar (No.10), Peter Jenkins (Treasury), David Omand (Defence), Don Brereton (Social Services), Richard Dykes (Employment) and Jim Nursaw (Attorney General's Office).

Yours sincerely,
Jim Buckley.

J BUCKLEY

PRIME MINISTER

To note - you were content with the draft memorandum for Megaw, subject to the Chancellor of the Exchequer's comments. The attached correspondence records that he is now content, having insisted that the memorandum should say that:

"The Government's judgement of what it is justified in paying . . . must necessarily play an essential part [and not merely an "important"] part in . . . determining . . . pay."

MUS



9 October 1981

CF

8 October 1981

Inquiry into Civil Service Pay:
Government's Written Evidence

Thank you for your letter of 29 September to Tim Lankester about the publication of the Government's written evidence to the Megaw Inquiry.

In the circumstances set out in your letter the Prime Minister is content that you should go ahead and publish the Government's evidence as originally proposed.

MS.

Jim Buckley, Esq.,
Chancellor of the Duchy of Lancaster's Office.

6



Chancellor of the Duchy of Lancaster

A. Duguid
J. Baker

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

8 Oct 1981.

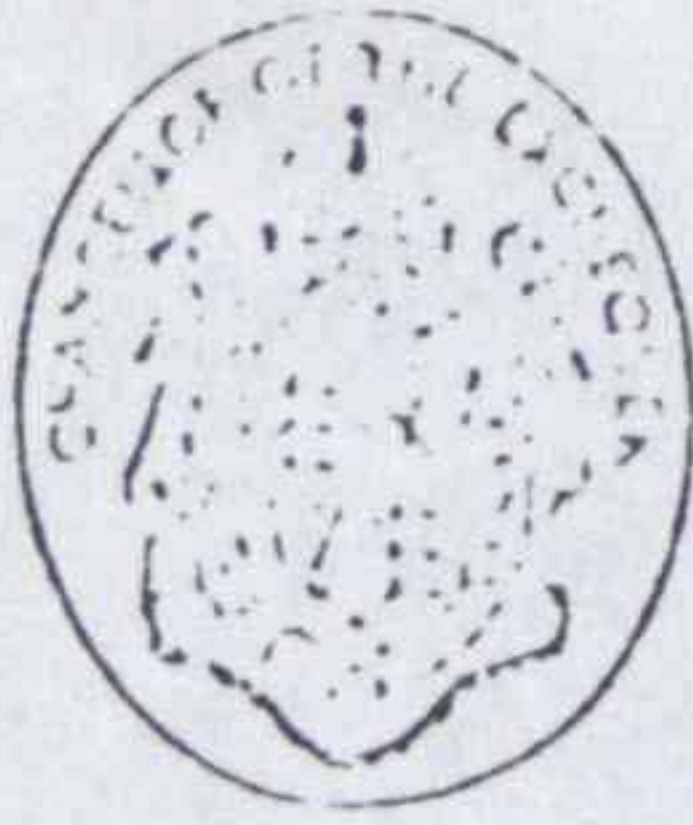
Dear Michael,

Megaw

I am sending these copies of recent letters which you may not have seen, since the Chancellor of the Duchy will be writing later this morning. And in view of what she intends to say you may want to let the Prime Minister see the exchanges over the weekend.

Jim Buckley.

Michael Schabas
10 Downing Street.



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

7 October 1981

David Wright, Esq.,
Private Secretary to
Sir Robert Armstrong,
Cabinet Office

Dear David

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES MEMORANDUM"

I have consulted the Chancellor of the Exchequer about Jim Buckley's letter to you of 5 October and the wording of the final paragraph of 4(c) of the memorandum. This now appears to be the only outstanding issue on the draft.

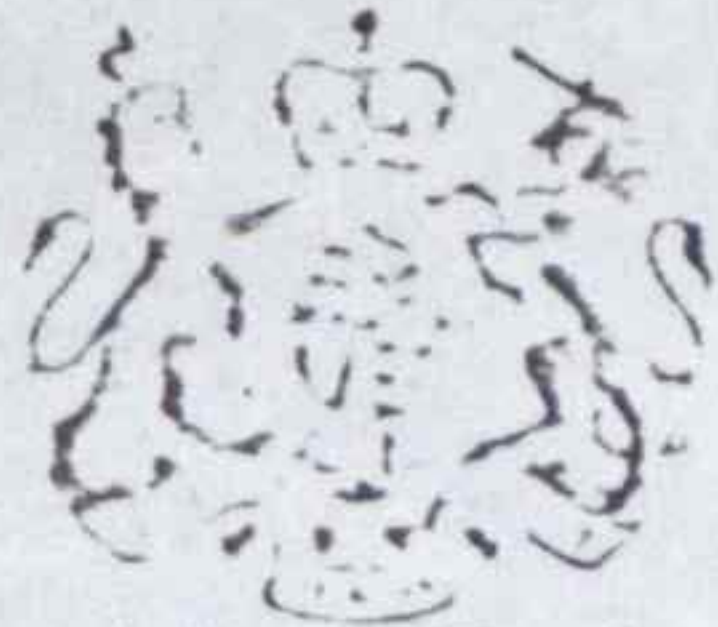
The Chancellor, as I have mentioned already by telephone, would be prepared to settle for a word such as "decisive" or "crucial" instead of "essential" but he remains strongly of the view that the word in the present draft, "important", is not strong enough. He does not agree that "essential" or some such word would duplicate "necessarily".

Copies go to recipients of Jim Buckley's letter.

Yours ever

P.S.

P.S. JENKINS



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

From the Private Secretary
Chancellor of the Duchy of Lancaster

5 October 1981

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

Dear David,

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES" MEMORANDUM

The Chancellor of the Exchequer's Private Secretary wrote to you on 30 September conveying the Chancellor's reactions to the draft "Issues" paper for Megaw which Sir Robert Armstrong sent to the Prime Minister under cover of a minute dated 18 September. We have subsequently been in touch with both the Cabinet Office and the Treasury about the points at issue.

As I understand it the Treasury do not now insist on the amendment to paragraph 4b of the memorandum which they suggested in the letter which the Private Secretary to the Chief Secretary, Treasury, wrote to you on 24 September. We welcome this.

We are also content with the amendment to the penultimate sentence of paragraph 4c suggested by the Chancellor of the Exchequer.

We still however have difficulty with the Chancellor's proposal that the word "important" in the final sentence of paragraph 4c should be replaced by "essential". In particular the Chancellor of the Duchy is concerned that a phrase reading "the Government's judgment of what it is justified in paying ... must necessarily play an essential part in the process of determining what pay should be" could lead to public misunderstanding and dispute. (And the occasion for this would arise as soon as the evidence was submitted to Megaw and made public in the next week or so.) Essentially her concern is that the Civil Service unions will seize on this sentence - which in isolation appears to say that the Government's judgment of what it can afford will always take precedence in pay bargaining - and will claim that it is inconsistent with the public stance we have taken about next year's pay negotiations with them (where we have promised "genuine negotiations"); with the statements we have made about the nature of the long term pay arrangements we are seeking for the Civil Service ("a fairly remunerated Civil Service"); and perhaps even with the terms of the Chancellor of the Exchequer's own announcement on

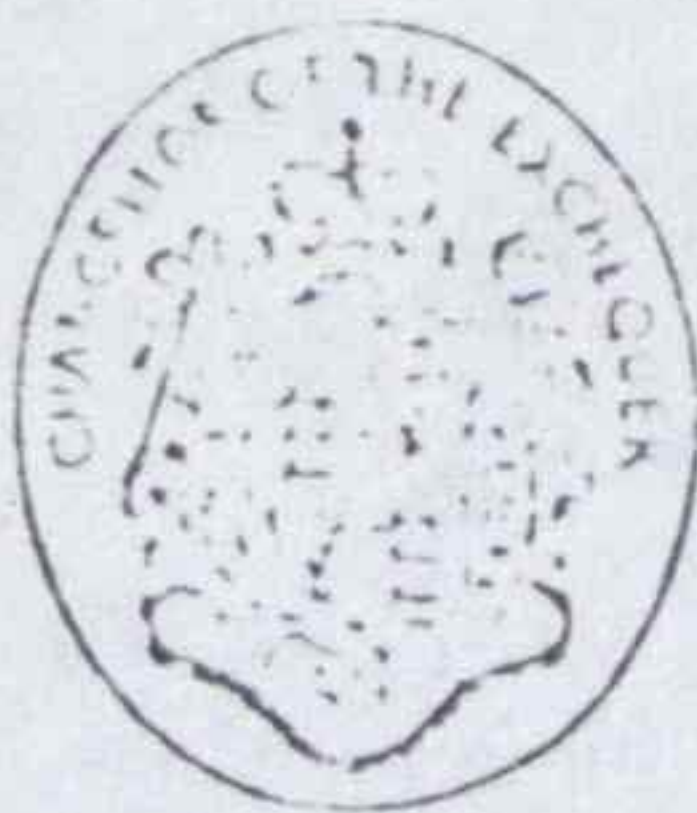
15 September about the cash factors to be used in planning next year's public expenditure ("the pay factor does not imply that all public service pay increases will or should be 4%"). The fact that it is clearly not our intention to set Civil Service pay in future "by fiat" would not protect us against charges of "reneging" on our promises. In short, and while quite understanding the Chancellor's position, the Chancellor of the Duchy wonders whether it is worth running the risk of public controversy inherent in the word "essential" when "important" combined as it is with "necessarily" seems adequately to protect the Treasury position.

I am copying this to Peter Jenkins (HMT), David Omand (Defence), Don Brereton (Social Services), Richard Dykes (Employment) and to Jim Nursaw (Attorney General's Office).

Yours sincerely,

Jim Buckley.

J BUCKLEY



Treasury Chambers, Parliament Street, SW1P 3AC

01-233 3000

30 September

David Wright Esq
Private Secretary
Cabinet Office
Whitehall
LONDON SW1A 2AS

Dear David,

INQUIRY INTO CIVIL SERVICE PAY : THE "ISSUES MEMORANDUM"

As I mentioned by telephone, the Chancellor has now seen the redraft of the "issues" memorandum attached to Sir Robert Armstrong's letter of 18 September to the Prime Minister. He is content with it, subject to resolution of the two points put forward by the Chief Secretary, and to one drafting comment of his own. The second to last sentence of 4(c) on page 3 should surely read "a system which ignored this and appeared to generate pay rates which were in some abstract sense, and without relation to availability of finance, "correct" was artificial and unreal."

*Yours ever,
Peter*

P S JENKINS
Private Secretary

PS. I am copying this letter to the Secretary of State for Defence, the Secretary of State for Social Services, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment and the Attorney General.



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

Chancellor of the Duchy of Lancaster

cc J. Veitch

From the Private Secretary

29 September 1981

Prime Minister (Melbourne)

Tim Lankester
10 Downing Street

Minited
MCS + 2/10

You suggested that our evidence to Megaw should be published simultaneously with the unions' evidence. But as explained below, this raises problems.

Content that CSD should proceed as they originally proposed?

Dear Tim,

Yes not

Thank you for your letter of 23 September about the publication of the Government's written evidence to the Megaw Inquiry.

We fully appreciate the Prime Minister's desire to avoid giving the unions any advantage in seeing the Government's evidence before they submit their own. But as you sensed in your letter it would be impractical for us to exchange evidence with the unions simultaneously. For one thing they are not yet ready with theirs and we do not wish to delay the submission of ours. And once the Government has submitted its evidence it would be difficult to defer publication without giving the impression that it had something to hide. In any case the Inquiry will wish to ask the unions in due course for their response to the Government's evidence (and of course our response to theirs) and there would be no real advantage to the unions in seeing it sooner rather than later.

In these circumstances if the Prime Minister is content we would prefer to press ahead and publish our evidence as originally proposed.

Yours sincerely,
Jim Buckley.

J BUCKLEY



see Mr Vanehal's Civil Service
Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 4400

Chancellor of the Duchy of Lancaster

From the Private Secretary

29 September 1981

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

Dear David,

*2
27/9*

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES" MEMORANDUM

The Chancellor of the Duchy is content with the new draft which Sir Robert Armstrong sent to the Prime Minister on 18 September. The Chancellor has also seen, and agrees with, Sir Robert's comments on the Chief Secretary's letter of 24 September.

I understand from the Chancellor of the Exchequer's Office that they wish to hold up further progress with the document until the Chancellor has had a chance to see it. Lady Young understands that but has asked me to say that Sir John Megaw wanted this evidence by the middle of September. We will not receive the Committee of Inquiry's further request for substantive material until they have had a chance to consider the "issues" memorandum. Delay now therefore risks proving expensive in terms of time lost later.

I am copying this letter to Michael Scholar (No.10), John Kerr (HMT), Terry Matthews (Chief Secretary's Office), David Omand (Defence), Don Brereton (DHSS), Richard Dykes (Employment) and Jim Nursaw (Attorney General's Office).

*Yours sincerely,
Jim Buckley.*

J BUCKLEY



CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

Private Secretary to the
Prime Minister

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

CONFIDENTIAL



Civil Service

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A05660

25th September 1981

cc to Verma

Thank you for your letter of 24th September about the draft "issues memorandum" attached to my minute of 17th September to the Prime Minister.

I understand that the memorandum is now being shown to the Chancellor, so that we should regard the Chief Secretary's comments as not being necessarily the last word from the Treasury.

May I make two points on those contained in your letter? I understand the Chief Secretary's feeling that the words in the last sentence of paragraph 4(b) to which he refers might be regarded as special pleading. As against that, the memorandum may be read by many people who are not familiar with the Civil Service and might not really understand without some word of explanation, why results of failure to recruit and retain staff might not be fully reflected in performance except over many years. If the sentence is to be clear, it seems to me that it needs the words whose omission the Chief Secretary has suggested.

On the second point, I question the Chief Secretary's proposal, as much on stylistic as on any other grounds. The sentence already says that the Government's judgment of what it is justified in paying must necessarily play an important part: surely the word "essential" would simply duplicate "necessarily".

I am sending copies of this letter to those who received copies of yours.

ROBERT ARMSTRONG

Miss J. M. Swift

CONFIDENTIAL

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

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GWLADOL CYMRU



C. J. Verelst

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

MANAGEMENT IN CONFIDENCE

24 September 1981

Dear Nick

25/1

Your letter of 14 September to Jim Buckley seeks the agreement of members of "E" Committee to the submission of evidence about London Weighting to the Armed Forces Pay Review Body.

London Weighting has only a very marginal application to staff of the Welsh Office but on the general issue my Secretary of State has no objection to what is proposed since it is justified by the Government's commitments towards pay for the Armed Forces.

I am copying this letter to the recipients of yours.

Yours ever
John Craig
J. F. CRAIG
Private Secretary

N H R Evans Esq
Private Secretary to
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON

CONFIDENTIAL



CC J. Verch

Civil Service

24/9

Treasury Chambers, Parliament Street, SW1P 3AG

Private Secretary to
Sir Robert Armstrong KCB CBO
Secretary of the Cabinet
Cabinet Office
Whitehall
London SW1

24 September 1981

Dear Private Secretary,

In the Chancellor's absence abroad; the Chief Secretary has asked me to make the following points on the draft "issues memorandum" attached to Sir Robert Armstrong's minute of 18 September to the Prime Minister.

- (a) The Chief Secretary would prefer the words "in relation to a service which is traditionally regarded as a lifetime career" in the final sentence of paragraph 4(b) to be omitted: they sound too much like special pleading.
- (b) The Chief Secretary considers that the word "important" in the last line of paragraph 4(c) should be replaced by "essential".

Otherwise, the Chief Secretary is content with the draft.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretary of State for Defence, the Secretary of State for Social Services, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, and the Attorney General.

yours sincerely
J M Swift

MISS J M SWIFT

Assistant Private Secretary

CONFIDENTIAL



C. J. Vercher

Treasury Chambers, Parliament Street, SW1P 3AG

N H R Evans Esq
Private Secretary to the
Rt Hon John Nott MC MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

R. Nott

24 September 1981

Re Aid

ARMED FORCES LONDON PAY

In the Chancellor's absence abroad, the Chief Secretary has seen copies of your letter of 14 September to Jim Buckley at the CSD, and Jim's reply of 21 September.

The Chief Secretary agrees with the view outlined in Jim Buckley's letter that the AFPRB should be invited, in considering the Department of Employment indices, to take account of what is happening to other groups in the public sector whose London Weighting is normally based on the Pay Board formula; and that the MoD's draft evidence to the AFPRB should be amended accordingly.

I am copying this letter to the Private Secretaries of members of E and to David Wright in Sir Robert Armstrong's office.

Yours sincerely

MISS J M SWIFT
Assistant Private Secretary

File
CONFIDENTIAL



DS
cc Cabinet
CWO, H/C
CWO, H/L
Sol Gen, LOD
CO

10 DOWNING STREET

From the Private Secretary

23 September 1981

AF

You wrote to Clive Whitmore on 22 September with proposals for making public the Government's written evidence to the Megaw Inquiry. She is content with the proposals subject to one proviso relating to (i). She has suggested that the Government's evidence should be exchanged with the unions' simultaneously. Otherwise she feels that, if our evidence goes in first, they will concentrate their evidence on refuting it.

It may be that this suggestion is impractical, but I would be grateful if you would consider it.

I am sending copies of this letter to the Private Secretaries to members of Cabinet, Ministers in charge of Departments, the Attorney-General and Sir Robert Armstrong.

I. P. LANKESTER

Jim Buckley, Esq.,
Chancellor of the Duchy of Lancaster's Office.

CONFIDENTIAL



CHANCELLOR OF THE DUCHY OF LANCASTER

Civil Service Department

Whitehall London SW1A 2AZ

Telephone (Direct dialling) 01-273

(Switchboard) 01-273 3000

cg Venetian

inquired

Anna Martin

Agree with proposals

below for making

Clive Whitmore Esq
Principal Private Secretary
10 Downing Street
LONDON SW1

Your reference public the Government's

Our reference written evidence to

Date Megaw? They

22 September 1981 seem quite

Dear Clive,

Suggest we exchange

evidence with unions simultaneously. It

otherwise their evidence of other

The Chancellor of the Duchy has been considering the question of making available more widely the Government's written evidence to the Megaw Inquiry on Civil Service Pay. The Committee will not itself be publishing with its report written evidence presented to it but has said that those giving evidence are free to make it public as and when they wish.

unexceptionable.

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There would be considerable advantage for the Government if we could arrange to receive the written evidence of the Civil Service unions as it is submitted to the Inquiry. To obtain this we will need to offer the same service to them (centralised for convenience through CSD). We can assume that others giving evidence, eg the CBI, will in any case make their material publicly available. There will of course be considerable Parliamentary and public interest in some of the more substantive parts of the Government's evidence. The Chancellor of the Duchy therefore proposes

Yes but see above

i. that the Government should agree with the unions that each side should automatically copy to the other all the written material it submits to Megaw;

ii. that copies of all written Government evidence to the Committee should also, as a matter of routine, be placed in the Libraries of both Houses of Parliament;

iii. that, equally as a matter of routine, the same material should be given to the Clerk of the Treasury and Civil Service Select Committee; and

iv. that the Government should be ready to make all its written evidence available to the Press and other interested enquirers on request. To do less than this would, the Chancellor thinks, invite unnecessary charges of secrecy. There might also be positive advantage from these procedures in that they are likely both to stimulate public debate and to provide a body of factual material which could inform that debate.

The Chancellor of the Duchy would be grateful to know if these arrangements have the approval of the Prime Minister.

I am copying this letter to the Private Secretaries to all Members of the Cabinet, Ministers in charge of Departments, the Attorney General and Sir Robert Armstrong.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

Civil Service
207 TV 21/9

SECRET

12th



B/c A Walters
B Ingham

10 DOWNING STREET

From the Private Secretary

21 September 1981

Dear Peter.

Recovery from the Civil Service strike

Thank you for your letter of 18 September, which I have shown to the Prime Minister.

The Prime Minister is concerned at the very bad prospective CGBR for September and October, which is of course partly due to VAT repayments. She believes it is important that the markets should be prepared for relatively poor banking figures for both September and October, and in particular that the transitory element in the figures for the CGBR (which should be offset later) should be made plain in briefing the press in advance. She also thinks it is important to get funding moving again. She recognises that there are several ways in which this might be done; but her preliminary view is that it would be right to bring forward the plans for an unrestricted indexed gilt (I understand this is being looked at with a view to a decision within the next week). The Prime Minister is somewhat surprised that nothing was done to ensure that the funding programme did not come to a halt in banking September - all the more so since it has been known for some time that the CGBR in September was going to be high.

I should be grateful if you could let me know what are the Treasury's plans for briefing the press about the September and October figures.

B/c

~ ~

Tim Linn.

Peter Jenkins, Esq.,
H.M. Treasury.

SECRET

CONFIDENTIAL

HL



cc: MOD
DHSS
CDL
Gmp
LSD
CO

10 DOWNING STREET

From the Private Secretary

21 September 1981

Dear Peter,

Sir Robert Armstrong minuted the Prime Minister on 18 September with a revised draft "Issues Memorandum" which could be submitted to the Megaw Inquiry. The Prime Minister is content with the revised draft subject to any final points the Chancellor of the Exchequer may have.

I am sending copies of this letter to David Omand (Ministry of Defence), Don Brereton (Department of Health and Social Security), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment), Jim Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

[Handwritten signature]

T. Lamm

Peter Jenkins, Esq.,
H.M. Treasury.

Rd

CONFIDENTIAL

From the Private Secretary



CHANCELLOR OF THE DUCHY OF LANCASTER
Civil Service Department
 Whitehall London SW1A 2AZ
 01-273 4400

21 September 1981

David Omand Esq
 Private Secretary to
 Secretary of State for Defence
 Main Building
 Whitehall
 LONDON
 SW1A 2HB

Dear David,

ARMED FORCES LONDON PAY

Thank you for your letter of 14 September about the evidence to be given by the Ministry of Defence to the Armed Forces Pay Review Body on London pay for the Armed Forces.

The Chancellor of the Duchy of Lancaster has no comment on the factual material in the draft you enclosed. But she believes it would be wrong for the Government in present circumstances to add the proposal that the Review Body should recommend the implementation in full of the increases in the Department of Employment indices. She realises that this is how the matter has been handled in previous years. But the Government's commitment to the Armed Forces was not to follow any indices but to keep their pay at levels comparable with those of their civilian counterparts; that commitment has been more than honoured by accepting in full the Review Body's recommendations on basic pay; and on London pay there is the new consideration this year that the Government has decided that other public service employees cannot be offered increases in London Weighting to the levels justified by the indices. Civil servants have been offered 7%, and teachers 7½%. In the circumstances it would be very difficult, even if the Review Body recommended full increases, to justify approving them on the grounds of comparability with civilians. It is certainly not for the Government to create that problem by itself proposing full increases to the Review Body in the first place.

In the Chancellor of the Duchy of Lancaster's view, the right course this year is to invite the Review Body, in considering these indices, to take account of what is happening to the other groups whose London Weighting is normally based on the Pay Board formula. She therefore suggests that the first sentence of the draft evidence should be amended to read "As the Review Body will be aware, London pay for the Armed Forces, like that of other

MANAGEMENT IN CONFIDENCE

public services, has hitherto been based on"; and to delete paragraph 3 of the draft paper evidence and substitute the following:

"The rates shown in attach 1 have been calculated to show the effect of the Pay Board formula. Part of the relevance of this formula to Armed Forces pay is that it has hitherto been applied across the public services generally. The Review Body may therefore also wish to take account of the fact that this year other public service employees have been offered increases in London Weighting well below the levels resulting from these indices."

I am copying this to Private Secretaries to members of E and to David Wright in Sir Robert Armstrong's office.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

MANAGEMENT IN CONFIDENCE

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c. Mr. Duguid

MR. LANKESTER

THE "ISSUES MEMORANDUM" FOR THE MEGAW INQUIRY

The official drafters under Robert Armstrong's guidance have done a good job in putting into effect the decisions of the Prime Minister's meeting on 10 September on Government evidence to the Megaw Inquiry. The conflicting propositions are clearly set out, with a request to Megaw to resolve them; and I find the new paragraph 4 (on the failures of the existing system) very convincing. I think the Prime Minister can agree this draft, unless the Chancellor who is known to hold strong views about it is still unhappy: he should be given a chance to comment first.

Prime Minister
 Content subject to
 any final points
 from the Chancellor?

Yes

18 September 1981

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12
18/9

to Mr Duguid
Mr Vereker
Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone Direct Line 01-212⁵⁷⁵⁹.....
Switchboard 01-212 7676

E G M Chaplin Esq
Civil Service Department
Whitehall
London SW1A 2AZ

18th September 1981

Dear Mr Chaplin,

INQUIRY INTO CIVIL SERVICE PAY

I refer to your letter of 18th August (paragraph 4) regarding the nomination of someone in the Departments to receive paper and act as a contact point concerning the above matter.

I wish to inform you that I have been nominated for this Department and my address and telephone number is as above.

Copies of this letter go to the recipients of yours.

Yours sincerely,

F H RODGER (MISS)
ESTABLISHMENT OFFICER

Prime Minister to see



N.P.C. Mitchell

Duty Clerk
19/9/81

A. Walker

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

18 September 1981

T Lankester Esq.
10 Downing Street
LONDON
SW1

Why did we not
issue an order. looked
at it in banking system.
We had then forecasts
to make us to later
change effective
action.

Dear Tim,

RECOVERY FROM THE CIVIL SERVICE STRIKE

We last provided a full assessment of the recovery from the Civil Service strike on 10 August - Peter Jenkins' letter to you on the Monthly Note on the CGBR. We have now updated that assessment to take account of progress so far and of the operational decisions which have been made on how the recovery is to be effected. This is set out in the attached report.

The report indicates in para 2 (vii) what the effect of the strike on money is estimated to be over the next three months. It will be helpful to you to see the underlying position upon which they are superimposed. The picture is as follows:-

£ million	Banking months			Mid Feb- Mid Nov cumulative
	Sept.	Oct.	Nov	
CGBR, underlying seasonally adjusted	+573	+949	+720	+6565
Strike effect	+605	+1840	-410	+6750
Actual CGBR	+1178	+2789	+310	+13315
Per cent				Feb-Nov annual rate
Increase in £M3 underlying	2.3	1.7	0.4	12.4
Strike effect	0.2	1.0	-0.2	
Forecast increase	2.5	2.7	0.2	19.1

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As you will see, we face the prospect of two months with very large increases, both in underlying and actual terms. The main factors behind the high underlying increase are

(i) the weakness of debt sales, particularly in banking September which finished on last Wednesday. Virtually no gilts were sold to the non-bank public, after allowing for redemptions;

(ii) the continued strength of bank lending, particularly to persons.

While in underlying terms, the size of the CGBR is not out of line with our forecasts, the pattern of the recovery from the strike produces the very large recorded borrowing requirements and exacerbates an already poor underlying position. We are considering how best to present this problem in public.

*Yours ever,
Peter*

P S JENKINS
Private Secretary

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RECOVERY FROM THE CIVIL SERVICE STRIKE

1. The prospects for recovery from the Civil Service dispute were set out in the August Monthly Report on the CGBR. At that time the strike had ended but decisions had not yet been taken on how the recovery was to be undertaken. Revised estimates have now been made which take account of the decisions and of what has been achieved so far.

2. These estimates are set out in Table 1. (The figures in brackets show the August estimates for comparison.) The main features are:-

(i) A much faster start than expected was made in recovering the backlog. In particular, the uncleared cheques were processed very rapidly. As a result the outcome in August was a net recovery of £1,350 million whereas we previously expected little net recovery.

(ii) By contrast September and October (the latter not separately identified in the earlier report) will be much worse. The main factor is the change in the estimated position of Customs and Excise which is now expected to show net outgoings of £1,200 million in September and £2,500 million in October, before net receipts begin to come in strongly in November and December.

(iii) This pattern has been produced by the operational decisions which have been taken on the way the recovery will be handled. First, Ministers agreed that priority should be given to VAT repayments. The $\frac{1}{2}$ million claims which were on hand at the end of the strike have now been cleared. In addition, however, there was a "hidden" backlog caused by the fact that returns were not issued from April onwards. If returns had now been issued period by period, it would have taken several months to

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get repayments back on course. Secondly, it was agreed that five months' repayments should be rolled up into one. This means that it will be possible to make disbursements at a rapid rate but also that there will be a much bigger outflow in October than would have occurred otherwise. Thirdly, it has been agreed that VAT payments should be collected through "rolled-up" returns i.e. six months in one. This will greatly speed up the recovery process overall and in itself does little to slow down the flow of revenue in the early stages (since without it the period for which returns would have been issued first were the periods for which Customs have already received more than half the revenue). Temporarily, however, Customs position is worse than it was at any time during the strike (during which 85 per cent of the net revenue was collected) with VAT repayments proceeding rapidly and VAT receipts more or less at a halt until the payments on the six month returns arrive, beginning on 25 October. (This is the earliest date because the issue of the first rolled-up returns will not be completed until 25 September, leaving the taxpayers a month to pay.)

(iv) The cumulative backlog, which for the two Revenue Departments rose to over £6 billion at the end of July, fell to under £5 billion in August, but could rise to around £7 billion by end October. From November onwards, however, the benefit of the receipts under the rolled-up returns will be felt and by the end of the calendar year we estimate that the backlog might be around £3 $\frac{1}{4}$ billion rather than the £4 $\frac{1}{4}$ billion estimated in August, and the carryover into the next financial year might be £1 $\frac{1}{4}$ billion rather than £2 billion.

(v) Our estimate of the interest cost (gross of tax paid on it) is still around £500 million though this

of course will depend partly on the level of interest rates - see Table 2.

(vi) These new estimates overtake the view expressed in para 17 of the September Monthly Report on the CGBR that "the actual borrowing requirement over each of the next three (calendar) months will be fairly small". Imposing the new estimates of the strike effects on the last line of Table 2 of that Report produces the following:

	£ million not seasonally adjusted		
	September	October	November
CGBR excluding strike	-70	+550	+1810
Strike effect	-650	-1650	+1900
Projected actual CGBR	-720	-1100	+90.

Although there is inevitably a good deal of uncertainty about both the underlying forecasts and the strike effects, it now looks as if there will be deficits in September and October but approximate balance in November.

(vii) The new profile is unhelpful to the monetary prospects over the next two months. The strike could add $\frac{1}{4}$ per cent to the growth of £M3 in banking September and a further 1 per cent in banking October. The latter reflects a CGBR for the banking month which in seasonally adjusted terms could reach £2 $\frac{3}{4}$ billion. In the August report we estimated that by the end of the target period, the addition to £M3 could be around 1-2 per cent. We would now put the figure towards the lower end of the range.

(viii) In public announcements e.g. on the recent increase in interest rates, we have been drawing attention to the fact that the distortions caused by the strike will persist

CONFIDENTIAL

-4-

for several months. In particular we will need to get over the point that there will be a temporary phase in which the cumulative backlog will increase. We will also need to arrange our money market operations to ensure that the surplus of liquidity does not undermine our interest rate objectives.

H M Treasury
16 September 1981

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TABLE 2: INTEREST COST OF THE STRIKE (1) £ million

	<u>1981 Q1</u>	<u>1981 Q2</u>	<u>1981 Q3</u>	<u>1981 Q4</u>	<u>1982 Q1</u>
<u>Approximate cumulative effect of strike on CGRR</u>	900	4500	5700	3800	1600
(including effect on expenditure and debt interest as well as lost revenue)					
<u>Interest costs</u>					
<u>Within quarter</u>		75	165	170	60
<u>Cumulative</u>		75	240	410	470

(1) Assuming that short-term interest rates stay near their current level for the remainder of the financial year.



J. Vereker
A. Walters
A. Daquid
[Signature]

Ref. A05562

PRIME MINISTER

Inquiry into Civil Service Pay: The "Issues Memorandum"

At your meeting of Ministers on 10 September the Cabinet Office was instructed to revise the draft "issues" memorandum for the inquiry into Civil Service pay in the light of the discussion. I now attach a revised draft which has been agreed with officials in the Departments principally concerned with the points in dispute - the Treasury, the Civil Service Department, and the Department of Employment.

2. The main changes are in paragraphs 4, 8, 9(d), 9(f), 11(e) and 12.

3. In addition you will have seen a copy of the letter dated 11 September from the Attorney General to the then Lord President about lawyers' pay, and proposing some additions to the draft. Other Departments thought that it would not be desirable to adopt the wording proposed by the Attorney General, since this might tend to pre-judge the issue in a particular direction. A neutral form of words has been agreed between the Civil Service Department and the Law Officers' Department and has been added to the last sentence of paragraph 10(b).

4. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Social Services, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, and the Attorney General.

REA

ROBERT ARMSTRONG

18 September 1981

CONFIDENTIAL

GOVERNMENT EVIDENCE TO THE COMMITTEE OF INQUIRY INTO
CIVIL SERVICE PAY

FUTURE PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL
HOME CIVIL SERVICE

Introduction

1. The Committee of Inquiry into Civil Service pay has asked* for "a memorandum setting out the main issues you believe the Committee should tackle and any views on them which you wish to place before the Committee". This memorandum is a first response to that request.

Background

2. About 7½ million people are employed in the public sector of the United Kingdom economy (broadly the nationalised industries, local authorities, National Health Service, the Civil Service and the Armed Forces of the Crown). Within this total the Government is directly responsible for the pay and conditions of service of some 690,000 civil servants (of whom 150,000 are industrial civil servants), some 323,000 members of the Armed Forces, and some 1.2 million employees of the National Health Service. The methods used to settle pay throughout the public sector vary. They reflect both the history and the particular nature of the service or industry concerned.

3. The factual background memorandum already submitted to the Committee by the Civil Service Department (Chapters 5-7) describes the arrangements for pay determination in the non-industrial Home Civil Service (which is the subject of the present inquiry) and their historical development. The pay determination system for the bulk of this service was embodied in formal Pay Agreements, negotiated with the unions, from which the Government has now withdrawn. The system derived from the recommendations of the Royal Commission on the Civil Service ("Priestley") which reported in 1955. The Committee will no doubt wish to study that report in detail. Its main conclusion was that the primary principle governing Civil Service pay should be "fair comparison" with the current remuneration of outside staffs employed on broadly comparable work, taking account of differences in other conditions of service.

*In a letter from the Chairman of the Inquiry, Sir John Megaw QC, to the Lord President of the Council dated 6 August 1981.

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Why a new system?

4. The Committee will wish to know why the Government believes that the system derived from Priestley should now be brought into question. There are four main reasons --

a. Whatever its abstract merits, the Priestley system has not in practice worked well in recent years, and the resulting damage to its credibility has led to a loss of Civil Service and public confidence in it, as a means of settling Civil Service pay. In nine out of the last fifteen years the system has been over-ridden or implemented only after delay, often because its straightforward implementation would have conflicted with the formal incomes policies adopted by previous Governments. This in itself suggests that the system is no longer satisfactory: on more occasions than not it has not provided a means of solving the problem of pay for the Civil Service. This is partly because economic circumstances have changed since the mid-1950s, when there was near full employment, inflation was not a serious problem and pay increases indicated by the system were generally modest. It is also because of some characteristics of the system. There are two particular defects. First, a system based on comparability is almost bound to be "backward-looking" to some degree, and so is likely to generate increases which may be out of line with increases taking place elsewhere in the economy at the time. This poses particular problems at a time when the national interest requires a substantial reduction of inflation and inflationary expectations. And second, because any such system tends to establish expectations of entitlement to an increase in pay - but does nothing to take account of the fact that the cash allocations to meet these expectations cannot necessarily be made available.

b. An essential element in any pay system must be an attempt to assess the market and to consider whether pay rates are at the level required to recruit, retain and motivate the appropriate number of staff of the right quality. In the Priestley system it has been assumed, in effect, that the pay rates indicated by "fair comparisons" are a reasonable proxy for the market. But it is increasingly questioned whether the system provides an

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adequate reflection of the market rates of pay. It has tended to insulate Government employees from the realities of life as they exist in the private sector, partly because intangibles such as job security, which cannot be easily reduced to a cash value, are under-rated. The Government believes that the information available in the pay determination process should include a systematic analysis of recruitment and wastage. Such statistics need to be interpreted with care in relation to a service which is traditionally regarded as a lifetime career, because the results of failure to recruit and retain staff of sufficient quality may not be fully reflected in the performance of the service except over many years; but the ability to recruit and retain staff, as demonstrated in statistics, can help to show whether pay rates are in line with the market for each particular type of labour and thus "fair" both to employees and to the taxpayer.

c. We live in a world in which rapid economic changes - for example drastic changes in the price of oil - may require equally rapid and often harsh reaction. In such a setting "fairness" - certainly desirable - may not always be sustainable. Trading concerns have to react to such circumstances by laying off employees, or by acknowledging that no pay-increase at all is possible. The public service cannot expect to be insulated from the impact of adverse economic developments simply because the money to meet the wage bill comes from the taxpayer. The questions of availability of finance and what can be afforded were treated as secondary in the old system and introduced, if at all, only as reasons for overriding the system and not as part of it. Outside Government, the ability of the employer to pay is inevitably a crucial part of the process of determining pay. It is true that the question of the Government's ability to pay involves judgements which are different from those which have to be made by private sector employers and often more complex. But the question is no less important for the Government for that reason. It involves the interests of every taxpayer and the economic health of the country. A system which ignored this and appeared to generate pay rates which were in some abstract sense, and with relation to availability of finance, "correct" was artificial and unreal. The Government's judgement of what it is justified in paying, taking account of financial and macroeconomic considerations and the competing claims of other elements in public expenditure, as well as of managerial considerations, must necessarily play an important part in the process of determining what pay should be.

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d. Even on its own terms, the old comparability system no longer commands confidence that it gives truly "fair" results. In the Government's view it is questionable whether comparisons were made with the right outside analogues; whether the wider problem of "circularity" - which has to be faced in any case if there is any tendency among private sector firms whose employees are taken as analogues automatically to reflect Civil Service pay increases - was not compounded by the use of public sector analogues; whether, given the growth of fringe benefits in the private sector, the valuation placed on them had not become too detailed and mechanistic; whether adequate allowance was made for the benefit to civil servants of index-linked pensions; and whether the methods used to evaluate pay research evidence, and to bring it up-to-date as a basis for negotiation, were justifiable.

Approach to a new system

5. As the Committee's terms of reference make clear, the Government starts from the proposition that there is a substantial public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service; in the orderly conduct of the business of Government and its services to the public; and in the maintenance of good industrial relations in the Civil Service. On the other hand there is an equally clear public interest in the provision of essential public services at maximum efficiency and minimum cost. The Government recognises that in a free society it is not possible in the long term to impose pay and conditions of service by fiat; and that there is an inevitable cost to the Exchequer and to society if pay in sensitive areas is settled by the process of industrial confrontation. It is therefore the Government's intention when the Committee's report is available to seek to negotiate a new Pay Agreement with the Civil Service unions which will be informed by the Committee's findings. In these negotiations the Government will aim to arrive at an ordered and agreed arrangement for determining Civil Service pay which, so far as possible: can endure; provides a sound basis for good industrial relations; is acceptable to the staff concerned; commands the confidence of both Parliament and the public; and takes proper account of broader economic considerations. The Government is under no illusions that it will be easy to reconcile these objectives but it looks to the Committee to help it to do so.

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6. In negotiating any new agreement the Government will be seeking a means of arriving at rates of pay which are adequate but not excessive, to recruit, retain and motivate sufficient numbers of staff of satisfactory quality. The Government recognises that, in the longer term, Civil Service pay rates must bear a reasonable relationship to those of outside employers if serious management problems, including industrial relations difficulties, are to be avoided. The Government also recognises that comparisons with outside rates of pay and conditions of service in comparable employment provides a useful broad indication of what is required for these purposes. Comparability in some form plays a part in pay negotiations in the public and private sector alike. Accurate information about the labour market is a valuable management tool particularly for an employer like the Civil Service which has to recruit and retain a very wide range of employees in a wide variety of locations with different skills, aptitudes and qualifications.

7. At the same time, the Government strongly believes that it would be undesirable for any new arrangements to give rise to a presumption of an automatic entitlement to rates of pay based on pay comparisons without adequate regard being paid to other relevant considerations, including the Government's duty to control public expenditure and to manage the economy in the interests of the population as a whole.

8. This means that the process for determining civil service pay must take proper account of financial and macroeconomic considerations. The Government must in any event retain the right, in the last resort, to decide whether on any particular occasion the wider national interest should take precedence over the operation of any system, however well constructed. But the Government would prefer to have procedures which should make it possible for agreed settlements to be the general rule and for resort to "override" to be necessary only in exceptional circumstances. The Government would be grateful for the Committee's advice on how and at what stage financial and macroeconomic considerations can best be taken into account in the process of pay determination.

The basic issues

9. In carrying out its remit to make recommendations on the process by which the remuneration of the non-industrial Civil Service should be determined there are a number of important general issues which the Committee will want to examine and on which the Government would welcome the Committee's views -

a. The form of a new pay system.

It is obviously desirable that a new pay system should be agreed by the Government with the unions and it has already been made clear that it is the Government's intention to seek to achieve this. But how far should the new pay system be a highly structured one? How far should prior agreement on the use to be made of agreed factual analysis determine the outcome and how much should be left for negotiation?

b. The relative weight which should be attached in any new system to comparisons of pay and other conditions of service and to other factors such as the position on recruitment and retention, relative efficiency and relative job security.

Under the old system other factors besides those based on direct comparisons could be, and were, introduced into the negotiations which followed pay research but this was not done on a quantified or structured basis and the influence of such factors on the final outcome was relatively modest. The Government would particularly welcome an assessment of the practicability of evaluating such factors and recommendations on methods for doing this.

c. The scope under a new process of pay determination for keeping pay increases for the Civil Service more in phase with those in the community generally.

As explained in paragraph 4a. this problem has caused considerable difficulty in the past.

d. The reconciliation of any arrangements for pay determination in the Civil Service with the Government's general economic responsibilities for controlling public expenditure and maintaining the value of money.

This is an area of particular difficulty not only in deciding how financial and macroeconomic considerations can best be taken into account

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in the process of pay determination but also at a more technical level in reconciling procedures and timetables for fixing cash limits and for negotiating Civil Service pay. The Treasury is ready to provide more detailed evidence on the public expenditure procedures involved, including the fixing of cash limits.

e. The reconciliation of the Government's ultimate accountability to Parliament for expenditure on Civil Service pay with an ordered pay system agreed with the unions.

Clearly if a new pay process is to be negotiated with the Civil Service unions and to have a reasonable prospect of long term acceptability it would need to pass two tests. First, it must be capable, in normal circumstances, of serving as the basis for pay settlements which are justified on management grounds and acceptable not only to the negotiating parties, but also to Parliament and the public. Second, it would need to contain as clear an indication as possible of the circumstances in which, and the manner by which, it could exceptionally be overridden by Government on wider policy grounds of the national interest. In considering these matters the Committee will wish to consider, for example, the role which Parliament might be invited to play.

f. The role of arbitration.

The Government accepts that arbitration will have a role to play in any new system for settling Civil Service pay as it has done since the Arbitration Agreement of 1925. The present Arbitration Agreement provides for unilateral access to arbitration, although successive Governments have consistently and publicly reserved the right to refuse access to arbitration on grounds of policy. It has also been accepted over the years that, while preserving the constitutional position that Governments cannot commit Parliament to expenditure without its approval, Governments would not invite Parliament to approve the setting aside of an arbitration award.* The Government has not withdrawn from the Arbitration Agreement

*The special arrangements to which the Government is committed for next year's pay settlement differ from this. The Government has accepted in advance of these negotiations that there should be access to arbitration should negotiations fail. It has however also expressly reserved the right to ask the House of Commons to approve the setting aside of any resulting arbitration award should the Government judge this to be necessary in the national interest. The arrangements derive from the particular circumstances of 1981 and should not necessarily be regarded as a precedent for the future.

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with the Civil Service unions as it has from the Pay Agreements with them. But clearly the role of arbitration under any new system will need to be considered in the negotiation for any new Pay Agreement following the Committee's report. For the avoidance of misunderstanding, however, it should be made clear now that the Government attaches the greatest importance to ensuring that, whatever the future arrangements may be, it cannot be forced into an arbitration process with an award which it is required to implement regardless of circumstances. This could be achieved either by the Government reserving the right to withhold agreement to go to arbitration (making resort to arbitration subject to the consent of both sides) or by the Government reserving the right - perhaps subject to the agreement of the House of Commons - to override an arbitration award; or indeed by a combination of the two. There are arguments for and against each course, and the Government would be grateful for the Committee's views on the options. But it is in the Government's view essential to retain in the process of pay determination some safeguard preserving its right of ultimate decision in exceptional circumstances.

Technical issues arising in the process of comparison

10. If the Committee considers that a new system should provide for structured pay comparisons a number of technical questions would arise about how this should be done. The Committee's views would be particularly welcome on the following points -

a. Should comparisons be made with actual outside pay rates or with percentage movements in pay?

Comparison with percentage movements in pay could ease the problem of mis-match between the movement of Civil Service and outside pay referred to in paragraph 9c. But it is outside rates of pay for comparable work which reflect the real position in the labour market and hence affect the employer's ability to recruit and retain employees. Moreover, information on rates can be collected in much more detail so as to establish separate and more valid comparisons for different groups of staff.

b. What outside analogues should be used and how should they be selected?

Comparisons need to be as representative as possible. But any process of comparison runs the risk of circularity, with all major employers being influenced by the rates which others set. It has been suggested that this risk may be acute where comparisons are made with other public

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sector analogues. The Scott Committee on the Value of Index Linked Pensions recommended the exclusion of public sector analogues from the field of comparison for both pay and pensions purposes. It has also been argued that the fields of comparison used by the PRU were biased in favour of large and "good" employers and took insufficient account of the realities of the wider labour market. There are also particular problems in using pay comparison where the Civil Service is itself the main employer of a particular type of staff; and, as with some professional staff, where significant numbers of the profession as a whole are self-employed.

c. Is "whole job" comparison the best approach?

This approach, used by the PRU, involved the identification of jobs in external organisations whose functions and responsibilities taken in the round were closely similar to Civil Service jobs. The Committee may wish to consider how far "whole job" comparisons are appropriate for all types of Civil Service work particularly at the higher levels where difficulties were experienced under the pay research system in making reliable comparisons. The Pay Research Unit Board for example suggested that the cut-off point for pay research should have been lower under the old system.

d. How should "fringe benefits", including index-linked pensions, be taken into account in the comparison process?

Outside pay rates need to be adjusted for differences in other benefits and conditions of service. The Committee will wish to satisfy itself that any new arrangements provide for these elements to be properly and stringently valued. The Scott Committee made recommendations on the evaluation of index-linked pensions. These are at present being considered by the Government.

e. What, if any, arrangements should there be to ensure that any data collected are "up to date"?

The techniques of adjustment to current rates used in the latter stages of operating in the old pay agreement were the subject of much criticism and especially the "uprating" of the outside rates collected by the PRU by reference to price movements. There are questions here of both principle and practice.

f. What organisational arrangements would be best suited to the collection of data under any new system and what role should any data collection agency play?

In examining this question the Committee will wish to consider the nature and status of any new data collection organisation. Should it be free-standing and visibly independent of management and unions? Could it be grafted on to an existing organisation like the Office of Manpower Economics? The Committee will also wish to consider the role of any new agency. Should the role be confined to the collection of data or extended into processing and analysing?

g. To what degree should the data collected for purposes of pay comparisons be made publicly available?

Much of the data collected by the Pay Research Unit was provided on a confidential basis by individual employers. But public confidence depends on public information. This problem links in with the role to be assigned to any new organisation charged with data collection.

Other issues

11. In addition to those described above there are other issues about the future pattern of Civil Service pay arrangements on which the Government would welcome the Committee's views -

a. What role should internal relativities play in settling pay rates?

Internal relativities are an important secondary factor in the determination of Civil Service pay rates. It is inevitable that in a structure as complex as that of the non-industrial Home Civil Service the pay of some groups of staff will need to be settled on the basis of an agreed internal pay relativity with that of another. In some areas there are also questions of vertical relativities with the industrial Civil Service. The arrangements which are made must enable pressing management problems to be dealt with by pay adjustments where these become necessary. There are also wider questions about the relationship between pay and grading structure. The problem is to achieve the best balance between considerations of internal management structure and the matching of pay rates for different groups to the outside market.

b. Is there a place for using merit pay in the Civil Service, and if so how should it be applied?

Outside the Civil Service, particularly in the private sector, extensive use is made of merit pay arrangements. But there are special management difficulties about the application of merit pay systems in the public service.

c. Is the use made of incremental scales in the Civil Service justified and are modifications desirable?

Apart from their possible use as an instrument for rewarding merit, questions arise here on the use of incremental scales as such.

d. Is there a case for introducing productivity bargaining into the pay system for the Civil Service?

Successive Governments have taken the view that the pursuit of improvements in productivity and efficiency of Civil Service operations is a management function with which staff are expected

to co-operate without special payment on the basis that such co-operation should be given in return for a fair rate of pay. This links with the problem of assessing comparative efficiency inside and outside the Service in making pay comparisons.

e. Is there a case for wider geographical variation in rates of pay for civil servants?

The system of "provincial differentiation" was abandoned in 1958, and Civil Service pay rates now apply nationally, with extra payments ("London weighting") to staff employed in Inner and Outer London. National rates are logical and convenient where there is an obligation or widespread practice of mobility; but for types of employment where there is considerable regional variation in pay levels (eg clerical and typing staff) it can lead to anomalies and distortions: over-payment in some areas and inability to recruit and retain staff in others. It is for consideration whether Civil Service rates for at least some (eg the non-mobile) grades, if not for all grades, should attempt to match local pay conditions more closely.

f. Is there scope for the introduction of "no industrial action" agreements into the Civil Service?

It is sometimes suggested that long term agreements on mechanisms for settling pay in the public services should be associated with some form of agreement restricting the right of staff to take industrial action. The Committee may wish to consider this possibility either in relation to the Service as a whole or for limited groups of staff engaged on particularly sensitive work.

Higher Civil Service Pay

12. The terms of reference of the Committee cover the non-industrial Civil Service as a whole. The Higher Civil Service have not been covered by the process of pay determination and negotiation which applies to the rest of the non-industrial Civil Service; recommendations on pay rates

for the Higher Civil Service are made by the Top Salaries Review Body (TSRB). This difference of treatment reflects both the difficulty of settling the pay of these senior management grades by any process of negotiation and the fact that rather different considerations apply in the settling of their pay, including not only relativities with senior levels in other public services but also relativities with Ministers. Nonetheless, problems have arisen from the co-existence of two separate processes of pay determination covering different parts of a unified career structure, and particularly at the "interface": the grades of Assistant Secretary (covered by the general system) and of Under-Secretary (covered by the TSRB) and their equivalents. The Committee will no doubt wish to have discussions about the position and the problems with the Review Body.

Conclusions

13. The Committee has been asked to advise both on the principles which should form the basis of a new pay arrangement for the Civil Service and on practical arrangements for applying it. Naturally both the principles and the practical arrangements will need to take account of other conditions of service and of other aspects of Civil Service management which bear on the question of appropriate remuneration. Accordingly the Committee has been given terms of reference which leave it free to examine any aspect of Civil Service management and practice which it regards as relevant to its task.

14. It will be apparent to the Committee that this first paper on issues is in part simply an annotated agenda. The Government is ready to provide fuller evidence on any of the points covered by it and indeed on any other matters where the Committee would find further information helpful to its work.

cc Mr Vatcher
Mr Anguid

CHANCELLOR OF THE DUCHY OF LANCASTER

18 September 1981

Jim Nourse Esq
Legal Secretary to
Attorney General
Attorney General's Chambers
Royal Courts of Justice
Strand
LONDON
WC2A 2LL

12

1879

Dear Jim,

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES" MEMORANDUM

The Attorney General wrote to the then Lord President of the Council on 11 September about the draft "Issues" memorandum for the Inquiry into Civil Service Pay.

We have some difficulty with the Attorney's specific suggestions but have arranged with Cabinet Office that the next version of the memorandum should include - at the end of paragraph 10b - a reference to the general problem of comparisons with self-employed professional people. The hope is that this will provide a sufficient peg to enable the basic problems to be aired with the Inquiry at a later stage if this is what Ministers so decide. The Attorney General remains, of course, free to comment on the latest version of the "Issues" memorandum being circulated by Sir Robert Armstrong today.

I am copying this letter to the Private Secretaries of those who received the Attorney's letter to Lord Soames.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY
18 September 1981

From the Private Secretary



✓ *Ingrid*
Watten
Vercher

CHANCELLOR OF THE DUCHY OF LANCASTER
CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273

Switchboard 01 273 3000

17 September 1981

Tim Lankester
10 Downing Street
LONDON SW1

NBM

Dear Tim,

T 1979

CIVIL SERVICE PAY 1982: ASSURANCES TO THE UNIONS

I think that you, and the others to whom I am copying this letter, will want to have the attached exchange of correspondence with the Council of Civil Service Unions.

Copies go to John Kerr (Treasury), Richard Dykes (Employment) and David Wright (Cabinet Office).

Yours sincerely,
Jim Buckley

J BUCKLEY



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273 4253

Switchboard 01 273 3000

17 September 1981

P D Jones Esq
Council of Civil Service Unions
19 Rochester Row
LONDON SW1P 1LB

Dear Peter

CIVIL SERVICE PAY

Thank you for your letter of 16 September 1981.

For the record I enclose a copy of the Press notice on "Public Expenditure Planning: Cash Factors" issued by the Treasury last Tuesday.

As to your question about the effect, if any, this announcement will have on the Government's assurances to the Civil Service unions about next year's pay settlement I should perhaps recall what those assurances are:-

- a. In a letter dated 6 May 1981 to the Secretary General of the Council of Civil Service Unions the then Lord President of the Council said "naturally the cost of the settlement will be a factor in next year's negotiations. But I repeat my assurance that the Government will be prepared to enter into negotiations without a pre-determined cash limit. There will be room for genuine negotiations".
- b. And in a letter dated 17 July 1981 to the Secretary General of the Council of Civil Service Unions my predecessor, Gordon Burrett, said, with the authority of Ministers, "Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserve the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy".

I can confirm that both assurances are unaffected by Tuesday's announcement.

Yours sincerely

P Le Cheminant

P LE CHEMINANT

COUNCIL OF CIVIL SERVICE UNIONS

130.72

19, ROCHESTER ROW · LONDON SW1P 1LB · Tel: 01-828 2727-9

Secretary General:
W. L. KENDALL

Secretary:
P. D. JONES

Assistant Secretaries:
B. G. SUTHERLAND HELEN E. HUGHES

16 September 1981

P Le Cheminant Esq
Civil Service Department
Whitehall
London SW1A 2AZ

Dear Peter

1982 CASH LIMIT

The Council have noted the Treasury's announcement yesterday of a 4% limit on public service earnings increases in the 1982 pay round.

I should be grateful if you would please let me know what effect, if any, this announcement will have on the Government's assurances to us that negotiations on the 1982 Civil Service pay settlement will be genuine, and that the Government would not set the cash limit for Civil Service pay in advance of these negotiations. As I am sure you will appreciate, we are concerned to establish the relevance of the Treasury's statement to the underlying commitments for our 1982 negotiations and, inter alia, for access to arbitration, if this should prove to be necessary.

Yours sincerely

P. D. Jones

P D JONES

MANAGEMENT IN CONFIDENCE

(Civil Service)
cc Dupied
Vercher
Walter
Reference May
Armed
Force Pay



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938XXXX~~ 218 2111/3

MO 4/4

14th September 1981

Dear Jim,

on previous part

14/9

In your letter of 25th June 1981 to Richard Dykes about London Weighting you said that the Lord President would wish his colleagues to take a strict line in applying London Weighting payments to public sector employees and thinks that any proposal to increase London Weighting by the full amount justified by the indicators should first be put to colleagues generally.

The Ministry of Defence has now prepared its evidence to the Armed Forces Pay Review Body on London Pay for the Armed Forces. This evidence, put forward on a similar basis each year, is based on the formula proposed by the Pay Board in 1974 (Cmd 5660) in which the relative indices in the year up to April (normally published in the Department of Employment Gazette in June) are updated for the AFPRB to consider. A copy is attached.

The Government has taken the view that the commitment to the Armed Forces must stand and my Secretary of State would be grateful for his colleagues' agreement to the evidence going forward. London Pay is clearly within the formal terms of reference of the Review Body, and is part of the process of determining pay in the Armed Forces, whose special nature has already been recognised by the Government. My Secretary of State is in no doubt that any underpayment of London Pay against the formula would be seen by the Armed Forces as inconsistent with the Government's commitment to meet the award of the AFPRB.

I am copying this letter to the private secretaries of members of 'E'.

Yours sincerely
Nick Evans

(N H R EVANS)

J Buckley Esq

MANAGEMENT IN CONFIDENCE

1981 PAY REVIEW - LONDON PAY

(Paper by the Ministry of Defence for the Armed Forces Pay Review Body)

1. As the Review Body will be aware, London Pay for the Armed Forces is based on the formula proposed by the Pay Board in their Report Cmnd 5660. The current calculated annual rates together with the actual daily rates at present in issue are given below:

	<u>Inner London</u>		<u>Outer London</u>	
	<u>£pa</u>	<u>(£ daily)</u>	<u>£pa</u>	<u>(£ daily)</u>
Basic Rate	450.87	(1.24)	251.77	(0.69)
Owner Occupier Rate	710.49	(1.95)	365.86	(1.00)

2. The Department of Employment Gazette for June 1981, Volume 89, No 6, has now been published giving changes in the relevant indices up to April 1981 and calculations based on this information in the same form as presented on previous occasions are shown at Attach 1. Details of the numbers in receipt of London Pay together with the current and proposed costs are shown at Attach 2.

3. The MOD proposes that the Review Body should recommend the increased rates of London Pay shown at Attach 1 for implementation from 1 April 1981. The Civil Service Department and other Government Departments have been consulted in the preparation of this evidence.

UPRATING OF LONDON PAY - DETAILED CALCULATIONS

The Calculations shown below reflect the Guidance in Appendix VI of the Pay Board Report

Formula: 1974 Difference $\times \frac{\text{Index}}{100}$ \times Basic Rate of Tax $\frac{100}{70}$ (except wear and tear)

		<u>ALLOWANCE</u>	
		<u>Inner</u> £	<u>Outer</u> £
(i)	Other Costs 54 $\times \frac{298.5}{100} \times \frac{100}{70}$	230.27	230.27
(ii)	Wear and Tear 105 $\times \frac{275.4}{100}$	289.17	
	24 $\times \frac{275.4}{100}$		66.10
		-----	-----
		519.44	296.37
		-----	-----
(iii)	Housing 95 $\times \frac{196.9}{100} \times \frac{100}{70}$	267.22	
	54 $\times \frac{144.5}{100} \times \frac{100}{70}$		111.47
		-----	-----
	Total of (i), (ii) and (iii)	786.66	407.84
		=====	=====
		£pa	£pa
		(£ daily)	(£ daily)
	Therefore new basic rate:	519.44	296.37
		(1.42)	(0.81)
	Owner Occupier Rate:	786.66	407.84
		(2.16)	(1.12)

NUMBERS CURRENTLY IN RECEIPT OF LONDON PAY AND COSTS

	<u>INNER LONDON</u>		<u>OUTER LONDON</u>		<u>Totals</u>
	<u>Basic Rate</u>	<u>Owner Occupier Rate</u>	<u>Basic Rate</u>	<u>Owner Occupier Rate</u>	
<u>Numbers</u>					
RN	1,046	124	988	143	2,301
ARMY	3,474	622	3,581	222	7,899
RAF	794	621	3,291	380	5,086
	<u>5,314</u>	<u>1,367</u>	<u>7,860</u>	<u>745</u>	<u>15,286</u>
<u>Current Costs (£M)</u>					
RN	0.474	0.088	0.249	0.052	0.863
ARMY	1.572	0.443	0.902	0.081	2.998
RAF	0.360	0.440	0.829	0.139	1.768
	<u>2.406</u>	<u>0.971</u>	<u>1.980</u>	<u>0.272</u>	<u>5.629</u>
<u>Revised Costs (£M)</u>					
RN	0.542	0.098	0.292	0.058	0.990
ARMY	1.801	0.490	1.059	0.091	3.441
RAF	0.412	0.488	0.973	0.156	2.029
	<u>2.755</u>	<u>1.076</u>	<u>2.324</u>	<u>0.305</u>	<u>6.460</u>

Therefore Additional Cost: £6.460M - £5.629M = £0.831M



01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE,

LONDON, WC2A 2LL

11 September 1981

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

cc David
Walters
Veneke

Dear Christopher.

NSM.

RS.

11/18

INQUIRY INTO CIVIL SERVICE PAY - THE "ISSUES" MEMORANDUM

I have seen a copy of the draft Memorandum circulated on
3 September.

inside keepip folder

I have some comments in relation to future arrangements for
determining the pay of lawyers in the Civil Service.

While I have no direct Ministerial responsibility for the
Legal Groups, I do of course have a very substantial interest
as head of the Bar in matters which affect barristers in the
Civil Service (who form a majority of Government lawyers),
including their terms and conditions of service. And since
there is little functional difference between barristers and
solicitors in the Civil Service, in practice that interest
must extend to the Legal Groups as a whole. As the Government's
Legal Adviser I also have to rely heavily on the services of
lawyers in the Civil Service, in my own Department and elsewhere
in Whitehall, and naturally have an interest from this angle,
particularly from the point of view of recruitment of suitable
candidates for what is a very demanding job. This is especially
important when the able lawyer in private practice is earning
a substantial income.

In this context two statements are made in the draft which seem
to me to be crucial and to need amplifying in the case of
lawyers in the Civil Service, and probably (though this is not a
matter for me) in the case of all Civil Service Groups where

/employees

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01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

- 2 -

employees are required to have some professional skill or qualification. The two statements are as follows:

A. Paragraph 6

"In negotiating any new system the Government will be seeking a means of arriving at rates of pay which are adequate but not excessive, to recruit, retain and motivate sufficient numbers of staff of satisfactory quality."

B. Paragraph 10(b)

"Comparisons need to be as representative as possible".

To the extent that the Inquiry recommends a continuance of structured pay comparisons, proposition A will not in my view be achieved in future unless proposition B is implemented to the full. In the case of lawyers in the Civil Service, the only group with which I am concerned - but it may also be so in the case of other professional groups - I do not think this can be realised without substantial changes in the system for fixing pay which has been used since the Priestley Commission reported in 1955. It is on this problem that my comments on the draft are addressed.

You will be aware that the pay of lawyers has traditionally been fixed by a system of "linkages" (as described in paragraphs 6.15 - 6.19 of the Factual Background Memorandum now sent to the Committee). There have been no specific comparability exercises in respect of the pay of lawyers outside the Civil Service, whether in the public or private sectors and whether employed or self-employed (solicitors in partnership or barristers in private practice).

/To

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LONDON, WC2A 2LL

- 3 -

To my mind this was an inherently unsound system which ought not to be allowed to continue in future. I am of this view for three main and largely interconnected reasons -

- (i) it caused the approximation of pay scales for Civil Service lawyers to pay scales of other categories of Civil Servant (principally the higher levels of the Administration Group) with whom there is little real comparison in terms of the nature of the duties or the qualifications required to perform them;
- (ii) in consequence proper account could not be taken in fixing pay scales of the specific character of lawyers' work and the very high level of professional competence that is often required to ensure that the legal work is done properly; and
- (iii) in particular, insufficient regard was had to the levels of income of lawyers in private practice where the measure of the best talent is found.

I believe that research has been carried out from time to time, outside the PRU framework, on the pay of employed lawyers elsewhere, and it may be that the results have been used in fixing the internal pay links; but I think this falls far short of what is needed to meet the proper objectives in future.

I attach as an Annex to this letter, two passages which I suggest be added to the "Issues" Memorandum to reflect these points. They have been drafted in general terms to avoid the imputation of any special pleading on behalf of lawyers, which is the last thing I intend.

/The

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01-405 7641 Extn

ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

- 4 -

The drafting admits the possibility of these considerations being applied to other categories of professional staff.

With these qualifications I am entirely in agreement with the main lines of the draft and naturally I recognise that the pay of lawyers, with that of all Civil Servants, must be subject to the more general constraints described in paragraphs 5-8 of the draft.

I shall be available to discuss these matters if you so wish. The additions I have suggested will be enough to bring the issue to the Committee's notice, but it will also be important to focus upon them in any more detailed evidence the Government gives to the Committee.

I have copied this letter and the Annex to the Prime Minister and all members of her Group, and to Sir Robert Armstrong. I have also sent copies to the Lord Advocate, as he will be interested on behalf of the Scottish Legal Group.

Yours ever
Michael.

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ANNEX

Additional Passages suggested for the "Issues" Memorandum

Add new paragraph 6 as follows:

"The Government is also aware that under any new system there may have to be greater recognition than hitherto of the value and high cost of professional skills of a quality sufficient to meet all the demands now being made of the Civil Service."

Add new paragraph 10 c. as follows:

"Should outside analogues be restricted to the pay of employees"?

"Under any future system of analogues the remuneration of the self-employed could only be relevant in a small number of cases. But in these cases such analogues would be essential: for example the pay of certain professional groups, such as lawyers and accountants, could not be determined on a proper and fully representative basis without regard to the income levels of private practitioners engaged in broadly similar work, as well as to that of employed professionals outside the Civil Service."

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From the Private Secretary

*cf Venerable
David
Walter*



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

11 September 1981

Jane Swift
Private Secretary to the
Chief Secretary
Parliament Street
LONDON
SW1P 3AG

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Dear Jane,

PAY AND PRICE BILATERAL

We had a word about the record of the Chief Secretary's meeting on 8 September. As I mentioned to you immediately after the meeting the Lord President attaches importance to what he and the Chief Secretary agreed would need to be said about the assurances given to the Civil Service Unions.

We shall ~~be~~ undoubtedly ^{be} asked whether the announcement of the pay factor in any way compromises what we have said to the unions about civil service pay. The Lord President told the Chief Secretary - and the Chief Secretary agreed - that he would have to make it plain publicly that the announcement in no way cut across or compromised what we had already told the unions.

I would be grateful if this note could be read together with your minute of the meeting and if you would bring it to the Chief Secretary's attention.

Copies go to John Kerr (Treasury), Tim Lankester (Number 10) and David Wright (Cabinet Office).

Yours sincerely
Jim Buckley
J BUCKLEY

CONFIDENTIAL



DEPARTMENT OF EDUCATION AND SCIENCE
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 TELEPHONE 01-928 9222
 FROM THE SECRETARY OF STATE

cc J. Vereker
 A. Duguid
 A. Walters

E G M Chaplin Esq
 Private Secretary
 Civil Service Department
 Whitehall
 LONDON SW1A 2AZ

L
 10 September 1981

Dear Edward,

INQUIRY INTO CIVIL SERVICE PAY

Thank you for sending me a copy of your letter of 18 August to Tim Lankester.

Mr R W J Mitchell has been nominated to act as primary contact point and will receive papers for this Department. His name has been given to Mary Brown and he will copy to her any letters we receive from the Inquiry, or related to it, and drafts of any material we may wish to submit to the Inquiry, as you request.

I note that Departments other than those represented on the group which is to serve as a vehicle for departmental consultation at official level will be invited when matters of direct concern to them are at issue, I assume that this intention covers, amongst other things, the implications for other public service pay groups of material going to the Inquiry; in which we have of course a large interest.

I am copying this letter to the Private Secretaries to all members of the Cabinet, other Ministers in charge of Departments, the Attorney General and Sir Robert Armstrong.

Yours sincerely
Peter Shaw

P A SHAW
 Private Secretary

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cc HIT
ED
MOD
DASS
CO
bc MR VERREKOR

MFB/JFH

SUBJECT

cc to Master Set



10 DOWNING STREET

From the Principal Private Secretary

10 September 1981

See Jim,

INQUIRY INTO CIVIL SERVICE PAY : THE "ISSUES" MEMORANDUM

The Prime Minister held a meeting this morning with the Lord President, the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Defence and the Secretary of State for Social Services to discuss evidence for the Megaw Committee. Sir Robert Armstrong and Mr Gregson were also present. The meeting had before it your letter of 3 September to Willie Rickett, enclosing a draft "issues" paper; Richard Dykes's letter of 8 September to Willie Rickett; and the Chancellor of the Exchequer's undated minute to the Prime Minister.

Affordability

The Lord President said that he thought that the main difference between him and the Chancellor of the Exchequer on the question of what was said about affordability in the memorandum was a matter of degree rather than of principle. Under the old pay system no account of what the Government could afford was taken into account when data were being collected by the pay research unit. This defect had some times led to situations where there was a wide difference between the level of pay settlement indicated by the data and what the Government could afford. It was important that whatever replaced the old system provided for affordability to be brought into the reckoning early on. But it was not the only factor but was one of several. Nor should the figure for what the Government could afford be immutable: it might well have to be changed somewhat in the light of the other factors which would have to be taken into account in any new system. He thought that these considerations could be brought out satisfactorily in the evidence for Megaw with a certain amount of redrafting of the memorandum.

The Chancellor of the Exchequer said that he agreed that affordability was not the only factor to be taken into account in the new process for determining pay and that it could not be expressed as an immutable cash limit. But his fear was that there would be a natural tendency on the part of the Megaw Committee to end up by recommending what was in effect a revamped version of the old system. Such an outcome might well lead to the Government being presented with results from the new process which it could not afford. Put slightly differently, Megaw might well design a system which produced an automatic answer which the unions would regard as an

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entitlement. To prevent the committee falling into this trap it was essential that the Government explained to them the importance of affordability and exposed to them their worries about what might result if affordability was not given its appropriate weight. This was why he had redrafted paragraphs 4, 7, and 8 of the "issues" paper.

In discussion there was general agreement that the new system must produce facts and figures which could be set alongside what the Government could afford but it should not recommend rates of pay or make a judgment in some other form about levels of pay. At what precise point the new process of pay determination should take account of affordability was a difficult question. If the affordability factor was brought into play too early, it might be exhausted quickly and then not be available for use later in the final and decisive stage of settling a pay claim. This suggested that the first sentence of the Chancellor's redrafted paragraph 8 of the memorandum went too far towards making affordability an integral part of the new process. Moreover, we should take care not to put so much emphasis on affordability that the unions simply refused to accept it as a key factor and opted for free collective bargaining. On the other hand, we did not want a new process which ignored affordability in the way the old one had done. The Government should bring out clearly in its evidence to Megaw its concerns about affordability and should invite the committee to offer a view on how and at what point in the pay determination process affordability should be taken into account.

Arbitration

The Secretary of State for Social Services said that paragraph 9(f) of the draft "issues" memorandum raised the difficult question of the future role of arbitration. There were two options. Either the Government could subscribe to a system of arbitration but retain the right to refuse to go to arbitration. Or the Government should be ready to undertake to go to arbitration but should reserve its right to invite Parliament to approve the setting aside of the arbitration award. He did not believe that the Government could seek arbitration arrangements which combined both of these options. It had to choose between them.

The Lord President said that he agreed that the Government could not have an arbitration system which gave them both options, and of the two of them he believed that sounder protection for the Government would be provided if they chose to agree to participate in an arbitration system but to reserve the right not to accept its findings.

The Prime Minister said that she was not convinced that the second option was the more favourable. It was very difficult to refuse the findings of an arbitration process. Moreover, in purely practical terms there was a real limit to the number of cases the Government could take to Parliament in order to have the arbitration

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/award

award overturned. These arguments led her to believe that the first option might be preferable. In any case, whichever course was adopted, it was essential that the Government should have freedom to appoint the arbitrators.

In further discussion it was pointed out that it would be better presentationally for the Government to use its final override after arbitration rather than to exercise it at an earlier stage by withholding access to arbitration and to be able to say there were clear and compelling reasons why it could not accept the arbitration award and it was necessary to ask Parliament to set the arbitration findings aside. The Government's evidence to Megaw should bring out the problem of arbitration and the choice of courses which could be followed. In doing so we should be careful not to give the committee the feeling that the Government was looking to them to recommend a system which, with all the necessary camouflage, allowed the Government to settle Civil Service pay by fiat. On the other hand, it was pointed out that there was probably little risk of the committee doing that, since it would be natural for them to want to produce a system which the unions would accept. Indeed, there was a danger that if the Government gave away too much ground now, we should never be able to retrieve it.

Other Points

In further discussion the following additional points were made:-

- a) Paragraph 4(a) should also bring out that a major reason why the old system had been overridden or implemented only after delay in nine out of the last fifteen years was that in many of those years incomes policies had been in operation.
- b) The Chancellor's redraft of paragraph 4(a) should make it clear that it was not only the Government that lacked confidence in the old system but the general public too.
- c) The private sector had never really accepted the Priestley concept of parity for Civil Service pay. They had always believed that their pay should have a lead over public sector pay to take account of such factors as lower job security. As it was, the Priestley system led to circularity of pay settlements: as fast as the public sector caught up with the private sector, the private sector restored its lead and so triggered off the next round of catching up. If the new process of pay determination which would flow from Megaw took account of all the relevant factors, this should allow the private sector to maintain a lead over the public sector.

/d) There was

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- d) There was much less movement in and out of the Civil Service than there was in and out of industry and it was therefore not easy to draw valid comparisons between quit rates for the Civil Service and those for industry. On the other hand, if Civil Service pay rates got markedly out of line with those in industry, the quit rates should show this up. One reason why the Civil Service attracted relatively more high fliers than industry was that it offered not only job security but also high pay; and this too was something that needed to be brought out for Megaw.
- e) Paragraph 11(e) of the draft "issues" memorandum touched on regional pay. This was an important question for some Departments, and it was hoped that Megaw would look at it carefully.
- f) It was agreed that the penultimate sentence of paragraph 10(f) of the draft memorandum should be omitted, as suggested by the Secretary of State for Employment.
- g) Megaw was inviting individual Departments to submit evidence, and there was a clear need that Departments' responses should be co-ordinated. Arrangements for this to be done had already been made.

Next Steps

The Prime Minister said that the Cabinet Office should now revise the draft "issues" memorandum in the light of the discussion and should circulate it to those Ministers present for their approval. They should also ensure, in conjunction with the CSD, that Departments' evidence was cleared by Ministers before it was submitted to Megaw.

I am sending copies of this letter to John Kerr (HM Treasury), Richard Dykes (Department of Employment), David Omand (Ministry of Defence), Don Brereton (Department of Health and Social Services) and David Wright (Cabinet Office).

Yours etc,

Alvin L. Shinn.

Jim Buckley Esq
Lord President's Office.

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Ref. A05482

PRIME MINISTER

Inquiry into Civil Service Pay: "Issues" Memorandum

The meeting will have before it the draft "Issues" memorandum circulated by the Lord President's office on 3 September and the Chancellor's minute to you of 9 September proposing a redraft of paragraphs 4, 7 and 8 of the memorandum.

HANDLING

2. You will wish to invite the Lord President's comments on the Chancellor's redrafts. He is likely to accept the Chancellor's redrafts as a basis for discussion and go on to make three points:

- (a) There are a few factual corrections which can be agreed by officials.
- (b) In one or two places the draft may be unnecessarily provocative and should be softened without altering the substance.
- (c) There is a major issue of principle raised in the Chancellor's paragraphs 4(c) and 8 about the concept of "affordability" and the way in which it should be brought into the system.

3. There ought to be no difficulty in reaching agreement on (a) and (b), and the main issue for discussion is, therefore, "affordability". The Chancellor attaches great importance to making Civil Service pay negotiations more like pay negotiations in the private sector. The Lord President is, however, likely to argue that the Chancellor's proposal is at variance with the Government's wish to have agreed settlements as a general rule and to take adequate account of recruitment and retention needs. He may fear that the Chancellor is seeking to inject into the pay negotiations every year a finite figure of what the Government can afford based purely on financial and macro-economic considerations and that this figure is meant to be a factor which takes automatic precedence over information on recruitment and retention and on wages and salaries outside the Civil Service. This would be in addition to the powers to "override" from time to time in exceptional circumstances.



4. Discussion may show that the Chancellor is seeking something less rigid. He may be concerned only to ensure that at an early and influential stage in the process the Government has an opportunity to feed in a view of what it ought to pay, taking account of all relevant factors (managerial as well as financial and macro-economic). This would counterbalance the other material but would not automatically take precedence over it and would be provisional rather than finite. If this is what the Chancellor wants, the Lord President may be able to reach agreement in principle with him but may suggest that the wording of the Chancellor's proposed paragraphs 4(c) and 8 needs to be amended.

5. If this is the outcome, you may wish to suggest that the Cabinet Office should, in consultation with the Treasury and CSD, prepare a redraft of the disputed passages to reflect Ministers' wishes. That is likely to be acceptable to the Chancellor and the Lord President.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

9 September 1981

Clegg -
Litchamsted

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Copies to Mr Verdon
Mr Duguid

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

Prime Minister

PRIME MINISTER

As expected, the Chancellor's critique of the draft "issues" paper concentrates on the need to give prominence to "affordability" in any new pay system.

INQUIRY INTO CIVIL SERVICE PAY : THE "ISSUES" MEMORANDUM

I have seen a copy of the draft "issues" paper enclosed with the letter of 3 September from the Lord President's Private Secretary to yours. fix

2. It seems to me that the paper seriously fails to explain why we think the Priestley system has proved so very unsatisfactory and what we think the task facing the Megaw Committee really is. The Committee needs much clearer guidance from us about the fundamental problems. The draft misses a number of crucial points.

(a) It makes virtually no reference to the key consideration of the availability of finance or "what can be afforded". When the CBI saw me last week, they told me that they regarded it as essential that any new pay system following the Megaw Inquiry should take full account of this factor - as, of course, any outside employer must. I accept that what can be afforded has rather different meanings for the Government and for private employers; but that does not imply that it is any less important in the case of the Government. We must get it before the Inquiry as a central issue.

(b) The draft does not sufficiently recognise the point I made in my minute of 6 August, that the question of what can be afforded must be brought

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in at a formative stage, as an integral part of the system, and not as an extraneous reason for eventually overriding the results which the system generates.

- (c) It does not sufficiently bring out that market tests, such as recruitment and retention, are measures of reality which is primary, and comparability is only a guide to, or an imperfect proxy for, such tests. For every private employer probably the most important market factor are the likely limits of his cash resources.

3. I suggest therefore that paragraphs 4, 7 and 8 of the paper - at least - will need to be redrafted, on the lines of the attached Annex. These suggestions have been quickly put together (and may well not be enough), but I hope they give colleagues some insight into my deep anxiety about the whole flavour of the present text.

4. It may well be that we shall need to discuss these matters. If so, I think that we might also exchange views about paragraph 9 of the draft (the role of arbitration). This is less explicit than the synopsis we agreed in July, though it is probably not incompatible with the synopsis. The natural inclination of an Inquiry under the chairmanship of a distinguished judicial figure will be to assume that if the Government agrees to go to arbitration it should be obliged to accept the results; and if we wish it to reach a different conclusion, I think we shall need to say so explicitly. This is, of course, another reason why any fact-finding or arbitral process should not override, or be blind to, the fact that money may simply not be available.

/I am

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5. I am sending copies of this minute to the Lord President, the Secretaries of State for Employment, Defence, and Social Services, the Attorney General and Sir Robert Armstrong.

Peter Jenkins

for G.H.
September 1981

(Approved by the Chancellor of the Exchequer and signed in his absence).

Suggested redraft of paragraph 4

The Committee will wish to know why the Government believes that the system derived from Priestley should now be brought into question. There are four main reasons.

- (a) Whatever its abstract merits, the Priestley system has not in practice worked well in recent years. In nine out of the last fifteen years the system has been over-ridden or implemented only after delay. This in itself is an indication that the system is intrinsically unsatisfactory: on more occasions than not it does not provide a means of solving the problem of pay for the Civil Service. This is partly because economic circumstances have changed since the mid-1950s, when inflation was not a serious problem and pay increases indicated by the system were generally modest. It is also because of some characteristics of any such system. There are two particular defects. First, a system based on comparability is almost bound to be "backward-looking" and so likely to generate increases which may be out of line with increases taking place elsewhere in the economy at the time. This poses particular problems at a time when the national interest requires a substantial reduction of inflation and inflationary expectations. And second, because any such system tends to establish expectations of entitlement to an increase in pay - but does nothing to take account of the fact that the cash allocations to meet these expectations cannot reasonably be made available
- (b) An essential test of a pay system must be the market: does the system generate the pay rates, no less and no more, required to recruit, retain and motivate the appropriate number of staff of the right quality? In the post-Priestley system this is a subordinate element. It is assumed, in effect, that the pay rates indicated by "fair comparisons" are a reasonable proxy for the market. But it is increasingly

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questioned whether the system provides an an adequate reflection of market rates of pay. It has tended to insulate government employees from the facts of life as they exist in the private sector, partly because intangibles such as job security, which cannot be easily reduced to a cash value, are under-rated. The Government believes that, as part of the system of pay determination, there should be a systematic analysis of statistics of recruitment and wastage to determine whether pay rates are in line with the market for each particular type of labour or not. "Fairness" to employees, if it means paying more than the going market rate, is unfair to the taxpayer.

- (c) The truth is that we live in a world in which rapid economic changes - for example drastic changes in the price of oil - may require equally rapid and often harsh reaction. In such a setting "fairness" - certainly desirable - may not always be sustainable. Trading concerns have to react to such circumstances by laying off employees, or by acknowledging that no pay increase at all is possible. The public sector cannot expect to insulate itself from such changes by relying upon its power, in the last resort, to tax the wealth creating sector. Above all, the question of availability of finance and what can be afforded are treated as secondary in the post-Priestley system and introduced, if at all, only as reasons for over-riding the system and not as part of it. Outside Government, the ability of the employer to pay is inevitably a crucial part of the process of determining pay. It is true that the question of the Government's ability to pay involves judgements which are different from those which have to be made by private sector employers and often more complex. But the question is no less important for the Government for that reason. It involves the interests of every taxpayer and the economic health of the country.

Clearly these must be an integral part of the processes of determining what pay should be. A system which ignores these facts and appears to generate pay rates which are in some abstract sense "correct" is artificial and unreal. It has been said in the past that "the system having willed the ends must will the means". This, too comfortable, insight rests upon the mistaken belief that there is no limit, practical or theoretical, to the means that can sensibly be made available.

- (d) Even on its own terms, the old comparability system no longer commands confidence that it gives truly "fair" results. In the Government's view it is questionable whether comparisons were made with the right outside analogues; whether the wider problem of "circularity" was not compounded by the use of public sector analogues; whether, given the growth of fringe benefits in the private sector, the valuation placed on them had not become too detailed and mechanistic; whether adequate allowance was made for the benefit to civil servants of index-linked pensions; and whether the methods used to evaluate pay research evidence, and to bring it up-to-date as a basis for negotiation, were justifiable.

Suggested redraft of paragraphs 7 and 8

7. At the same time, the Government strongly believes that it would be undesirable for any new arrangements to give rise to a presumption of an automatic entitlement to rates of pay based on pay comparisons without adequate regard being paid to other relevant considerations, including the Government's duty to control public expenditure and to manage the economy in the interests of the population as a whole.

8. This means that any new system must take full account of the availability of finance, and as an integral part of the process, not merely as an extraneous factor to be brought in when the system has completed its operations. In addition, the Government must retain the right, in the last resort, to decide whether on

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any particular occasion the wider national interest should take precedence over the operation of any system, however well constructed. But the Government believes that a system giving full weight to all relevant factors should make it possible for agreed settlements to be the general rule, and for resort to "override" to be necessary, if at all, only in exceptional circumstances.



Caxton House Tothill Street London SW1H 9NA

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GTN 213

cc J. Verker
A. Duquid.
A. Walters.

William Rickett Esq
Private Secretary
10 Downing Street
LONDON SW1

8 September 1981

Dear Willie,

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES" MEMORANDUM

My Secretary of State ^{TDW} has seen the draft attached to Jim Buckley's letter to you of 3 September. He is generally content with the draft but has two comments on paragraph 10(f). Firstly, he believes that the juxtaposition of the second and third sentences might be taken to imply that the Government do not regard the Office of Manpower Economics as independent of management and unions; and that the paragraph should be re-drafted to avoid this risk. Secondly, he finds it difficult to see why any new agency should be required if its role was to provide information only to management. Surely this role could be performed by the CSD. He suggests therefore that the question posed in the penultimate sentence should be omitted.

Copies of this letter go to the recipients of Jim Buckley's letter.

Yours etc
Richard Dykes

R T B DYKES
Principal Private Secretary

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MR WHITMORE

cc. Mr. Hoskyns

The "Issues" Memorandum for the Megaw Enquiry

You asked for my comments on the draft memorandum enclosed with the letter of 3 September from the Lord President's office, and specifically whether there would need to be collective ministerial discussion.

The "issues" paper is a rather good draft, based on an expansion by Peter le Cheminant - in his capacity as Gordon Burrett's successor in the CSD - of Robert Armstrong's synopsis of the issues which was agreed by Ministers at the beginning of August. The draft was discussed among officials during August (in my absence) and reflects agreement at that level. But it has been slightly changed by the Lord President, and it is known that some Ministers - notably the Chancellor - may well have views of their own. And, of course, the Prime Minister herself has not yet had an opportunity to say what she thinks about the issues, save to the extent that we all went over the ground in the course of a rather unsatisfactory meeting of Ministers in the House of Commons on 15 July.

There are four areas where discussion may be needed:-

Affordability

Treasury officials have made it clear all along, even from the time last Easter when we were endeavouring to construct a new pay system without the benefit of the Megaw enquiry, that the Chancellor regarded the most important criterion of any new system to be the need to ensure that the Civil Service pay it produced could be afforded by the country as a whole. The draft of the issues paper agreed by officials did say something to this effect; in the version as amended by the Lord President, paragraph 8 does not go as far as the Chancellor would wish. And we know from the letter just circulated by the Chancellor's office (copy attached) that the Chancellor will insist on this point being reflected in the issues paper.

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/Committal

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Committal

Another long standing and fundamental difference of approach between the Treasury and the CSD is the question reflected in paragraph 9a of the draft paper - the extent to which the new pay system is a highly structured one, producing a factual analysis leading to pay increases, rather than a less structured and more procedural agreement under which both parties would be free to bring in such evidence as they wished, before engaging essentially in free collective bargaining. The Chancellor is known to be vigorously opposed to a structured and committed system, because he believes that it will tend to generate pay increases greater than the country can afford. Everyone else, myself included, believes that the Chancellor's approach would lead us into repeated bouts of industrial action, and that the Magaw enquiry has been set up precisely to establish a system which will generate reasonable pay figures subject to an ultimate Government override.

Arbitration

The arbitration arrangements will also be controversial, since they lie at the heart of the Government's ability to determine the outcome. There are many different possible formulae, and it is likely that Mr. Prior, who holds strong views on the subject (and the Department of Employment generally regard themselves as the guardian of arbitration doctrine) will want to provide more specific guidance to the enquiry than that contained in paragraph 9f of the draft.

Pay as a determinant of Civil Service quality

You will recall that when the Magaw enquiry was set up we insisted that the terms of reference reflected the advice of the Priestley Commission to the effect that decisions on pay rates could not be made save in the context of wider issues such as structure, grading, complement, training and promotion. There is a considerable danger that the evidence provided by the Government will concentrate on the direct pay issues, with these wider but possibly more important questions relegated to a second tier of decisions, as in paragraph 11 of the draft. I

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/think

think we should encourage the Inquiry to see the motivating effect of pay as being one of the main reasons for constructing a new system, and therefore reflect it in paragraph 4 of the draft; and to regard some of the issues in paragraph 11 - notably merit pay/automatic increments, productivity bargaining and no strike agreements - as being on a par with the other issues to be addressed. John Hoskyns will be considering, when he comes back from leave, the desirability of separate evidence to the enquiry from the Policy Unit, which would be entirely in order since the enquiry is inviting separate evidence from a number of Government Departments.

I conclude that collective ministerial discussion of this paper will almost certainly be necessary, although we probably ought to see the Chancellor's comments before deciding firmly. I also think the issues are sufficiently difficult to make it preferable not to squeeze a meeting into next Thursday morning: I understand that both the Lord President and the Chancellor will be available in the first half of the following week, but of course you will have to consider the implications of any possible Cabinet changes on the timing of ministerial discussions.

Prime Minister.

I am sure that the Lord President's paper needs to be strengthened on such key issues as affordability and to be given greater

4 September 1981

I think it would be better if we delayed this meeting. It is important to get the right paper.

balance as between purely pay issues and non-pay matters; and I would expect the Chancellor to say so in his comments (which I have asked for as early as possible next week).

I think a meeting is certainly to be needed to agree upon the necessary changes to the paper; and I believe we should try to start to next Thursday morning (when as much as 1 1/2 hrs are available). We

do not want meetings that can be held next week to slip to the following week - for Minister's terms. Agree? John 4ix

*Angus
J Verbeke*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 3 September 1981

Miss L Butcher
Civil Service Department*N&M**ML
Aix**Dear Miss Butcher,*

MEGAW INQUIRY: DRAFT FACTUAL BACKGROUND MEMORANDUM

Thank you for sending me a copy of your letter of 28 August to Tim Lankester.

The Chancellor is content with the draft factual background memorandum. He has, however, commented that it will be necessary to put in further material covering in a good deal more depth such matters as:

- (a) relative pay movements in the Civil Service and outside employment over the last 10-15 years;
- (b) recruitment and retention;
- (c) job security.

He gathers that this has been agreed in discussions at official level, and on that understanding agrees that the Lord President should go ahead as he proposes.

The Chancellor notes that it will surely be essential to take the earliest opportunity to emphasise to the Inquiry the necessity of establishing a system of pay determination which produces results consistent with what the country can actually afford; the system we have had has itself contributed substantially to the problems the Government face in restraining the burdens the public sector places on the rest of the economy, and in trying - without imposing a rigid incomes policy - to reduce inflation and rate of growth of labour costs. The members of the Committee should be in no doubt, from the inception of their work, that they will have to confront these fundamental questions. No doubt these points will be fully covered in the issues paper which the Chancellor understands the Lord President will be circulating shortly for consideration by his colleagues.

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

*Yours sincerely**John Wiggins*A J WIGGINS
Principal Private Secretary

CONFIDENTIAL



cc J. Rickett
A. Walker
A. Duguid

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

3 September 1981

Willie Rickett Esq
10 Downing Street
LONDON
SW1

WR / TL OK.

Dear Willie,

INQUIRY INTO CIVIL SERVICE PAY: THE "ISSUES" MEMORANDUM

Thank you for your letter of 2 September to Linda Butcher. We will now send the "factual" memorandum to Sir John Megaw and his Committee.

I now enclose for you, and the Private Secretaries to the other members of the Prime Minister's Group, a draft "issues" paper for Megaw. This follows closely on the already agreed 'synopsis' and has been produced in consultation with officials of the Departments most concerned. It goes without saying, however, that the co-operation of departmental officials in its production in no way commits their Ministers to it. The text in its present form is also being made available to officials in all Departments so that they can, as they think necessary, consult their Ministers about points of importance to them. Finally may I remind you that Sir John Megaw would like, if at all possible, to have this paper available to his Committee by mid-September.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment, Defence and Health & Social Security, the Attorney General and to Sir Robert Armstrong.

Yours sincerely,
Jim Buckley.

J BUCKLEY

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GOVERNMENT EVIDENCE TO THE COMMITTEE OF INQUIRY INTO CIVIL SERVICE PAY

FUTURE PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL HOME CIVIL SERVICE

Introduction

1. The Committee of Inquiry into Civil Service pay has asked* for "a memorandum setting out the main issues you believe the Committee should tackle and any views on them which you wish to place before the Committee". This memorandum is a first response to that request.

Background

2. About 7½ million people are employed in the public sector of the United Kingdom economy (broadly the nationalised industries, local authorities, National Health Service, the Civil Service and the Armed Forces of the Crown). Within this total the Government is directly responsible for the pay and conditions of service of some 690,000 civil servants (of whom 150,000 are industrial civil servants), some 323,000 members of the Armed Forces, and some 1.2 million employees of the National Health Service. The methods used to settle pay throughout the public sector vary. They reflect both the history and the particular nature of the service or industry concerned.

3. The factual background memorandum already submitted to the Committee by the Civil Service Department (Chapters 5-7) describes the arrangements for pay determination in the non-industrial Home Civil Service (which is the subject of the present inquiry) and their historical development. The pay determination system for the bulk of this service was embodied in formal Pay Agreements, negotiated with the unions, from which the Government has now withdrawn. The system derived from the recommendations of the Royal Commission on the Civil Service ("Priestley") which reported in 1955. The Committee will no doubt wish to study that report in detail. Its main conclusion was that the primary principle governing Civil Service pay should be "fair comparison" with the current remuneration of outside staffs employed on broadly comparable work, taking account of differences in other conditions of service.

Why a new system?

4. The Committee will wish to know why the system derived from Priestley should now be brought into question. There are four main reasons:-

- a. The Priestley Commission reported 25 years ago in economic circumstances very different from those which now obtain. In the mid-fifties there was near full employment

* In a letter from the Chairman of the Inquiry, Sir John Megaw QC, to the Lord President of the Council dated 6 August 1981

and a low rate of inflation. In this stable environment the changes in pay indicated by the working of the system were relatively modest and, because inflation was low, did not themselves have, or appear to have, inflationary consequences. In the past decade economic priorities have shifted. Inflation has emerged both as a scourge in itself and as a primary cause of rising unemployment and of the loss of international competitiveness. Successive Governments have sought to combat inflation in a variety of ways including various forms of policy on pay. Whether formal incomes policies have operated or not there have been a number of occasions on which the pay determination system for the Civil Service has indicated pay increases of a size which has conflicted with the objectives of Governments (i) to reduce inflationary pressures through restraint in the size of pay settlements throughout the economy and (ii) to "manage" the economy by means of fiscal and monetary policies. Given the 'backward looking' nature of comparability these difficulties are inherent in periods when the general rate of inflation, and wage settlements, have been falling after a period of increase. They have also arisen in acute form - both as a matter of presentation and of public financing - when large increases have been indicated after periods of pay policy which, whatever their intention, have in practice operated differentially. In consequence successive Governments have felt it necessary from time to time to set aside, or to phase the introduction of, the rates of pay which the system has indicated as appropriate to fulfil the Priestley principles. In short, whatever the merits of the principles on which it has been based, the system has not operated smoothly from the point of view of either Government or employee.

b. The post-Priestley pay research system was seen as an adequate and defensible proxy for the operation of a free market for labour. In recent years however growing doubts have been expressed about whether this system really provided an adequate reflection of the pay levels which would have been in force if market forces had been allowed to operate. Economic circumstances are now very different from those obtaining when the Priestley Commission reported and the old system has tended to insulate Government employees from the facts of life as they exist in the private sector. In particular it is arguable that the old system led to levels of pay for civil servants which were excessive when measured against the basic test of the ability to recruit, retain and motivate adequate numbers of staff of the necessary calibre; that the system undervalued, or ignored, the higher degree of job security attaching to public employment; that questions of the relative efficiency with which jobs were carried out were not brought into the reckoning; and that concentration on 'comparability' in the private as well as the public sector led to a spiral of pay settlements which led on from each other and thus added to inflationary pressure.

c. Quite apart from these broad questions of principle the Government have strong doubts about whether the mechanisms of the old comparability system gave results which were indeed 'fair' even within its own terms of reference. Thus in the Government's view it is questionable whether comparisons were made with the right outside analogues; whether the wider problem of 'circularity' was not compounded by the use of public sector analogues; whether given the growth of fringe benefits in the private sector the valuation placed on them had not become too detailed and mechanistic; whether adequate allowance was made for the benefit to civil servants of index-linked pensions; and whether the methods used to evaluate pay research evidence, and to bring it up to date as a basis for negotiation, were justifiable.

d. Finally, recent developments in both the world economy and that of the United Kingdom have created massive problems of economic management. Governments have always to make difficult choices between public expenditure priorities. Recession and inflation make these choices more difficult. The limited, and in the short run declining, availability of resources has highlighted the reality of the trade-off between pay and jobs in the public services as in the rest of the economy. Any pay system must be capable of taking account of this reality.

Approach to a new system

5. As the Committee's terms of reference make clear, the Government starts from the proposition that there is a substantial public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service; in the orderly conduct of the business of Government and its services to the public; and in the maintenance of good industrial relations in the Civil Service. On the other hand there is an equally clear public interest in the provision of essential public services at maximum efficiency and minimum cost. The Government recognises that in a free society it is not possible in the long term to impose pay and conditions of service by fiat; and that there is an inevitable cost to the Exchequer and to society if pay in sensitive areas is settled by the process of industrial confrontation. It is therefore the Government's intention when the Committee's report is available to seek to negotiate a new Pay Agreement with the Civil Service unions which will be informed by the Committee's findings. In these negotiations the Government will aim to arrive at an ordered and agreed system for determining Civil Service pay which, so far as possible: can endure; provides a sound basis for good industrial relations; is acceptable to the staff concerned; commands the confidence of both Parliament and the public; and takes proper account of broader economic considerations. The Government are under no illusions that it will be easy to reconcile these objectives but they look to the Committee to help them to do so.

6. In negotiating any new system the Government will be seeking a means of arriving at rates of pay which are adequate but not excessive, to recruit, retain and motivate sufficient numbers of

staff of satisfactory quality. The Government recognises that, in the longer term, Civil Service pay rates must bear a reasonable relationship to those of outside employers if serious management problems, including industrial relations difficulties, are to be avoided. The Government also recognises that comparisons with outside rates of pay and conditions of service in comparable employment provide a useful broad indication of what is required for these purposes. Comparability in some form plays a part in pay negotiations in the public and private sector alike. Accurate information about the labour market is a valuable management tool particularly for an employer like the Civil Service which has to recruit and retain a very wide range of employees in a wide variety of locations with different skills, aptitudes and qualifications.

7. At the same time the Government strongly believes that it would be undesirable for any new arrangements to give rise to a presumption of an automatic entitlement to rates of pay based on pay comparisons without adequate regard being paid to other relevant considerations, including the Government's duty to manage the economy in the interests of the population as a whole.

8. This means that the Government must retain the right, in the last resort, to decide whether on a particular occasion the wider national interest should take precedence over the operation of any system, however well constructed. The Government would like to reconcile its procedures for fixing cash limits and the procedures for negotiating Civil Service pay; and would much prefer to operate a system which, if full weight were given to all the relevant factors, and cash limits were set realistically, would make it possible for agreed settlements to be the general rule.

The basic issues

9. In carrying out its remit to make recommendations on the system by which the remuneration of the non-industrial Civil Service should be determined there are a number of important general issues which the Committee will want to examine and on which the Government would welcome the Committee's views:-

a. The form of a new pay system

It is obviously desirable that a new pay system should be agreed by the Government with the unions and it has already been made clear that it is the Government's intention to seek to achieve this. But how far should the new pay system be a highly structured one? How far should prior agreement on the use to be made of agreed factual analysis determine the outcome and how much should be left for negotiation?

b. The relative weight which should be attached in any new system to comparisons of pay and other conditions of service and to other factors such as the position on recruitment and retention, relative efficiency and relative job security.

Under the old system other factors besides those based on direct comparisons could be, and were, introduced into the

negotiations which followed pay research but this was not done on a quantified or structured basis and the influence of such factors on the final outcome was relatively modest. The Government would particularly welcome an assessment of the practicability of evaluating such factors and recommendations on methods for doing this.

c. The scope under a new pay system for keeping pay increases for the Civil Service more in phase with those in the community generally.

As explained in paragraph 4(a) this problem has caused considerable difficulty in the past.

d. The reconciliation of any system of pay determination in the Civil Service with the Government's general economic responsibilities for controlling public expenditure and maintaining the value of money.

This is an area of particular difficulty both in determining the role which cost and economic circumstances should play in the operation of a new system, and at a more technical level in reconciling procedures and timetables for fixing cash limits and for negotiating Civil Service pay. The Treasury is ready to provide more detailed evidence on the public expenditure procedures involved, including the fixing of cash limits.

e. The reconciliation of the Government's ultimate accountability to Parliament for expenditure on Civil Service pay with an ordered pay system agreed with the unions

Clearly if a new pay system is to be negotiated with the Civil Service unions and to have a reasonable prospect of long term acceptability it would need to pass two tests. First, it must be capable, in normal circumstances, of serving as the basis for pay settlements which are justified on management grounds and acceptable not only to the negotiating parties, but also to Parliament and the public. Second, it would need to contain as clear an indication as possible of the circumstances in which, and the manner by which, it could exceptionally be overridden by Government on wider policy grounds of the national interest. In considering these matters the Committee will wish to consider, for example, the role which Parliament might be invited to play.

f. The role of arbitration

The Government accepts that arbitration will have a role to play in any new system for settling Civil Service pay as it has done since the Arbitration Agreement of 1925. The present Arbitration Agreement provides for unilateral access to arbitration although successive Governments have consistently and publicly reserved the right to refuse access to arbitration

on grounds of policy. It has also been accepted over the years that, while preserving the constitutional position that Governments cannot commit Parliament to expenditure without its approval, Governments would not invite Parliament to approve the setting aside of an arbitration award. * The Government has not withdrawn from the Arbitration Agreement with the Civil Service unions as it has from the Pay Agreements with them. But clearly the role of arbitration under any new system will need to be considered in the negotiation for any new Pay Agreement following the Committee's report. For the avoidance of misunderstanding, however, it should be made clear now that the Government attaches the greatest importance to ensuring that, whatever the future arrangements may be, it cannot be forced into an arbitration process with an award which it is required to implement regardless of circumstances. It is vital for the Government to retain some safeguard preserving its right of ultimate decision in exceptional circumstances.

Technical issues arising in the process of comparison

10. If the Committee considers that a new system should provide for structured pay comparisons a number of technical questions would arise about how this should be done. The Committee's views would be particularly welcome on the following points:-

a. Should comparisons be made with actual outside pay rates or with percentage movements in pay?

Comparison with percentage movements in pay could ease the problem of mis-match between the movement of Civil Service and outside pay referred to in paragraph 9c. But it is outside rates of pay for comparable work which reflect the real position in the labour market and hence affect the employer's ability to recruit and retain employees. Moreover, information on rates can be collected in much more detail so as to establish separate and more valid comparisons for different groups of staff.

b. What outside analogues should be used and how should they be selected?

Comparisons need to be as representative as possible. But any process of comparison runs the risk of circularity, with all major employers being influenced by the rates which others set. It has been suggested that this risk may be acute where

* The special arrangements to which the Government are committed for next year's pay settlement differ from this. The Government has accepted in advance of these negotiations that there should be access to arbitration should negotiations fail. It has however also expressly reserved the right to ask the House of Commons to approve the setting aside of any resulting arbitration award should the Government judge this to be necessary in the national interest. The arrangements derive from the particular circumstances of 1981 and should not necessarily be regarded as a precedent for the future.

comparisons are made with other public sector analogues. The Scott Committee on the Value of Index Linked Pensions recommended the exclusion of public sector analogues from the field of comparison for both pay and pensions purposes. It has also been argued that the fields of comparison used by the PRU were biased in favour of large and "good" employers and took insufficient account of the realities of the wider labour market. There are also particular problems in using pay comparison where the Civil Service is itself the main employer of a particular type of staff.

c. Is "whole job" comparison the best approach?

This approach, used by the PRU, involved the identification of jobs in external organisations whose functions and responsibilities taken in the round were closely similar to Civil Service jobs. The Committee may wish to consider how far "whole job" comparisons are appropriate for all types of Civil Service work particularly at the higher levels where difficulties were experienced under the pay research system in making reliable comparisons. The Pay Research Unit Board for example suggested that the cut-off point for pay research should have been lower under the old system.

d. How should "fringe benefits", including index-linked pensions, be taken into account in the comparison process?

Outside pay rates need to be adjusted for differences in other benefits and conditions of service. The Committee will wish to satisfy itself that any new arrangements provide for these elements to be properly and stringently valued. The Scott Committee made recommendations on the evaluation of index-linked pensions. These are at present being considered by the Government.

e. What, if any, arrangements should there be to ensure that any data collected are "up to date"?

The techniques of adjustment to current rates used in the latter stages of operation in the old Pay Agreement were the subject of much criticism and especially the "uprating" of the outside rates collected by the PRU by reference to price movements. There are questions here of both principle and practice.

f. What organisational arrangements would be best suited to the collection of data under any new system and what role should any data collection agency play?

In examining this question the Committee will wish to consider the nature and status of any new data collection organisation. Should it be grafted on to an existing organisation like the Office of Manpower Economics? Should it be free standing and

and visibly independent of management and unions? The Committee will also wish to consider the role of any new agency. Should the aim be to produce data agreed by, and available to, both sides as the present system does or should it provide information only to management? Should the role be confined to the collection of data or extended into processing and analysing?

g. To what degree should the data collected for purposes of pay comparisons be made publicly available?

Much of the data collected by the Pay Research Unit was provided on a confidential basis by individual employers. But public confidence depends on public information. This problem links in with the role to be assigned to any new organisation charged with data collection.

Other issues

11. In addition to those described above there are other issues about the future pattern of Civil Service pay arrangements on which the Government would welcome the Committee's views:-

a. What role should internal relativities play in settling pay rates?

Internal relativities are an important secondary factor in the determination of Civil Service pay rates. It is inevitable that in a structure as complex as that of the non-industrial Home Civil Service the pay of some groups of staff will need to be settled on the basis of an agreed internal pay relativity with that of another. In some areas there are also questions of vertical relativities with the industrial Civil Service. The arrangements which are made must enable pressing management problems to be dealt with by pay adjustments where these become necessary. There are also wider questions about the relationship between pay and grading structure. The problem is to achieve the best balance between considerations of internal management structure and the matching of pay rates for different groups to the outside market.

b. Is there a place for using merit pay in the Civil Service, and if so how should it be applied?

Outside the Civil Service, particularly in the private sector, extensive use is made of merit pay arrangements. But there are special management difficulties about the application of merit pay systems in the public service.

c. Is the use made of incremental scales in the Civil Service justified and are modifications desirable?

Apart from their possible use as an instrument for rewarding merit, questions arise here on the use of incremental scales as such.

d. Is there a case for introducing productivity bargaining into the pay system for the Civil Service?

Successive Governments have taken the view that the pursuit of improvements in productivity and efficiency of Civil Service operations is a management function with which staff are expected to co-operate without special payment on the basis that such co-operation should be given in return for a fair rate of pay. This links with the problem of assessing comparative efficiency inside and outside the Service.

e. Is there a case for a wider geographical variation in rates of pay for civil servants?

Following the abandonment of provincial differentiation in 1958, Civil Service pay rates now apply nationally. Extra payments are made to staff employed in the London area in the form of "London Weighting". Practice outside the Civil Service varies. Should Civil Service rates for some (eg the non-mobile grades) or all grades attempt to match local pay markets more closely?

f. Is there scope for the introduction of "no industrial action" agreements into the Civil Service?

It is sometimes suggested that long term agreements on mechanisms for settling pay in the public services should be associated with some form of agreement restricting the right of staff to take industrial action. The Committee may wish to consider this possibility either in relation to the Service as a whole or for limited groups of staff engaged on particularly sensitive work.

Higher Civil Service pay

12. The terms of reference for the Committee cover the non-industrial Home Civil Service as a whole. Recommendations on pay rates for the Higher Civil Service are made by the Top Salaries Review Body, and problems have arisen from the co-existence of two separate pay determination systems covering a unified career structure. The Committee will no doubt wish to have discussions about the present position with the Review Body.

Conclusions

13. The Committee has been asked to advise both on the principles which should form the basis of a new pay system for the Civil Service and on practical arrangements for applying it. Naturally both the principles and the practical arrangements will need to take account of other conditions of service and of other aspects of Civil Service management which bear on the question of appropriate remuneration. Accordingly the Committee has been given terms of reference which leave it free to examine any aspect of Civil Service management and practice which it regards as relevant to its task.

14. It will be apparent to the Committee that this first paper on issues is in part simply an annotated agenda. The Government is ready to provide fuller evidence on any of the points covered by it and indeed on any other matters where the Committee would find further information helpful to its work.

JH



Civil Service

10 DOWNING STREET

From the Private Secretary

2 September 1981

Dear Sir

Thank you for your letter of 28 August to Tim Lankester, enclosing a copy of a draft memorandum on the non-industrial Home Civil Service prepared for the Megaw Inquiry.

The Prime Minister is content for the Lord President to send this memorandum to Sir John Megaw.

I am sending a copy of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment, Defence, Health and Social Security, the Attorney General and to Sir Robert Armstrong.

*yours
Willie Rickett*

Miss L.B. Butcher,
Lord President's Office.

JH

Prime Minister

MR. PATTISON

Yes mb

The Megaw Inquiry

Content for the Lord President - to give this factual paper to Megaw?

MPD 1/1x

You asked for comments on the attached Factual Background Memorandum for the Megaw Inquiry, circulated by the Lord President's Office.

This Memorandum was discussed in draft at the inter-departmental group on the Megaw Inquiry in August, and as far as I can see it is entirely factual and agreed by all concerned. It does however contain one or two quite useful pointers towards issues we want the Inquiry to investigate, such as the section on quit rates in paragraph 3.19-3.22, which include the assessment that voluntary resignations are at present falling; and the section in paragraph 7.2-7.7 on the relationship between incremental scales and merit, which remind the Inquiry that there have been two recent reports suggesting that pay systems ought to take more account of individual performance.

Subject to comments by other departments, therefore, I think we can agree that the Lord President should send this Memorandum to Sir John Megaw; and I rather doubt whether the Prime Minister needs to be bothered with it.

J.P.

1 September 1981

copy to JV, with document.

MAR 28/VIII



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

MANAGEMENT IN CONFIDENCE

28 August 1981

T P Lankester Esq
10 Downing Street
LONDON SW1

A large, stylized handwritten signature in dark ink, appearing to read 'T P Lankester'.

I enclose a copy of a draft Factual Background Memorandum on the non-industrial Home Civil Service which we have prepared for the Megaw Inquiry. As you know Sir John Megaw has asked to have this by the beginning of September.

2. The memorandum is purely factual in content and it has been agreed at official level with the main Departments concerned. The Inquiry is now commissioning a considerable amount of evidence, and we will be providing a number of further factual and statistical papers, including material on Civil Service pay movements since the introduction of pay research; recruitment and retention experience; and detailed material on the pay and other arrangements for each of the main Civil Service groups and classes. Arrangements have been made for all such additional evidence to be cleared by Departments and, where necessary, their Ministers.

3. Subject to the views of colleagues the Lord President would propose to send the Memorandum to Sir John Megaw by the end of next week.

4. I am sending copies of this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Defence, the Secretary of State for Health and Security, the Attorney General and to Sir Robert Armstrong.

A large, stylized handwritten signature in dark ink, appearing to read 'Miss L B Butcher'.

MISS L B BUTCHER
ASSISTANT PRIVATE SECRETARY

MANAGEMENT IN CONFIDENCE

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DRAFT

FACTUAL BACKGROUND MEMORANDUM
ON THE NON-INDUSTRIAL HOME CIVIL SERVICE

Submitted to the
Inquiry into non-industrial Civil Service pay
under the chairmanship of the
Rt Hon Sir John Megaw PC

Civil Service Department
Whitehall
London SW1A 2AZ

SEPTEMBER 1981

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[Glossary]

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CHAPTER 1

GENERAL INTRODUCTION

1.1 This memorandum contains factual information about Civil Service pay arrangements and related aspects of Civil Service management. More precisely it is concerned with non-industrial staff in the Home Civil Service* since it is their pay arrangements which are the subject of the present inquiry. Its terms of reference do not cover industrial staff in the Home Civil Service although some information on their position is provided in this memorandum by way of background. For brevity the term "Civil Service" has been used in places in the text instead of the phrase "non-industrial Home Civil Service".

1.2 The central management of the Home Civil Service is the responsibility of the Minister for the Civil Service, an office held by the Prime Minister. These responsibilities are carried out on behalf of the Minister for the Civil Service on a day-to-day basis by the Lord President of the Council and a Minister of State assisted by the Civil Service Department. The Permanent Secretary of the Civil Service Department is also the Head of the Home Civil Service and as such advises the Prime Minister on some matters directly.

1.3 Civil Service central management was originally a function of the Treasury but was transferred to the Minister for the Civil Service by the Orders of 1968⁺ and 1971⁺ made under the Ministers of the Crown (Transfer of

* The Home Civil Service is by far the largest Civil Service of the Crown although it is not the only one. For example the Diplomatic Service is a separate Crown service which largely staffs the Foreign and Commonwealth Office and United Kingdom diplomatic missions overseas. The pay arrangements of the other Civil Services normally follow those of the Home Civil Service. In addition the pay arrangements for a number of other public bodies are linked to those for the Home Civil Service although their staff are not themselves civil servants. A note dealing with the definition of "civil servant" and the status of the various Civil Services is at Annex B to the Treasury and Civil Service Committee 4th Report, Session 1979-80.

⁺SI1968 No 1656

⁺SI1971 No 2099

Functions) Act 1946. Article 4 of the Civil Service Order in Council 1978 now embodies the formal prerogative powers of the Minister for the Civil Service in relation to the Home Civil Service^Ø.

1.4 At 1 April 1981 there were 540,000 non-industrial staff in the Home Civil Service[#] (about 45% of whom were women). They comprised under 2.5% of the employed population. Their functions cover the whole range of central government activities. Roughly 315,000 are engaged in the provision of public services such as paying sick benefits and pensions, collecting taxes and contributions, running employment services, staffing prisons and providing services to industry and agriculture. About 113,000 are employed in the Ministry of Defence. The rest are about equally divided between central administrative and policy duties, service-wide support services such as accommodation, printing and information, and largely financially self-supporting services such as those provided by the Department for National Savings and the Royal Mint. A wide range of different skills and backgrounds are required including not only administrators and clerks but also for example engineers, lawyers, accountants and draughtsmen.

1.5 Some 364,000 staff (nearly 70%) are employed in the five largest departments: Defence, Department of Health and Social Security, Inland Revenue, Employment (with its agencies) and Environment. Seven other departments employ another 15%. The remaining 15% belong to over fifty

Ø A fuller summary of the powers of the Minister for the Civil Service and of the Civil Service Department is set out in the appendix to the Introductory Factual Memorandum submitted to the Treasury and Civil Service Select Committee.

The total size of the Civil Service (non-industrial and industrial staff combined) was 689,000 at 1 April 1981. The Government is committed to reduce this figure to 630,000 by April 1984. Reductions will come both from non-industrials and from industrials, but no separate targets have been set for each.

NB All staff numbers quoted in this memorandum are those for staff in post at 1 April 1981 unless otherwise stated.

smaller departments. 25% of the non-industrial Home Civil Service work in Greater London; 74% work elsewhere in the United Kingdom and 1% work overseas. 29% work in headquarters offices; 7% are in regional offices; and 44% are employed in local offices. The remaining 20% work in other areas of government such as laboratories and research establishments.

1.6 The Estimates provision for pay and national insurance costs of the non-industrial Home Civil Service in 1981-82 was around £4.1 billion. In addition to basic salaries and wages this includes overtime and other pay-related allowances, employers' national insurance contributions and overseas allowances of United Kingdom based staff.

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CHAPTER 2

GRADING STRUCTURE

Introduction

2.1 The pay and grading structure of the non-industrial Home Civil Service provides the framework for organising both the work and the staff. The present structure uses a mixture of two systems: an older system* based on classes and a new system based on occupational groups and categories. In both cases the basic unit is the grade.

Grades

2.2 Jobs and staff are both allocated to grades. The term grade therefore applies to a grouping both of posts and of the staff who normally occupy these. All posts in a grade carry broadly equivalent responsibilities in terms of job weight and the members of a grade will have common pay rates. At every stage in his or her career a civil servant belongs to a particular grade.

2.3 There is a large number of grades (some 2,500) but they contain widely differing numbers of staff. For example the clerical officer grade has some 85,000 members whereas some highly specialised grades (such as that of Chief Plant Health and Seeds Inspector in the Ministry of Agriculture, Fisheries and Food or of the Chaplain General of Prisons in the Home Office) may contain no more than a single individual.

2.4 It is essential on both cost and wider management grounds to ensure that posts are properly graded and that their grading is regularly reviewed.

* For a summary of the development of the structure of the Civil Service up to 1966, see Section 1, Chapter 3 in Vol 4 of the Report and Evidence presented to the Fulton Committee (Cmnd 3638).

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In each department there is a system of manpower control which is concerned with ensuring that the numbers of staff and their grading are adequate but not excessive for the work to be undertaken. If the work of a post (or in some cases a large number of similar posts) changes, the grading is adjusted accordingly. The CSD sets grading standards and exercises a general oversight over departmental control systems.

Classes, Groups and Categories

2.5 Grades are grouped into larger structures according to the type of work involved. Until 1971, all grades were organised in classes - class being defined as a single grade, or a collection of grades linked in a recognisable hierarchy for career and management purposes, for which separate recruitment arrangements were appropriate. There were two main types of class: general service classes, the members of which were employed throughout the Service or in many departments and were generally recruited (and sometimes managed) on a Service-wide basis; and departmental classes, normally confined to a single department.

2.6 Since 1971, following the Report of the Fulton Committee of 1966-68, many of the classes which once formed part of this older grading structure have been reorganised into a new framework of categories and occupational groups. The general objective of this reorganisation has been to reduce the number of pay and grading variations within the Service by amalgamating classes wherever possible in the interest of management flexibility and greater opportunities for career development.

2.7 The basic grouping of staff for pay, recruitment and personnel management purposes in the new structure is the occupational group. Staff have been brought together in occupational groups largely on the basis of work affinity and job weight and of similarities in recruitment, management and training requirements. Occupational groups are themselves grouped together into categories which consist of one or more occupational groups having a common pay and grading pattern (although not all groups in a category will necessarily use every grading level). The full breakdown of current occupational groups and categories is shown in the Table at Annex A.

2.8 A major factor in the move to this new framework was the desire to create the smallest number of groupings consistent with both the needs of the work and the requirements of pay determination. Staff at the same level

within a particular occupational group, and in all groups within a particular category, receive the same rates of pay. Within the General Category for example there is a single pay scale for the grades of Principal, Economic Adviser, Statistician, Principal Information Officer and Principal Librarian; and the same equivalence applies at each of the other grading levels within the category. Civil Service pay and structure are thus closely linked. The number of groups of staff and the range of different occupations which are brought together within a single occupational group inevitably affects the extent to which Civil Service pay rates can take account of the changing pay and other conditions of specific groups outside. This question of the relationship between structure and pay is considered further in Chapter 6 dealing with the procedures for reviewing internal pay linkages.

2.9 About three-quarters of the non-industrial Home Civil Service is now included in the new structure which at present consists of 22 occupational groups in 12 categories. The largest occupational group is the Administration Group, numbering some 238,000 staff. Since the creation of the main groups and categories, classes have continued to be absorbed into the new framework. Of those staff not now included in it, some 45% are accounted for by large departmental classes in the Prison Service and the Inland Revenue.

2.10 The majority of civil servants will find a full career within one occupational group or class and most jobs are assigned to a specific group or class. But some flexibility is to the advantage of management and staff and it is possible for staff to transfer to work outside that of their current group, either on a temporary or permanent basis; there are also some jobs, known as opportunity posts, which are not considered to be appropriate to the work of one particular group or class. These posts are open either to suitably qualified and experienced staff in two or more specific groups (limited opportunity posts), or to staff any group or class (open opportunity posts). For example, the post of head of the Central Statistical Office's Computer Branch is an open opportunity post. It could thus be filled by any suitably qualified candidate, such as an administrator, a statistician or a member of the Science or Professional and Technology Groups. It is currently held by a scientist.

2.11 At the very highest levels of the Civil Service - at Under Secretary level and above - a system of unified grading, known as the Open Structure, operates. With a very few exceptions, staff at this level, whatever their previous experience and duties, share the same pay and grading system.

2.12 The Government is committed to looking again at the present structure of Civil Service grades. Paragraphs 34 and 35 of the White Paper published in February 1981 entitled "The Future of the Civil Service Department - Government Observations on the First Report from the Treasury and the Civil Service Committee, Session 1980-81' (Cmd 8170) recognise that although the present system is adequate for most management purposes, it is not entirely satisfactory. The Government has undertaken to seek to establish the objectives that the management structure should meet, and see what changes may be needed.

2.13 A separate memorandum is being presented which gives details of the structure, pay rates and numbers of the main groups, classes and grades in the non-industrial Home Civil Service, together with their main duties and methods of recruitment to them. It contains notes on some of the more important departmental grades ie those whose members serve only a single department. But in summary the main groupings are as follows:

Group/Class	Staff figures at 1 April 1981
Open Structure	
A unified grading system at Under Secretary level and above	759
Administration Group	
The functions of the Administration Group range from the formulation of policy advice for Ministers and the implementation of government policies to the performance of clerical duties	238,300
Social Security Group	
Clerical Officer and Executive Officer staff in DHSS local offices	49,200

Professional and Technology Group

Includes a wide range of disciplines ranging from first line supervisors of industrials to highly qualified professionals eg: architects, surveyors, quantity surveyors and electrical and mechanical engineers together with their supporting staff. Their main functions include major warship overhaul, aircraft development and research, development of communication and computer systems, manufacture of much of the UK's military equipment, and important projects in civil engineering construction, and estate management. They also carry out certain inspection and regulatory activities.

39,700

Inland Revenue Tax Grades

A departmental class which is responsible for determining the liabilities of individuals and all sizes and types of business in accordance with the tax statutes.

32,620

Secretarial Group

Secretarial and typing staff

27,300

Science Group

Includes a wide range of scientists from those involved in straightforward testing activities to senior officers responsible for the direction of major projects in the fields of original and applied research. Its members also participate in the planning and management of advanced technology procurement projects.

16,500

CHAPTER 3

RECRUITMENT AND CAREER PROGRESSION

RECRUITMENT

Formal Arrangements

3.1 Recruitment to the Home Civil Service and Diplomatic Services is the responsibility of the Civil Service Commissioners, who operate under the authority of the Civil Service Order in Council 1978. The Order and the General Regulations made under it give the Commissioners an independent responsibility for the recruitment by fair and open competition of all those civil servants who make up the main body of the staff of government departments and of the Diplomatic Service. The changes introduced after the Report of the Fulton Committee made the Civil Service Commission part of the newly-formed Civil Service Department, and its full-time Commissioners have since fulfilled a dual role. It was made clear at the time of the reorganisation that in matters of recruitment policy the Commissioners would work closely with those in the Civil Service Department responsible for personnel management and training; but that in matters of selection they would continue to have exactly the same independence as before.

3.2 The Commission's staff participate in the formulation of advice to CSD Ministers on policy matters to do with the broad strategy of recruitment to the Service - the numbers, qualifications, ages and so forth of people needed to man the Civil Service. They act as agents for government departments in obtaining staff, and like any recruitment agency do not normally control the rate at which their clients take in new recruits: they differ from other recruitment agencies, however, in determining the selection methods to be used, and in the fact that (with certain limited exceptions) departments may not appoint staff who have not been recruited according to these methods and certificated by the Commissioners. The Commissioners are expected to ensure that all recruitment is conducted fairly and openly, and that candidates are selected purely on merit. Their independence ensures that pressure cannot be brought to bear by Ministers, individual departments or any other group for the appointment of particular people to particular posts.

Practical Arrangements

3.3 There are at present 5 Commissioners: three full-time career civil servants and two part-time Commissioners appointed from outside the Civil Service. Of the civil servants, the First Commissioner (Deputy Secretary) acts as chief adviser on recruitment matters to CSD Ministers. Following a recent reorganisation he is now also responsible (separately from his responsibilities as First Commissioner) for Civil Service personnel management and training policy. One Commissioner (Under Secretary) is Director of the Civil Service Selection Board (CSSB), which conducts the extended selection procedure for a number of grades - mainly those in the Appointments in Administration scheme. Another Commissioner (Under Secretary) is in charge of the Commission's Basingstoke office, the main centre for the administering recruitment procedures.

3.4 The two part-time Commissioners (Miss M P Downs, Personnel Director of F W Woolworth & Co, and Mrs M E Sunderland, formerly Personnel Director of Max Factor (UK)) do not have executive responsibilities; they were appointed in 1978 and 1979 respectively following a recommendation for the appointment of part-time Commissioners in the Eleventh Report from the Expenditure Committee (July 1977).

Organisation

3.5 The Commission's Basingstoke office is responsible for organising each of the main recruitment schemes. These include the Appointments in Administration scheme, and those for Executive Officers and analogous grades, the scientific, medical and veterinary grades, all the technologically-based professional grades (eg engineers, architects, valuers and surveyors and their technical support staff), and smaller groups such as lawyers, economists, accountants and psychologists. The Civil Service Selection Board works in London mainly for ease of travelling and accommodation of candidates. At present there are also eight small regional offices throughout the country (but see paragraph 3.11).

Level of Recruitment

3.6 There have been between 65,000 and 80,000 new entrants a year to the Service in recent years, of whom about one fifth are in the industrial grades. 4,000 to 6,000 staff (all non-industrials) are recruited directly

through competitions run centrally by the Civil Service Commission, from up to 80,000 applicants. The remaining entrants (60,000 to 75,000 according to year) are recruited locally by individual departments or groups of departments. Numbers of vacancies have been reducing, and the trend continues - not simply because of the Government's programme of reductions in Civil Service numbers, but because the number of civil servants who resign before retirement has been falling significantly during the recession.

Local Recruitment

3.7 Most local recruitment is of the relatively large numbers of staff required in junior grades; these grades are generally non-mobile, ie their members do not have an obligation to move beyond daily travelling distance from their present homes. Clerical staff form the largest single group of non-mobile staff and are normally recruited by consortia of departments, though in London certain departments recruit individually. In delegating authority for local recruitment to be undertaken by departments, the Commission have issued formal instructions for the conduct of recruitment exercises and have reserved (as they are obliged to do by the Order in Council) the issue of certificates of qualification to themselves.

Recruitment by the Commission

3.8 Broadly speaking, junior management and equivalent grades and above are mobile grades, ie those whose members may be obliged to move to a place of work beyond daily travelling distance of their present homes. Recruitment to these grades is usually conducted centrally by the Civil Service Commission, although in some specialised areas (notably for graduate scientists, where it is often an advantage to recruit to, and at, a specific research establishment) the administrative arrangements are made by individual departments under the Commission's direction. The largest single recruitment exercise run centrally by the Commission is that for Executive Officers and analogous grades - for example Immigration Officers. This, the junior management intake for which the basic academic qualification is two GCE A-level passes, has attracted an increasing number of graduates in recent years: of over 2,500 appointed in 1980, more than half were graduates. Compared with the scale of entry at Executive Officer level, the external recruitment of Administration Trainees is small, providing less than 100 entrants a year in recent years. However the selection of Administration Trainees is an important part of the Commission's task and has attracted attention because of the accelerated promotion which Administration Trainees may subsequently receive.

3.9 The Civil Service Commissioners issue an Annual Report of their activities in May or June of each year.

Future Developments

3.10 As part of its contribution to the Government's target for reducing the size of the Civil Service to 630,000 by 1984, the Commission will be curtailing two main areas of its present activities. All regional offices will be closed down by April 1982. Then, probably early in 1983, the Commissioners will withdraw from the field of non-mobile recruitment. This will become entirely the responsibility of employing departments acting under central guidance issued by the Civil Service Department rather than under the direct control of the Commission. Successful candidates in these junior non-mobile grades will no longer be nominated to the Commission for certification and departments will have to carry out full checks on their eligibility. This change will involve an amendment to the Civil Service Order in Council 1978.

CAREER PROGRESSION

3.11 As explained in the previous section, a high proportion of recruitment to the Civil Service is to the non-mobile grades such as Typist and Clerical Officer. For many of these recruits, pursuit of their skill, rather than being a civil servant, is the career path or job pattern they wish to follow and this is one factor in high voluntary wastage from the Service at these levels. (For example, more COs have left voluntarily than have been recruited in recent years; about half as many Clerical Assistants, and three-quarters as many typists.) Some however achieve promotion to the mobile grades at Executive Officer level where the concept of a UK Civil Service career is still more generally a reality. Although staff who move up in this way form only a small proportion of the non-mobile cadre they provide about two-thirds of the Executive Officer intake.

3.12 About one third of the Executive Officer intake is therefore by direct recruitment and most of the direct recruitment to the mobile Civil Service is at this level. Graduates enter the professional specialisms at higher levels and there is a small direct entry Principal scheme which serves to bring in outside experience and knowledge on a fairly regular basis, depending upon Departments' requirements, and a few specialists are also brought in at senior levels. Generally speaking, Departments are responsible for their own manpower planning and liaise with the Commission on numbers of recruits required each year.

Promotion and Criteria Used

3.13 Above EO and equivalent levels the main Civil Service grades are filled chiefly by promoting existing staff from more junior grades. The principle governing all promotions is the advancement of the efficiency of the public service. Eligibility to be considered for promotion to any grade and the procedures to be adopted are governed by agreements covering occupational groups, adapted where necessary to suit departmental circumstances. More specifically, the following principles apply to Civil Service promotion procedures:

i. Merit

Promotion is on the ground of fitness. The successful candidates should be those best fitted in terms of knowledge, skills and experience to carry out the duties of the higher grade. There are regular written reports on staff performance and on the capacity to perform well in a higher grade.

ii. Seniority

Seniority should not override merit. In order to ensure that sufficient relevant experience is gained and performance can be adequately assessed at promotion boards, the CSD has agreed with the unions on standard seniority fields (ie minimum periods of service in a grade) in some areas of the Civil Service. In the Administration Group for example, the minimum seniority period, for promotion from CO to EO is 3 years, and 4 years from EO to HEO; but no minimum period is needed for promotion from Principal to Senior Principal or Assistant Secretary. Departments sometimes vary fields in consultation with CSD, usually by one year either way, in order to reduce the number of candidates to manageable proportions or to ensure the inclusion of suitable staff.

iii. Age

In some groups age constraints or guidelines are set to ensure sufficient maturity or to safeguard the structural balance of certain groups in and between departments.

Promotion in the Open Structure

3.14 Appointments to the top of the Home Civil Service (Deputy Secretary and above) are a shared responsibility between Departments and the CSD. They are made with the approval of the Prime Minister, on the recommendation of the Head of the Home Civil Service, advised by senior colleagues on the Senior Appointments Selection Committee, after consultation and agreement with the Departmental Minister concerned, and his Permanent Secretary where appropriate. Promotion to Under Secretary level is made by the Permanent Head of a Department after consultation with CSD and with the approval of the Departmental Minister concerned. Ministerial involvement in these appointments is based on their ultimate responsibility for Departments and their natural interest in those who are advising and directing and are in regular close contact with them. There are no age or seniority constraints.

Other Promotion Arrangements

3.15 Each Department must operate recognised promotion machinery although the procedures may be waived or modified at a department's discretion in respect of senior or controlling staff and special provisions apply for some groups of staff especially in specialist areas. Guidelines on this are by the Civil Service Department. Although the Head of the Department's ultimate responsibility for promotions remains unimpaired, whatever machinery may be adopted, the general arrangements governing promotion and the procedures used are normally the subject of consultation with the Departmental Trade Union Side. All eligible candidates are reviewed by a formally constituted board whose recommendations are subject to confirmation at a higher level. In most departments promotion boards conduct interviews for promotion up to and including Principal where substantial numbers of candidates are considered.

3.16 Special promotion arrangements include:

- grade-skipping, whereby if an individual has the required merit he can be promoted more than one grade above his present level.
- fluid grading, where staff up to PSO in the Science Group can be promoted without moving posts if the quality and level of work of an individual post can properly improve as a result of the post holders' personal contribution (eg in R & D areas work can possess a high potential of originality and creativity).

- Individual Merit Promotion, whereby departments can nominate senior Science and P & T staff (at Principal level and above) for temporary promotion (review after 5 years) in the same post by a special, annual, high level promotion panel which considers their past achievement and future potential.

3.17 There is an appeals machinery for all eligible staff who are not called for interview or not selected for promotion.

3.18 Promotions are made only where vacancies exist and suitable staff are available. Whilst very meritorious staff are likely to be promoted several times in their career a very small proportion of all civil servants will receive promotion in any one year (for example about 5% of the Administration Group).

Leaving the Civil Service

3.19 At junior levels the number of staff leaving because of voluntary resignation runs at several times that of normal retirements although the balance between these factors changes at middle and senior levels. The overall rate of voluntary resignations in 1980 was 64 per 1,000 staff. A very small proportion of all staff leave through ill-health or death in service. A similarly small proportion of the total leave as a result of management action, the main grounds for this being failure of probation, redundancy, dismissal on disciplinary grounds, and premature retirement, limited efficiency, inefficiency or structural grounds. The rate of these "involuntary" departures in 1980 (excluding normal retirements) was 8 per 1,000 staff.*

* Although the question cannot be regarded as having been authoritatively resolved by the Courts, the view of the CSD's legal adviser is that the relationship between the Crown and its civil servants is basically contractual, but subject at all times to the Common Law right of the Crown to dismiss at will. This right is rarely invoked in practice. It would have been possible, however, notwithstanding the basic contractual relationship, for none of the employment legislation provisions which confer statutory rights upon employees to bind the Crown. In fact there is an increasing tendency for such legislation explicitly to cover civil servants; and even when statutory provisions do not bind the Crown, they are often followed by the Crown in practice. If a civil servant is dismissed he cannot sustain a common law claim for wrongful dismissal. But he has the same statutory rights as other employees to complain to an industrial tribunal on the grounds of unfair dismissal. In practice, therefore, the position of civil servants is much the same as that of other employees in relation to their employers.

3.20 The rate at which people leave the Civil Service varies with such factors as the Civil Service's pay position in the market generally, unemployment levels and Government policies on Civil Service numbers. At present voluntary resignations are falling. The rate of involuntary departures, on the other hand, is increasing.

3.21 Attempts have been made in the past to obtain an indication of the relative job security of civil servants by comparing the numbers of involuntary leavers from the Civil Service and those from other organisations. This has proved difficult partly because of the lack of comprehensive statistics outside the Civil Service and partly because of difficulties in comparing different practices and procedures. General indications are, however, that at the present time of high unemployment and redundancy job security in the Civil Service is higher than in the economy as a whole, but little different from that of people doing comparable, white collar work.

3.22 The Inquiry into the Value of Pensions chaired by Sir Bernard Scott was asked to consider how to assess relative job security. But the Inquiry concluded that the evidence it had on this question was largely subjective and it was not able to suggest any method of valuation. However, the Inquiry did comment that:

"Certainly recent reductions in the size of most public services have not matched the number of redundancies and widespread short-time working in such large parts of the private sector as manufacturing industry and in some of the nationalised industries".

CHAPTER 4

THE INDUSTRIAL RELATIONS FRAMEWORK

The Whitley System

4.1 Since 1919 a framework for joint consultation between Civil Service management and staff has been developed at national, departmental and local level. Known as the "Whitley" system its formal structure consists of a number of Councils each comprising an Official Side and a Trade Union Side. Decisions are by consensus, not by voting, and generally there is no formal disagreement procedure.

4.2 Representatives from both Sides are appointed to a mutually agreed number of seats on the relevant Whitley Council. Official Side members are appointed by the official-level head of the organisation, who also acts as Chairman. Thus the Head of the Home Civil Service appoints National Whitley Council (NWC) Official Side members, generally Permanent Secretaries of Departments; and each Permanent Secretary appoints his own Departmental Official Side from senior members of his staff. Similarly at local level the Director of an Establishment, say, will appoint the Official Side. The Trade Union Side, which provides the Vice-Chairman of each Council, decides the number of its seats each constituent union shall have, but the individual unions appoint their own representatives.

4.3 When in Council the Trade Union Side represents the interests of all staff members, both union and non-union alike. Although there is no hierarchical relationship between the NWC and Departmental Councils, agreements reached by the two Sides of the NWC apply across the Civil Service at all levels.

Council of Civil Service Unions

4.4 The central and co-ordinating body for the Civil Service unions is the Council of Civil Service Unions (CCSU). It replaced the former National Staff Side (NSS) in 1980. On the National Whitley Council the CCSU is represented by a proportion of its members, known as the Trade Union Side of the National Whitley Council. The CCSU is certificated as an independent trade union and operates as a trade union confederation.

The Civil Service Unions

4.5 The 9 Civil Service unions and their staff representation are described in Annex B. Each is affiliated to the TUC, although none to any political party. The Whitley system does not preclude contact between management and an individual union on matters for which it is recognised relating to a particular class or grade. In some cases negotiations with management are conducted jointly between the unions by means of the CCSU, eg on hours and leave; in others one union will negotiate where the matter solely concerns its members, eg the use of certain equipment.

Negotiating Arrangements

4.6 The Whitley system of joint Councils provides the formal framework for discussions between management and unions, but much business between the two sides is conducted on an ad hoc and less formal basis. This is particularly so at national level, where the National Whitley Council as such rarely meets. Both sides will normally initiate discussions between expert representatives in a particular matter but with final agreement being concluded between the highest relevant authority on either side. At national level this will involve Ministers or senior officials nominated by Ministers to act on their behalf, and the CCSU. At departmental level it is likely to involve the Head of Department and the departmental Trade Union Side.

4.7 Most negotiations about pay are handled at national level even where they only concern staff in certain departments. Civil Service Department Ministers, or officials acting on their behalf, negotiate with representatives of the Council of Civil Service Unions, or where the pay of specific groups is concerned, with individual unions. Apart from the main negotiations on non-industrial pay settlements, there is also a wide range of contacts between the two Sides on pay matters throughout the year.

4.8 Annex B describes in more detail the operation of the Whitley system, as well as the composition and membership of the main Civil Service Unions.

CHAPTER 5

CIVIL SERVICE PAY: HISTORICAL BACKGROUND

Introduction

5.1 Before describing how the Civil Service pay arrangements have operated, it may be helpful to set the arrangements in their historical context. In the last fifty years, until the appointment of the present Inquiry, there have been two major inquiries into Civil Service pay: the Tomlin Royal Commission (1931) and the Priestley Royal Commission (1955). From 1955 until 1981, when the Government withdrew from the existing Pay Agreements, the framework within which Civil Service pay was determined was the system of pay research which was introduced in accordance with the Priestley Commission's recommendations.

Tomlin Royal Commission 1929-31*

5.2 The Tomlin Commission was appointed in 1929 to report on Civil Service pay, together with other aspects of management including structure, grading and recruitment. At the time Civil Service pay was determined on the basis of changes in the cost of living. The Government and the Union Side had reached agreement in 1919, through the new Whitley Council machinery, for a pay bonus linked to the cost of living index. The bonus was payable to all permanent staff and was reviewed every six months.

5.3 The Commission considered a number of alternative approaches to determining Civil Service pay:

- comparison with the wages being paid by outside employers;
- the Government's role as a "model employer" (as recommended by the MacDonnell Royal Commission on the Civil Service, 1914);
- payment based on what was necessary to recruit and retain an efficient staff (this was the criterion applied by the Anderson Committee on the Pay of State Servants, which carried out a review of the Civil Service and Armed Forces in 1923; and on this basis the Committee was satisfied with Civil Service pay levels at that time).

* Cmnd 3903, 1931

5.4 The Tomlin Commission said:

"We are satisfied ... that broad general comparisons between classes in the Service and outside occupations are possible and should be made.

In effecting such comparisons the State should take a long view. Civil Service remuneration should reflect what may be described as the long term trend, both in wage levels and in the economic condition of the country. We regard it as undesirable that the conditions of service of civil servants when under review should be related too closely to factors of a temporary or passing character." (paragraph 308)

The Commission commented that the principle of recruiting and retaining an adequate staff did not necessarily provide a basis on which to form an immediate judgment about the appropriateness of a particular rate of pay:

"If there is /a/ fair relativity ... between the rates of pay of the class of civil servants under review and comparable outside rates, it may be assumed that a satisfactory staff will be recruited and retained." (paragraph 307)

5.5 There proved to be difficulties in applying the "Tomlin formula" in practice. In particular the reference to taking a "long view" led to differences between the official and union sides on how frequently pay settlements should be negotiated, and whether comparisons should be made with wage or price movements, or with actual levels of pay outside. The Official Side's view was that the pay of different groups of staff should be negotiated separately, using evidence about the levels of pay for similar work outside. But with the rapid fluctuations of wages and prices in the war and immediately post-war periods, there was a return to centrally-negotiated settlements for the Civil Service as a whole, with a "cost of living" addition for the lower paid.

Priestley Royal Commission (1953-55)*

5.6 The Priestley Royal Commission was appointed in 1953 to consider whether any changes were desirable in the principles governing Civil Service pay, and in the current pay, hours, leave and pension arrangements.

* Cmnd 9613, 1955

5.7 The Commission reported in 1955. The justification and details of their main recommendations are attached at **Annex C**. Their basic conclusion was that the overriding aim of a Civil Service pay system must be:

"the maintenance of a Civil Service recognised as efficient and staffed by members whose remuneration and conditions of service are thought to be fair both by themselves and by the community they serve".

To achieve this aim, the Priestley Commission recommended the adoption of one "primary principle": that Civil Service pay should be based on:

"fair comparison with the current remuneration of outside staffs employed on broadly comparable work, taking account of differences in other conditions of service".

The Commission recommended that internal relativities should be used to supplement the principle of fair comparison, and might have to be the first consideration when outside comparisons could not be made. But they said that this should never be the overriding principle.

5.8 The Royal Commission went on to make a number of detailed comments on the way in which the evidence of outside pay rates should be collected through "pay research" and how it should be used, specifying in considerable detail the arrangements which might be made for putting the principles they were recommending into practice.

5.9 The Priestley Commission thus endorsed the underlying principle of the "Tomlin formula", but made recommendations designed to ensure that in future it would be applied more precisely and unambiguously. They commented that "if rates of pay for the Civil Service are what we should call fair they will probably, over a period of time and in most classes, enable the Service to recruit and retain an efficient staff" (paragraph 90).

5.10 The Commission also rejected basing pay on an index of general wage movements: "it must be right to use current rates rather than trends. Only so can Civil Service rates for particular duties respond flexibly to changes outside" (paragraph 132). It did, however, recommend that at times when wages and salaries were rising or falling particularly rapidly "central pay settlements" based on a single figure or formula for all grades might be

necessary (paragraphs 170-185). The Commission felt that the pay reviews for specific groups of staff based on the pay research procedures it had recommended could not take place rapidly enough to reflect rapid changes in pay outside.

5.11 The Priestley Royal Commission's main recommendations were put into effect promptly. A formal Agreement was concluded between the Government and the Union Side in 1956 on the way in which the Priestley principles should be applied in practice. A Pay Research Unit was set up in the same year to begin the detailed process of surveys into outside pay and other conditions of service.

Developments since Priestley

5.12 The "pay research" system provided the normal basis for settling Civil Service pay during the following twenty-five years. Briefly, the pattern consisted of an initial fact-finding stage, which was the responsibility of the Pay Research Unit; followed by negotiations between the Government and the Union Side, in which the pay research evidence was analysed and processed, any other relevant factors brought into account, and the actual pay scales then agreed for each group of staff concerned.

5.13 Although the pay research system did not change in essentials, it was refined and modified as the two Sides' experience of operating it developed. These changes were incorporated in successive Pay Agreements in 1960, 1964, 1967, 1974 and 1977. These are summarised at **Annex D**. Copies of the 1974 and 1977 Agreements have been made available separately to the Committee. The way in which the pay research procedures worked in practice under the Pay Agreements of 1974 and 1977 is described more fully in Chapter 6.

5.14 The main developments included:

More frequent pay research surveys. The initial five-year cycle was found to be too long, and large central pay settlements related to general pay movements were necessary in the intervening years either for all staff or for those not covered by a pay research settlement in that year. The cycle was progressively reduced until annual pay research was introduced in 1974.

Changes to make settlements more up-to-date. The lengthy processes of fact-finding and subsequent negotiation originally meant that settlements were not reached until many months after the operative

date. The 1967 Agreement limited the retrospection to no more than six months. The 1974 Agreement provided for the evidence on outside rates to be collected before the settlement date and "uprated" according to movements in the retail price index, thus doing away with the need for retrospection.

Greater openness and independence in the pay research arrangements. The 1977 Agreement introduced an independent Board to oversee the work of the Pay Research Unit, and provided for publication of reports about the work of both the Unit and Board.

More detailed improvements, including clarification of the arrangements for reviewing the pay linkages of groups not directly covered by pay research, and of the way in which fringe benefits should be taken into account in the pay research negotiations.

The Fulton Committee (1968)* and the Expenditure Committee (1977)†

5.15 Both these Committees were concerned with general issues of management and structure in the Civil Service, rather than pay specifically. But both made some general comments on pay. The Fulton Committee commented that the principle of fair comparison "remains valid and will continue to be necessary to the efficiency as well as to the contentment of the Service" (paragraph 226). The Committee hoped that in future outside comparisons would be made as part of the process of job evaluation which it had recommended as the basis of unified grading in the Service as a whole. It also recommended that negotiation and arbitration in the settling of pay claims should be preserved.

5.16 The House of Commons Expenditure Committee, in its Eleventh Report on the Civil Service, also endorsed the principle of fair comparison, although noting that it did not apply in the same way to industrial or the most senior non-industrial civil servants. The Committee recommended that the independence of the Pay Research Unit should be increased, notably by the establishment of a supervisory Board and by opening posts in the Unit, including that of Director, to outsiders. As has been seen, these recommendations were reflected in the 1977 Pay Agreement.

* Report on The Civil Service, Cmnd 3638, 1968

† Eleventh Report from the Expenditure Committee,
Session 1976-77, HC 535

Recent events

5.17 Two factors have assumed increasing importance since the 1977 Pay Agreement was implemented. There has been criticism of the pay research system - both of its dependence on pay comparisons as the primary and overriding principle; and also of the way in which the comparisons have been made. In particular, concern has been expressed about the adjustments made during the pay research process to reflect differences in conditions of service, and about whether organisations used as comparators include too many large or public sector firms. More generally, the economic difficulties of the country as a whole have underlined the need for restraint in pay settlements in both the public and private sectors. A particular problem has been that the pay research procedures have been based on evidence about outside rates collected several months previously. At a time of fluctuating wages movements generally the Civil Service increases have often been out of line in percentage terms with current outside settlements.

Constraints on pay research

5.18 On a number of occasions since 1956 Governments of both parties have found it necessary to override the Civil Service Pay Agreements then in force or to modify settlements reached under them on grounds of national policy. This has occurred in:

- 1961-62)
- 1966-69) - Settlements based on pay research but deferred or paid in
- 1973-74) stages because of incomes policy;

- 1976-78 - Pay research procedures suspended and settlements based on incomes policy guidelines;

- 1979-80 - Pay research - based settlements staged or deferred to contain cost within cash limits;

- 1981 - Pay research procedures suspended.

The 1980-81 pay round

5.19 As noted in paragraph 16, successive Governments have reserved the right to set aside the normal pay arrangements for overriding national

reasons. The 1974 Pay Agreement (paragraph 2) provided for either Side to propose, at any time, a review of its provisions or to give six months' notice of an intention to withdraw from it or any part of it. In August 1980 the Government gave notice to the Union Side that in the current economic circumstances the cash limits on public expenditure would be tightly constrained, and these would have to be the main basis of the April 1981 Civil Service pay settlement.

5.20 It was thought at that time that the pay research evidence might still have some part to play. But in view of the developing economic position and the corresponding fall in the level of outside settlements the Government decided in October 1980 that the Pay Agreements, and the pay research procedures for which they provided, should be suspended for the 1981 settlement. The negotiations for this settlement accordingly took place within the cash limit constraints, and not on the basis of comparisons with outside pay.

The longer term

5.21 The Government opened discussions with the Civil Service unions in August 1980 about longer-term changes to the pay research system. However, little progress was made in these discussions and in February 1981 the Government told the Union Side that it had concluded that the best way forward would be to have a thorough-going review. On 29 June 1981 the Government announced its decision to appoint the present Inquiry, with terms of reference which would allow full consideration of all questions relevant to the determination of Civil Service pay.

5.22 The Government has made clear that pending the Inquiry's recommendations there can be no question of returning to the existing Pay Agreements. It accordingly confirmed notice of its withdrawal from these, in accordance with the provisions of the 1974 Agreement, on 11 June 1981. Following this decision the Pay Research Unit is being run down. The Chairman and members of the Pay Research Unit Board resigned at the end of June.

CIVIL SERVICE PAY: ARRANGEMENTS FOR DIFFERENT GROUPS

Introduction

6.1 The 1974 Pay Agreement (paragraph 3) set out the ways in which pay was determined for the different groups of non-industrial civil servants. The pay research procedures applied to some 70% of these staff and section (I) below describes their operation under the most recent Pay Agreements of 1974 and 1977. The procedures for the other main groups - those whose pay was linked indirectly to "pay research" grades, those whose pay was determined by reference to a single outside analogue, and the higher grades - are described in the following sections.

I. PAY RESEARCH

The Pay Research Unit

6.2 The Pay Research Unit (PRU) was set up in 1956 to provide a fact-finding service, with a Director appointed by the Prime Minister. A Steering Committee, with members from both the Official and Union Sides, was established at the same time to commission surveys from the Unit, to specify the information required, and to ensure that the Unit was provided with the resources necessary to carry out its task. National Pay Agreements since 1956 did not change the basic responsibilities of the Unit, and the Director's terms of reference were described fully in Annex B of the 1977 Agreement. Until 1977 the Unit was staffed entirely by civil servants, but the Agreement specified that the post of Director should in future be filled by the best available candidate for the job, regardless of whether he or she was a civil servant, and that a proportion of the staff of the Unit should come from outside the Service. The Agreement also provided for a panel of part-time Technical Advisers, including non-civil servants, to advise on the conduct of individual surveys. The Unit's total full-time staff in 1980 was 84, including 42 survey officers, 5 of whom were from outside the Service.

6.3 The Pay Research Unit Board (PRUB) was established in 1978 in accordance with the recommendations of the 1977 Pay Agreement, to provide a public guarantee of the independence and impartiality of the Pay Research Unit's work, and to promote openness about its operating procedures. Its terms of reference are at Annex A of the 1977 Agreement. The Board exercised a general oversight of the Unit's work, although the Director retained full executive responsibility for the Unit's activities. It received an annual report from the Director, and submitted an annual report on its own activities to the Prime Minister. The reports of both the Board and Unit were published in 1979, 1980 and 1981. At the time of its resignation in June 1981 the Board consisted of a Chairman (Lord Shepherd) and five other independent members, together with four (non-voting) representatives from the Official and Union Sides and the Director of the PRU as an ex-officio (also non-voting) member.

PAY RESEARCH PROCEDURES (1) FACT-FINDING

6.4 The Priestley Commission drew a clear distinction between on the one hand the process of fact-finding and on the other the process of negotiation. The function of the Pay Research Unit was confined strictly to that of fact-finding. Its task was to establish comparisons between individual jobs inside and outside the Civil Service and then to report not only the actual rates of pay but also all other relevant conditions of service for the analogous jobs outside the Service (the "analogues"). It has not been the function of either the Pay Research Unit or Board to recommend pay rates for the Civil Service.

6.5 The timetable and procedures for the pay research surveys are described in the 1974 Pay Agreement (paragraphs 12-23). The Unit was expected to act in close consultation with the negotiating parties in making the arrangements for the surveys; but the Director had the ultimate responsibility for them and the Unit operated completely independently of the parties in carrying out the survey work.

6.6 The surveys fell into two parts:-

a. **internal surveys** - to enable the Unit to examine a representative sample of the current work of the grades under review so that proper comparisons could be made. Survey officers of the Unit visited a number of Government Departments (normally around a dozen) for this purpose.

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b. **external surveys** - in this, major, phase of the pay research procedures, the Unit looked at a whole series of individual jobs in a sample of organisations in the public and private sectors. The sample was chosen to reflect the spread of work comparable to that done in the Civil Service throughout the country as a whole. As Priestley recommended, the organisations were "good employers" in terms of their general management practices (not necessarily their rates of pay). The Unit's survey officers made specific functional comparisons between jobs they had seen inside the Service and the jobs outside. They identified staff doing the same kind of work at the same level of responsibility as inside the Service, and then collected all the available information about the pay rates and all matters bearing on the total remuneration package.

6.7 Following the external survey the information obtained by the Pay Research Unit was categorised and summarised, and reported to the parties on a confidential basis for the purpose of the pay negotiations*. Under the agreed timetable the reports were submitted by mid-November to allow good time for negotiation before the 1 April settlement date, but the Director of the Unit continued to advise the parties until early February of changes in the information contained in the reports. (This "updating" process is covered in paragraph 23 of the 1974 Pay Agreement.) The Unit's task was then complete. The whole process from commissioning the surveys to the delivery of the reports normally took about 17 months, the actual survey work (both internal and external) having taken from about January to November each year.

THE PAY RESEARCH PROCESS: (2) THE NEGOTIATIONS

6.8 The Pay Research Unit's reports provided the factual evidence on which the pay of the relevant Civil Service grades would be based. But the evidence as it stood did not itself indicate the level of settlement, which emerged only after two further stages of processing and bargaining.

Processing the evidence

6.9 The 1974 Pay Agreement made detailed provisions for analysing the evidence and adjusting the outside pay rates reported by the Unit to provide a true basis for comparison of Civil Service rates, taking account of

* Examples of the pay research reports are in the 1979 Annual Reports of the Pay Research Unit and Board, Appendix 3. Appendices 4-8 of the 1979 Reports, and Appendices 2 and 4-11 of the 1980 Reports, give further information about the coverage and findings of the pay research surveys.

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differences in conditions of service. Individual rates might need to be increased or decreased. For example, the outside rate would be increased to take account of the value to the outside employee of such items as bonus payments, free cars and subsidised meals. On the other hand the outside rate would be reduced if the outside employee suffered disadvantages compared with the civil servant - for instance where he paid a higher pension contribution. The aim of the parties was to reach agreement on the adjusted rates, or to be clear where differences lay; and to produce "league tables" of adjusted rates (ranging from lowest to highest) known as True Money Rates (TMRs).

6.10 Once the True Money Rates were established, the Pay Agreement provided for three further adjustments:-

- i. if proposed by either party, an adjustment to take account of differences between the net hours and annual leave of the Civil Service grades and those of their outside analogues;
- ii. an adjustment for differences in superannuation benefits, on the basis of advice from the Government Actuary. This was additional to the adjustments already made in respect of contributions, and in 1980 produced a total reduction equivalent to about 7.9% (see Chapter 9).
- iii. the "uprating" adjustment - ie uprating each TMR by the projected percentage change in the retail price index between the operative date of the analogue's settlement and the date of the Civil Service settlement. Uprating was intended to eliminate retrospective settlements. The adjustment was designed to take account of two factors. The pay research evidence was collected some months before the Civil Service settlement date, and without some adjustment would not provide a fully 'up to date' picture of current salary levels outside. In addition many of the outside organisations covered in the Pay Research Unit's survey had different settlement dates from the Civil Service, and would be receiving their next increases sooner than the Civil Service.

Bargaining

6.11 The negotiations which followed were based, as the Priestley Commission recommended, on the middle or "median" rates taken from the league tables of True Money Rates. The use of the median rather than the average discounted the effect of the exceptionally high or low payers in the survey. Information was available not just on the median for the attainable maximum for particular grades but also on the median for the minimum amounts payable,

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and account was taken of all the evidence on pay progression. The incremental scales finally negotiated therefore reflected as far as possible the pay research evidence on progression arrangements outside.

6.12 Not all outside conditions were susceptible to precise quantification in the calculation of True Money Rates, and certain items were accordingly dealt with more broadly. These included such things as discounts on goods and services, free or cheap loans, cheap mortgages, and travel concessions. The aim of the parties was to reach agreement in negotiation on the percentage adjustment - up or down - for the overall effect of these factors on the True Money Rate median for each grade.

6.13 Adjustments could also be made at this final stage in order to secure satisfactory internal relativities (in line with the secondary principle of the Priestley Commission) and for other management reasons, for example to reconstruct particular scale progressions in order to meet changed Civil Service needs. But adjustments of this kind had to be made without adding significantly to the total cost of the settlement.

6.14 In the final stage of the negotiations various other factors which were considered to be of an unquantifiable nature, such as relative job security, mobility, and any other wider considerations which either side wished to advance were taken into account. While the outcome of the negotiations was to a large extent inevitably determined by the quantified evidence the evaluation of these broader factors left some room for more subjective negotiation which affected the result to some degree.

II. INTERNAL PAY LINKS

6.15 The pay of some 30% of all non-industrial staff is linked to that of other grades covered by the pay research programme. The pay of these staff has thus been based indirectly, not directly, on the pay research procedures. When pay research operated it would have been burdensome and in some cases difficult to carry out separate pay research exercises for every grade. Instead it was possible to compare the work of different groups of staff, and on that basis to establish links between their pay which needed to be reviewed only periodically.

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6.16 Some large groups have their pay based on such links. They include the 49,000 Local Officer grades in the Department of Health and Social Security, who are linked with a small pay lead to the Executive and Clerical Officer scales; and the 26,000 Tax Officers and Tax Officers (Higher Grade) in Inland Revenue, who are linked with larger pay leads to Clerical Officer and Executive Officer respectively. There are also many smaller groups with pay linkages, such as the 50 Principal Psychologists who are linked at parity with the Principal in the Administration Group; and the 7 staff in the grade of Area Gas Examiner whose pay is set between the Higher Scientific Officer and Senior Scientific Officer scales.

6.17 The 1974 Pay Agreement (paragraph 28) set down procedures for reviewing pay links. Reviews could be undertaken at the request of either party, at no less than 4-yearly intervals. Consideration of new procedures, which was referred to in the Agreement, was still in train when the Pay Agreements were suspended in October 1980. The main change planned was a reduction to 3-yearly intervals between reviews, and by 1980 this had in fact become the practice by informal agreement between the two Sides.

6.18 The determination of pay linkages, and reviews of existing links, have normally been based on an examination of the **internal** relativities between the work of the linked grade and that of the pay "parent". Such reviews have generally been carried out by staff inspectors, using job evaluation. Where it has been established that the work of one or other grade has changed the staff inspectors have recommended a revised linkage. In some cases, however, the two Sides have agreed on an examination of the **external** pay levels for comparable work, as the best means of determining the appropriate internal linkage. For instance, a recent review of the Pharmacist class in the Department of Health and Social Security collected evidence about outside rates for pharmaceutical work, in order to determine the appropriate current level of pay for work of this type and then on this basis to link the class to a pay research group (the Professional and Technology Category) for future pay movements.

6.19 Reviews of the organisation of groups or categories, even though not undertaken primarily for pay purposes, may also affect pay linkages. When pay research was operating it was the practice that if such reviews were likely to lead to increases in pay for any significant number of staff they were treated as pay reviews and subject to the Pay Agreement procedures.

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Pay and Structure

6.20 As already indicated in Chapter 2, Civil Service pay and structure are closely connected. All groups of staff in the same category (see Chapter 2.7) have common pay scales. When pay research operated only one group in the category could have its pay fixed directly by pay research, and the pay of the other groups in the category was determined by internal linkages to the "parent" group. (In the General Category, for instance, the Administration Group was included in pay research and once a settlement had been reached economists, statisticians, librarians and the other groups in the category automatically received the same pay scales.) At times it may become difficult to maintain all the pay linkages in a category. The nature of the work of one group may change or movements in outside pay for a particular type of work may make it difficult to recruit or retain such staff in the Service, if their pay is not adjusted to take more specific account of the market. In that case the group's pay link may need to be reviewed. But if the review indicates that the group should be paid more or less than other groups in its category then it can no longer remain in the category.

6.21 Within a group all staff in the same grade receive the same rates of pay. Under the pay research arrangements these rates have been fixed by reference to pay for comparable work outside the Service. If the work of the group is too heterogeneous this can give rise to difficulties in making properly weighted comparisons. But apart from this technical problem, "average" pay rates for the group as a whole can mask differences in pay for different types of work outside the Service. As a result some staff within the same group may be paid less than "market" rates for their particular discipline while others are being paid more. Any move to bring staff together into a more unified grading structure with identical rates of pay runs the risk of reducing the sensitivity of the system to differences in pay rates in the external market.

6.22 So it is necessary to preserve sufficient flexibility in fixing different pay rates for different groups of staff to take account of the external pay situation. This acts as a constraint on the extent to which unified grading structures based on common pay rates can be created in the Civil Service even where staff carry out work of comparable job weight and can for other internal management purposes conveniently be brigaded together as a single group.

(III) SINGLE OUTSIDE ANALOGUE GRADES

6.23 Certain non-industrial grades whose work is almost identical with that of an outside occupation covered by a single pay agreement (eg Teachers) are paid on a "single outside analogue" (SOA) basis. Their pay is linked to that of the outside analogue and they receive increases in line with the settlement for the outside analogue and from the same operative date. There are about 15,000 such staff in the non-industrial Home Civil Service employed in over 20 Departments with a majority in the Ministry of Defence, Department of Health and Social Security, and Home Office.

6.24 Most Civil Service SOA grades, such as Teachers, Nurses, Police and Fire Officers, are linked with analogues in the public sector. The pay of officers and ratings in the Royal Fleet Auxiliary follows National Maritime Board rates which are determined on commercial considerations by the General Council of British Shipping. A small number of SOA grades have pay links with grades in the BBC and British Airways. These links were maintained during the 1980-81 pay round.

6.25 Formal arrangements governing the pay of the SOA grades were set out in paragraph 4 and Annex B of the 1974 Pay Agreement. The arrangements for reviewing the links of these grades to their outside analogues are broadly comparable to those described in section II above for linked grades generally. When the establishment of a pay link has been considered, any differences in the outside analogue's responsibilities, work practices or conditions of service have been taken into account.

(IV) HIGHER CIVIL SERVICE

6.26 The pay of those in the Open Structure at the level of Under Secretary and above is not subject to negotiation and settlement, but is determined in the light of recommendations by the independent Top Salaries Review Body (TSRB).

* A list of the grades by employing Department, outside analogue and review date is being made available separately to the Inquiry.

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Background

6.27 The Priestley Royal Commission considered whether any special machinery was needed for Higher Civil Service pay and recommended that:

"In determining the remuneration of the Higher Civil Service, regard should be had to salaries in Industry (private and nationalised), commerce and finance; the comparisons that can be made with other public services (for example senior posts in a local authority) and with senior university staff; and the level of remuneration which will be considered reasonable, in the light of tradition and convention, for the most senior civil servants." (Chapter XVII Recommendation 42)

"There should be appointed a Standing Advisory Committee of say five persons chosen to reflect a cross-section of informed opinion in the country at large, with the function of exercising a general oversight of the remuneration of the Higher Civil Service". (Recommendation 45)

6.28 Following the Royal Commission's Report a Standing Advisory Committee was set up in February 1957. The Committee exercised a general oversight of major questions affecting the remuneration of the Higher Civil Service, and advised the Government, at the latter's request or its own initiative, on what changes were desirable in the remuneration of these officers. Its findings were not binding on the Government.

6.29 In 1971 the Top Salaries Review Body took over the functions of the Standing Advisory Committee. The TSRB also advises the Prime Minister on the pay of senior officers of the Armed Forces and the higher judiciary. Since it was set up the review body has also regularly been asked to advise on the pay of Ministers and Members of Parliament. The TSRB was concerned until recently with the remuneration of the Chairmen and members of the Boards of Nationalised Industries, but it recommended in 1980 that it was not the appropriate body to make recommendations on this group and this was accepted. The secretariat to the Review Body is provided by the Office of Manpower Economics. The TSRB has also called on outside assistance (eg from management consultants) as necessary to carry out job evaluation surveys and to provide information about outside salaries and other conditions of service.

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6.30 The Review Body does not publish detailed criteria on the way it reaches its recommendations. But it has commented in each of its main reports on the general pay principles which guide its approach.

6.31 It made clear in its Sixth Report (1974, Cmnd 5846) that it considered that an assessment of "broad equivalence" was possible even at the most senior levels of the Civil Service, even though direct functional comparisons could not always be made. But the Review Body gave weight to other factors: differences in accountability between the Civil Service and jobs outside; relative job security; and less tangible factors such as job satisfaction, stability and convention. The Review Body considered that all these factors justified setting Civil Service salaries somewhat below those which would be indicated by strict comparability.

6.32 The Review Body's Tenth Report (1978, Cmnd 5253) endorsed this general approach, and added two further criteria: the need to pay what was necessary to recruit and retain, and the need for salary structures which would provide a rational progression and reasonable differentials. An extract from the report (paragraphs 16-18) is at **Annex E**.

6.33 In their Fourteenth Report (1980, Cmnd 7952) the Review Body said:-

"We have continued to adopt two basic criteria in assessing salaries. First, that they should be reasonable compared to what is available outside the Civil Service for like weight of responsibility, bearing in mind differences in conditions of employment and in remuneration other than pay. Secondly, that they should form part of a coherent salary structure for the Civil Service as a whole." (paragraph 74)

The application of TSRB recommendations

6.34 The TSRB has an advisory role, and Governments have always made clear that there may on occasions be clear and compelling reasons which make it impossible to accept the Review Body's recommendations in full. In recent years the increases recommended by the Review Body in 1978 and 1979 were implemented in stages. In 1980 the Government decided to give increases lower than those recommended; and in 1981 the Review Body recommended implementation of its 1980 recommendations but the Government again found it necessary to

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keep the actual increases to a lower level. The Review Body's report in April 1981 was an interim one, as it is undertaking a thorough examination of the relevant salary structures and related issues for each of the groups in its remit. It proposes to submit a substantive report for April 1982.

The interface problem

6.35 Some difficulties have arisen in the past in setting salary levels for the grades which lie at the "interface" between the pay research system (up to and including Assistant Secretary and equivalents) and the TSRB's coverage (Under Secretary and above). There has been a progressive narrowing of differentials between the Assistant Secretary and Under Secretary grades, which in turn has had repercussions at lower levels. This trend was most marked in 1979 when the pay research-based Assistant Secretary rate (implemented in full in the third stage of the settlement in January 1980) exceeded the TSRB-based Under Secretary rate by some £500. In 1980 the Government's decision to set substantially lower increases for the Open Structure grades than were recommended by TSRB made it necessary to implement scales for the Assistant Secretary and Senior Principal below the levels indicated by the pay research evidence, in order to maintain tolerable differentials.

6.36 The TSRB considered this interface problem in its 1980 report. It pointed to the difficulties of making direct comparisons at the more senior levels; but it endorsed the need for continuing with an independent review procedure, rather than, for instance, waiting for the pay research salaries to be settled and then basing the top salaries on fixed internal differentials above these. More recently, the Pay Research Unit Board in its 1981 Report commented that there would be advantage in cutting off the coverage of pay research at the Principal level, which they saw as a more natural break than Assistant Secretary.

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CHAPTER 7

CIVIL SERVICE PAY: GENERAL FRAMEWORK

I. RATES, SCALES AND INCREMENTS

General

7.1. Organisations operate different pay systems according to their management needs. In some, all staff may be paid on fixed points; or there may be ranges for each grade with the individual's point on the range and progression through it dependent upon ability or performance or job weight or some mixture of these; or there may be incremental scales - ie a series of pay points between a fixed minimum and maximum, through which staff may progress according to the rules laid down. In the non-industrial Home Civil Service over 98% of staff are on such incremental scales. At present nearly 50% are on the maximum of their scales and are therefore entitled to no further increments. However, flat rates are paid to Open Structure staff and sometimes to staff at a lower level where a post is the top of a hierarchy. Flat rates may also be used where officers are employed on short-term engagements of a somewhat specialised character lasting between two and three years.

Incremental Scales

7.2. Incremental scales are used widely outside the Civil Service, particularly in the public sector. Other organisations which use incremental systems include the Armed Forces, National Health Service, local authorities and nationalised industries. A report by the Office of Manpower Economics in 1973⁴ described the extent and nature of incremental systems in both the public and private sectors at that time.

⁴ Report by the Office of Manpower Economics on Incremental Payment Systems, HMSO 1973. The report found that over 90% of white-collar employees in the public sector were paid on incremental scales. The picture was less clear for equivalent private sector employees. The surveys indicated that a high proportion (80-90%) of managerial and other senior staff were paid within flexible ranges: whereas fixed incremental scales were more common for clerical and other office staff (about 30%-50% according to different surveys).

7.3. Incremental scales have usually been negotiated in detail for each grade in the non-industrial Home Civil Service as part of the annual pay negotiations between the Civil Service Department and individual unions or the Union Side collectively. Where the negotiations have been based on pay research, information has been collected about both the maxima and minima of ranges or scales which are observed in outside organisations with analogous jobs. The objective has been to determine a scale which reflects fairly the outside range and the scope for progression through it. The rate for the job is thus the scale taken as a whole.

7.4. Annual progression from one point to the next has been, in most cases, automatic and according to agreed and published rules.* The process is not entirely automatic because every officer on appointment has been required to undergo a period of probation. Departments also have the discretion to withhold increments from staff who have received adverse reports and to withdraw increments on disciplinary or inefficiency grounds. In practice, however, this discretion is rarely used. In extreme cases departments have more commonly relied on procedures for reversion to a lower grade or for dismissal.

7.5. In the Civil Service progression through a scale reflects the officer's length of experience in his grade. It is not used as a reward for merit and there is no provision for accelerating incremental progression. It has been felt in the past that a performance-related pay scheme would be too difficult to administer in an organisation as large as the Civil Service, and that equity in standards of assessment would not be ensured. Instead, merit is mainly rewarded through promotion although this of course depends on the availability of posts at the higher grade.

7.6. In recent years there have been a number of suggestions that the system should be changed in order to introduce more incentives into Civil Service pay procedures. The Fulton Committee (1968) advocated a system of performance-related pay for the top grades. The Top Salaries Review Body in its 1974 and 1978 Reports also suggested that pay for the senior grades should be linked to performance. The Expenditure Committee (11th Report, 1977) recommended that the Civil Service should conduct research into the possibilities of relating pay and promotion to performance at all levels.

* Civil Service Pay and Conditions of Service Code, paragraphs 1170-1266

7.7. The last Administration commissioned two studies: one from the Office of Manpower Economics*, to investigate pay systems for senior management used outside the Civil Service; and one from the Pay Research Unit† on performance-related pay systems in outside organisations below the most senior levels. Both reports indicate that pay systems which take account of individual performance, either within fixed incremental scales or within more flexible pay ranges, are widely used outside the Civil Service especially at more senior levels.

Starting Pay and Assimilation

7.8 There are detailed procedures, agreed with the union side, for calculating the point on each pay scale on which new entrants should be placed, eg on recruitment or promotion. There are similar rules for calculating an individual's new pay level when pay scales are revised (eg shortened or lengthened) or combined. The latter process is known as "assimilation". A note on these procedures is at Annex F.

* Office of Manpower Economics Report on Pay Systems for Senior Managers and Executive Board Members, January 1980.

† Pay Research Unit Report on The Application and Operation of Performance Related Pay Systems, January 1981.

II. HOURS AND LEAVE

7.9 The Royal Commission of 1955 recommended that hours and leave should be broadly comparable with those in outside employment generally. Significant movements in hours and leave occur infrequently outside, and changes to the Civil Service provision have only been made where outside practice has indicated that this is justified. The present conditioned hours for office staff were introduced in 1965 following an arbitration award in 1964. The most recent review of leave took place in 1980 when improvements were introduced for the lower grades.

7.10 Under the pay research system, where the hours and leave of the outside analogues differed from current Civil Service provision account was taken of these differences by adjusting the median pay rate upwards or downwards. This was achieved by comparing the net working year of the Civil Service grade, allowing for both hours and leave, with the median of the outside analogues. The practice was formally included in the 1974 Pay Agreement although prior to this the Official Side had always taken these differences into account in the negotiations. The union side recently proposed that this procedure should be changed and that in future any negotiated improvements in hours and leave should be a matter for separate negotiation.

Hours

7.11 For most full time non-industrial civil servants, pay is related to a specified number of hours of attendance per week known as "conditioned hours". The number of hours varies between grades and may be expressed either as a gross figure including paid meal breaks (gross hours) or a net figure excluding meal breaks (net hours). Conditioned hours, however expressed, are the number of hours that must be worked by overtime grades before overtime/long hours gratuity becomes payable. For the non-overtime grades (those with salary maxima exceeding that of the SEO grade) conditioned hours represent the minimum hours of attendance.

7.12 The conditioned hours of the main general service and departmental grades are 42 gross in the provinces and 41 in the London pay area. A few grades work 42 hours gross wherever employed, eg: Full time Cleaners,

Government Telephonists, Museum Warders, Paper Keepers, Security Officer grades and Messengers. Prison Officer and Radio Officer grades work 40 hours net (that is exclusive of meal breaks) wherever employed.

7.13 Grades conditioned to gross hours are allowed a paid meal break of 1 hour in each full working day. No allowance is made for tea breaks which are expected to be taken at the desk wherever possible.

7.14 Departments have considerable flexibility in the way they arrange the conditioned hours of the working week. Some have introduced flexible working hours (FWH) schemes whereby staff have considerable choice over their personal attendance patterns. Staff do not have to arrange in advance their exact times of arrival and departure, provided they complete their net conditioned hours within the specified period (this may be longer than a week) and are present in their offices for certain peak periods (called "core time") during the working day. Approximately 40% of office staff now work formal FWH schemes.

7.15 Despite this flexibility, there are still some grades whose patterns of attendance are necessarily so variable that it is impossible to determine a particular pattern of attendance or set a fixed number of conditioned hours to be worked during any one week. Prison Governors, Farm Managers and staff with residential duties are typical examples of such grades. These grades, known as "all hours worked" grades, work the number of hours necessary to carry out their duties as and when they are required. Although such staff are not eligible for overtime, or payments for unsocial attendances, this is taken into account when fixing their basic rate of pay.

7.16 For most staff conditioned hours and working hours are the same though occasional overtime may be necessary to meet temporary peaks in the workload of a department. For a few grades, eg Prison Officers and the first line supervisors of industrial staff, overtime is worked on a regular basis.

Annual leave

7.17 This is the term used to describe paid annual holidays, excluding bank, public and privilege holidays. Generally, the annual leave allowance of a grade depends on the maximum of the pay scale of the grade as compared with

the national scale maximum of certain "key grades". There are certain exceptions to these arrangements, eg Trainee grades and grades whose pay and conditions of service follow those of outside analogues (see Chapter 6, section iii).

7.18 The leave allowance for each grade is determined as follows. A leave "week" consists of 5 working days:

For grades equivalent to Clerical Officer level and below	4 weeks on entry 4 weeks and 2 days after 10 years total service 5 weeks after 15 years total service
For grades above CO level but with salary maximum not exceeding the maximum of the EO	4 weeks on entry 4 weeks and 2 days after 7 years total service 5 weeks after 17 years total service 6 weeks after 27 years total service
For grades with salary maximum in excess of EO but not exceeding SEO	4 weeks and 2 days on entry 5 weeks after 10 years total service 6 weeks after 20 years total service
For grades with salary maximum in excess of SEO but not exceeding AS	5 weeks on entry 6 weeks after 10 years total service
For all grades above AS	6 weeks

7.19 Staff are expected to take their leave and Departments are expected to ensure that wherever possible sufficient opportunities exist for them to do so. But no civil servant is entitled as of right to be absent on leave for the number of days which he is eligible, or to receive any form of compensation if his annual leave allowance is curtailed because of the demands of the work. A carry-over of 5 days into the next year is allowed where staff request it, and Departments have discretion to allow carry over of up to 10 days where staff have been unable to take that amount of leave because of the demands of the job and the consequent management restrictions. In addition to

the annual leave allowance, civil servants are generally granted a day's leave with pay on the usual bank and public holidays, and privilege holidays with pay on the afternoon of Maundy Thursday, the whole of the Friday before the Spring Bank Holiday (the Queen's Birthday) and one additional day at Christmas. The total number of public and privilege holidays is normally 10.5 days a year.

7.20 The annual leave allowance is normally regarded as sufficient to meet any requirement staff may have to be away from work for any personal reason. Special leave with pay may be granted for certain purposes such as attending recognised union meetings, for urgent domestic matters (eg bereavement), or specialised study or research which is in the interests of the Service. But these are kept within clearly defined limits which are normally adjusted to take into account the individual's leave allowance.

7.21 Departments also have discretion in individual cases to allow a restricted amount of special leave without pay, the dominant consideration here being the interests of the Service.

7. III. ALLOWANCES AND SPECIAL INCREASES

7.22 Basic pay accounts for all or nearly all of most civil servants' pay. Apart from London Weighting (see Section IV. of this chapter), additional pay related allowances form only some 0.2% of the total pay bill. There is nevertheless a considerable range of allowances, which are normally agreed between the Civil Service Department and the Union Side. They are not covered by the Pay Agreements. They fall into the following main categories:

Pay Related Allowances

These normally move broadly in line with general pay increases and fall into 4 main categories:

- a. allowances which are the subject of separate negotiations with the CCSU. These include responsibility allowances which are normally adjusted in line with the average annual increase in Administration Group pay;
- b. allowances (also separately negotiated with CCSU) which compensate staff for difficult working conditions. Prison environment allowances and ship board hard-lying allowances come into this category. These allowances are normally increased in line with responsibility allowances;
- c. allowances which are also separately negotiated with CCSU on the basis of outside practice eg on-call and stand by allowances;
- d. allowances which recognise particular skills eg proficiency allowances eg for typists or data processors. These allowances are normally adjusted in line with the average annual increase in pay for the grades concerned.

7.23 In addition to these allowances there are those which compensate for additional and unsocial hours worked eg overtime and long hours gratuity, Saturday and Sunday premium payments and shift disturbance allowances. These allowances are expressed as a percentage of basic pay and therefore move automatically in line with basic pay. The percentages are the subject of separate negotiations with the CCSU, but reviews of these percentages are relatively infrequent.

Non Pay Related Allowances

7.24 Non pay related allowances may be broadly classified under four main headings: travel; subsistence and lodging; permanent transfer in the public interest; miscellaneous. They are intended to provide fair and consistent reimbursement to civil servants who, in the course of their official duties, have actually and necessarily incurred additional expenditure. The basis on which all these allowances are assessed varies according to circumstance: in general they take the form of flat-rate payments, but others cover actual vouched expenditure or reimbursement of costs incurred within given ceilings. All allowances are updated from time to time, largely either by reference to the Retail Price Index or by annual review of current costs for the type of expenditure concerned.

Special Increases

7.25 Special increases of a pre-determined amount are given to officers in certain grades for holding or acquiring prescribed qualifications or on the satisfactory completion of a period of service.

7.26 Extra pay however is not given to an officer doing no more than the normal duties of his grade, however outstanding he may be. In the Civil Service exceptional merit may be recognised only by early promotion or under special promotion arrangements where these apply.

IV. LONDON WEIGHTING

7.27 Non-industrial civil servants have a national rate of pay which applies to all areas, but, with the exceptions mentioned below, officers employed in London receive a pensionable addition known as London Weighting. There are two rates of London Weighting; the Inner London rate applies to officers employed within a radius of five miles from Charing Cross and the Outer London rate to officers employed outside Inner London but within a radius of 18 miles from Charing Cross plus the local authority areas of a number of towns intersected by this boundary.

The rates are:-*

	Inner London	Outer London
a. Staff on annual salaries	£1016	£424
b. Weekly paid staff	£19.26	£8.12

7.28 A very few grades have undifferentiated rates of pay which apply irrespective of location, and these grades do not receive London Weighting. In addition, as recommended by the Standing Advisory Committee on the pay of the Higher Civil Service, London Weighting has not been paid to officers at Deputy Secretary level and above since 1965.

PROVINCIAL DIFFERENTIATION

7.29 The practice of differentiating in pay terms according to locality has a long history. From 1920 until 1958 there was a 3-tier system of provincial differentiation covering London, intermediate and provincial offices. By the end of this period there was one scale for each grade - the London scale. The pay for offices elsewhere was this scale less standard deductions which increased from one salary band to another, the amount varying from £10-£100 in provincial offices, and from £5-£50 in intermediate offices. The London pay area was within a 12-mile radius of Charing Cross; the intermediate area included all offices beyond the 12-mile radius but within 16 miles of Charing Cross and all offices within 18 specified local authority areas (the rough criterion being a population of 250,000 or more).

* These rates have been effective since 1 April 1980. New rates for 1 April 1981 have not yet been settled.

7.30 The Priestley Commission (1953-55) concluded that some form of provincial differentiation was necessary in view of the almost universal practice of differentiation outside the Service. Outside comparison revealed that a two-tier system of differentiation based on a national rate with a London allowance addition was the most common practice and it was therefore recommended for the Civil Service. The Commission considered that this could be justified on two other grounds. First, a system of additions would be less unacceptable to staff than one of deductions. Secondly, it would recognise that the Civil Service was predominantly a national rather than a London Service.

7.31 The new system of differentiation was introduced in 1958. Progress from the old provincial rates to the intermediate (new national) rate was achieved in stages over 4 years.

7.32 In 1960-61 London Weighting was reviewed on the basis of outside comparisons. Severe recruitment difficulties in central London coupled with evidence of outside practice led to the introduction of a new inner London pay area of a 3-mile radius from Charing Cross leaving the remainder of the existing 16-mile area to be designated as a new outer London pay area. The following year's review extended the Inner London radius to 4 miles. (In 1974 the inner radius was extended to its present limits).

7.33 In 1967 the lack of comprehensive outside evidence in the two preceding reviews coupled with growing doubts about the appropriateness of basing London Weighting on outside comparisons led the Government of the day to ask the National Board for Prices and Incomes to recommend principles on which London Weighting should be determined.

7.34 The Board recommended that London Weighting should take account of the higher costs of working and living in London, the main elements of which were associated with housing and travel to work. The underlying principle should be to equalise, so far as practicable, the real value of remuneration throughout the Civil Service regardless of whether staff worked in London or elsewhere. New flat rates of London Weighting were recommended for all grades together with an index-related formula for keeping them up-to-date. The revised rates of London Weighting were implemented, and updated in the two succeeding reviews, in accordance with the Board's recommendations.

7.35 In the face of considerable pressure in the public sector for substantial increases in the level of London Weighting it was decided in 1973 to refer the matter to the Pay Board for further independent examination. The Board was asked to consider whether the NBPI formula was still valid, to review the present weightings and geographical boundaries and to examine the methods used to keep the weightings up-to-date. In 1974 the Board published their Advisory Report No 4 (Cmnd 5660) which endorsed the principle laid down by the NBPI (ie the principle of cost compensation to ensure comparability of real earnings for working in London and elsewhere) but identified two further elements of additional cost beyond those of housing and travel to work. These were "other costs" representing items of every-day consumer expenditure, and "wear and tear and housing standards" representing the stress and inconvenience of travelling to work and the poorer standards of accommodation caused by higher London price differentials. The Board recommended substantially increased weightings together with a revised updating formula. They also recommended a further review within the following 5 years. In fact no review has yet taken place and the 1974 report continues as the basis for settling Civil Service London Weighting.

7.36 In order to equate the pay of civil servants working in London with that of their analogues outside, the pay research process excluded any London Weighting paid by the analogues from the calculation of True Money Rates. In addition, where an analogue's pay was set at a London rather than a national rate and no specific London element was identifiable within the rate, an amount equal to the London Weighting rate paid in the Civil Service was deducted from the True Money Rate.

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CHAPTER 8

ARBITRATION

8.1 The Civil Service Arbitration Agreement of 1925 (as modified by a number of supplementary agreements between 1936 and 1964) is at Annex G. It covers the whole of the non-industrial Home Civil Service and is separate from the Civil Service Pay Agreements; it is not affected by the Government's withdrawal from these. The Agreement provides for the reference of disputes on pay and similar matters to the independently chaired Civil Service Arbitration Tribunal. References are made by the Secretary of State for Employment at the request of either party (though for grades with pay above that of Principal the agreement of both parties is required and has rarely been given by the Official Side).

8.2 The subjects which are arbitrable are defined in the Agreement. Superannuation is not arbitrable and neither are the numbers or complements of staff or the actual times of their attendance; these are regarded as matters of management in which the employer must have the last word. The Official Side takes the view that grading is also a management matter, and therefore not arbitrable, although the union side has challenged this (unsuccessfully) in the past. Questions of pay and allowances, weekly hours of work and annual leave however are clearly arbitrable; and this normally includes questions of the effective date of any alteration in these conditions of service. Individual cases are excluded from arbitration. Claims must relate to a "class" of civil servants, which is described as "any well-defined category of civil servants who for the purposes of a particular claim occupy the same position or have a common interest in the claim".

8.3 Since the introduction of pay research in 1956 there have been some 200 references to the Civil Service Arbitration Tribunal, covering a wide range of subjects and groups of staff. Some cases have concerned small groups in individual departments, such as radio operators' pay in the Central Statistical Office (1969), and the allowances for Meteorological Office staff appearing on television (1956). Others have affected large Service-wide groups, including the pay of non-industrial telephonists (1960), and the recent references on Professional and Technology Group pay in 1979, and on Science Group pay in 1980.

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8.4. Governments have always reserved the right to refuse arbitration on an issue which forms a major element of Government policy, even if the subject is arbitrable under the Agreement. That right has been exercised on a number of occasions in the recent past, either by the Secretary of State for Employment intimating in response to a specific request that he would not allow arbitration to go ahead; or by the Government making it clear that arbitration would not be allowed on certain matters, for instance at times of overriding economic difficulty. This was the case during the period of pay policy between 1975 and 1978, and again in 1981 when the Government made clear that at a time of tight constraints on public expenditure it could not agree to arbitration on the total cost of the settlement.

8.5. The Treasury Circular of 1925 which announced the Arbitration Agreement contained the pledge that "subject to the overriding authority of Parliament the Government will give effect to the awards of the Court". This qualification preserves the constitutional supremacy of Parliament. It has been taken to mean (as explained in the Handbook "Staff Relations in the Civil Service", paragraph 93) that the Government will not itself propose to Parliament the rejection of an award, once made. However, the Government has told the Civil Service Unions that in 1982 it will accept recourse to the Civil Service Arbitration Tribunal on the understanding that it reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

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CHAPTER 9

SUPERANNUATION

Civil Service Pensions

9.1 For well over a century, Civil Service pension arrangements were governed by a series of Superannuation Acts, dating back to 1834, which were consolidated in the Superannuation Act of 1965. Following a comprehensive review of these arrangements with the unions, it was decided that the detailed provisions should be removed from the statute book and the Superannuation Act 1972 gave the Minister for the Civil Service wide powers to make and operate pension schemes for all persons employed in the Civil Service of the State. Although different schemes may be made for different classes of employees, almost all industrial and non-industrial civil servants are now pensionable under the main scheme made under that Act - the Principal Civil Service Pension Scheme (PCSPS). This scheme is in line with the pension schemes applying to other public servants and to nationalised industry employees, and conforms with Inland Revenue requirements for the approval of pension schemes. It also conforms to the preservation requirements of the Social Security Act 1973 and to the contracting-out requirements of the Social Security Pensions Act 1975. All civil servants covered by the scheme are contracted out of the earnings-related additional component of the state pension scheme.

9.2 The main features of the scheme are summarised at Annex H. The principal benefits are an annual pension and a lump sum retiring allowance, payable at age 60 to both men and women. The pension is equal to 1/80th of pensionable pay per year of reckonable service, and the lump sum is three times this amount. Taken together, the two are broadly equivalent to a pension of 1/60th pensionable pay per year of service, the more common basis of calculation in the private sector. (Under Inland Revenue rules, the members of such schemes may commute a part of their pensions to obtain lump sums not exceeding 3/30ths of final pensionable pay for each year of service. The PCSPS, however, in common with most public sector schemes, provides no option of higher pensions in exchange for reduced lump sums; commutation is in effect compulsory.)

9.3 The scheme also provides for widows' and childrens' pensions and for lump sum death benefits. If a civil servant leaves before the retiring age his accrued pension rights may be preserved if he has more than 5 years'

service, as social security legislation requires of all occupational pension schemes. Alternatively, he may opt to have his pension rights transferred to the pension scheme of his new employer. A lump sum, calculated in accordance with tables provided by the Government Actuary for all public service pension schemes, would be paid to the pension scheme of his new employer, and would then be converted into credit in that scheme. Specially enhanced benefits may be paid at the time of leaving to those who are retired early on grounds of ill health or for management reasons (eg redundancy).

Pensions Increase

9.4 Civil Service pensions in payment are inflation-proofed after retirement under the Pensions (Increase) Act 1971, as amended. This legislation covers, directly or indirectly, some 5 million employees in the public sector, including the armed forces, teachers, local government and NHS employees, policemen, firemen, MPs, Ministers and the judiciary and employees of most nationalised industries. Civil servants comprise about one seventh of the total. The pensions are now increased annually at the same time and by the same percentage as the earnings-related additional component of state pensions. The increase is based on a price forecast in about April relating to the year up to (usually) November. The same increases are applied to preserved pensions, which thus retain their original purchasing power.

Contributions

9.5 Civil servants help to meet the cost of their pensions in two ways. First, all men are required to pay a direct contribution of 1.5% of the pay they actually receive towards the cost of widows' pensions. Married women whose husbands are dependent on them may opt to pay at the same rate for widowers' pensions. (Additional contributions to meet the full cost are payable by all civil servants who opt to purchase added years of reckonable service within the limits allowed by Inland Revenue for occupational pension schemes generally.)

9.6 Secondly, salary rates are reduced at the time of settlement. This reduction in pay is the main part of the contribution and in 1980 was equivalent to a 7% contribution in a normal contributory scheme. The reduction derives from two separate and cumulative adjustments to the analogue pay rates produced by the pay research surveys. The first of these adjustments takes account of the difference in pension contributions actually paid by outside employees and the 1.5% actually paid by men civil servants. For this purpose, purely voluntary contributions, such as those paid for widowers' pension and for added years, are ignored and the 1.5% contribution paid by men civil servants is compared with the similarly compulsory contributions paid by those in the analogue employments. In 1980, the average of these outside pension contributions was found to be 4.3% of gross pay and True Money Rates were therefore reduced by 2.8% to take account of differences in contribution levels. A further adjustment of 0.4% is also necessary for the fact that not all the analogue schemes were contracted out of the State scheme.

9.7 The second adjustment takes account of the differences in the superannuation benefits that civil servants and employees in the analogue employments can expect to receive. It is assessed by the Government Actuary on the basis of detailed information about the pension schemes of the analogues. It takes into account both differences in basic benefits (size of pension, lump sum, etc) and the extent to which those benefits are subsequently protected against the effects of inflation. In the case of schemes which provide discretionary post-retirement increases (about three-fifths of the analogue schemes), assumptions about future increases are drawn from what has actually been done in the previous 5 years. In 1980, the average increases paid by these schemes were found to be about 55% of the rate of inflation. The 1980 deduction was 3.8%.

9.8 The effect of these deductions may be illustrated as follows:

	Analogue average	Civil Service
	-----	-----
Starting point (£100 analogue pay)	£100	£100
Differences in contributions (para 9.6)	-	-£2.40

		£97.60
Deduction for benefit differences (para 9.7)	-	-£3.70
	-----	-----
Gross pay	£100	£93.90
Pension contribution	-£4.30	-£1.40 (1)
	-----	-----
Net pay	£95.70	£92.50
Value of pension benefits	£12.60	£15.80 (2)
	-----	-----
Total remuneration	£108.30	£108.30

Notes 1. 1.5% of £93.90
(men only)

2. 16.8% of £93.90

For each £93.90 of gross pay, therefore, a male civil servant gives up £7.50, or 8% of gross pay. Women give up £6.10, or 6.5%. The above calculation was shown in the Scott Report (see paragraphs 9.10-9.14), averaged over men and women, giving the result 7.9%.

9.9 The 8% given up by male civil servants is not however comparable with an 8% contribution as normally understood. This is because the civil servant's pension is based on £93.90 (ie after most of the contribution), and so is scaled down by 6.1% as compared with the pensions of the analogues. Thus civil servants in fact forgo more than the above table suggests at first sight. The total amount given up on account of pension arrangements may be calculated by assuming that civil servants receive the same gross pay as the analogues, and that all payment is made by direct contributions from pay. The result is as follows:

Gross pay	£100
Value of Civil Service pension benefits	£16.80

Less total analogue' remuneration	£108.30

Pension contribution	£8.50

A truer reflection therefore of the total given up by civil servants for their pensions is that it is equivalent to contributions of 8.5% (min), 7% (women) in a fully contributory scheme.

The Scott Inquiry

9.10 The Government announced on 22 May 1980 the appointment of an independent Committee of Inquiry, under the chairmanship of Sir Bernard Scott, with the following terms of reference:

"Having regard to the need to ensure that full account is taken in all areas of the public sector, whether by contributions or salary abatement of the value of inflation-proofing of occupational pensions, and of the relative job security; taking account of arrangements in the private sector:

- a. to consider the assumptions and methods used by the Government Actuary where he assesses the value of differences in inflation-proofing of occupational pensions;
- b. to consider the relative degree of security in the full inflation-proofing enjoyed by public sector employees compared with those in the private sector, and the additional value to be placed upon it;
- c. to consider how to assess the relative job security enjoyed by employees in the private and public sectors;
- d. to report their findings and suggest what valuations or methods of valuation would be appropriate to take account of these factors in determining pay and other conditions of service."

The Inquiry's report (Cmnd 8147) was published on 5 February 1981 and has been made available separately to the Committee.

9.11 Although the Inquiry's terms of reference covered the whole public sector, much of the report concentrated on the assessment of the value of benefit differences in pay research, described in paragraphs 7 and 8 above. The report broadly endorsed the Government Actuary's methods. It recognised that the results of the calculations were critically dependent on the assumptions made, and that these were particularly difficult since they related to economic and other trends over a period of up to 60 years in the future. The Report suggested, however, a range of assumptions which the Committee considered reasonable, and which would have led to a total effective Civil Service contribution (including contributions for widows' pensions) of between 7% and 13.5% on the basis of 1980 pay research data. The actual effective contribution was toward the lower end of this range (see paragraph 9.9). In order to arrive at a figure near the top end of the range, however, it would be necessary to make assumptions about investment performance in the long term which are markedly more pessimistic than those judged appropriate by the actuarial profession generally.

9.12 The Scott Committee recommended that analogues from the public sector should be excluded from the comparison, for pay as well as pension purposes. In making this recommendation, the Committee were struck by what they saw as the circularity of drawing analogues from the public sector, who might in turn look at Civil Service pay and conditions in setting their own. To have excluded the public sector analogues in 1980 pay research would have increased slightly the effective pension contribution, but the Committee were unable to assess the effect on the basic pay rates from which the adjustments were made.

9.13 The Committee also considered that the complexity of the comparability exercise obscured what civil servants actually pay for their pensions. They believed it would be an advantage if the pension element of the comparison were better publicised in future.

9.14 The Government is considering the issues raised by the Scott Report and expected to reach conclusions later this year.

INDUSTRIAL CIVIL SERVANTS

General

10.1 The distinction between industrial and non-industrial civil servants is, in general, the distinction which exists in outside industry between blue and white collar workers. As in outside industry, the distinction is reflected in membership of different trade unions. Thus industrial civil servants are represented by the national trade unions representing manual workers performing comparable work in industry.

10.2 It is largely the nature of the work which determines whether a Civil Service job is graded industrial or non-industrial. Industrial civil servants are mostly manual workers, engaged in fields such as engineering, building and maintenance work, printing and publishing, and storage depot work. About 90% of them are employed in activities in support of defence, mainly in the Ministry of Defence itself.

10.3 The distinction between industrials and non-industrials becomes somewhat blurred, however, in the area of what may be regarded as office manual work. Here, the general practice is to have regard also to the working environment and to what may be regarded as legitimate trade union spheres of interest. In general, therefore, manual work is classed as non-industrial when it occurs in an office environment but as industrial when it occurs in an industrial or factory environment. Thus there are both industrial and non-industrial grades for security work and for messenger and cleaning work. There is also some blurring of the distinction in laboratories and research establishments between work appropriate to industrial craftsmen and non-industrial technicians and between non-industrial laboratory attendants and industrial experimental workers. Custom and practice tend to prevail in these areas.

10.4 There has been a gradual harmonisation of many conditions of service between industrials and non-industrials. Remaining differences are mainly in those areas where the nature of the work and the different negotiating arrangements make alignment with non-industrials impracticable or undesirable.

10.5 There are about 145,000 industrial civil servants (1 April 1981 figures). They are employed in about 20 different departments of whom the major employers are the Ministry of Defence (116,000), and the Department of the Environment (16,300).

Pay and Conditions of Service

10.6 There is no formal agreement with the unions on pay principles or procedures for industrial civil servants. However, their pay and conditions of service have traditionally been determined in accordance with the principle of comparability with those for similar work outside the Civil Service.

10.7 For about 5,000 industrial civil servants, including those in printing and publishing, agriculture, publicity services and defence fire brigades, the current practice is to base pay and conditions of service very closely on those for the comparable outside industry. For the remaining 140,000 or so industrial civil servants, however, the wide range of industrial activities which they undertake is covered by a common structure of pay and conditions of service, the main features of which are negotiated nationally. There are common basic rates of pay for the same kind of work, regardless of industrial environment, and a common basic rate of pay for all craftsmen, regardless of trade or craft; they are applicable throughout the United Kingdom. The common rates of pay are determined by reference to the rates paid in the appropriate outside industries, due regard being paid to the internal combination of industrial functions. Other conditions are similarly determined.

10.8 All basic rates of pay, of which there are thirteen, are related to two key rates: those for craftsmen and unskilled labourers. Both rates are augmented where appropriate by London Weighting on the same basis as those for non-industrials. There are also additional allowances for crafts work calling for higher skills, responsibilities etc.

10.9 Productivity and incentive bonus schemes are a feature of the pay systems for industrial civil servants. On average, productivity bonus accounts for about 10% of earnings (at present about £10.50p a week).

10.10 Over the past decade there has been a considerable increase in the numbers of industrial employees on work-measured incentive schemes and in the

size of these incentive payments. This has caused some problems - particularly in MOD - at the interface between non-industrial supervisors who sometimes receive pay which is similar or even below the pay of the industrials they supervise. Apart from the obvious discontent among staff which this situation can cause there are then difficulties in encouraging industrial employees to apply for promotion.

10.11 Changes of basic pay and conditions of service for the majority of industrial civil servants are negotiated nationally on the Joint Co-ordinating Committee for Government Industrial Establishments (the JCC) or, on minor matters, one or other of one four Trade Joint Councils (the TJsCs). Productivity schemes are normally negotiated at Establishment level.

CIVIL SERVICE STRUCTURE

	CATEGORY	GROUP
OPEN STRUCTURE (Under Secretary and above.)	GENERAL	Administration
		Economist
		Information Officer
		Statistician
		Librarian
		Govt Communications Trainee
	SECURITY	Security
	SCIENCE	Science
	PROFESSIONAL & TECHNOLOGY	Professional & Technology
		Graphics Officer
		Marine Services
	RESEARCH OFFICER	Social Science Research
		Resources & Planning Research
	MUSEUM	Conservation
		Curatorial
	LEGAL	Legal (E & W)
		Legal (Scot)
	TRAINING	Instructional Officer
	SECRETARIAL	Secretarial
SOCIAL SECURITY	Social Security	
DATA PROCESSING	Data Processing	
POLICE	Police	
	There still remain some:	
	DEPARTMENTAL CLASSES	
	LINKED DEPARTMENTAL CLASSES	
	GENERAL SERVICE CLASSES	

THE INDUSTRIAL RELATIONS FRAMEWORK FOR THE NON-INDUSTRIAL CIVIL SERVICE**I THE WHITLEY SYSTEM**

1. The Whitley system has developed over the last 60 years following its introduction into the Civil Service in 1919. The formal machinery consists for the non-industrials of a National Whitley Council (NWC) to deal with matters affecting more than one Department, and Departmental Whitley Councils (DWC) for individual Departments. The NWC meets only rarely and most of the negotiations and discussions on service-wide matters are dealt with through the various standing committees or informally.
2. All the Councils have the ability to establish committees; this is the case not only at NWC level but also at Departmental level and in addition the DWCs are able to establish committees for local offices. The Council and Committees consist of the Official Side (management) and Trade Union Side (employee representatives), each Side being responsible for appointing its own members. All Whitley bodies have the power to take decisions - although these are reached by discussion not voting and there is no procedure for solving disagreements.
3. The existence of the Whitley system does not prevent non-industrial unions dealing direct with management on matters confined to the group for which they are recognised: the two approaches are complementary and there is a considerable degree of discussion between management and individual unions.
4. The main link between these two approaches - Whitleyism and individual unions - is the appointment of representatives of both the Official Side and the Trade Union Side. Staff representation can vary according to the level of the Whitley body; at national level a substantial proportion of the representatives are full-time union officials, at departmental level there is a mixture of full-time officials and serving civil servants and at local level the representatives are serving civil servants, though in many cases the latter may be led by a full-time official. At all levels the recognised unions appoint from their own representatives their members of the Trade Union Side, and Management appoints its members of the Official Side. The Trade Union Side, which represents the staff as a whole and not sectional interests, decides the number of seats to be given to the different unions represented on it.

II THE CIVIL SERVICE UNIONS

The Main Unions

5. Details of the main unions which represent non-industrial civil servants are given at paragraph 8. The non-industrial Home Civil Service is highly unionised compared with many other areas of employment. As in trade union structure generally, today's non-industrial unions are the result of the merger over the years of lots of smaller unions. Most of the original associations were based on small specialist groups and the mergers helped to form Service-wide associations. Mergers have often been prompted by changes in the classes and grade structure of the Civil Service. There are now 9 nationally recognised non-industrial unions.

Independent Trade Unions

6. All the main unions have been given a certificate of independence under the Trade Union and Labour Relations Act 1974. "Independence" means basically freedom from the control of any employer and the certificate entitles the union to the benefits of the Employment Protection Act 1975 and the Trade Union and Labour Relations Acts 1974 and 1976.

Recognition

7. The unions decide themselves whom they will recruit; management decides to which unions it will give recognition. Recognition gives the union the right to consultation on matters affecting the group (not just the members of the union) for which it is recognised, to make agreements with the employers, and to use the Civil Service Arbitration Tribunal; but it also gives the union the responsibility of implementing its part of any agreements it reaches. National recognition is granted by CSD to unions for their interest in more than one department; departmental recognition is granted by the Department concerned in respect of a group employed in that Department for matters relevant to that Department. National and departmental recognition is not always the same for a group of staff. To secure recognition, a union must show that it is representative of the staff concerned. This generally means that they must have a significant proportion in membership; sometimes joint recognition is granted to more than one union for a grade or group.

Membership and representation

8. Membership of each of the main unions is as follows:

	Approx number of members in Civil Service* and "near fringe".	Total membership*
Association of Government Supervisors and Radio Officers (AGSRO)	9,682	12,043
Association of HM Inspectors of Taxes (AIT)	2,518	2,518
Civil and Public Services Association (CPSA)	184,684	224,781
Civil Service Union (CSU)	45,732	46,827
Association of First Division Civil Servants (FDA)	5,706	5,706
Institution of Professional Civil Servants (IPCS)	90,305	103,342
Inland Revenue Staff Federation (IRSF)	67,614	67,614
Prison Officers Association (POA)	22,189	22,189
Society of Civil and Public Servants (SCPS)	94,994	104,846
	523,424	589,866

* Source: Whitley Bulletin, January 1980

9. The non-industrial unions have generally well-defined spheres of interest and do not encroach on each other's areas. The Association of First Division Civil Servants (FDA), Society of Civil and Public Servants (SCPS), Civil and Public Services Association (CPSA) and Civil Service Union (CSU) represent appropriate levels of Administration Group and support services; the Institution of Professional Civil Servants (IPCS) represents most specialists such as scientists and engineers; and the Association of Government Supervisors and Radio Officers (AGSRO), Association of HM Inspectors of Taxes (AIT), Inland Revenue Staff Federation (IRSF) and Prison Officers Association (POA) represent more specialists mostly departmentally-based rather than Service-wide.

EXTRACT FROM PRIESTLEY REPORT, 1955
JUSTIFICATION FOR "FAIR COMPARISON"

In the Priestley Commission's view the correct balance between the interests of the community in general, of those responsible for administering the Civil Service, and of the individual civil servants themselves, could be achieved only if the primary principle of civil service pay were "fair comparison". Their reasoning was as follows:

"a. "Fair comparison" as the primary principle is fair to the community at large for two reasons. First it looks after the ordinary citizen's interest as a taxpayer. If the Government which represents him pays what other responsible employers pay for comparable work, the citizen cannot reasonably complain that he is being exploited ... Equally we consider that he would agree that he could not, in the long run, obtain an efficient service by paying less ... Secondly, the principle safeguards the Civil Service from political pressures. We think it will be generally accepted that the community must suffer if the present tradition is impaired whereby a non-political Civil Service carries out impartially the tasks required of it by Governments of different political complexions ... The need to avoid arbitrary and unreasonable variation of the relationship between State and employee means that principles are needed to govern civil service pay and that they must be principles that can be applied consistently by successive Governments of different political complexions ... Wage and salary negotiations today are conducted in a social framework which, at least by implication, recognises and accepts the existence of variations in standards of living according to position in the social hierarchy. Proposed changes in this structure, that is to say narrowing or widening of variations in living standards, must raise social and, as we think in the last analysis political considerations. The question of salary "differentials" so very much before the public eye, is an example, since it is directly bound up with the pattern of income distribution, which is essentially a political question. We are satisfied that it is right and proper, and it is implicit in the principle of fair comparison, that civil service pay structure should reflect such changes as take place in the outside world. If however, changes were proposed in the Civil Service with the intention of giving a lead on such matters to the country as a whole in order to

further a political or social objective, civil service pay negotiations would become involved with political issues and the non-political character of the Service might well be impaired. For the Service to give lead to the outside world would be incompatible with the principle of fair comparison ...

b. Fair comparison as the primary principle is fair to those responsible for administering the Civil Service because it should enable them to secure the staff they need for the efficient discharge of their duties ... On the other hand the Civil Service must not take more than its fair share of the cream and enjoy a high standard of efficiency at the expense of depriving other equally important fields of national life—industry, commerce, the educational world, the other professions - of the talent they need for their efficiency functioning ... the only way to ensure that all these employments get their fair share of the available talent is to make the pay and conditions of service in each one reasonably comparable ...

c. Fair comparison as the primary principle is also fair to the individual civil servant. Since the civil servant's first loyalty is to the Government of the moment, which is liable to change overnight, and since his ultimate loyalty is to the public, which casts a jealous eye on public expenditure, he is entitled to some guarantee that his just deserts will not be sacrificed to political expediency or to uninformed Press or public criticism. We think that the principle of fair comparison affords such a guarantee. Equally if his remuneration and conditions of service taken together approximate to those prevailing in the outside world he cannot legitimately complain of injustice." (Priestley Report, paragraphs 97-101.)

The Priestley Commission summarised their conclusions as follows:

1. "the end to be served by principles of pay in the Civil Service may be stated as the maintenance of a Civil Service recognised as efficient and staffed by members whose remuneration and conditions of service are thought fair both by themselves and by the community they serve";

2. "the primary principle of Civil Service pay should be fair comparison with the current remuneration of outside staffs employed on

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broadly comparable work, taking account of differences in other conditions of service";

3. "internal relativities should be used as a supplement to the principle of fair comparison in settling Civil Service rates in detail and may have to be the first consideration when outside comparisons cannot be made but they should never be allowed to override the primary principle [of fair comparison] or to become rigid". (summary of conclusions and recommendations, chapter xvii).

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SUMMARY OF THE CIVIL SERVICE NATIONAL WHITLEY COUNCIL PAY AGREEMENTS 1956-1977

1956 Agreement

This Agreement put into effect the main recommendations of the Priestley Royal Commission. The detailed provisions for the new pay research procedures were set out in Appendix A on Civil Service Pay and Fact-Finding. The main features of the Agreement were:-

- i. recognition that "fair comparison" with outside rates was "a valid and valuable principle in the Civil Service pay negotiations although not the sole determinant". The Staff Side recorded a number of reservations about "fair comparison", including the difficulties of making adequate comparisons for some groups of staff, and the need to give due weight to internal relativities;
- ii. the establishment of a Pay Research Unit for objective fact-finding. "It would be open to the parties to consider how far, if at all, it was right to take account of any particular comparisons in settling the pay of the Civil Service grade in question";
- iii. detailed provisions for the operation and staffing of the Unit, including the establishment of a Committee of the Civil Service National Whitley Council to exercise general control and direction. Day-to-day control of the Unit was vested in a Director, appointed by the Prime Minister. The Director was required to submit periodical reports, as the Steering Committee directed.
- iv. terms of reference for the Unit:
 - i. establishing job comparability, due allowance being made for differences in grading structure;
 - ii. the discovery of the pay and conditions of service that attach to jobs regarded as comparable.

The Official Side also indicated that the Government had decided to set up a standing advisory Committee to exercise a general oversight of the remuneration of the Higher Civil Service.

1960 Agreement

The 1956 Pay Agreement provided for pay research surveys at unspecified intervals. The Unit's reports proved longer to prepare, on the thorough basis required, than had been expected; with the result that there were long intervals between pay research-based settlements. The need to confine pay research to the more important classes and grades, leaving smaller groups to be dealt with by means of pay links or in other ways, gave rise to the National Pay Agreement of 1960.

Its main features were:-

- i. a five-year cycle of pay research surveys for the main classes;
- ii. interim adjustments between pay research surveys by means of central pay settlements;
- iii. arrangements for pay reviews (other than central pay settlements) in between the normal 5-yearly pay research surveys in exceptional circumstances, eg a continuing general shortage of recruits, reorganisation of the work of a grade, alterations in scale structure, etc.

The 1960 Agreement was never formally ratified by the Staff Side. The Official Side, however, proceeded in general as though the Agreement had been ratified and was in force.

1964 Agreement

Further difficulties over the length of the pay research cycle, together with the need to agree how the Government's "guiding light" policy on pay would affect pay research, led to the 1964 Agreement. Its main provisions were:-

- i. reduction of the pay research cycle for the main classes and grades to four years.* Other grades were to be surveyed only if the PRU's workload permitted;

* After discussions with the Staff Side the Official Side agreed in February 1968 to reduce the pay research cycle to three years; and in May 1970 following a report by a joint working party of the two Sides, the cycle was shortened further to two years.

ii. definition of the "pay research year" as 1 July to 30 June. The information collected by the PRU in any survey would relate to 1 January, which was the operative date for the revised pay scales;

iii. grades not subject to pay research surveys to have an opportunity for a pay review once in four years. A pay review for a grade linked to a main grade in pay research would take place in the year the "parent" grade was in pay research;

iv. central pay increases (of agreed amounts for the following three years) to be paid to grades within the scope of the Agreement;

v. provision for special reviews between the four-yearly surveys in exceptional circumstances, eg a reorganisation resulting in a substantial alteration in the work of a grade, a persistent shortage of recruits, or a distortion of relativities.

1967 Agreement

The pay research and pay review procedures provided for in the 1964 Agreement still gave rise to considerable backdating of Civil Service pay increases. Consideration was accordingly given by the National Whitley Council to measures to reduce retrospection, and also to simplify the process of discussion and negotiation between the two Sides.

The new Agreement applied to all grades up to and including the Assistant Secretary maximum (the 1964 Agreement extended only to the Principal maximum). Its main provisions were:-

i. a limit of 6 months retrospection (with small extensions in exceptional circumstances) for all pay increases. To facilitate this, the pay research cycle was to run from 2 January to the following 1 January. The PRU was to deliver its report in January, and to continue to update the information about settlements effective from 1 January until 1 April;

ii. more detailed arrangements for agreeing both the external and internal fields for the pay research surveys;

iii. more detailed arrangements for reviews of linked grades not directly covered by pay research;

iv. arrangements for valuing non-pay benefits in the pay negotiations, including free cars, housing and meals; the adjustments to be made for London Weighting; and the assessment (by the Government Actuary) of differences in superannuation benefits.

1974 Agreement

This was a more comprehensive document than any of the preceding Pay Agreements. It contained detailed provisions on the pay arrangements for all groups of non-industrial civil servants below the Open Structure. The main changes it introduced were:

- i. introduction of annual pay research for specified grades;
- ii. a change in the operative date to 1 April;
- iii. a revised timetable to allow negotiations to be completed before the operative date, with provision of "uprating" each outside rate reported by the PRU by the projected percentage change in the Retail Prices Index between the analogue's settlement date and that of the Civil Service.

1977 Agreement

The 1977 Agreement supplemented and complemented the 1974 Agreement. As set out in its explanatory Memorandum, it was designed to meet public criticism of the existing pay research procedures by strengthening their openness and independence.

EXTRACT FROM 10TH REPORT OF THE TOP SALARIES REVIEW BODY, 1978

CHAPTER 2

OUR APPROACH AND INQUIRIES

Pay principles

16. We are satisfied that our 1972-74 conclusions on general pay principles remain valid today, but we have looked again at the more detailed principles that we developed then for each of the four groups and we report our conclusions in the following chapters. However, as a measure of the importance that we continue to attach to the general principles, we think it right to rehearse them here, and to spell out our intentions on certain aspects of them. We remain satisfied that no single overriding principle applies with equal force across the whole of our field. Against the background that 'comparability' in one form or another had assumed a growing importance in other fields and in popular discussion, we considered critically its relevance at the levels with which we are concerned, and took the view that comparability with jobs of equivalent weight in other walks of life has indeed a part to play. But both comparability and the idea of 'fairness' that goes with it are difficult concepts to quantify - particularly at the highest levels; our conclusion was that, while comparability has a place as one of a number of indicators, comparisons between one job and another have to take proper account of the different 'environments' of the jobs - particularly in comparisons between jobs in the public services and in the private sector. We found a link between comparability as an indicator of pay levels and the importance of being able to recruit and retain the right level of ability for the four fields with which we are concerned: we saw it as important in principle that the levels of salary should enable each of those fields to recruit and retain an adequate share of the nation's best talent.

17. In this context we draw attention to one particular factor which must be accorded greater weight than when we submitted our 1974 report. Management is all the time becoming more mobile, and this mobility applies to senior civil servants who decide to take up posts in industry no less than to transfers between the public and private sectors, or between industry at home and industry abroad. We think this last aspect of mobility is the most

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important of all, and we emphasise that certain traditional barriers, especially language, are felt much less as barriers today. At a time of increasing mobility, the need to provide levels of salary that enable the public services to retain an adequate share of the best quality and talent can never have been more important.

18. We observed also that the salaries paid at top levels have an important bearing on the ability to recruit and retain at lower levels within a structure. This led naturally to the third main principle, that the overall salaries structure within an organisation has to provide a rational progression that recognises greater responsibility by increased rewards; and that the increased rewards should be sufficient to provide salary differentials between successive levels that are large enough to give an adequate incentive to the assumption of marked additional responsibilities. Likewise, differentials ought also to be adequate in after-tax terms, but we emphasise that, now as in 1974, the general levels of taxation have not affected our judgement of the appropriate levels of salary. We considered it essential, too, to take account of the 'total remuneration package' attached to the job - that is, the combination of salary and other cash payments, superannuation arrangements and other benefits. We also took into account some important but unquantifiable differences between the public services and the private sector: such aspects as stability of employment, individual job security and the relative overall prospects of promotion, and the elusive and highly individual concept of 'job satisfaction'.

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STARTING PAY AND ASSIMILATION**Starting Pay on Recruitment**

New entrants normally enter at the minimum of the scale or, in the case of age-pointed scales, at the appropriate age pay point. There are occasions when higher starting pay above the minimum may be awarded to successful candidates with relevant exceptional qualifications and/or experience. The grades to which this concession applies are mostly to be found in specialist fields.

Those recruited to part-time appointments involving less than 18 hours work per week and those recruited to casual appointments to meet short-term needs for periods not normally exceeding six months are paid on the minimum of the scale or the appropriate age pay point.

Reinstatement

An officer who resigned from an established appointment on subsequent reinstatement generally re-enters the scale at the point he had reached at the date of his resignation on subsequent reinstatement.

Starting Pay on Promotion

Promotion is the transfer of an officer to a new substantive grade in the same or a different group or class, which has a maximum rate of pay higher by any amount than that of the scale of his existing grade, for which he has been selected in competition with others.

On promotion an officer enters the scale of his new grade at any applicable age point, including the highest if he is over the relevant age, or at the minimum, if the scale is not age pointed. Unless age pay applies an officer may enter at his existing salary (national rate) plus a promotion increase if that is more favourable than the minimum or highest age point. In that case an officer who has served on the maximum of his old scale for one year or more may receive one extra increment on the new scale in addition.

The promotion increase is the lesser of 1/12 of the higher grade maximum rounded to the nearest £10 (subject to an upper limit of 1/12 of the maximum of the scale for the grade of Principal) or the difference between the maxima of the two scales.

However, an officer cannot receive more than the scale maximum or, if promotion is to any grade to which there is direct recruitment, more than he would have been paid if he had entered the grade direct at the minimum recruiting age and proceeded up the scale. This is known as the weight for age restriction.

The rules governing starting pay on promotion are incorporated in ready reckoners which are a simple aid used to determine automatically the point of entry to the new scale. Ready reckoners are reconstructed when scale structure changes occur or every three years.

Regrading

An officer who transfers to a new substantive grade other than by promotion (ie a transfer other than one for which an officer has been selected in competition with others) is regarded and, subject to the weight for age restriction and the maximum of the new scale, enters the new scale at either an appropriate age point, including the highest if he is over the relevant age, the minimum or, if it is more favourable, at existing pay.

Assimilation

Assimilation is the process of transferring all the members of a grade from an existing to a revised pay scale. Since 1949 the normal method of assimilation has been by corresponding points which means that on the introduction of a new scale of pay an officer enters it at the point horizontally opposite to his pay on the old scale having aligned the scale minima. There are special rules governing the process of assimilation where the new scale is either longer or shorter than the old scale.

On assimilation an officer cannot receive less than the minimum or more than the maximum of the new scale. Where an officer's pay is between two points on the old scale, the corresponding point is calculated on a proportionate basis.

The "corresponding point" approach is not always used. Where major scale structure changes are involved both Sides may agree alternative special

assimilation terms to suit the particular circumstances of the case. Ad hoc assimilation terms, not necessarily involving any immediate increase, are used where a pay revision is accompanied by a measure of re-organisation of duties and/or grading structure.

CIVIL SERVICE ARBITRATION AGREEMENT

1. We are agreed that failing agreement by negotiation arbitration shall be open to Government Departments on the one hand, and to recognised Associations of Civil Servants within the scope of the National Whitley Council for the Administrative and Legal Departments of the Civil Service and of Departmental Whitley Council allied thereto on the other hand, on application by either party, in regard to certain matters affecting conditions of service, subject to the limitations and conditions hereinafter defined.

2. We agreed that:

a. where there is failure to agree on a claim falling within the limits set out below, the case shall be reported by or on behalf of either of the parties to the dispute to the Minister of Labour for reference to arbitration by a tribunal consisting of an independent Chairman and one member drawn from a panel of persons appointed by the Minister of Labour as representing the Chancellor of the Exchequer for the time being and one member drawn from a panel of persons appointed by the Minister of Labour as representing the Staff Side of the National Whitley Council for the Administrative and Legal Departments of the Civil Service. The Chairman of the Tribunal shall be a person appointed by the Minister of Labour after consultation with the parties to this agreement and the members of the Tribunal shall be such members of the Panels as the Chairman may direct;

b. the Arbitration Acts 1889-1934 shall not apply to any reference under this agreement;

c. where on any reference the members of the Tribunal are unable to agree as to their award, the matter shall be decided by the Chairman.

3. The members of the Tribunal appointed as representing the Staff Side of the National Whitley Council for the Administrative and Legal Departments of the Civil Service should hold office for two years and be eligible for reappointment.

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4. We are of the opinion that for the purposes of this agreement Civil Servants and officials of Associations and Federations of classes of Civil Servants should be regarded as ineligible for appointment as members of the Tribunal.
5. We are agreed that claims in respect of grades carrying flat rate salaries or maxima above that of the Principal grade cannot be reported to the Tribunal without the consent of both parties concerned in the claim.
6. Claims eligible to be dealt with by the Tribunal shall be claims affecting the emoluments, weekly hours of work and leave of classes of Civil Servants as herein defined, and cases of individual officers shall be excluded.
7. The word "emoluments" for the purpose of the foregoing clause shall include pay, and allowances of the nature of pay, bonus, overtime rates, subsistence rates, travelling and lodging allowances. The term "class" shall mean any well-defined category of Civil Servants who, for the purpose of a particular claim, occupy the same position or have a common interest in the claim.
8. An endeavour shall be made by the parties to agree the terms of reference or the terms of the remit to the Tribunal, but where this is not practicable the respective statements of claim shall be set out and these will together constitute the terms of reference or remit.
9. We trust that arrangements may be made to secure that under normal conditions claims should be heard not later than six weeks from the date on which the claim is remitted to the Tribunal.

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OUTLINE OF THE MAIN FEATURES OF THE PRINCIPAL CIVIL SERVICE PENSION SCHEME

1. MEMBERSHIP
All persons serving full-time or part-time in the Civil Service of the State except
 - i. casual employees;
 - ii. staff engaged on a fee-paid or sessional basis;
 - iii. staff appointed specifically on non-pensionable terms;
 - iv. staff covered by some other scheme;
 - v. part-time staff working less than 18 hours a week;
 - vi. unestablished staff engaged locally overseas.

2. MINIMUM PENSIONABLE AGE
60 for both men and women (prison officers have a minimum pensionable age of 55).

3. PENSIONABLE PAY
Salary (or wages) and pensionable emoluments in whichever of the last 3 years of reckonable service gives the highest figure.

4. BENEFITS AT MINIMUM PENSIONABLE AGE
Pensions of 1/80th of pensionable pay multiplied by length of reckonable service and lump sums of 3/80ths of pensionable pay multiplied by length of reckonable service.

Reckonable service is limited to 40 years at minimum pensionable age.

5. ILL-HEALTH BENEFITS
a. Members with 5 or more years of reckonable service retiring on grounds of ill-health before reaching minimum pensionable age receive pensions and lump sums calculated as in 4 above but with reckonable service enhanced as follows:
 - i. for 5-10 years' service, it is doubled
 - ii. for 10 years or more, it is increased:
 - a. to 20 years or
 - b. by 6 2/3 years,whichever gives the best result.

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However, service enhanced under i. or ii. a. may not exceed the reckonable service the member would have had if he had continued to serve until 5 years after minimum pensionable age; and service enhanced under ii. b. may not exceed what would have been the member's reckonable service if he had stayed in service until minimum pensionable age.

b. Members with at least 2 but less than 5 years' service who are retired on grounds of ill health before reaching minimum pensionable age receive short-service payments of $\frac{3}{80}$ ths of pensionable pay multiplied by length of reckonable service together with

i. one month's pensionable pay multiplied by the length of reckonable service, and

ii. if the member is over age 35, a further month's pensionable pay multiplied by the length of reckonable service after the 35th birthday.

6. OTHER EARLY RETIREMENTS BENEFITS

a. Voluntary resignation or dismissal

For those with 5 or more years' service, the pension and lump sum earned by service up to the date of resignation are preserved for payment at minimum pensionable age. For those with at least 2 but less than 5 years' service, there is an immediate short-service payment of $\frac{3}{80}$ ths of pensionable pay multiplied by length of reckonable service.

b. Transfers to other employments

Accrued pension rights can be transferred to any contracted-out pension scheme which is approved by Inland Revenue for the purpose and which is prepared to accept a transfer payment.

c. Redundancy etc.

Civil servants who are retired prematurely in the public interest have their pension rights preserved or receive short-service payments, as in a. above. In addition,

i. "Mobile civil servants" aged 40 or over, who have 5 or more years' service, may have their reckonable service enhanced by up to $6\frac{2}{3}$ years and the lump sum benefit, in the whole or in part, can be paid immediately rather than at minimum pensionable age together with an additional lump sum compensation payment of 6 months' pensionable pay; an annual compensation payment equal to the preserved pension is also paid until the preserved pension comes into

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payment. Those who are under age 40 and those who have at least one but less than 5 years' qualifying service receive immediate compensation payments related to length of service and age.

ii. "Non-mobile civil servants" with at least one year's service receive immediate compensation payments of up to 2 years' pensionable pay, depending on age and length of service. Those over age 55 may forgo the compensation payments and receive immediate payment of accrued pension and lump sum instead.

7. LATE RETIREMENT

Civil servants who remain in service beyond minimum pensionable age count that service for pension and lump sum benefits, subject to an overall maximum of 45 years of reckonable service.

A civil servant may retire formally at the minimum pensionable age and become re-employed in the same or a lower grade. He will receive his lump sum benefit at the time of formal retirement but the pension in payment to him will be reduced to the amount by which his salary on the last day of his earlier service exceeds his salary on his first day of re-employment. On final retirement, his superannuation award is reassessed to take account of the additional reckonable service up to a maximum of 5 years.

8. DEATH BENEFITS

a. Death in service - a lump sum of either

i. a year's pensionable pay, or

ii. the lump sum that would have been paid on retirement on medical grounds at the date of death,

whichever is the greater.

b. Death after retirement on pension - a lump sum equal to the difference between the lump sum that would have been payable if death had occurred immediately before the pension came into payment and the lump sum and pension already paid up to the time of death.

a. Death in service:

9. WIDOWS' PENSIONS

i. for the first 3 months, the widow receives a pension at the rate of her husband's pensionable pay; the pension may be paid for up to 9 months if there are children;

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ii. thereafter, a pension equal to half the pension her husband would have received if he had retired on grounds of ill-health on the day he died.

b. Death after retirement on pension:

i. for the first 3 months, the widow receives a pension at the rate of her husband's pension;

ii. thereafter, a pension equal to half her husband's pension.

i. for each eligible child in the care of the civil servant's widow, a pension of one-quarter of the civil servant's pension (maximum of half the civil servant's pension);

ii. for each eligible child in the care of some other person, a pension of one-third of the civil servant's pension (maximum of two-thirds of the civil servant's pension).

10. CHILDREN'S PENSIONS

In each case, there is a minimum amount calculated on the basis that the civil servant's pension was based on 10 years' reckonable service.

Short term pensions equal to the rate of the civil servant's pension are payable if the civil servant dies after retirement and there is no eligible widow.

All male members are required to pay contributions of 1 1/2% of salary towards the cost of widows' pensions. (Female civil servants may opt to pay similar contributions to provide pensions for husbands, but only if the husband is wholly or mainly dependent on his wife.)

11. CONTRIBUTIONS

i. The Civil Service Department has discretion to grant added years of reckonable service to any civil servant, if there are special circumstances to justify it.

12. ADDED YEARS

ii. A civil Servant may increase his reckonable service by buying added years of reckonable service at full cost to himself.

There are limits to the number of added years that might either be granted or bought.

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13. INJURY BENEFITS

Annual allowances and lump sum benefits may be paid to civil servants and/or their dependants if the civil servant's earning capacity is impaired, or he dies, as a result of injury sustained or disease contracted during his employment or directly attributable to his employment. The amount of the benefits depends on the degree of impairment of earning capacity, length of previous reckonable service and pensionable pay, account being taken of any pay or pension benefits that may also be payable, certain national insurance benefits, and any damages recovered.

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Civil Service Pay

*cc Venner
Daguid*

PA

MP

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

26 August 1981

J Buckley Esq
Private Secretary
Lord President of the Council
Civil Service Department
Whitehall
LONDON SW1A 2AZ

Dear Jim,

Thank you for sending me a copy of your letter of 18 August to Tim Lankester. In the Chancellor's absence from the office, we have consulted the Financial Secretary, and he is quite content with what the Lord President proposes.

I attach a list of contact points, as requested.

I am sending a copy of this letter to Tim Lankester.

Yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

Treasury

M S Buckley, HM Treasury, Parliament Street, London SW1P 3AG

Inland Revenue

E J King, North West Wing, Bush House, Strand, London WC2B 4PP

Customs and Excise

L D Hawken, Kings Beam House, 39-41 Mark Lane, London EC3R 7HE



Tim Lankester Esq
10 Downing Street
LONDON SW1

Mr Venker
Mr Ingham

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MA
19/VIII.

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

18 August 1981

Dear Tim,

INQUIRY INTO CIVIL SERVICE PAY

The purpose of this letter is to set out for information the procedures we propose to follow for handling Government evidence to the Megaw Inquiry.

Sir John Megaw has asked the Lord President to let the Committee have two documents - a factual background memorandum to be available by the beginning of September and an 'issues' paper to be available by the middle of that month. The first of these papers should be wholly non-contentious and the Lord President hopes that any necessary Ministerial clearance can be obtained in correspondence. It would also be the Lord President's hope that the second paper - based as it will be on the already agreed 'synopsis' - can also be cleared in this way. You have however reserved a slot on 10 September for a meeting of the Prime Minister and a restricted group of Ministers, should the need arise. The Prime Minister has also said that she is ready to hold further meetings as necessary to consider any difficult issues which may arise as the Inquiry progresses.

We for our part have established a small group of senior officials from the Departments with the most direct interest to serve as a vehicle for interdepartmental consultation at official level. The initial membership under CSD chairmanship is drawn from the Treasury, Cabinet Office (including the CPRS), the Department of Employment, The Ministry of Defence, the Department of Health and Social Security, the Inland Revenue, Customs and Excise and the No. 10 Policy Unit. Other Departments will be invited (or will have the opportunity to invite themselves) when matters of direct concern to them are at issue.

You will also know that Sir John Megaw has been directing requests for evidence to his Inquiry to a number of Departments in Whitehall as well as more widely. It seems to us to make sense to allow Departments to respond to such requests and not try and centralise everything through the CSD. On the other hand it is vitally important that all Departments - including the CSD - (and through Departments, their Ministers) should know what requests for evidence are being made to other Departments and have adequate time both to concert tactics and to comment on the material which individual

Departments wish to submit. For this purpose it would be most helpful if all copy addressees could nominate someone in their Departments to receive papers and act as the primary point of contact. We for our part have nominated Mrs Mary Brown here (Room G/56, Pay 1 Division, CSD, Old Admiralty Building, Whitehall, Tel No: 273 3165) as our primary contact point both with Departments and with the Secretariat of the Inquiry and also as Secretary of the Official Group. As a matter of mechanics it would be most helpful if Departments arranged automatically to copy to her any letters they receive from the Inquiry, or related to it, as well of course of drafts of any material they wish to submit to the Inquiry. She will then try and ensure that everyone in Whitehall who needs to know what is going on is kept in touch in what bids fair to be a fast moving paperchase.

I should add that we are very conscious of the calls which will be made on Ministers' time as the Inquiry progresses and the difficulties in the coming season of arranging collective Ministerial discussion. It would be our hope that, so far as circumstances permit, material for the Inquiry can be cleared by Departments with their Ministers individually and points of difficulty dealt with in correspondence.

I am copying this letter to the Private Secretaries to all members of the Cabinet, other Ministers in charge of Departments, the Attorney General and Sir Robert Armstrong.

Yours sincerely,

Edmond Chaplin

E G M CHAPLIN
Private Secretary



10 DOWNING STREET

① I have not changed
the time of the
meeting in case
Cabinet takes
place. I have
made a note in
the diary that
meeting ~~is~~ be
changed if Cabinet
comes out.

② please file

El.

17/8.

SECRET

10

de B



10 DOWNING STREET

From the Private Secretary

17 August 1981

The Prime Minister has seen the Lord President's minute of 23 July, about the 1982 Civil Service pay negotiations. She has also seen the responses from the Secretary of State for Defence (his minute of 31 July) and the Chancellor of the Exchequer (his minute of 10 August).

The Prime Minister agrees with the Chancellor that further work is needed before decisions can be taken on the question of re-allocating possible savings. She agrees, therefore, that Ministers should return to the subject in September.

I am sending copies of this letter to Peter Jenkins (HM Treasury), Richard Dykes (Department of Employment), Brian Norbury (Ministry of Defence) and David Wright (Cabinet Office).

M. A. PATTISON

Jim Buckley, Esq.,
Lord President's Office

MM

SECRET

PRIME MINISTER

cc Mr. Whitmore

Tim has asked me to arrange a meeting to discuss Governmental evidence to the Civil Service Pay Enquiry on either 10 or 11 September. These are the dates which you are receiving Mitterrand and the 10th is a Thursday and therefore Cabinet. But as Cabinet is due to start at 11 a.m. I hope you will have no objection if we hold this meeting at 10 a.m. All the people in question (Chancellor, Lord President, Secretaries of State for Employment, Defence, Health and Social Services) are available to attend the meeting as they will be coming to Cabinet.

I know you do not like having important meetings before Cabinet but I hope you will be content to have this one.?

ES. I am not

expecting to have a

Cabinet meeting before

13 August 1981

*15th September. There is a sub-
= = meeting at 10.30 a.m.*



Civil Service

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Joint Parliamentary Under Secretary of State

~~to Press Officer~~

R

NOTE ISSUED BY MRS LYNDAL CHALKER MP ON 13 AUGUST 1981

RECOVERY FROM EFFECTS OF INDUSTRIAL ACTION ON SOCIAL SECURITY BENEFICIARIES

— see previous part

Patrick Jenkin sent a note to all MPs on 7 July explaining the effect of industrial action by civil servants on social security beneficiaries. DHSS Ministers promised a further note to let MPs know the recovery plans and when we may reasonably expect to be back to normal. This note is attached and we hope that MPs will find it helpful.

RECOVERY PROGRAMME FOLLOWING INDUSTRIAL ACTION: SOCIAL SECURITY OPERATIONS

Now that the Civil Service Unions have accepted the Government's revised offer and called off the selective strike action, the massive task of getting back to normal is beginning. Those social security beneficiaries among your constituents who have been affected by the strikes will naturally be concerned to know when things will be back to normal.

The computer at Newcastle, which maintains the national insurance records of all contributors was out of action for almost five months and there was no access to the records during that period either for dealing with benefit claims or queries, or for adding 1980-81 national insurance contributions to individual records. The child benefit payment computer at Washington and the unemployment benefit payment computers at Reading and Livingston have all been closed for two months. It is important to realise, therefore, that although we shall make every effort to get back to normal as quickly as possible, this will take a long time in some areas of the work.

Where claimants themselves are required to take any action to recover their benefit position, they will be informed by advertisements or announcements in the national press or on radio in addition to the information service provided by the Department's local offices. However, the following general information may be helpful to you in dealing with enquiries.

Existing emergency arrangements will continue in some areas of work until recovery has been fully completed. Our plans for recovery are as follows:-

1. RETIREMENT AND WIDOWS' PENSIONS

It has not been possible to work out the precise entitlement of people retiring after 6 July and some widows, so interim payments have been made at the appropriate standard basic rate. These payments will continue until they can be reviewed and any arrears of payment made (or exceptionally, overpayments recovered). This action will start once the contribution computer resumes issuing details of individual records to DHSS local offices. It will be a priority task on resumption of normal computer working, but the volume involved will take some time for local offices to clear.

2. CHILD BENEFIT - Existing payments

No child benefit renewal order books have been issued since 5 June and approximately 3.5 million renewal order books have not been prepared for issue. Child benefit payees whose books expire are being paid at the post office on the stub of their old book on the basis of the rate of payment shown on that book. The issue of renewal books is re-starting at the point at which production was stopped: it is likely to take up to about mid-October before production has caught up, so that all renewal books reach post offices in time for exchange when the old ones end. Emergency payments by the post office will continue for some beneficiaries until that time. Seven weeks is the maximum time that an individual payee is likely to have to rely upon stub payments before the new book arrives. This will gradually decrease as the programme gets up to date.

Claims for new children

No payments have been made for newly born babies since the beginning of June. These cases will be dealt with as quickly as possible and all uncomplicated claims should have been processed through the computer by early September, with mothers getting their benefit by the end of September. Where further enquiries have to be made, mothers should have heard from the Child Benefit Centre by the end of September.

3. UNEMPLOYMENT BENEFIT

Some 2.5 million claims are being dealt with by hand because of the closure of the Unemployment Benefit computers. From 4 August new claims have been put on to the computers and operated normally. Claims made before that date from people who are still unemployed will be gradually converted back to computer payment; and where their benefit has been paid under emergency arrangements, because their record could not be obtained from the contributions computer, steps will now be taken to obtain the record and to adjust the rate being paid (including any earnings related supplement) if this proves to have been incorrect. Arrears will be paid where appropriate. It is expected that it will be December before all current claims can be reassessed in this way. But it will not be practicable to reassess claims which ended before 4 August, or which continue after that date but end

before the process of review catches up with them. In these cases, if anyone has reason to think that he has not been paid his full entitlement he should write to his local Unemployment Benefit Office.

4. SICKNESS BENEFIT AND INVALIDITY BENEFIT

Sickness benefit claims made since 9 March have had to be paid under emergency arrangements because of the close-down of the contributions computer. It is estimated that some 300,000 claims were being paid under these arrangements at 10 August. New claims will be treated normally from 17 August. The contribution record for existing claims will be obtained as soon as possible, and where the emergency rate in payment is found to be incorrect, payments will be adjusted and any arrears paid (including any arrears of earnings related supplement). As with claims for unemployment benefit, however, it will not be practicable to review claims which end before the resumption of normal procedures on 17 August, or which end/before they can be reassessed. In these cases if anyone has reason to think that he has not been paid his full entitlement, he should write to his local DHSS office.

5. WAR PENSIONS

Because of the closure of the computer at the Paymaster General's Office some 30,000 war pensioners have not received their monthly payments. The PGO computer has now resumed payments. Any payments made by DHSS local offices will have to be recovered once the PGO payment is received.

The notes above cover the main areas of benefit payment which have been affected by the strike action. In addition there is the mammoth task of processing and posting the 1980/81 contribution information (some 10 million employers' magnetic tape items, plus about 27 million individual tax deduction cards) which is held up either in the Inland Revenue or DHSS. It will not be possible to complete this task for the start of the 1982 benefit year, and we are considering how to deal with those claims made in early 1982 where the up-to-date record will not be available.

Now that the dispute is over, I am sure that people getting benefits will expect a speedy return to a normal service: but as this note explains some delay will

unfortunately be inevitable. We shall do our best to get back to normal as quickly as possible, and perhaps you would reassure any of your constituents who may approach you that this is being done. In the meantime special arrangements for payment will continue where needed. It would be very helpful if visits, telephone calls and letters to our offices could be kept to a minimum during the next few difficult weeks, as this will enable us to catch up all the sooner.



14 AUG 1981

SECRET

9

PRIME MINISTER

cc Mr Vereker
Mr Duguid

Lord Soames recently wrote to you (Flag A) saying that:-

- i) Civil Service manpower in 1982/83 is likely to be significantly below the level provided for in the last public expenditure White Paper; but
- ii) the £100 million or so savings from this should be kept in hand in case we run into difficulties on pay, and should not be re-allocated at this stage to non-pay expenditure.

Mr. Nott (Flag B) is strongly opposed to this. He argues that staff reductions are integral to his strategy and that all money saved on staff must be released for equipment purchases etc.

The Chancellor (Flag C) also sees some snags in Lord Soames' proposal, and he seems to accept the point made by Mr. Nott; furthermore, because of the carry forward of this year's cash limit squeeze, he doubts whether the manpower savings will be as great as Lord Soames suggests. But he does not wish to reach a firm view yet, and has asked for further work at official level.

There is no need to take a decision on this now. Agree that we should return to this in September when the further work has been done?

Yes not

TL
..

11 August 1981

SECRET



8

J. Verker
A. Duquid.
A. Walker.

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

PRIME MINISTER

1982 CIVIL SERVICE PAY NEGOTIATIONS

Christopher Soames sent you a minute on 23 July. He proposed a way of using manpower savings now being identified by the CSD to finance part of the cost of the 1982 pay settlement.

2. I very much agree with his objective of bringing out the fact that the more efficiently we use manpower in the Civil Service, the easier it is to afford pay increases.

3. It is, however, a point to be used with some care. Not all reductions in numbers are the result of increased efficiency. A reduction because a function has been transferred to the private sector does not justify a pay increase for the civil servants that remain. Nor does a reduction which a spending Minister may make in order to finance another part of his programme.

4. Moreover the particular proposal is not as simple as Christopher Soames' minute might suggest. There are, for example, difficulties in the way in which it would circumscribe the ability of Ministers to manage their programmes. John Nott has pointed out in his minute of 31 July that he would normally be entitled to use savings in manpower to finance other expenditure within the agreed totals for the Defence Budget. Christopher Soames' proposal would mean re-opening our recent decisions on those totals: since two-thirds of the identified savings are in Defence some of them would probably be required for other programmes. (Of course, if the final settlement is greater than we assume in determining the cash programmes, and if we then decide that part or all of the extra cost should be met by a squeeze on programmes, it would be reasonable for Defence to share in that squeeze.)



5. And even the presentational advantage might prove illusory. The arrangement would have to be fairly widely known in departments, and therefore probably to the union negotiators, who could gain an impression of money being there for the asking. If the arrangement became known to the press or the Treasury and Civil Service Committee, it could attract accusations that we were seeking to construct a bogus productivity deal. We could argue that the savings were genuine and allowed us to finance a higher settlement than would otherwise have been possible. But the fact would remain that the savings had been agreed prior to the negotiation of the settlement.

6. I also understand that there is some real doubt whether the expenditure savings are actually there to be used in the way suggested. Following our switch to cash planning, the cash limit squeeze in 1981-82 of about 1½ per cent resulting from the 1981 civil service pay settlement would be carried through to 1982-83 unless we decide otherwise. We agreed that this was an important part of the change to cash in the Survey. Departments will already have to use the manpower reductions now being agreed - which average about 1 per cent outside Defence - to cope with this squeeze. (The savings are I believe significantly greater in Defence.)

7. In short, there do seem to be real objections to the proposal, on which I have not yet been able to form a firm view. I have arranged for a paper to be sent by my officials to those Departments most closely concerned. I suggest that, if there do prove to be expenditure savings generally available, we should return to the subject in September, and reach a view then.

8. I am sending copies of this to the Lord President of the Council, the Secretaries of State for Employment and Defence, and Sir Robert Armstrong.


(G.H.)

10 August 1981

^{FMS}
CONFIDENTIAL



Civil Service Rb

10 DOWNING STREET

From the Private Secretary

7 August, 1981

Government Evidence to the Civil Service Pay Inquiry

The Prime Minister has seen the Chancellor's minute of 6 August.

I have spoken to the Civil Service Department about the minute, and have been assured that the Chancellor's comments can be taken into account in the drafting of the detailed evidence. On this basis, the Prime Minister does not think it is necessary formally to alter the draft synopsis which was circulated by the Cabinet Office on 20 July.

I am sending a copy of this letter to Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

T. P. CANKESTER

P Jenkins, Esq
HM Treasury

CONFIDENTIAL

Be



CSD tell me they can take the Chancellor's points on board in the drafting.

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

Approved

PRIME MINISTER

IL

6/8

GOVERNMENT EVIDENCE TO THE CIVIL SERVICE PAY INQUIRY

(which you have already approved)

I have seen the revised draft synopsis of Government evidence attached to the minute of 20 July from Sir Robert Armstrong's office. I have also seen the Lord President's minute of 3 August.

2. Generally I think that this has come out well. But it does omit one point from the synopsis which I sent to Sir Robert, and this is the question of what the Government can afford to pay.

3. I appreciate that what can be afforded is at least to some extent a matter of judgement, rather than pure fact which a system of pay determination can at least purport to reflect in a mechanical way. But it is nevertheless a consideration that must in the nature of things pervade any discussion of the level of civil service pay. I am concerned that if it is not built into the new arrangements from the earliest stage we will find that it can only be brought to bear as an obtrusive long-stop when Government is obliged to decide, year by year, whether the results produced by some new - and allegedly "authoritative" - machinery are in fact compatible with economic reality. This is all too likely to be a recipe for resumed conflict: we want a method that works, not one that we regularly have to override.

4. I suggest that we should reflect this in the evidence by proposing that the new arrangements should provide for the Government to express a clear view at an early, formative stage on what it can afford. Of course, the system might not always accept that view; but the result that it produced would at least have been formulated in the light of the Government's position on this issue.



5. As minimum changes, I suggest the following new paragraph to follow the existing paragraph 2.5:

'2.5A The system should enable the Government to register at a formative stage its judgement of what can be afforded.'

I think that it would also be helpful if these two paragraphs came earlier and more prominently in the synopsis.

6. My other points both arise on paragraph 1.2. I would replace the last part of the third sentence with 'to be consistent with the need to minimise inflationary pressures'. The system should not just avoid adding to inflation, but should also not get in the way of efforts to reduce it. Then in the fourth sentence I would add 'and finance' after 'labour market factors'.

7. On this basis I would be content for officials to proceed now with the drafting of the evidence in accordance with the synopsis.

8. I am copying this minute to the Lord President, the Secretary of State for Employment and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

6 August 1981

CONFIDENTIAL

Civil Service

Ref. A05409

MR. LANKESTER ✓

N. 118

Government Evidence to the Civil Service Pay Inquiry

JLDip

I have seen the Chancellor of the Exchequer's minute of 6th August, commenting on the revised draft synopsis of Government evidence attached to Mr. Wright's minute of 20th July. ^{Flag A}

2. I am sorry that the Chancellor thought that I had omitted one point - the question of what the Government could afford to pay - from my revised draft. I thought that I had covered the point in paragraph 2.5 of the draft, and in particular in the reference in the last sentence of the draft paragraph to the Government's responsibility for controlling public expenditure.

3. I have no doubt that the Civil Service Department will take note of the Chancellor of the Exchequer's comments in the drafting of the detailed evidence which is now undertaken. On that understanding, I wonder whether we need formally to alter the draft synopsis, which is acceptable to the Lord President and which the Prime Minister approved by your letter of 5th August. ^{Flag B}

4. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment.

REA

ROBERT ARMSTRONG

6th August, 1981

CONFIDENTIAL

CONFIDENTIAL



File
c R Vereker

10 DOWNING STREET

From the Private Secretary

5 August 1981

GOVERNMENT EVIDENCE TO THE CIVIL SERVICE
PAY ENQUIRY

The Prime Minister has read the Lord President's minute of 3 August commenting on the revised draft of a synopsis of the Government's evidence to the Pay Inquiry which was submitted by the Cabinet Office on 20 July. She agrees with the Lord President that drafting of the evidence should now proceed on the basis of the revised synopsis.

I am sending copies of this letter to Peter Jenkins (H.M. Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL

Civil Servants

1 Mr Hayhoe
2 p.a. *W.H.*



Minister of State

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

4 August 1981

Dear Colleague,

Please forgive this standard letter but, now that the Civil Service dispute is ended, I wanted to let you know about the arrangements for dealing with the substantial backlog of Government work affecting people and firms in all our constituencies.

The Civil Service unions have agreed to co-operate in an orderly resumption of work, clearance of the backlog and return to normal operations. But it's going to take time and many people will be disappointed that many outstanding matters such as VAT repayments, pensions and benefit queries, and Passport and licence applications continue to be delayed.

Individual Departments will be doing their best to clear the backlog and will make announcements to guide their 'clients and customers': they will, of course, try to help with emergencies and with urgent pleas for assistance but any special effort will slow down the clearance of the other outstanding work. Ministers and civil servants in all the Departments concerned will, I know, appreciate your understanding and co-operation in reducing requests for priority treatment to an absolute minimum.

Barney Hayhoe
Barney Hayhoe.

BARNEY HAYHOE

CONFIDENTIAL

MR. LANKESTER

GOVERNMENT EVIDENCE TO THE CIVIL SERVICE PAY INQUIRY

Thank you for showing me the Lord President's minute of 3 August suggesting that Sir Robert Armstrong's synopsis of Government evidence forms an adequate basis for officials to undertake the detailed drafting.

Since the Lord President is content, and on the assumption that neither the Chancellor nor Mr. Prior object, the easiest way forward is certainly now to leave the detailed points for officials to sort out. We do not want to take up the Prime Minister's time with this if at all possible. But there will be difficulties in the drafting, notably, over the extent to which the Government encourages the Megaw Inquiry to come up with a "committed" system, and on the role of arbitration; I would expect that these points would have to come back to Ministers in due course.

The only point that you may consider the Prime Minister would wish you to make in replying to the Lord President is that the Government ought to give more of a push to the ideas outlined in paragraph 4.1 of the draft synopsis. I think these are all issues which the Prime Minister has from time to time said should be looked at afresh with a view to making substantial improvements, and simply to invite the committee to consider them might, given the inherent difficulty of doing anything, be insufficient to lead to progress.

4 August 1981

CONFIDENTIAL

2 pps.



Dominic Armstrong

he has looked at the revised synopsis attached, which seems OK. Agree that drafting should proceed?

Yes no

PRIME MINISTER

GOVERNMENT EVIDENCE TO THE CIVIL SERVICE PAY INQUIRY

I have seen the revised draft of a synopsis of the Government's evidence submitted to you by Sir Robert Armstrong's office following our meeting on 15 July.

12

W

No doubt all of us will have some points of balance and tone which we shall want to consider carefully when we see the draft evidence itself. But for my part I would be content for officials to get on now with the drafting of the evidence on the basis of the revised synopsis.

4/8

I understand from Sir John Megaw that the Inquiry will not be able to start its substantive work until after the holiday period, and that he has in mind asking for initial Government evidence to reach him by the end of September. If you agree my officials will now prepare a draft which could be discussed with officials from the Treasury, the Department of Employment and your office with a view to its submission to Ministers at the beginning of September.

I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment and Sir Robert Armstrong.

S

SOAMES
3 August 1981



B

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MO 20/17/6

PRIME MINISTER1982 CIVIL SERVICE PAY NEGOTIATIONS

I received on 28th July my copy of the Lord President's minute to you of 23rd July.

2. I am quite unable to accept Christopher Soames' proposals. We have only just explained in Command 8288 the thrust of our defence policy based on a commitment to implement in full the NATO aim of a 3% annual growth in defence expenditure in real terms in the next two years, and our firm decision to plan to implement the aim in full for a further two years up to 1985/86. The reductions I have been planning in staff numbers to reduce to 200,000 UK based civilians by 1st April 1984, and those stemming from the defence programme changes announced in Command 8288, are an integral part of my strategy of cutting the support areas in order to release resources for front line forces. It is only on that basis that I have been able to convince Parliament and the Party of the need for change, particularly the closure of Chatham Dockyard and the running down of Portsmouth Dockyard. If the money so released is not made available, we should have to announce a reduced commitment for 1982/83, cut the defence programme accordingly and explain to NATO and the public that the purpose was to keep cash in reserve in order to pay Civil Servants more. We would have gone through all the agony for nothing.

3. I am sending copies of this minute to the Lord President; and to the Chancellor of the Exchequer and the Secretary of State for Employment; and to Sir Robert Armstrong.

31st July 1981
Ministry of Defence



10 DOWNING STREET

From the Private Secretary

31 July 1981

As I confirmed to you on the telephone this morning, the Prime Minister is entirely happy that the membership of the Civil Service Pay Inquiry should be announced by means of an Arranged Parliamentary Question to be answered today.

M. A. PATTISON

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

5

du

Civil Service



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

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

31 July 1981

✓ Ann
✓ Mr Verne
✓ Mr Dennis

Dear Home Secretary,

R 278

NON-INDUSTRIAL CIVIL SERVICE PAY DISPUTE

This is to confirm that a settlement has now been reached in the Civil Service dispute and the unions have agreed to instruct their members to return to work. The pay of non-industrial civil servants below the Open Structure will be increased by 7% plus a flat rate increase of £30, representing 7½% overall, from 1 April 1981. This will be financed from the 6% cash limit to the extent necessary by further reductions in staff costs.

We have already set up an independent inquiry into the longer term arrangements for Civil Service pay under the Chairmanship of Sir John Megaw and his Committee has now started work. They will not be able to report in time for the 1982 settlement. We have given the unions an assurance that in the event of disagreement on the 1982 negotiations the Government will accept recourse to arbitration subject to the understanding that it reserves the right to ask the House of Commons to approve the setting aside of the Arbitration Tribunal's award on grounds of prevailing national policy.

We must now take all necessary action to restore the services to the public that have been disrupted as a result of the dispute. The unions have given an undertaking to co-operate in an orderly return to work, clearance of the backlog and return to normal operation. Barney Hayhoe is writing to all Members of Parliament to explain that it will take time for the backlog to be caught up and to seek their co-operation in not adding to the work.

I am sending a copy of this to the Prime Minister and to other Cabinet colleagues and to Sir Robert Armstrong.

Yours sincerely,

[Signature]
(Private Secretary)

Dictated by the Lord President
and signed on his behalf.



Prime Minister

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ
Telephone 01 273 5400

✓
✓
✓

Sir Ian Bancroft G.C.B.
Head of the Home Civil Service

12
217

T P Lankester Esq
Private Secretary
Office of the Prime Minister
10 Downing Street
LONDON SW1

31 July 1981

ms

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

Unions' Response to the Offer

The unions' consultation exercise ended yesterday. As expected, the IRSF was the only union with an overall majority against acceptance of the offer. Their executive agreed at a meeting of CCSU last night to go along with the majority decision to accept and return to normal working. Formal acceptance was conveyed in a letter of today's date from Mr Kendall to CSD.

Individual departments are now in the process of discussing the details of the return to work with their local trade union sides. Generally, staff will return to work early next week. The position is set out in more detail below by department. As usual, a table is attached showing numbers of staff on strike by department today.

...

It is not yet known to what extent there may be pockets of unofficial action after the return to work. However, guidance is being issued to departments on the way in which such action should be handled if it occurs.

Individual Departments' position

DHSS

A meeting with the unions is being held later today. No delay in the return to work is expected.

T P Lankester Esq

31 July 1981

EMPLOYMENT

A meeting with the unions is scheduled for Monday, and staff are expected to return to work from Tuesday.

SCPS and CPSA have issued guidance to staff not to cooperate with the reintroduction of the requirement for Unemployment Benefit claimants to sign on. This would clearly be in breach of the 'return to work' agreement and the matter is currently under discussion with the local trade union side.

MOD

An agreement has already been reached for an orderly return to work from next week, and no difficulties are envisaged.

WELSH OFFICE

The picket has been removed at Cathays Park. Management and unions were discussing details of the return to work earlier today.

CUSTOMS AND EXCISE

A meeting is scheduled for this afternoon. SCPS members at Southend and Manchester are not expected to return before the middle of next week and it is thought that SCPS may attempt to frustrate the recovery generally. CPSA are likely to be more co-operative.

INDUSTRY

A draft agreement with the unions on a return to work at Companies House is being discussed. No problems are expected.

SCOTTISH COURTS ADMINISTRATION

Further discussions with the unions on a return to work will be needed, and this may not take place until later next week.

ENVIRONMENT/TRANSPORT/MAFF

No difficulties are expected in securing a return to work next week.

PGO

Normal working is expected to be resumed on Tuesday, following further detailed discussions on Monday.

Copies as before.

Yours sincerely

Niran Williams

for: J G COLMAN
Private Secretary

SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION -34 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	355	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3); 1 VAT Office Staff.
Ministry of Defence	558	Strikes by computer and other staff at dockyards, RN stores depots, RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath.
Environment/Transport	85	EOs and Senior Data Processors at DVLC.
Dept. of Health and Social Security	473	230 staff on strike at Newcastle computer centre; 11 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (58), Livingston Computer Centre (60), and Washington Computer Centre (100). Medicines Division DHSS HQ (3) Local office staff (11)
Inland Revenue	2466	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (472 TRDs)

Department	Number on strike	Remarks
Paymaster General's Office	43	Strike by 28 computer staff affecting pension payments; 12 in Finance Branch, disrupting Government banking transactions; 3 telephonists.
Property Services Agency	39	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Trecwn, Cardiff DWO & Cumbernauld.
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
ECGD	5	Post room staff
MAFF	18	Staff at Guildford Computer Centre.
Employment	495	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 48c UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
Welsh Office	25	Mail sorting staff, paperkeepers and messengers at Cathays Park, CC in Finance Division, 1 Member of Staff at Aberystwyth
TOTAL	4961	

SECRET

Civil Service Pay

CF

MA

6

MR. LANKESTER

cc: Mr. Duguid

B
-

1982: CIVIL SERVICE PAY NEGOTIATIONS

You will have seen the note from the Lord President suggesting that he be allowed to keep back an amount equivalent to 2% of the Civil Service pay bill, which arises from manpower savings, for the use against "the difficulties we are likely to have next year". I understand the Treasury are encouraging the Chancellor to comment on this proposal; no doubt they will advise on the extent to which it is consistent with the cash limits regime, but I think we also ought to bear in mind that the extra 2% is less likely to be offered if the Lord President has to come back to Cabinet for it than if he already has it in a secret kitty.

J.

28 July 1981

SECRET

CONFIDENTIAL



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

T P Lankester Esq
Private Secretary
Office of the Prime Minister
10 Downing Street
LONDON SW1

28 July 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

SELECTIVE ACTION

A total of 4989 staff are now involved in selective industrial action. There has been no escalation since the consultations on the new offer began and there are few developments to report. Those which have occurred are noted below and a table is attached giving details of numbers on strike.

CONSULTATIVE BALLOTS

At present there are still only random indications of the state of voting on the offer. However, it is reported that voting by IRSF members is now complete and that a majority have come out in favour of rejection. In the other unions the present likelihood appears to be acceptance by varying amounts, though none has a full return as yet, and some of the indications, particularly for SCPS, are conflicting.

There has been a strong tendency for staff in MOD to vote for acceptance: only 4 meetings out of the 30 held so far have voted against.

At DHSS, CPSA members balloted up to now have voted 3704 to 3346 for acceptance. Voting among SCPS members is less clear cut, with staff in Manchester and the North-West favouring rejection, and Nottingham and Newcastle voting for acceptance. In Customs & Excise there is a general impression that SCPS staff have so far voted about 2 to 1 in favour of acceptance. The consultative process should be complete by Thursday, when it is reported that CCSU will meet to discuss their response to the offer.

CONFIDENTIAL

T P Lankester Esq

28 July 1981

ACTION WITH DEPARTMENTS

EMPLOYMENT

506 staff are on strike from 19 Unemployment Benefit Offices. Six offices are closed, at Keighley, Kinning Park, Hackney, Easterhouse Willesden and Wembley. Contingency arrangements are operating satisfactorily. (but see DHSS below).

DHSS

Offices in Cricklewood, Neasden and Harlesden were closed yesterday afternoon because of pressure of demand from UBO claimants. An emergency payment centre is being opened today in Harlesden and the 3 offices should, as a result, be able to re-open.

MOD

The number of staff involved in selective action is now down to 560. Since the last report about 30 staff have returned to work at the Clyde Submarine Base and a few staff have returned at the Mapping and Charting Establishment, Feltham.

FCO-PASSPORT OFFICES

The remaining strikers at Glasgow and Liverpool returned to work on Monday, thus ending industrial action within the Passport Offices.

Copies as before.

Yours ever,

Jeremy

J G COLMAN
Private Secretary

SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 28 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	357	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3); 1 VAT Office Staff.
Ministry of Defence	560	Strikes by computer and other staff at dockyards, RN stores depots, RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath.
Environment/Transport	55	EOs and Senior Data Processors at DVLC.
Dept. of Health and Social Security	473	230 staff on strike at Newcastle computer centre; 11 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (58), Livingston Computer Centre (60), and Washington Computer Centre (100). Medicines Division DHSS HQ (3) Local office staff (11)
Inland Revenue	255	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (472 TRDs)

Department	Number on strike	Remarks
Paymaster General's Office	43	Strike by 28 computer staff affecting pension payments; 12 in Finance Branch, disrupting Government banking transactions; 3 telephonists.
Property Services Agency	39	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Treccwn, Cardiff DWO & Cumbermauld.
Depts. of Trade and Industry	153	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
ECGD	5	Post room staff
MAFF	13	Staff at Guildford Computer Centre.
Employment	521	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 505 UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
Welsh Office	25	Mail sorting staff, paperkeepers and messengers at Cathays Park, CO in Finance Division, 1 member of Staff at Aberystrwyth
TOTAL	4989	

~~Mr Wolfson~~
~~cc Mr Cagham~~
~~Mr Venker~~
~~Mr Duguid~~

1.



Prime Minister

Content?

PRIME MINISTER

Yes no

MA 28/7/81

CIVIL SERVICE PAY INQUIRY: NAMES

All the members of the Inquiry have now accepted the invitation to serve and if you are content I propose that this should be announced as soon as possible (probably on Friday) by means of an arranged Parliamentary Question, a copy of which is attached.

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

S.

SOAMES

28 July 1981

QUESTION

To ask Her Majesty's Government whether they will announce the names of the members of the Inquiry into Civil Service pay.

ANSWER

The following have accepted an invitation to serve on the Inquiry under the Chairmanship of the Rt Hon Sir John Megaw:

The Rt Hon Lord Lever of Manchester

Baroness Seear

Sir Peter Thornton, KCB

Mr James Ackers

Mr John Chalmers, CBE

Professor Christopher Foster

Mr Robert Ramsey, CBE

Mr George Russell

The Inquiry has been asked to report by next Summer so that its recommendations can be considered in good time before the 1983 Civil Service pay settlement.

SECRET

Civil Service 5



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~3307822~~ 218 2111/3

MO 20/17/6

28th July 1981

Dear Chris,

BF

1982 CIVIL SERVICE PAY NEGOTIATIONS

My Secretary of State has not been consulted about the propositions concerning the Defence Budget contained in the Lord President's minute to the Prime Minister of 23rd July (Mr Nott's copy of which was received here this afternoon, Tuesday 28th July).

I am not presently able to show my Secretary of State Lord Soames' minute but I think that he would wish me to seek, on his behalf, the opportunity to comment before the Prime Minister considers the Lord President's minute.

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

*Yours and,
Bour*

(B M NORBURY)

C A Whitmore Esq

*Spoke MOD + told them
to get N Nott to comment
as soon as possible.*

SECRET

*AM
28th*

CONFIDENTIAL



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

Am... 2

✓ M... Ver...

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

*72
417*

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

24 July 1981

MS

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

5139 staff are currently involved in selective industrial action, the departments affected being as previously reported. There have been few significant developments since the consultative period began. Those which have occurred are noted below and a table is attached showing numbers on strike by department.

...

Early indication of the results of consultative meetings are mixed. About 50% of IRSF members have now had the opportunity of voting, and of those about 56% have come out against the offer, with 44% in favour. The voting among CPSA members at DHSS local offices in the North has been finely balanced in favour of the offer though only a relatively small proportion of the results is available. Other groups, such as IPCS members in MOD and CPSA members at the Department of Employment are thought likely to come out in favour by reasonable majorities. Notwithstanding the union's recommendation, CSU members at DVLC, however, have significantly voted in favour of the Government offer. The position will be considerably clearer by early next week.

ACTION WITHIN DEPARTMENTS:

EMPLOYMENT

There are few significant changes. About 500 staff are now on strike from 19 offices. The Wembley office has closed, creating difficulties for DHSS (see below). Problems are

CONFIDENTIAL

expected...

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expected to arise at Fulham, where 3 staff have come out on strike, and Sheffield within the next few days. A meeting between management and unions about recovery in the Benefit Service after the dispute was held yesterday, though the unions' approach was not helpful.

DHSS

5 local offices are likely to receive a surge of claims as a result of the Wembley UBO shutdown. The local authorities will help to ease difficulties.

At Hackney, contingency benefit payment arrangements involving the Local Authority are operating reasonably satisfactorily. Both of these areas are being kept under close review by the Department who have further emergency payment arrangements available if needed.

ECGD

An agreement has now been reached between management and unions for mail at the Cathays Park site to be opened and processed. This will provide enough work until at least the end of the consultative period.

SCOTTISH OFFICE

All staff are now working normally following the return to work on Wednesday of 13 strikers at the Department of Agriculture for Scotland.

WELSH OFFICE

TRD action is continuing against staff blacking work, but nearly all of those given warnings so far have resumed normal working. The scale of necessary TRD action has reduced significantly since earlier in the week.

Copies as before.

Yours ever,

Jeremy

J G COLMAN
Private Secretary

CONFIDENTIAL

SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION -- 24 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	355	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3); -1 VAT Office Staff.
Ministry of Defence	592	Strikes by computer and other staff at dockyards, RN stores depots, RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath.
Environment/Transport	85	EOs and Senior Data Processors at DVLC.
Foreign and Commonwealth Office	110	Passport Examiners at Liverpool and Glasgow.
Dept. of Health and Social Security	473	230 staff on strike at Newcastle computer centre; 11 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (58), Livingston Computer Centre (60), and Washington Computer Centre (100). Medicines Division DHSS HQ (3) Local office staff (11)
Home Office		
Inland Revenue	2466	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (472 TRDs)

Department	Number on strike	Remarks
Paymaster General's Office	43	Strike by 28 computer staff affecting pension payments; 12 in Finance Branch, disrupting Government banking transactions; 3 telephonists.
Property Services Agency	41	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, Shoeburyness, St Athans, Trecwn, Cardiff DWO, Cumbernauld.
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Office		
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
ECGD	11	Post room staff, 3 EOs and 3 Principals
MAFF	18	Staff at Guildford Computer Centre.
Employment	521	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 506 UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
Welsh Office	25	Mail sorting staff, paperkeepers and messengers at Cathays Park, CO in Finance Division, 1 Member of Staff at Aberystwyth
TOTAL	5139	

A

SECRET

Civil Service ✓ J. Vercher
A. Daywid



NBDM yet

BF 31/7

*12
21/7*

AA

PRIME MINISTER

1982 CIVIL SERVICE PAY NEGOTIATIONS

Although we are not yet out of the wood on this year's negotiations with the Civil Service, I need soon to turn my mind to next year's negotiations.

As part of the public expenditure survey we are now examining Departments' manpower requirements for 1982/83. So far this is going well and we should be able to get the figures significantly below those which we have provided for in the present public expenditure plans: so much so that we might have £100 million, say 2% of the pay bill, available.

Bearing in mind the difficulties we are likely to have next year, particularly the need to associate pay rises with staff reductions, I propose that we should hold on to these savings (including those which under the normal conventions would be "redeployed" elsewhere within the Defence budget rather than used to reduce public expenditure).

We should thus not reflect them in revised public expenditure totals nor redeploy the MOD monies. This does not commit us to using any of the savings for Civil Service pay. But it keeps open the opportunity to do so, if that seems right after collective discussion nearer the time; and provides a measure of flexibility without increasing planned levels of public expenditure.

Are you content that I should proceed in this way? Nothing will be lost. But if we take the other route we shall have boxed ourselves in more than we need just now.

A copy of this goes to the Chancellor of the Exchequer, the Secretaries of State for Employment and Defence and to Sir Robert Armstrong.

SOAMES

23 July 1981

SECRET

Civil Service
Pay

1

PRIME MINISTER

Civil Service Pay Inquiry

Spoke 4
Buckley

You suggested that Alan Lord, who has turned down the invitation to serve as a member of the Inquiry, should be asked to suggest other possible ex-Civil Service candidates.

12
27/7

Lord has suggested Sir Peter Thornton, formerly Permanent Secretary in the Department of Trade, and now a Director of Hill Samuel and of the Laird Group; and Sir William Pile, who is now a Director of Distillers and of the Nationwide Building Society. Lord's first choice would be Thornton, since he is said to be sceptical of the present Civil Service pay arrangements; and the Lord President would like to approach him. If Thornton is not available, then he would like to approach Pile.

Content?

No - do not approach
Sir William Pile.

12

Try Thornton
Lord Seamer agrees,
mb.

21 July, 1981.



✓ J. Vercher
A. Duguid

Ref. A05293

MR LANKESTER

R. m/7

At the Prime Minister's meeting on 15 July, Sir Robert Armstrong was asked to prepare a revised draft of the synopsis of the Government's evidence to the inquiry on Civil Service pay, marrying the draft circulated with the Lord President's minute of 10 July with points made by the Chancellor of the Exchequer at the meeting and in an alternative synopsis of which he subsequently sent Sir Robert a copy.

2. I attach Sir Robert's revised draft herewith.

3. I am sending copies of this minute and the revised draft to the Private Secretaries to the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment.

D J WRIGHT

20 July 1981



Synopsis of Government Evidence to the Inquiry on
Civil Service Pay

Introduction: Why A New System

1.1. Description of Priestley arrangements, and modifications of them since 1956.

1.2. Reasons why those arrangements no longer command confidence. Priestley reported over 25 years ago at a time of full employment and low inflation. Need for new system to be capable of responding to changes in economic circumstances, to be adaptable to situation of less than full employment and to be such as not to add to inflationary pressures at times of higher inflation. Need to take full account of all relevant factors, including labour market factors as well as comparability. Need to correct technical shortcomings of the existing arrangements. Need to provide a stable system, widely accepted as fair, and minimising liability to industrial disputes.

Approach To A New System

2.1. Government's aim is "ordered and agreed" system providing a sound basis for good industrial relations, acceptable to the Civil Service, commanding confidence of Parliament and public.

2.2. The system should produce rates of pay which are adequate to recruit, retain and motivate sufficient numbers of staff of satisfactory quality.

2.3. Comparisons with outside rates in comparable employment are useful as a broad indication of what is required to recruit, retain and motivate staff, but on their own can (and did under the existing arrangements) give rise to an undesirable presumption of entitlement to "fair comparison" rates without regard to other relevant considerations, and are not sufficient as a basis for determining pay. Other conditions of service (including pension



contributions and benefits and non-pay benefits), recruitment and retention performance, relative efficiency and relative job security need to play a more direct part than under the Priestley approach. Committee invited to consider and make recommendations on practicable methods of assessing these factors for pay determination purposes.

2.4. Advantage if Committee can recommend procedures to keep increases more in line with those in pay generally. Present system leads to "out of phase" settlements causing real problems (eg in differentials) and presentational difficulties.

2.5. Cost and economic circumstances, including the level of national prosperity, need to be taken into account in the determination of pay levels of civil servants as of employees in other sectors. Future arrangements need to enable Government to discharge its general economic responsibilities, including its responsibility for controlling public expenditure and maintaining the value of money.

2.6. Government is committed to finding means of reconciling procedures for fixing cash limits and procedures for negotiating Civil Service pay. Description of options, including change in operative date of Civil Service pay settlements: the Committee may have other proposals.

2.7. The arrangements should be such as to make it possible as a general rule to agree settlements, if full weight is given to all the relevant factors indicated in 2.3. and cash limits are set realistically.

2.8. But Government must retain ultimate accountability to Parliament for expenditure on Civil Service pay, and may occasionally need to curtail Civil Service pay increases in the national interest, even if justified on management grounds, and even if resulting from arbitration. It is essential that the system should provide a power and a procedure for override in exceptional circumstances by the Government, possibly subject to the



approval of the House of Commons.

2.9. Reference to arbitration should be by agreement of both sides, not unilateral. Override provisions should be applicable to arbitration awards.

Comparisons

3.1. As already indicated (2.3.), comparisons have a part to play, since Civil Service pay levels must be expected to stand in reasonable long-term relation to outside rates if staff are to be recruited and retained in sufficient number and quality, and cannot be held below outside rates for long without giving rise to serious management problems, including discontent among staff.

3.2. Comparisons need to be based primarily on outside rates for similar work. The risk of circularity - Civil Service rates being increased by reference to outside rates which themselves in some degree follow Civil Service increases - particularly needs to be avoided.

3.3. Functional comparisons can readily be made where outside jobs have close similarity to Civil Service work and the Civil Service is not the dominant employer. More difficult at senior management levels. Committee asked to examine reliability of comparisons at different grading levels. Institutional arrangements required for fact-finding to be considered in light of observations of Pay Research Unit Board on scope for wider role for any successor body.

3.4. Specific Points:

- a. Comparisons to be based on much more representative sample of outside employers. Committee asked to examine suggestion for excluding public sector analogues, and ways to extend comparisons with private sector, including wider and more representative spread of firms.



- b. Outside pay rates need adjusting for differences in other benefits and conditions. Stringent assessment needed of value of fringe benefits.
- c. To what extent is it necessary to consider "up to date" aspects of pay comparisons? Uprating procedures linked to price movements one of the most unsatisfactory aspects of the old system.

Other Aspects of New System

4.1. Committee invited to consider:

- a. role for internal relativities;
- b. use of incremental scales;
- c. case for merit pay and scope for productivity bargaining at more junior levels;
- d. scope for greater geographical differentiation as alternative to present system of national rates plus London weighting (reference to former Provincial Differentiation);
- e. scope for "no industrial action" agreements.

4.2. Committee asked to consider implications of new system for the higher Civil Service included within the remit of the Top Salaries Review Body (TSRB), and relationship of new system to TSRB's work.

Conclusion

5.1. Committee asked to advise both on principles to form basis of new pay system and on practical arrangements for applying it.

5.2. The Committee's terms of reference leave it free to examine any aspect of Civil Service management practice relevant to principles and arrangements of pay system.

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Ge J. Weeks
A. August

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

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

20 July 1981

Deo Christopher

R 20/7

LONDON WEIGHTING ALLOWANCES: 1981 UPDATING

Your Private Secretary's letter of 25 June to Jim Prior's Private Secretary referred to the offer on London Weighting made to the non-industrial Civil Servant Unions, and set out your view that, so far as possible, a similarly strict approach should be applied by other public sector employees.

The Primary and Secondary Burnham Committee is to consider London Weighting on 24 July. I have no reason to suppose the local authority employers will wish to go beyond the 7½% agreed generally for teachers' salaries, and my officials on the management panel will argue strongly against, and if necessary vote against, any offer above 7½%. This is, of course, a constraint not open to us in the case of other local authority employees. The local authorities themselves will be constrained both by the cash limit on the rate support grants and the implications for other local authority employees of an offer to teachers above 7½%.

It is nevertheless possible that the local authorities will be persuaded, under pressure from the teachers, to think in terms of offering more. If both the ACC and the AMA are so persuaded they may outvote the weighted vote of my officials. In that case, it would be open to me to instruct them to veto offers above 7½%, but I do not think it would be right to do so. One reason for this is that the local authorities could hardly offer more than 7½% to the teachers unless they were treating their other employees similarly. I do not think I should use the veto, available only for teachers' pay, to keep their London Weighting below that of other employees. More serious in the longer term, however, is the danger that using the veto on this relatively small part of the teachers' pay this year could rebound on us with harmful consequences. The local authorities' dislike of the veto would be strengthened, and they might be tempted to repudiate the concordat altogether, thus reducing our chances of achieving a satisfactory new agreement when we amend the existing Remuneration of Teachers Act.

Copies of this letter go to the other members of E, Patrick Jenkin and Sir Robert Armstrong.

James ever
Mark

CONFIDENTIAL

MARK CARLISLE



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273 4253

Switchboard 01 273 3000

17 July 1981

W L Kendall Esq
Council of Civil Service
Unions
19 Rochester Row
LONDON SW1

Dear Kendall,

Following our recent informal discussions about the position reached in the dispute over Civil Service pay, I have consulted Ministers and am authorised to convey the following to you.

2. The 1981 settlement must be contained within the cash limit of 6%. The Government's offer of 7% was the most that was thought possible without putting the cash limit at risk. The Government has reassessed the position and is able to offer additionally a flat rate increase of £30 per head (consolidated into basic rates). The additional cost amounting to $\frac{1}{2}\%$ on the pay bill would be found by making a further reduction in Civil Service staff costs to the extent necessary to ensure that the cash limit is not exceeded.

3. Throughout the negotiations you have said that a major cause of concern to your members is the procedure for negotiating a pay settlement for 1982 following the setting aside of the Pay Agreement. Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

4. The revised offer in this letter both in respect of 1981 and 1982 is conditional on its providing the basis for an early return to normal working by your members. If it does not do so then the whole offer, including the operative date of 1 April, will be withdrawn.

5. I very much hope that I shall receive an early and positive response to this letter.

Yours sincerely
F G Burrett
F G BURRETT

CSD ON(81)104
20 July 1981

CIVIL SERVICE PAY NEGOTIATIONS

As staff will be aware the Government has recast its pay offer to the Council of Civil Service Unions and it is hoped that these fresh proposals will provide the basis for an early settlement.

The letter conveying details of the revised offer to the Council of Civil Service Unions is reproduced overleaf and it is expected that the unions will be putting the proposals to their members over the next week or so. A notice detailing the CSD arrangements will be issued as soon as they are known.

PS 195/01
PS 15/016



10 DOWNING STREET

File AH
cc Isy
Emp.

From the Principal Private Secretary

17 July 1981

APPOINTMENTS IN CONFIDENCE

Dear Jim,

CIVIL SERVICE PAY INQUIRY : NAMES

The Lord President minuted the Prime Minister on 14 July 1981 about members of the Civil Service Inquiry.

Events have moved on since then, and the purpose of this letter is simply to record, for posterity's sake, what Ministers have decided. They agreed that an approach should be made to John Chalmers. As regards the search for a member of the Inquiry who has had experience in the Civil Service, they decided, following Alex Jarratt's refusal to serve, that the Lord President should ask Alan Lord whether he had any names to suggest.

✓✓ I am sending copies of this letter to John Wiggins (Treasury) and Richard Dykes (Department of Employment).

Yours ever,

Alan Lord

Jim Buckley Esq.,
Civil Service Department.

AH



CCWFO

ds

CF

10 DOWNING STREET

THE PRIME MINISTER

17 July 1981

Dear Harold

We spoke on the telephone last weekend about the Civil Service Pay Inquiry, and I was absolutely delighted that you were able to agree to serve as a member of the Inquiry. Its final membership has not yet been settled, but we hope to make an announcement shortly.

Mr. James Ackers, whom I mentioned we were going to ask to serve as a representative of small business, has in fact accepted. Nonetheless, I was grateful for your suggestions.

Yours ever

Rogers

P.S. The terms of reference are enclosed.

The Rt. Hon. Lord Lever of Manchester

HL

CIVIL SERVICE PAY INQUIRY;

TERMS OF REFERENCE

"Having regard to the public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service, and in the orderly conduct of the business of Government and its services to the public; to the need for the Government to reconcile its responsibilities for the control of public expenditure and its responsibilities as an employer; to the need for good industrial relations in the Civil Service; and to recent experience of operating the existing arrangements for determining the pay of the non-industrial Civil Service; to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay, including management, structure, recruitment and grading."

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10 DOWNING STREET

From the Private Secretary

17 July 1981

I enclose the record of the meeting which was held on Wednesday evening to discuss Government evidence to the Civil Service pay enquiry.

- mtg note
filed under
15/7

I am sending a copy of this letter to Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), Brian Norbury (MOD), Don Brereton (DHSS), Jim Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL

VS

NM



From the Secretary of the Cabinet

Mr. Lankester.

This record has been approved by Sir R. Armstrong. You will now wish to issue it under cover of a P.S. letter.

JW
17/7

CONFIDENTIAL

Sir Robert Armstrong
Not asked for this. When
agreed it should no doubt
be covered by their usual
cases of a P S letter

RECORD OF AN AD HOC MEETING HELD IN THE PRIME MINISTER'S ROOM,
HOUSE OF COMMONS, AT 5.30 PM ON WEDNESDAY, 15 JULY 1981

CIVIL SERVICE PAY INQUIRY: GOVERNMENT EVIDENCE

Present:

The Prime Minister (in the chair) ✓
~~The Home Secretary~~ ✓
The Chancellor of the Exchequer ✓
The Lord President of the Council ✓
The Secretary of State for Employment ✓
The Secretary of State for Defence ✓
The Secretary of State for Health and Social Security ✓
The Attorney General ✓

Sir Robert Armstrong (Cabinet Office)
Mr P Le Cheminant (Cabinet Office)
Mr T P Lankester (10 Downing St)

Mr J Verden (")

The Prime Minister said that she had called the meeting to consider
and content
the handling of Government evidence to the Civil Service Pay Inquiry
which was being set up under the chairmanship of Sir Joh Megaw.
The primary responsibility for the *preparation and* presentation of the Government's
evidence rested with the Lord President of the Council; and for
co-ordination ~~of the evidence~~ at Official level with the Civil
Service Department. Nevertheless it was important that colleagues
collectively should agree in advance on the main *thrust* ~~substance~~ of the
evidence; and should be involved, as the inquiry progressed, in any
major issues of principle or presentation which arose.

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The Lord President of the Council said that he had set out his present thinking on the Government's evidence in his minute of 10 July to the Prime Minister and in the synopsis ~~of Government evidence~~ attached to it. The report by a group of officials on Civil Service pay arrangements circulated to the Ministerial Committee on Economic Strategy as E(81)50, was also relevant. The Government had already made it clear that its objective was "the establishment of a new, ordered and agreed system which would meet the legitimate interests of all concerned and which would win wide acceptance as a fair and reasonable way of settling Civil Service pay." The Government's special relationship with the Civil Service made it dangerous to rely on free collective bargaining as a means of determining pay. A structured system was therefore necessary. The real question was the kind of structured system which would best meet the Government's requirements. His own view was that, of the four options for the framework of an agreement set out in paragraph 93s of E(81)50, option B was to be preferred. This provided for an agreement under which market factors would be the primary determinant of Civil Service pay rates with provision for "override" for use in exceptional economic circumstances. This would

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be accompanied by a firm assurance that except during "override" access to arbitration would not be denied. As a matter of tactics he thought that it would not be sensible for the Government to press a particular solution on the Inquiry. But the evidence given could obviously influence the Inquiry towards the preferred solution.

The Chancellor of the Exchequer said that he too recognised the dangers of presenting the Inquiry with a Government "blueprint" and he also wanted an orderly system if this could be achieved. The real problem would lie in the degree of Government commitment to the outcome of any new system. Regard must be paid to the taxpayers' ability to pay and to the requirements of Government economic and fiscal policy. His preference therefore would be for option A in E(81)50 as the Government's objective. This would provide for a procedure agreement setting out market factors but leaving the way open for any other relevant factor to be introduced in the negotiations. In his view arbitration should ~~only~~ be available ^{only} by mutual consent.

In discussion the following main points were made:-

- (a) The degree of Government commitment to implementing

the outcome of any new system lay at the heart of the problem.

The old arrangements had proved too mechanistic and did not give adequate scope to reflect either market forces or the requirements

of the national economic situation. The Government could not

surrender its ultimate responsibility to the taxpayer or put

~~the determination of the pay of its employees into commission.~~

accountability
to Parliament,
or its

(b) On the other hand, as events this year had shown, there was

a trade-off between the degree of commitment of both sides to

an ordered pay system and the possibility of damaging industrial

action. The requirement was to find a system which could be

publicly defended, which ^{could be expected to last,} ~~was reasonably durable~~ and which would

minimise the possibilities of conflict.

(c) The Government recognised that within any new system there

would be a role for outside comparisons with levels of pay in

the rest of the economy. It was also not the Government's

intention that the terms and conditions of service of Civil

Servants should, generally speaking, fall behind those being

applied outside the service. But comparisons of pay alone were not enough. Comparative efficiency was of equal importance.

How this was to be taken into account in pay determination was

~~This comparative~~
The question of ~~efficiency~~ ^a ~~would be~~ ^{issue for} of key importance in the Inquiry, though it had to be recognised that the nature of the tasks which the Civil Service was asked to do and the way in which they were performed, ^{were} ~~was~~ essentially a matter for management.

Summing up the discussion, the Prime Minister, said that ~~the group~~ had had a useful first discussion. The summary of evidence circulated by the Lord President of the Council was broadly acceptable to the group, subject only to further consideration of the difficult issue of the degree of commitment to the results of any new system. The Chancellor of the Exchequer had indicated that he had an alternative version of some of the key passages. It would be helpful to the group if the Secretary of the Cabinet could now seek to combine the two texts as a basis for further consideration.

The Group took note, with approval, of the Prime Minister's summing up of their discussion and instructed the Secretary of the Cabinet to proceed accordingly.



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

From the Private Secretary

17 July 1981

Tim Lankester Esq
10 Downing Street

Dear Tim
in Dept. Admin
by [unclear]
the Director

David [unclear]
[Signature]

17/7

CIVIL SERVICE PAY

... I attach copies of the letter which CSD officials have sent to the Council of Civil Service Unions, our Press Release, and the Lord President's letter to the Home Secretary pointing up the need for manpower reductions to finance the extra cost.

I am sending copies of this, and the attachments, to the Private Secretaries to members of the Cabinet, the Attorney General and the Lord Avocate and to the Chief Whips in both Houses, and to Sir Robert Armstrong.

Yours sincerely,
Jim Buckley.

J BUCKLEY



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

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

17 July 1981

Dear Home Secretary,

CIVIL SERVICE PAY

I wrote to you and other colleagues on 13 February about the decision to offer a 7% pay increase to the Civil Service Unions. I recorded that this was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11%, and warned colleagues that they would therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

We have now agreed to see whether a further increase of £30 a head will serve to bring the dispute to an end. We have told the Unions that the Government intends to finance this within the existing departmental cash limits by making a further reduction in Civil Service staff costs. The purpose of this letter is to warn colleagues that there will need to make further cuts accordingly.

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

Yours sincerely,
Buckley.
(Private Secretary)

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

SOAMES



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01 273 4253

Switchboard 01 273 3000

17 July 1981

W L Kendall Esq
Council of Civil Service
Unions
19 Rochester Row
LONDON SW1

Dear Kendall,

Following our recent informal discussions about the position reached in the dispute over Civil Service pay, I have consulted Ministers and am authorised to convey the following to you.

2. The 1981 settlement must be contained within the cash limit of 6%. The Government's offer of 7% was the most that was thought possible without putting the cash limit at risk. The Government has reassessed the position and is able to offer additionally a flat rate increase of £30 per head (consolidated into basic rates). The additional cost amounting to $\frac{1}{2}\%$ on the pay bill would be found by making a further reduction in Civil Service staff costs to the extent necessary to ensure that the cash limit is not exceeded.

3. Throughout the negotiations you have said that a major cause of concern to your members is the procedure for negotiating a pay settlement for 1982 following the setting aside of the Pay Agreement. Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

4. The revised offer in this letter both in respect of 1981 and 1982 is conditional on its providing the basis for an early return to normal working by your members. If it does not do so then the whole offer, including the operative date of 1 April, will be withdrawn.

5. I very much hope that I shall receive an early and positive response to this letter.

Yours sincerely
F G Burrett
F G BURRETT

PRESS NOTICE

CIVIL SERVICE PAY DISPUTE

The Civil Service Department has put fresh proposals to the Civil Service unions in the hope that these will provide a basis for a settlement of the Civil Service pay dispute.

In the letter, a copy of which is attached, it is made clear that the 1981 settlement must be contained within the cash limit of 6%. But the Government is now offering as an addition to the existing offer of a 7% increase in pay a flat rate increase of £30 per head. The cost of this would add a further $\frac{1}{2}\%$ to the pay bill. To the extent necessary this would be financed by a further reduction in staff costs.

The Government has also offered an assurance that in the event of disagreement on the 1982 negotiations it will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

The revised offer both for 1981 and 1982 is conditional on it providing a basis for an early return to normal work. If it does not do so the whole of the present offer including the operative date of 1 April will be withdrawn.

NOTES FOR SUPPLEMENTARIES

Q1 WHAT IS THE STATUS OF THE OFFER? DOES THIS MEAN A SETTLEMENT HAS BEEN REACHED?

A1 The Government has made its further offers on the pay increase for 1981 and on arbitration in 1982 in the hope that these will provide a basis for a settlement. The offer has been made in the light of extensive informal discussions with the union leaders. They will be putting the proposals to their members over the next few days, and this will determine whether a settlement can now be reached. But if the proposals are not accepted the Government will withdraw the present offer as a whole, including the operative date of 1 April for the 1981 pay increase.

Q2 DO YOU EXPECT THE OFFER TO BE ACCEPTED?

A2 The Government hopes so. It believes that the great majority of civil servants want to see this long drawn out dispute brought to an end.

Q3 WHAT WILL BE THE POSITION IF ONE OR TWO UNIONS REFUSE TO ACCEPT THE OFFER?

A3 The Government would have to consider the position.

Q4 HAS THE GOVERNMENT GIVEN IN TO UNION PRESSURE?

A4 No. The unions' claim was for 15%, and there could be no question of conceding that. The addition to the original 7% offer, which was made a long time ago, is very small - and can be found within the cash limit. And if arbitration is needed next year, it will not be unconditionally binding on the Government, who can ask the House of Commons to approve its setting aside if the national interest requires this.

Q5 SO THE GOVERNMENT HAS WON?

A5 There are no winners at the end of a strike. The strikers have suffered; and the community has suffered.

Q6 WHY WAS THE OFFER NOT MADE EARLIER?

Q6 The differences between the two sides have been very wide. The Government has made a number of efforts to resolve the dispute. It has taken time for a basis for a settlement to emerge.

Q7 WHY HAS THE GOVERNMENT DECIDED NOW THAT IT CAN OFFER MORE THAN 7%? WILL THERE HAVE TO BE FURTHER MANPOWER CUTS TO FINANCE THE $\frac{1}{2}$ %?

A7 The Government has decided to make further savings to keep within the cash limit on Civil Service pay. There will have to be further reductions in manpower costs to accommodate the $\frac{1}{2}$ % and departments have been instructed accordingly. But we cannot say exactly how many jobs will go, or where.

- Q8 WHY IS THE EXTRA $\frac{1}{2}\%$ IN THE FORM OF A FLAT RATE PAYMENT?
- A8 We have taken account of the unions' views in deciding how the extra $\frac{1}{2}\%$ should be applied. The £30 flat rate provides some modest adjustment in favour of lower paid staff.
- Q9 IS THE OFFER WORTH $7\frac{1}{2}\%$ FOR EVERYONE?
- A9 The offer as a whole is worth $7\frac{1}{2}\%$. But in percentage terms some staff will get a little less and some will get a little more.
- Q10 WILL THE £30 BE PAID OUT AS A SINGLE LUMP SUM?
- A10 No. The £30 will be consolidated in the annual pay rates to be implemented from 1 April 1981.
- Q11 WHY HAS THE GOVERNMENT AGREED NOW TO OFFER ARBITRATION NEXT YEAR BUT WAS UNWILLING TO HAVE ARBITRATION THIS YEAR?
- A11 This year's negotiations were constrained by the need to keep within the cash limit which had already been set. The Government could not have agreed to arbitration without putting this cash limit at risk. With the setting aside of the Pay Agreements there is no agreed basis for settling Civil Service pay pending the outcome of the Megaw Inquiry which is not expected to report before next summer. The Government have therefore said that for the intervening year of 1982 there can be negotiations (a) without a pre-determined limit on the cost of the settlement and (b) with arbitration, subject to override, available if necessary.
- Q12 DOES NOT THE OFFER OF ACCESS TO ARBITRATION PUT AT RISK THE GOVERNMENT'S WISH TO SEE LOW SETTLEMENTS IN THE NEXT PAY ROUND?
- A12 The Government hopes that there will be a negotiated settlement on Civil Service pay next year. But the offer of arbitration is not an unconditional one and if national economic circumstances made it necessary to do so the Government would ask the House of Commons to approve the setting aside of an award.
- Q13 DOES THE GOVERNMENT'S EARLIER ASSURANCE ABOUT THE HANDLING OF THE CIVIL SERVICE PAY NEGOTIATIONS IN 1982 STILL STAND?
- A13 The Government has said that it will enter negotiations with the Civil Service unions next year without a pre-determined limit on the cost of a settlement. That assurance still stands.
- Q14 COST OF THE DISPUTE?
- A14 No figure can be put on it. But there certainly has been a cost. The public will go on feeling the effects for several months, as we try and work through the backlog. It will take quite a time to get services back to normal.

Q15 HOW LONG WILL IT TAKE TO RECOVER FROM THE DISPUTE?

A15 It is bound to take some time. If a settlement can now be reached the Government will be playing its part in the effort to restore a spirit of co-operation in working relationships, and it hopes the union side will be doing the same.

Q16 HOW DOES THE GOVERNMENT'S OFFER AFFECT THE INDUSTRIALS?

A16 There are separate negotiations with the unions representing industrial civil servants, and these are continuing.

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C. B. M. ...

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ

ABM

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

*R
207*

Tim Lankester Esq
10 Downing Street
LONDON SW1

17 July 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

5214 staff are involved in selective industrial action today. As usual principal developments within departments are set out below, and a table showing numbers on strike is attached.

The revised pay offer has been sent formally to the unions this afternoon and it is expected that they will consult membership with a view to reporting back before the end of the month. The Trade Unions have undertaken to discourage any form of unofficial industrial action, and during the consultative period both sides have agreed to do everything possible to ensure that there is no intensification of the industrial action.

ACTION WITHIN DEPARTMENTS

Employment

There is no suggestion of an immediate return to work by those Unemployment Benefit Offices (UBO) staff already on strike. The total number of UBO staff now involved in strike action is 422, and 20 offices are affected. However discussions are taking place with national and departmental CPSA representatives with the aim of reaching an agreement to stop the increase in blacking of Girocheques. The aim is to achieve a 'levelling off' of the position.

DHSS

A number of offices are still refusing to deal with redirected UBO claimants. Where this is the case claimants are still being advised to seek financial assistance from Local Authority and social services departments. In Hackney there have been difficulties in securing Local Authority cooperation, but DHSS have now negotiated satisfactory contingency arrangements.

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The numbers involved in selective action are expected to decrease still further next week (following the drop in numbers already reported this week). However management are giving serious consideration to the position at Rosyth Dockyard, where Navy personnel may soon have to be used to take over certain operations affecting the refit of a nuclear submarine.

FCO/Passport Offices

Passport Offices are now almost back to full normal working. There is still some resistance from staff at Liverpool and Glasgow to the union's instructions on this, but both offices are functioning.

Scottish Office

Staff at the Scottish Office Computer Centre will resume normal working as from Monday following an agreement reached with the unions yesterday.

Welsh Office/ECGD

Blacking of work is occurring in both Departments, both at their Cathays Park site where there is a 24-hour picket, and at other regional offices to which they send mail. TRD action has been taken by both departments with reasonable effect. Heavy picketing is affecting some mail deliveries.

Copies as before.

*Yours truly,
Jeremy*

JEREMY COLMAN
Private Secretary

SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 17 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	354	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3)
Ministry of Defence	656	Strikes by computer and other staff at dockyards, RN stores depots, RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath.
Environment/Transport	85	EOs and Senior Data Processors at DVLC.
Foreign and Commonwealth Office	239	Passport Examiners at the London, Liverpool, and Glasgow Passport Offices; staff at Hayes Record Centre.
Dept. of Health and Social Security	466	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (56), Livingston Computer Centre (56), and Washington Computer Centre (100). Medicines Division DHSS HQ (3) Local office staff (11)
Home Office		
Inland Revenue	2459	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (467 TRDs)

Department	Number on strike	Remarks
Paymaster General's Office	43	Strike by 28 computer staff affecting pension payments; 12 in Finance Branch, disrupting Government banking transactions; 3 telephonists.
Property Services Agency	44	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, Shoeburyness, St Athans, Trecwn, Cardiff DWO, Cumbernauld and Carlisle.
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Office DAFS	25 13	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action. Drawing Office staff
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
ECGD	5	Post room staff
MAFF	18	Staff at Guildford Computer Centre.
Employment	385	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 370 UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
Welsh Office	23	Mail sorting staff, paperkeepers and messengers at Cathays Park
TOTAL	5214	

SUBJECT

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gc master

RECORD OF AN AD HOC MEETING HELD IN THE PRIME MINISTER'S ROOM
AT THE HOUSE OF COMMONS ON WEDNESDAY 15 JULY 1981 AT 1730

Present:

The Prime Minister
The Chancellor of the Exchequer
The Lord President of the Council
The Secretary of State for Employment
The Secretary of State for Defence
The Secretary of State for Health and Social Security
The Attorney General

Sir Robert Armstrong
Mr. P. Le Cheminant
Mr. T.P. Lankester
Mr. J.M.M. Vereker

Civil Service Pay Inquiry: Government Evidence

The Prime Minister said that she had called the meeting to consider the handling and content of Government evidence to the Civil Service Pay Inquiry which was being set up under the chairmanship of Sir John Megaw. The primary responsibility for the preparation and presentation of the Government's evidence rested with the Lord President of the Council; and for co-ordination at official level with the Civil Service Department. Nevertheless it was important that colleagues collectively should agree in advance on the main thrust of the evidence; and should be involved, as the inquiry progressed, in any major issues of principle or presentation which arose.

The Lord President of the Council said that he had set out his present thinking on the Government's evidence in his minute of 10 July to the Prime Minister and in the synopsis attached to it. The report by a group of officials on Civil Service pay arrangements circulated to the Ministerial Committee on Economic Strategy as E(81)50, was also relevant. The Government had already made it clear that its objective was "the establishment of a new, ordered and agreed system which would meet the legitimate interests of all concerned and which would win wide acceptance as a fair and reasonable way of settling Civil Service pay". The Government's

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special relationship with the Civil Service made it dangerous to rely on free collective bargaining as a means of determining pay. A structured system was therefore necessary.

The real question was the kind of structured system which would best meet the Government's requirements. His own view was that, of the four options for the framework of an agreement set out in paragraph 93s of E(81)50, option B was to be preferred. This provided for an agreement under which market factors would be the primary determinant of Civil Service pay rates with provision for "override" for use in exceptional economic circumstances. This would be accompanied by a firm assurance that except during "override" access to arbitration would not be denied. As a matter of tactics he thought that it would not be sensible for the Government to press a particular solution on the inquiry. But the evidence given could obviously influence the inquiry towards the preferred solution.

The Chancellor of the Exchequer said that he too recognised the dangers of presenting the inquiry with a Government "blueprint" and he also wanted an orderly system if this could be achieved. The real problem would lie in the degree of Government commitment to the outcome of any new system. Regard must be paid to the taxpayers' ability to pay and to the requirements of Government economic and fiscal policy. His preference therefore would be for Option A in E(81)50 as the Government's objective. This would provide for a procedure agreement setting out market factors but leaving the way open for any other relevant factor to be introduced in the negotiations. In his view arbitration should be available only by mutual consent.

In discussion the following main points were made:

- (a) the degree of Government commitment to implementing the outcome of any new system lay at the heart of the problem. The old arrangements had proved too mechanistic and did not give adequate scope to reflect either market forces or the requirements of the national economic situation. The Government could not surrender its accountability to Parliament or its ultimate responsibility to the taxpayer.

/ (b)

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- (b) On the other hand, as events this year had shown, there was a trade-off between the degree of commitment of both sides to an ordered pay system and the possibility of damaging industrial action. The requirement was to find a system which could be publicly defended, which could be expected to last, and which would minimise the possibilities of conflict.
- (c) The Government recognised that within any new system there would be a role for outside comparisons with levels of pay in the rest of the economy. It was also not the Government's intention that the terms and conditions of service of Civil Servants should, generally speaking, fall behind those being applied outside the service. But comparisons of pay alone were not enough. Comparative efficiency was of equal importance. How this was to be taken into account in pay determination was a key issue for the inquiry, though it had to be recognised that the nature of the tasks which the Civil Service was asked to do and the way in which they were performed were essentially matters for management.

The Prime Minister, summing up the discussion, said that the summary of evidence circulated by the Lord President of the Council was broadly acceptable to the group, subject only to further consideration of the difficult issue of the degree of commitment to the results of any new system. The Chancellor of the Exchequer had indicated that he had an alternative version of some of the key passages. It would be helpful to the group if the Secretary of the Cabinet could now seek to combine the two texts as a basis for further consideration.

The Group took note, with approval, of the Prime Minister's summing up of their discussion and instructed the Secretary of the Cabinet to proceed accordingly.

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PRIME MINISTER

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PATTERN OF CIVIL SERVICE INDUSTRIAL ACTION, 15 JULY

As you know, growing numbers of Unemployment Benefit Offices (UBOs) are being affected by the industrial dispute. The position reported to Mr. Hayhoe's group this morning is that three offices are completely closed (Hackney, Keighley and Kinning Park); three are severely disrupted (Washington, Leyton and Wood Green); five more are threatened with TRD (Sheffield, Bootle, Easterham, Willesden and Barhead) of which at least three will probably close; and TRD notices for a further five are likely to be sent out today (Bodmin, Whitehaven, Hemel Hempstead, Kings Cross, Stilton).

The problem is not a shortage of giro cheques, as reported in some newspapers, but that staff in these UBOs are refusing to write them out manually. Where the cheques are not being prepared, the beneficiaries will be referred to the DHSS offices; but the unions are advising their staff in those offices not to help, and some of them have already also closed.

Nevertheless, the problem needs to be seen in perspective: there are some 960 UBO offices, of which 900 or so are operating normally, 50 or so are operating with manual ^{cheque} ~~jack~~ writing, and only about a dozen are taking action likely to hold up the payment of benefits.

You could be asked why arrangements are not made to pay benefits in cash, as the unions have suggested. That would involve large amounts of cash being held at insecure premises. A good line is that the unions may not care about the safety of their members, but we do care about the safety of our staff.

The rest of the industrial action is proceeding more or less unchanged, except that it seems that the air traffic controllers have almost given up disrupting flights.

J.

15 July 1981

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PRIME MINISTER

cc Mr Hoskyns
Mr Ingham

Civil Service Pay Dispute: Last Stages

The Lord President held a meeting this evening to review the position after a day of intense negotiations with the unions; I was present, together with senior officials. There are no points arising on which a decision from you is needed; but a number of matters of which you should be aware.

Gordon Burrett reported that, after considerable prevarication, the position of the unions on the new package is now as follows:

willing to put the offer neutrally to their membership:

IPCS, FDA, Prison Officers, Radio Operators, CPSA
Inland Revenue Staff Federation (who reversed their position this afternoon)

unable to decide until Tuesday:

Civil Service Union (messengers and cleaners; expected to fall in with the majority)

opposed, and will recommend their members to reject:

Society of Civil Servants (executive grades)

On this basis, Gordon Burrett recommended that there was a sufficient basis for the letter you approved last night to be issued as soon as possible. Although the Society's executive is opposed to the package, its membership will probably accept it; and anyway they would clearly be outnumbered on the Council of Civil Service Unions. Bill Kendall is clear that the offer will be accepted after the consultation period. Gordon Burrett's advice was accepted.

In parallel to these negotiations, the CSD have been negotiating a 'back to work agreement', along the lines I described in my note you saw last night. That will be discussed with the unions tomorrow morning, and it will be made clear to

/them that

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them that we will not make a formal offer until they have agreed it. The letter containing the formal offer should therefore be issued around lunchtime tomorrow and will be made public at the same time.

Background briefing for the media has been prepared, which makes it clear that the Government has won without actually saying so. This will be made available to Press Officers when the letter has issued; but neither Lord Soames nor Mr. Hayhoe think it necessary to give radio or television interviews.

It is of course clear from the offer that if it is rejected both the new offer and the operative date will be withdrawn. If by any chance one union held out against the offer, it would be for consideration whether to put it into effect for the others; but the Lord President would consult you under such circumstances.

The background briefing will make it clear that there will have to be further reductions in manpower costs to accommodate the extra half per cent and that Departments will be instructed accordingly. The Lord President does intend to send the minute to this effect which was circulated at Cabinet on 9 July.

Ministers have already agreed that the industrial civil servants will also have to be offered an extra half per cent; but Lord Soames is now inclined against alignment of the industrials' pay date with the rest of the Civil Service, which would have involved offering them three-quarters of what the non-industrials got. I have asked his Private Secretary to clear his lines on this, since I think until recently the consensus of Ministerial opinion was that we should go for alignment. This point may need to come to you separately: the balance of advantage seems in favour of alignment.

Finally, there is the position of the senior civil servants covered by the TSRB. Lord Soames is aware of your preference to give them whatever the rest of the Civil Service gets, but because what is now proposed is an additional lump sum, which would after tax be trivial for senior civil servants, and because

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of the position of the non-civil servants also covered by the
TSRB, he has concluded, with Sir Ian Bancroft's agreement, that
it would be best not to offer Under Secretaries and above an
extra £30.

John Vereker

16 July 1981

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Verder - who will
pass on PM's approval.

12. 16/7 MS

PRIME MINISTER

CIVIL SERVICE NEGOTIATIONS

Gordon Burrett has reported to me the progress of his negotiations with the unions. He thinks he has persuaded them to accept that the extra 1/2% should be in the form of a uniform sum per head for all civil servants, not weighted towards the lower paid. There are no difficulties about the other elements in the package.

He is now in a position to move very quickly. The union leaders want to consult their Major Policy Committee which meets tonight; and thereafter to put it to Executive Committees of the individual unions tomorrow morning. At that point, our offer would almost certainly become public knowledge. But if the Executive Committees agree to put the offer to their members, the way will be clear for a ^{formal} full offer, in the shape of a letter from the Lord President, to be sent to the unions tomorrow night. The Lord President has accepted Gordon Burrett's advice that we should tell the unions that they should now consult the Major Policy Committee and Executive Committees; I said that I was sure that you also would want this to move as soon as possible and that I would keep you informed.

If all goes well, therefore, we shall need an agreed letter tomorrow night, and I have asked for a draft for you to see in your Box tonight, on the understanding that it would not go until we had heard that the Executive Committees were not going to make difficulties. This letter will make it clear that the package stands or falls as a whole, and will also refer to the manpower implications.

There is one small further point of which I think you should be aware. It has been normal practice, not only in disputes with the Civil Service but with other industrial disputes, to conclude a separate agreement under which the unions agree not to turn on those who did not support the industrial action and management

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agrees not to mark the files of those who did. I did warn CSD that you would want to be sure that management would nevertheless have available information about who had taken industrial action, and Gordon Burrett has now assured me that that information will be available from pay records (since those who have taken industrial action have had their pay stopped). On that basis, I hope you will be content: it would be a major new departure for us to refuse this kind of agreement with the unions, and Gordon Burrett has anyway agreed not to include it in the main letter of offer, but to put it in a side letter.

If any difficulties arise in the course of the afternoon, it may be possible for you to have a word with the Lord President after your meeting this evening on evidence for the inquiry.

Jh.

15 July 1981

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DRAFT LETTER FROM MR BURRETT TO MR KENDALL

*Approved -
excellent letter -
nt.*

Following our recent informal discussions about the position reached in the dispute over Civil Service pay, I have consulted Ministers and am authorised to convey the following to you.

2. The 1981 settlement must be contained within the cash limit of 6%. The Government's offer of 7% was the most that was thought possible without putting the cash limit at risk. The Government has reassessed the position and is able to offer additionally a flat rate increase of £30 per head (consolidated into basic rates). The additional cost amounting to $\frac{1}{2}\%$ on the pay bill would be found by making a further reduction in Civil Service staff costs to the extent necessary to ensure that the cash limit is not exceeded.

3. Throughout the negotiations you have said that a major cause of concern to your members is the procedure for negotiating a pay settlement for 1982 following the setting aside of the Pay Agreements. Both sides will be seeking to reach a negotiated settlement for 1982. I can however now offer you an assurance that in the event of disagreement the Government will allow recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the Tribunal's award on grounds of overriding national policy.

4. The revised offer in this letter both in respect of 1981 and 1982 is conditional on its providing the basis for an early return to normal working by your members. If it does not do so then the

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whole offer, including the operative date of 1 April, will be withdrawn.

5. I very much hope that I shall receive an early and positive response to this letter.

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CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

MBM - too late

R 17/7

in the verand
Tim Lankester Esq
10 Downing Street
LONDON SW1

15 July 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

GENERAL

The Council of Civil Service Unions met yesterday and decided to continue with selective action. Whilst they did not support widespread intensification of the action they have indicated that there will be escalation in the Unemployment Benefit Service. They estimate that approximately 700 staff will be on strike from about 20 offices by the end of the week.

SELECTIVE ACTION

A total of 5147 staff are currently involved in selective industrial action, the principal departments affected being as previously reported. Significant developments within departments are as usual outlined below and a table showing numbers on strike is attached.

...

ACTION WITHIN DEPARTMENTS

Employment

About 310 Unemployment Benefit Office staff are now on strike. As a result no benefit payments are being made at Keighley, Kinning Park, Easterhouse (Glasgow), Hackney and Willesden. Other offices affected by strike action or suspensions are Leyton, Sheffield, Barrhead, Wood Green, Tottenham and Poplar. The department is continuing its programme of TRD action against staff refusing to handle new stocks of Girocheques.

However it should be noted that nearly 900 offices are working normally, with a significant number using "blacked cheques".

DHSS

Local social security staff in a number of offices are refusing to deal with claimants redirected from UBOs. The offices at Keighley, Hackney and Stoke Newington were as a result closed

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to the public yesterday, and oral TRD warnings were issued to the staff concerned today. Similar developments are likely at offices in Glasgow, Sheffield and Bristol. Claimants who are unable to obtain either Unemployment Benefit or Social Security are being redirected to the appropriate Local Authority social services departments. At present the Local Authorities appear to be coping reasonably well.

Inland Revenue

The number of staff involved in selective action or on TRD has increased by nearly 200 (to 2459). The pattern of action is similar to that previously reported, with the Collection Service still seriously affected.

Welsh Office/ECGD

The 24-hour picket of the Cathays Park site continues though it is not seriously affecting the delivery and collection of mail which is being carried out by contractors. Senior management are collecting and distributing mail to their Divisions in the absence on strike of postroom staff. There is widespread blacking of work throughout the Welsh Office and the Permanent Secretary has issued a notice to all staff warning that TRD action will take place if this continues.

CAA

No industrial action has been reported this week.

MOD

Significant numbers of staff (largely IPCS members) have returned to work, at Culporth and other establishments.

Copies as before.

*Yours ever,
Jeremy*

JEREMY COLMAN
Private Secretary

SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION -15 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	354	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3)
Ministry of Defence	656	Strikes by computer and other staff at dockyards, RN stores depots, RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath.
Environment/Transport	85	EOs and Senior Data Processors at DVLC.
Foreign and Commonwealth Office	212	Passport Examiners at the London, Liverpool, and Glasgow Passport Offices; staff at Hayes Record Centre, Photoprinters (telegrams section).
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (56), Livingston Computer Centre (56), and Washington Computer Centre (100). Medicines Division DHSS HQ (3).
Home Office		
Inland Revenue	2459	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (467 TRDs)

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Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Office DAFS	25 13	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action. Drawing Office staff
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
ECGD	5	Post room staff
MAFF	18	Staff at Guildford Computer Centre.
Employment	325	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 310 UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
Welsh Office	23	Mail sorting staff, paperkeepers and messengers at Cathays Park
TOTAL	5147	

BOARD OF INLAND REVENUE

FINANCE BILL 1981
REPORT
NEW CLAUSE 37

Turn
See the Press Release - the
last document of this bunch.

)W
15/7

Mr Chancellor of the Exchequer

To move the following Clause:-

Exemption from interest on overdue tax where sums due to the taxpayer are delayed by civil service industrial action

'1. Where an amount due to a person from a government department in connection with a business carried on by him remains unpaid for any period as a result of industrial action taken by civil servants after 8 March 1981 and that person withholds any tax -

a. which became due and payable by him after that date and before 6 April 1982; and

b. on which interest would, apart from this section, be chargeable under Section 86 or 87 of the Taxes Management Act 1970,

he may, for that period and for seven days after the end of it, claim exemption from interest under those sections on a corresponding amount of that tax less any reduction under subsection (2) below.

2. Where for the whole or any part of the period mentioned in subsection (1) above the person in question withholds any amount for which he is accountable to the Collector after the said 8 March -

BOARD OF INLAND REVENUE

a. in respect of income tax which he was liable to deduct pursuant to Section 204 of the Taxes Act (Pay as you earn); or

b. in respect of class 1 contributions under the Social Security Act 1975 or the Social Security (Northern Ireland) Act 1975,

the amount of tax in respect of which exemption may be claimed under subsection (1) above for that period or that part of it shall be reduced by the amount withheld by him as aforesaid.

3. The reference in subsection (1) to an amount due to a person from a government department in connection with a business carried on by him is to any value added tax due to him from the Commissioners of Customs and Excise, to any grant or subsidy due from any other government department in respect of such a business and to any sum due to him from a government department under a contract entered into by him in the course of the business; and, for the purpose of this subsection 'business' includes any trade, profession or vocation.

4. Any claim under this section shall be made to the Board.'

BOARD OF INLAND REVENUE

SUMMARY

Government New Clause

1. This new clause enables persons carrying on a business who because of the present civil service industrial action are owed value added tax or grants, subsidies or sums due under contracts from government departments to claim exemption from interest on income and corporation tax and capital gains tax, to the extent that such value added tax and other payments have not already been set off against pay as you earn and National Insurance contributions due.
2. The civil service industrial action commenced on 9 March 1981 and this exemption is in terms of part of the preceding tax year and the current tax year (ending on 5 April 1982). Interest will be exempt for the period in which the value added tax or other payment remains unpaid and seven days after.

DETAILS OF THE CLAUSE

3. Subsection (1) lays down that where an amount due to a person carrying on a business from a government department is not paid because of civil service industrial action and that person delays paying income or corporation tax or capital gains tax he may claim exemption correspondingly from interest on the tax he delays paying less any reduction under subsection (2).
 4. Subsection (2) specifies that where the person also delays paying pay as you earn tax or National Insurance contributions those sums shall be deducted from the amount qualifying for the exemption provided for in sub-section (1).
 5. Subsection (3) defines the amounts due referred to in subsection (1) - value added tax repayments and grants, subsidies and payments under contract by government departments relevant to the business.
 6. Subsection (4) makes clear that any claim under this section is to be made to the Board of Inland Revenue.
-

BOARD OF INLAND REVENUE

PART II

For Ministers' Personal Use Only

GENERAL NOTE

The background

7. The background to the new clause is briefly as follows. Civil Service industrial action has since 9 March 1981 delayed value added tax repayments and also certain grants, subsidies and sums due under contracts from government departments. In the case of value added tax repayments, a person carrying on a business may therefore find himself both owing tax to the Inland Revenue and owed repayment of tax by the Customs and Excise. There is no real problem in the large majority of cases where the taxes concerned are the pay as you earn which he has collected as an employer, and the value added tax which he has paid to his suppliers and is due to be refunded to him by Customs and Excise. In these cases arrangements already exist under which the pay as you earn can be held over by set-off against the value added tax. When this happens, no interest is payable on the held-over pay as you earn, because pay as you earn attracts no interest. The problem arises when the person carrying on the business owes Schedule D income tax and corporation tax (and capital gains tax): in these cases a set-off is still possible but interest on the tax is chargeable and this is hitting some businesses particularly harshly, for instance the small farmer with value added tax repayments due to him but with little or no pay as you earn liability. The Government have therefore decided in effect to suspend the interest charge on the Schedule D, corporation or capital gains taxes involved in these circumstances. Since payment of certain grants, subsidies or sums due under contracts has also been delayed by Civil Service industrial action, it seemed right that the same interest exemption should apply in those cases too.

The new clause

8. The new clause accordingly lays down that where Civil Service industrial action delays repayment of value added tax or subsidies, grants or sums due under contracts from government departments to a person carrying on a business and there is an excess of delayed payments over pay as you earn tax and

BOARD OF INLAND REVENUE

National Insurance contributions payable after the commencement of the industrial action and income or corporation tax or capital gains tax due and payable (and so liable to interest) after the commencement of the industrial action is withheld then the person may claim exemption from interest on the lesser of the income or corporation tax or capital gains tax withheld and the excess of the delayed payment over the pay as you earn tax and National Insurance contributions. The exemption runs up to seven days from the date of delayed payment and is in terms of part of the preceding tax year and the current tax year (ending on 5 April 1982).

Value added tax

9. The following note on value added tax has been supplied by Customs and Excise.

10. There are about 1.3 million value added tax registered traders. Of these about 900,000 are 'payment' traders who normally pay tax quarterly to Customs and Excise and 400,000 are 'repayment' traders who normally claim repayments of tax from Customs and Excise, either quarterly or monthly. Because of variations in trading patterns, regular 'payment' traders sometimes claim refunds and vice versa. Each week in normal times the Value Added Tax Central Unit receives an average of a little over 50,000 value added tax repayment claims amounting to about £120 at current rates of tax. All value added tax returns are processed through a computer. During this process the computer takes and stores information about traders' returns. This stored information is used to determine whether adjustments need to be made to the account or further checks need to be carried out on the claim. Where claims appear to be satisfactory, repayment is made automatically. Some 85 per cent of traders receive repayments by direct credit through the banks. In other cases, a payable order is generated by the computer and sent to the trader. Before the present industrial action over 90 per cent of claims were paid within 10 days of receipt. Virtually all those not paid within 14 days of receipt were held back either because the validity of the claim was being checked before payment was made, or because the trader's return was in error or his account was incomplete or out of balance.

BOARD OF INLAND REVENUE

11. The effect of industrial action has been to prevent the update of and access to the computer held accounts. This in turn has prevented Customs and Excise from both making repayments and checking the validity of claims. More than 450,000 repayment returns are now held in random order. The number of repayment claims held is now increasing only very slowly because it has not been possible to issue the repayment returns for the periods ended 30 April (4/81) and 31 May (5/81) to the trading community: nor will Customs and Excise be able to issue the repayment returns for the period ended 30 June (6/81). A few traders have obtained blank forms from local value added tax offices, but it is estimated that there are another 500,000 or so repayment claims which have not yet been received simply because traders have not had forms to send in.

12. Inland Revenue Collectors of taxes are having regard to difficulties facing businesses because repayments of value added tax are being delayed. They are not taking precipitate action to collect pay as you earn and other payments falling due where there is a genuine temporary difficulty about paying in cases of this kind. Arrangements have been made where necessary for an enhanced payment to retail chemists on account of the amounts due to be paid to them in respect of National Health Service dispensing. Customs and Excise is, on request, confirming to a bank that the business in question is normally in receipt of repayments and that as soon as the action is over all valid repayment claims will be met as soon as possible. Associated companies have been allowed to balance value added tax repayments outstanding to one company against payments of value added tax or other Customs and Excise duties due from another company.

13. It is believed that there has been widespread use of the informal offsetting arrangements. The sectors which are in greatest difficulties are those where pay as you earn/National Insurance contribution liabilities are normally insufficient to offset the value added tax repayments and interest is chargeable on any Schedule D income tax or corporation tax due: primarily farmers, export houses and small building industry contractors. With farmers, the position is exacerbated by the inability of Ministry of Agriculture Fisheries and Foods to pay subsidies

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and other agricultural payments (due to industrial action affecting their own computers).

14. To repay by manual means, in order of the receipt of the returns, would be an extremely slow and difficult business, and would delay eventual recovery. Even if all suitable clerical staff in Southend were put on value added tax repayment work, the number of payments that could be made a day would amount to only a small proportion of a normal day's receipts (10,000). Because of the absence of the computer-held record, payments would be being made pretty well 'blind'. And traders already offsetting, who could not be identified satisfactorily, would receive a double benefit. Customs and Excise have considered attempting to distinguish between claims on grounds of hardship but can see no practicable criteria which junior staff could use for making the necessary judgement in, literally, thousands of cases. (When the unions recently said - wrongly - that Customs and Excise were making manual repayments if enough pressure was exerted, and published the office telephone number of two officials, even the very little publicity that that statement achieved was sufficient to generate a few hundred calls to the officials named. Any public indication that Customs and Excise were indeed paying on a selective basis could be expected to lead to a flood of applications.) Nor is there any valid basis on which Customs and Excise could select claims according to the nature or size of the business. The value added tax return does not state the nature of the business. All repayment claims are stored in order of receipt. There is, therefore, no way in which Customs and Excise could sift out, for example, claims from farmers or from small businesses. Indeed, if it were considered particularly desirable to make special arrangements for farmers, it might be less impracticable for Minister of Agriculture Food and Fisheries to do it than for Customs and Excise, given that all their payments go to the agricultural sector.

15. In the past the interest issue has been considered generally in the broader context of both charging interest on late payments and paying interest on delayed repayments. There is no legal provision for the payment of interest on value added tax nor can interest be charged on overdue value added tax. On the

BOARD OF INLAND REVENUE

whole the view of Customs and Excise has been that any such provision would complicate the operation of the tax for both registered persons and their administration and run counter to the general aim of simplifying value added tax. Even if the payment of interest were to be restricted to repayments delayed during periods of industrial action, it would mean a substantial complication in the tax. It would need legislation, some re-design of the system and re-programming of the computers, and it would require about 35 extra staff. (If it were done manually the staff requirements would be very much greater). The need to pay interest in addition to the tax reclaimed would result in substantial further delay in repayment at a time when traders would be primarily interested in speedy payment of their original claims. Interest payments would represent a heavy burden on the Exchequer and (because of the various informal offsetting arrangements) would not be warranted in many - probably most - cases.

16. Difficult though the situation undoubtedly is, Customs and Excise consider that the best course is to continue to resist pressure for either manual repayments of value added tax, whether generally or selectively, or for interest to be paid on outstanding claims at the end of industrial action. They believe that any move away from this position is bound to create more problems than it solves.

Other payments

17. It has not been possible in the time available to establish how many other payments are presently involved. We understand that the main ones are grants payable by Ministry of Agriculture Fisheries and Food to farmers under various schemes and payments by Ministry of Defence on defence contracts. We understand that payments on works contracts by the Property Services Agency and payments by Department of Industry and the Northern Ireland Office are being made normally.

Parliamentary Questions

18. Four Parliamentary Questions have recently been asked relevant to this new clause and

BOARD OF INLAND REVENUE

copies are attached. The Question of Mr Stewart asks whether interest would be waived because local collection offices had been closed as a result of the industrial dispute.

Cost

19. It is not possible to estimate with any accuracy the cost of this new clause but total interest charges currently run at some £m30 a year and we think that a relatively small percentage of businesses will be entitled to exemption under the clause (since businesses first have to set the value added tax repayment or other payment against their pay as you earn and National Insurance contributions).

Press Release

20. A copy is attached of the draft Press Release which has been submitted to the Minister of State (Commons) for approval.

/BACKGROUND NOTE

BOARD OF INLAND REVENUE

BACKGROUND NOTE

21. Interest on overdue tax is charged under Sections 86-88 Taxes Management Act 1970 as follows:

Section 86 (as amended by Section 46(1) Finance (No 2) Act 1975 on income tax assessed under Schedules A, C, D and E, higher and additional rate income tax, capital gains tax and corporation tax (except advance corporation tax)

Section 87 on advance corporation tax and income tax on company payments (eg loan interest paid net)

Section 88 on tax assessed to make good the tax lost through the taxpayer's fraud, wilful default or neglect.

Interest is not charged on arrears of pay as you earn tax and national insurance contributions deducted by employers from employees' pay. There is a de minimis limit of £30 for Sections 86 and 87. The rules for the operation of the charge are complicated but very briefly interest under Section 86 is chargeable from up to six months from the normal calendar dates for payment of the tax or 30 days from the date of the issue of the assessment, whichever is later.

22. Capital Transfer Tax:Scotland

Because of industrial action in the Scottish Courts personal representatives have been unable to obtain confirmation to estates and have thus had to incur interest charges on capital transfer tax which has become due. This clause is designed to ease the financial problems of businesses arising from the industrial action and capital transfer tax is generally not payable by businesses. In 1979 during the Civil Service dispute interest was waived during the period of the dispute but on this occasion Ministers have decided not to deal with the capital transfer tax problems on interest during the period of industrial action.

BOARD OF INLAND REVENUE

If the impact on capital transfer tax liabilities of the industrial action in the Scottish Courts were to be raised in debate, Ministers could point out that that was quite different from the circumstances covered by the New Clause: they were however aware of the point and (without committment) would consider it.

Handed 6.4.81

1981

Written Answers

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Value Added Tax

Mr. Eggar asked the Chancellor of the Exchequer what is the position regarding repayments of value added tax to the trading community in view of the strike of computer (data processing) staff at the Customs and Excise computer centre in Southend; and if he will make a statement.

Mr. Peter Rees: I regret that, because of this strike, it has not been possible to continue making repayments of value added tax. The size of the operation, about 10,000 repayments claims a day received in random order, rules out any question of making the repayments manually, even on a selective basis. Nor is there any valid means of distinguishing between claims in order, for example, to deal separately with claims from a particular class of trader of those where hardship exists. Once the industrial action is over, Customs and Excise will do all they can to see that repayments are resumed as quickly as possible.

However, although value added tax is distinct from income tax and national insurance contributions collected under pay-as-you-earn arrangements, collectors of taxes will have regard to difficulties facing businesses because repayments of VAT are being delayed. They will not take precipitate action to collect pay-as-you-earn payments falling due where there is a genuine temporary difficulty about paying in cases of this kind. Furthermore, in order to ease the cash flow problems of retail chemists, arrangements are being made where necessary for an enhanced payment on account of the amounts due to be paid to them in respect of National Health Service dispensing.

HANSARD 5 MAY 1981 Cols 17-18

Mr. Brotherton: Is my right hon. Friend aware of the widespread and continuing support in the country for the firm stand taken by the Government on Civil Service pay? However, will she consider one problem that arises from Civil Service inaction, namely, the repayment of VAT? What advice would she give to constituents such as Mr. Brader of Little Grimsby in my constituency, who is owed £37,000—soon it will be £40,000—and who is in danger of going out of business? That would result in 15 to 20 jobs being lost in my constituency. As my right hon. Friend will recall, land drainage is an important part of Lincolnshire life.

The Prime Minister: I am grateful to my hon. Friend for raising the matter. About 500,000 claims for repayment of value added tax are pending, and this is an example of how those on strike in the Civil Service are deliberately harming many small businesses. I have been in touch with the Treasury, the Customs and Excise and the Inland Revenue, and we are making the following arrangements. The Inland Revenue will not press the collection of PAYE when a company is in difficulties because it is awaiting a value added tax repayment. I hope that that will be a constructive and helpful step. Moreover, it will certify to repay the banks of those traders when a value added tax repayment is due. I hope that those two steps will assist traders who find themselves in difficulties as a result of the actions of the Civil Service. I hope that the Civil Service will soon desist, because if business is not prosperous we certainly cannot have a well-paid Civil Service.

brought to a halt, there were some claims on hand which had already been processed by computer but for various reasons not paid. Where possible, these claims have been or will be paid by cheque. Claims which are normally processed manually and are not dependent on the computer—eg. claims received from unregistered “do-it-yourself” builders—continue to be paid.

Mr. Dubs asked the Chancellor of the Exchequer how many firms have made representations to him about the failure of the Customs and Excise Department to make value added tax repayments.

Mr. Peter Rees: Altogether, 119 representations have been received by Treasury Ministers.

Mr. Dubs asked the Chancellor of the Exchequer, further to the Minister of State's reply on 6 April 1981, *Official Report*, column 186, to the hon. Member for Enfield North (Mr. Eggar) under what statutory authority the repayments of value added tax are withheld.

Mr. Peter Rees: There is no statutory time limit for Customs and Excise to make repayments of VAT.

North Sea Oil (Company Taxation)

Mr. Ernie Ross asked the Chancellor of the Exchequer if he is satisfied with the current rate and scale of payment of (a) petroleum revenue tax and (b) corporation tax by the major companies operating in the North Sea.

Mr. Peter Rees: I shall let the hon. Member have a reply as soon as possible.

Mr. Ernie Ross asked the Chancellor of the Exchequer if he will take steps to eliminate the utilisation of “offshore” companies by the oil and service industries to avoid payment of taxation on their North Sea turnover, as described in the Scottish television documentary broadcast on Monday 25 May.

Mr. Peter Rees: I shall let the hon. Member have a reply as soon as possible.

Widows

Mr. Whitehead asked the Chancellor of the Exchequer how many widows have found themselves obliged to pay tax who were previously exempt as a result of his Budget proposals.

Mr. Peter Rees [pursuant to his reply, 18 May 1981, c. 5]: It is estimated that some 80,000 more widows aged 65 or over will be liable to pay tax in 1981-82 than were so liable in 1980-81. It is not possible to estimate the number of widows under that age who will pay tax in 1981-82 and who did not do so in 1980-81. It is estimated that in 1981-82 some 500,000 widows aged under 65 will be in receipt of retirement or widow's pensions greater than the single person's allowance, of whom about 250,000 are under 60. Many of these, though it is not

known precisely how many, would already have been liable to pay tax in 1980-81 because of other sources of income and many others will not, in practice, have to pay tax in 1981-82 because any tax liability will be covered by the Inland Revenue's assessing tolerance.

Exemption Certificates

Mr. Shersby asked the Chancellor of the Exchequer if he will make an estimate of the cost per certificate to public funds that would be involved in issuing exemption certificates so that ‘certified’ agency workers operating through companies could receive payment gross.

Mr. Peter Rees [pursuant to his reply, 18 May 1981, c. 5]: I assume that my hon. Friend has in mind a certification scheme as an extension of the proposals in Clause 34 of the Finance Bill. The cost per certificate of introducing and operating such a scheme would be significant, but it would depend on the precise procedures adopted and on the proportion of companies qualifying.

Civil Service Dispute (Overdue Tax)

Mr. Donald Stewart asked the Chancellor of the Exchequer whether, in view of the difficulty in making payments of income tax because of the closure of local collection offices during the current Civil Service dispute, interest charged on overdue payment of income tax and corporation tax will be waived during the period of the dispute.

Sir Geoffrey Howe [pursuant to his reply, 22 May 1981, c. 187]: Taxpayers who find that their local collection offices are temporarily closed because of industrial action at any time may forward remittances to the Collector of Taxes by post or pay by National Girobank or bank giro, information about which is given on tax demand forms. If payment is made in any of these ways taxpayers will not be liable to interest beyond the date of the payment. In view of this a general waiver of all interest chargeable on overdue payments of tax during the period of the dispute is not proposed.

Customs and Excise (Prosecutions)

Mr. Field asked the Chancellor of the Exchequer if he will update the answer given on 14 June 1979 to the hon. Member for Birkenhead on the number of prosecutions under the Customs and Excise Act.

Mr. Peter Rees [pursuant to his reply, 21 May 1981, c. 128]: The following information shows to the latest available date combined totals of persons convicted and persons with whom settlements were made under section 152 of the Customs and Excise Management Act 1979*, the number of persons imprisoned, and the totals of court fines, costs and section 152 settlements:

Civil Service Dispute (Value Added Tax Repayments)

1. Mr. McQuarrie asked the Chancellor of the Exchequer further to his reply to the hon. Member for Ealing, North (Mr. Greenway) on 6 April, if he will make a statement on the steps so far taken by collectors of taxes to help businesses faced by difficulties because repayments of value added tax are being delayed by reason of the Civil Service dispute.

The Chief Secretary to the Treasury (Mr. Leon Brittan): Collectors of taxes appreciate the cash flow difficulties which face businesses as a result of the interruption of VAT repayments. They are taking those into account in considering how far to press for payment of both PAYE and other tax liabilities which are overdue. In addition, the Board of Customs and Excise will on request confirm to a bank that a business is normally in receipt of repayments of VAT.

Mr. McQuarrie: I am deeply grateful to my right hon. and learned Friend for that reply, which will be of considerable encouragement to the many businesses, particularly small private businesses, which are suffering severely under the restrictions caused by the unnecessary Civil Service strike. Will my right hon. and learned Friend undertake to monitor the situation to ensure that if it is possible to alleviate the hardship to small businesses, that will be done?

Mr. Brittan: We are keeping an eye on the situation and doing everything we can to help. I underline my hon. Friend's comment about the completely unnecessary nature of the action.

Mr. Dubs: Will the Minister confirm that VAT repayments are being made to some businesses, particularly those which complain enough?

Mr. Brittan: I do not know what information the hon. Gentleman has to suggest that that is so. If he would like to give me such information, I shall consider it.

Mr. Farr: Does not my right hon. and learned Friend agree that it is wrong that the Inland Revenue should send threatening letters to one-man businesses for the payment of some trivial sum of tax when four-figure sums are due in the repayment of VAT?

Mr. Brittan: As I have said to the House, the Inland Revenue will take into account overdue VAT repayments in considering the collection of other taxes. If there is any case in which it appears that that has not been done, I shall undertake to look into it.

Mr. Robert Sheldon: How much revenue has been lost as a result of the action by the civil servants? What instructions have been given by the Inland Revenue to those people who owe the Inland Revenue Pay as You Earn, but in their turn are also owed VAT repayments? My information is that some pressure is being continued, at least on some people who owe PAYE. What effect is that action having on the money supply and generally on interest rates?

Mr. Brittan: With regard to the first point, the latest available estimate of the revenue which is delayed as a result of the dispute—it is a temporary delay—is about £3¼ billion to £3½ billion. I stress that the loss of revenue is temporary and will be recovered. I said in my original answer what the attitude is towards PAYE.

HANSARD 4 JUNE 1981

Cols 1053-4



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

ANNEX B

10 July 1981

1. Mr O'Leary *Pa* 10.7.81
2. Minister of State (Commons)

CIVIL SERVICE PAY DISPUTE : INTEREST ON OVERDUE TAX

In accordance with the Chancellor's instructions a new clause (copy attached) exempting from interest for the period of industrial action businesses which have delayed payment of taxes while awaiting payments of equivalent amount from Government Departments has been tabled for Report Stage of the Finance Bill. WE suggest that a Press Release explaining the provisions of the new clause should be issued as soon as it receives approval. We attach a draft Press Release and shall be grateful if you will approve its issue.

P. W. Fawcett

P W FAWCETT

c. Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (Commons)
Minister of State (Lords)
Sir Douglas Wass
Mr Middleton
Mr Corlett
Mr Cropper
PS/Customs and Excise

Sir Lawrence Airey
Mr Green
Mr Dalton
Mr Boyd
Mr O'Leary
Mr Roberts
Mr Hodgson
Mr Muir
Mr Sadler
Mr Fawcett
Mr Cummins
PS/Inland Revenue

File

Jwb



be Hoskyns

CF

10 DOWNING STREET

From the Private Secretary

15 July 1981

I enclose a letter from Christopher Foster accepting the invitation to serve as a member of the Civil Service Pay Inquiry. Could you please let me know whether the terms on which Foster is prepared to serve are acceptable?

T. P. LANKESTER

~~B/P~~
Reply
not required
31/7
AC

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

5



10 DOWNING STREET

With the compliments of

Tim Lawless

forward letter for
forw.

A handwritten signature in red ink, appearing to be 'D. H.' or similar.

John Hoskyns Esq
10 Downing Street
LONDON SW1

our reference

14 July 1981

Dear John

I am honoured by the invitation and anxious to accept to the best of my ability.

Sir John Megaw and I have discussed my only problem. As you will understand my business must go on, and I am profit-responsible for the economics and public sector work here. My immediate major scheduled commitments are the few lectures I give at LSE, trips to Zimbabwe and Thailand in September and to Hong Kong and Thailand either just before or after Christmas; as well as to appear as an Expert Witness in two cases in Court in November and the Spring. As I understand Sir John's programme, there is most likely to be a clash in the Spring but he understands my Court appearances must have priority. I also explained to him that it will always be very difficult for me to attend for more than two days a week except on the odd occasion. This he quite understood.

One last point: in my discussions with Sir Peter Baldwin and Sir Ian Bancroft it was understood that my doing this job would not in any way conflict with my firm or myself being considered for other public sector jobs. I understand that it would be most convenient if my firm did not ask for payment for my time. In those circumstances, my senior partner thinks it not unreasonable to suggest that where appropriate, Coopers & Lybrand might be considered for any work commissioned by the Committee. Our American firm in particular has considerable experience of public sector compensation problems while we here, have quite substantial staff who are dealing with pay and other compensation problems, mainly in the private sector.

Yours sincerely

COOPERS & LYBRAND ASSOCIATES LIMITED



directors David C Hobson Raymond L Emmitt
Donald R Chilvers J Ian Andrew
Alan W Brookland The Lord Chorley
Ian C W Hancock B Hugh R Hudson-Davies
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010

APPOINTMENTS IN CONFIDENCE

1.



Prime Minister.

Agree to go for

✓ a. Chalmers *

b. Alex Jarratt (and
asking him, Ken Berrill)?

PRIME MINISTER

We will have to
ask Man Lord
for alternative
names

KW

15 in

* You agree to Chalmers at
your meeting on Civil Service pay
has wrong. KW

CIVIL SERVICE PAY INQUIRY: NAMES

Following your meeting on 3 July, the individuals named in my earlier minute have all been sounded. We have so far received two firm refusals: Gavin Laird and Alan Lord.

✓ In place of Laird the Secretary of State for Employment thinks that John Chalmers would be a good candidate, and I would like him to be sounded. He is aged 66 and was General Secretary of the Boilermakers' Society until last year.

It is essential that the Inquiry should include a member with experience at a senior level in the Civil Service. The Chancellor and I think that we should go for Sir Alec Jarratt in place of Lord. If, as is likely, he could not give the time I suggest we approach Sir Kenneth Berrill.

Copies of this go to the Chancellor of the Exchequer and the Secretary of State for Employment.

S

SOAMES

14 July 1981



C.N. Service

Ref. A05253

PRIME MINISTERCivil Service Inquiry: Government Evidence

BACKGROUND

You are holding a meeting tomorrow afternoon to discuss the evidence which the Government should give to the Megaw Inquiry on Civil Service pay. Those present will include the Home Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Secretaries of State for Health, Employment and Defence, and the Attorney General.

2. It has already been established that the prime responsibility for the preparation of Government evidence will rest with the Lord President of the Council and that the CSD will be responsible at official level for clearing the detailed evidence with other interested Departments. Any difficult issues of principle or presentation, requiring Ministerial intervention, can be referred, as they arise, to you and the colleagues present at this meeting.

3. The terms of reference of the Inquiry are:

"Having regard to the public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service, and in the orderly conduct of the business of Government and its services to the public; to the need for the Government to reconcile its responsibilities for the control of public expenditure and its responsibilities as an employer; to the need for good industrial relations in the Civil Service; for determining the pay of the non-industrial Civil Service; to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay, including management, structure, recruitment and grading."

4. The basic document to be considered is the Lord President's minute to you of 10 July, and it will serve as the agenda for the meeting. In addition the Chancellor has called attention to the report produced by officials earlier in the year (E(81) 50) which discussed in detail the elements which might form part of the new long-term pay agreement with the Civil Service unions. That report was produced with an eye on the possibility that the Government might



decide to enter into direct negotiations with the unions without the benefit of an outside Inquiry. Since such an Inquiry has now been decided upon and announced, the report has lost its original raison d'etre. It still remains useful as a quarry and a set of signposts - for the Government's evidence to the Inquiry, but it is not usable in itself as evidence. The important thing now is to give the Lord President a clear steer on the material which should be worked up by his officials.

HANDLING

5. You will wish the Lord President to introduce the subject and then to call on the Chancellor of the Exchequer to comment.

6. The important prior question is whether the Government is to attempt, through its evidence, to steer the Committee of Inquiry to a particular set of conclusions; or whether their basic concern is to ensure that the Inquiry looks at all of the matters the Government consider relevant and is then left free to come to its own judgement. The Lord President (paragraph 3 of his minute) clearly sees considerable merit in adopting the second approach. As he puts it, if the Government makes a set of detailed proposals for a new system to the Inquiry, the latter would in effect be being asked to sit in judgement on a Government scheme - a process which would seriously reduce the Government's room for manoeuvre when it has the report. Some of your other colleagues - probably the Chancellor of the Exchequer, for example - will be worried that, without guidance, the Inquiry may produce recommendations which the Government will not like. This risk is in any case inherent in the exercise: the Inquiry will come to its own conclusions and will make its own recommendations. The Government will have to offer positive ideas in its evidence; but presumably in terms which would not create intolerable difficulties if the outcome does not fully reflect these ideas.

7. Comments on the six sub-headings in paragraph 4 of the Lord President's minute are:-

- (a) Nature of the new pay system. Does the first sentence of the present text adequately reflect what the Government are trying to do? It is not so much a case of meeting "the requirements of varying economic circumstances" but of finding a new system which adequately reflects all



the factors which bear on pay determination in the private sector. It is the fear that the present system does not do this which lies at the heart of the criticisms which have been made of it. As to the other points in the sub-paragraph, the present Civil Service pay dispute has amply demonstrated the advantages of an ordered and agreed system which minimises the risk of industrial trouble. And the reference to a "committed" system is significant. Once, following the Inquiry, the Government has negotiated and signed up on a new pay agreement with its staff it will, by definition, be assumed to regard that system as "fair". Dispensing with it in any year thereafter will be that much harder. Moreover the unions will be pressing for a much greater degree of commitment by Government than in the past, and will be citing Government statements about the desirability of "legally-binding agreements" in industrial pay matters.

- (b) Economic circumstances. The Lord President's comments go to the root of the dilemma which has faced the Government since these matters were first considered in 1979. Cash limits for pay are only reconcilable with pay rates determined other than by fiat if the Government is prepared to take up the slack on numbers, other expenditure or by basing the cash limits themselves - before or after the event - as a realistic assessment of the outcome of the pay determination process. It is possible to ease the mechanical processes of accommodating pay and cash limits - for example, by adjusting the dates of decision-taking - but (as the decision for 1982 implicitly acknowledges) it is not possible, in the long run, to determine pay by cash limits alone.
- (c) Arbitration. The issue of arbitration will be central to the final outcome. The unions will press hard for the maximum commitment they can get both to the availability and implementation of arbitration; and the denial of arbitration, as an alternative to conflict, is not an easy stance for any Government to adopt.



- (d) Pay factors. This is the area where the Government will have the best hopes of saving money as between the new system and the old. It is however also the area where the technical problems (e.g. in finding the right data and properly interpreting it) are the most severe. This is the area in which the Inquiry will be most likely to seek outside professional help.
- (e) Pay comparisons. An early reiteration of the Government's view that "comparisons should continue to have a part to play" would help to counter the legacy of mistrust which will sour industrial relations in the Civil Service even when the present dispute is over. If the Government could say also, as the Lord President recommends, that the right comparisons are with rates of pay rather than changes in pay rates, that would help still more.
- (f) Other aspects. The points which the Lord President makes under this head will be familiar to your colleagues, and considered advice on them from the Inquiry would be helpful.

CONCLUSIONS

8. You will want to aim at two conclusions:-
- (a) Acceptance of the Lord President's proposals as modified in discussion.
- (b) Reiteration of the procedural point that the Civil Service Department should ensure that any evidence it may give is adequately cleared at official level before submission to the Inquiry; and that any points of dispute, whether of substance or presentation, are referred to your group for resolution.

ROBERT ARMSTRONG

14th July, 1981

CONFIDENTIAL

cc Mr. Duguid

PRIME MINISTER

Evidence for the Civil Service Pay Inquiry

You are meeting with colleagues tomorrow evening to discuss evidence for the Megaw inquiry on the basis of the Lord President's note at Flag A. You will recall that at the beginning of the industrial action, before Easter, an official group was set up under Gordon Burrett's Chairmanship, to consider the elements of a new long-term pay agreement with the unions. At one point you instructed officials to complete that work before Easter, because it was hoped that it might form the way out of the dispute - but we decided to set up the Megaw inquiry instead. Nevertheless Ministers have never looked at the report of that group, which I now attach. It contains, at considerable length, as much wisdom as at present exists in Whitehall about the pay determination system we would like to have, and I think you would find it helpful before your meeting tomorrow to look at the four options we identified, which are contained succinctly in paragraph 70 (Flag B), and at the summary (Flag C).

The point which emerges most clearly from the work of that group, on which I sat, is that there are a number of fundamentally different ways of approaching Civil Service pay determination. In the light of that, I do not think the approach suggested by the Lord President to the provision of evidence for the Megaw Inquiry is appropriate. He suggests that rather than try to reach agreement on what we want, and then present it to the Inquiry, we should make a list of issues we want the Inquiry to look at, without giving them a very definite steer on the outcome. I think that we ought to try to use the Megaw Inquiry to get the system we want: otherwise it may well come up with a system that is too automatic and too oriented towards traditional comparability, to be acceptable to us.

So I think that the best outcome of your meeting tomorrow would be an instruction to officials (perhaps under Peter Le Cheminant's Chairmanship in his new capacity as Gordon Burrett's successor) to come up with a short list of issues on which Ministers really must reach a view before putting evidence to the Inquiry; and Ministers should then look at this again.

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It may be possible tomorrow to give a general steer to officials about the three issues which I would regard as being both the most important, and the hardest to resolve:

(i) Are we to have a committed system, under which pay scales are generated as a basis for negotiation subject to various provisions for the Government to override the outcome; or are we to have a purely procedural agreement, under which free collective bargaining would take place with both sides pleading any evidence whatever factors they chose. The Chancellor, I think, will speak in favour of the latter, because it is easier to reconcile with cash limits; but I think that only the former provides a reasonable chance of avoiding regular industrial action in the Civil Service.

(ii) How are the new market factors of recruitment rates, reduction rates and job security to be taken into account? This is the key to the difference we wish to see between the new system and the present PRU based system. The Lord President says that we should show ourselves ready to examine any recommendations by the Committee for reconciling these with a "stable system"; I think that we should make it clear to the Inquiry that we want a substantial degree of quantification of these factors to be included in the new system, with provision if necessary for gathering new data.

(iii) What will be the role for arbitration under the new system? The Lord President suggests that this should be left until we see what pay system emerges from the Committee's work; I think that, as we know from our experience in this year's pay negotiations, arbitration is such a fundamental part of the pay determination process that the circumstances under which it is used, and the extent to which it is binding, need to be carefully considered by the Government before evidence is put to the Committee. What seems to me the best approach, providing for only a limited role for arbitration, is contained in option C in the official paper.

There are quite a number of other important issues which officials should be asked to prepare for Ministerial decision.

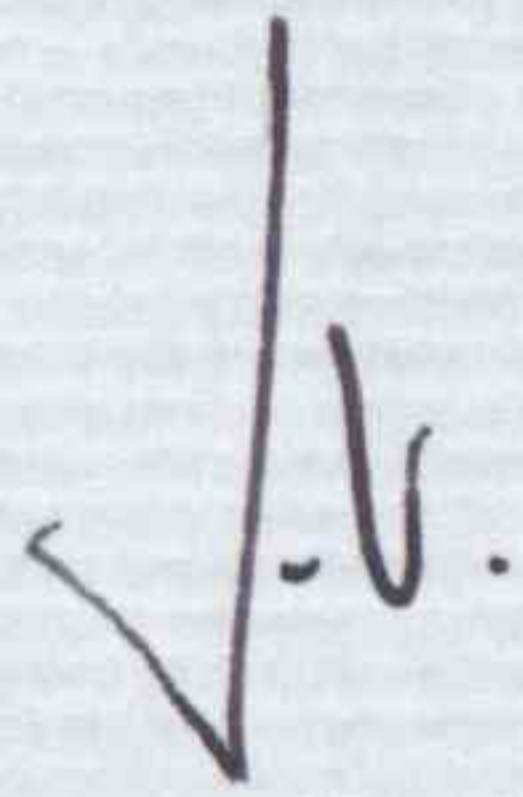
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- 3 -

These include future comparability arrangements; the possibility of some regional variations; paying less for young civil servants (Mr. Prior's point this morning); more flexibility to provide pay as a reward for merit; and no strike agreement. Some of these, and others, could be put to the inquiry in a neutral way, because the Government may feel it genuinely does not know what the best arrangements would be.



John Vereker

14 July 1981

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CONFIDENTIAL

c. ~~Mr. Lankester~~
Mr. Pattison
Mr. Duguid

MR. INGHAM

→ Mr Office

Civ
Service
?

CIVIL SERVICE DISPUTE

Today's F.T. has an article (attached) by their labour correspondent reporting informal discussions between COCSU and the CSD. This is not the first such article - the Telegraph on Saturday had an article about "secret talks", but suggested they had failed. I have discussed with the CSD what line we should take with the lobby, if asked; and Mr. Pattison may wish to be aware for Questions this afternoon.

We can say that there have been no formal talks with the unions, and that there are none arranged. But we can confirm that there have been informal contacts at official level, of the nature that occur all the time. Their purpose has been to clarify positions; the Government has of course made a fair offer to the unions, which we believe they ought to accept.

By way of background, and not for use, you should know that:

- (i) there has been at least one contact (a telephone call) between Kendall and the Lord President;
- (ii) we are trying to use these contacts to see if a settlement with the unions is possible within the established cash limits;
- (iii) the CSD do not ~~expect~~ the COCSU meeting today to agree anything more than a continuation of the present campaign of selective industrial action for a further limited period.

J. M. M. VEREKER

14 July 1981

CONFIDENTIAL

LABOUR

Anger over prospects for Wales

By Ivor Owen

RENEWED WARNINGS by Labour MPs that public disorder may spread to Wales because of rising unemployment led to angry protests by Mr Nicholas Edwards, Welsh Secretary, in the Commons yesterday.

Mr Edwards said Wales was proving more successful than any other part of the UK in attracting new industries during the recession, and described the reputation of the workforce as "our greatest single asset."

He said this reputation would be put at risk if the words of Labour MPs were to have the effect of encouraging outbreaks of social disorder in the principality.

He also made it clear that he is still hopeful that contacts with the Nissan company of Japan will lead to a new Datsun car plant in Wales, but admitted that he did not know what the company's decision—expected to be announced at the end of the month—would be.

In a fierce attack, Mr Leo Abse, (Lab, Pontypool), recalled that only six months ago Mr Edwards mocked the Commons committee on Welsh Affairs for reporting that without preventive action, there would be a danger of serious social disorder in Wales.

"Have you the same high confidence now that it has happened in so many English cities?" demanded Mr Abse, who is chairman of the committee.

He emphasised that while violence had so far been avoided, it was a lamentable fact that the young people of Wales were sinking into apathy—36.1 per cent of the total registered as unemployed in April were under 25.

Tory cheers

Mr Abse called on the Welsh Secretary to cease to be the "satrap for the Prime Minister" and speak up for Wales in the Cabinet to secure a reversal of current economic policies.

To Tory cheers Mr Edwards

Civil servants hold back on intensifying campaign

BY PHILIP BASSETT, LABOUR STAFF

CIVIL SERVICE union leaders last night held back from recommending further intensification of their 19-week pay campaign in the hesitant hope of a renewed approach from the Government.

There have been informal discussions between the Council of Civil Service Unions and the Civil Service Department. The council's major policy committee, comprising general secretaries and senior officials of the nine unions involved, decided last night to make no recommendation to today's full council meeting to avoid clouding the prospect of further discussions.

Some union leaders are concerned that the present action, particularly in the benefit services, in the light of the riots, may be moving beyond their control.

If an approach from the Government proved acceptable, it is possible that the campaign of selective strikes might be frozen at its present level despite pressure from some

parts of the largest union, the Civil and Public Services Association, for all out action.

Some union leaders are arguing that strikes should be concentrated on the original areas of financial and defence effects, partly to avoid financially damaging escalation and partly to avoid action in areas such as benefits, in the present sensitive situation.

However, staff will still be taken out on strike today, at a number of unemployment benefit offices following the halting yesterday of benefit payments in some areas hit by the rioting.

The stopping of benefit payments at Hackney, in east London, and Keighley, in West Yorkshire, in addition to the already-stopped office at Kinning Park in Glasgow, came as union leaders warned that such moves could place further strains on inner-city areas.

Perhaps the most sensitive area in which payments were halted yesterday was Hackney, where there was trouble at the

end of last week. It is close to Dalston and Stoke Newington, where there were disturbances also.

About 44 preliminary warnings of suspension were issued to staff at the Hackney office, where 13 of the 70 staff are already on strike, over the refusal, common to all the benefit offices affected, to handle Giro cheques brought by outside agencies from the strike-bound Stationery Office in Watford, Hertfordshire.

Benefit payments have also been stopped at Keighley, where 25 staff are on strike and at Kinning Park, where 12 are out, with three working, though all operations have been halted. Seventeen staff at the Washington benefit office, Tyne and Wear, are out and four others were warned of suspension yesterday.

Suspension warnings were also given to staff at Bootle (31 out of 60 staff), Wood Green, north London (13 staff), Leyton, east London (26); Sheffield (at least four staff) and Barrhead, near Glasgow (four staff).

Bank moves against arbitration process

BY NICK GARNETT, LABOUR STAFF

WILLIAMS AND GLYN'S gave six months' notice yesterday to the Banking, Insurance and Finance Union (Bifu) that it is terminating its procedure agreement.

The bank has done this to rid itself of the unilateral clause which involves compulsory arbitration—for staff other than the basic clerical grades—in disputes even if only one of the two parties wants to follow this course.

Williams and Glyn's has offered Bifu the same procedure agreement but with the clauses on arbitration absent. The bank prefers voluntary, mutually-agreed arbitration. Mr Leif Mills, Bifu's general secretary, said yesterday that the move was a step backwards for industrial relations.

Among the English clearers, only Lloyds Bank has unilateral arbitration included in its

recognises only Bifu—said it had been concerned that the arbitration clause had been used to drag the bank into inter-union conflicts between Bifu and the CBU.

The clause had been used by Bifu when it was in disagreement with the Federation of London Clearing Bank Employers, and the decision to withdraw was taken to protect the bank's operating position.

Bifu has used the arbitration provisions successfully on a number of occasions—including securing an improved Christmas holiday agreement for grades 5-15 covered by the arbitration clauses—to obtain better deals than the national agreements.

The bank denied that it had been put under any pressure by the other clearers. The federation is engaged in discussions with the union.

Ambulance action suspended

Financial Times Reporter

LONDON AMBULANCE staff yesterday decided not to stage any more pay strikes without warning while there, is a danger of rioting and looting.

A statement by the convenor's committee said: "We defer any further industrial action owing to the unsettled nature of the civil situation."

"It is the decision of the convenor's committee that given these circumstances and the risk to our members, that our prime responsibility is to seek to protect our members plus our colleagues in the recognised emergency services as well as indeed the public.

"Recent events have proved, as nothing else can, the justification of the claim of the ambulance service for emer-

SUBJECT

file

SECRET

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SK.



bcc Vereker
Hoskyns
Wolfson

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10 DOWNING STREET

From the Private Secretary

14 July 1981

cc Mante

Dear Tim,

As you know, the Prime Minister held a meeting this morning with the Lord President, the Chancellor of the Exchequer and the Secretary of State for Employment to discuss the Civil Service pay negotiations. Sir Robert Armstrong and Gordon Burrett were also present.

Mr. Burrett said that, following the discussion in Cabinet the previous Thursday, he had seen the union side five times. As envisaged by Cabinet, he had told them that if industrial action were to go on, the Government would be very seriously considering withdrawing the operative date. At the same time, he had sounded them out on a totally informal basis on the possibility of a token increase for 1981 and the possibility of bringing in a third party into the negotiations for 1982. He had indicated that it would be impossible for the unions to obtain concessions on both 1981 and 1982, and he had tried to persuade them not to press for anything in 1981 where he believed their case was weaker. He had made it clear that he was carrying out these soundings on his own initiative with a view to judging whether it was worth his putting new proposals back to Ministers.

Mr. Burrett went on to say that during his meetings on Thursday and Friday he had seemed to be making some headway in persuading the union side that further concessions would have to be minimal. But over the weekend their attitude had hardened. They had come in earlier that morning to say that the minimum requirement for a settlement would have to include an extra 1/2% for 1981 heavily slanted towards the lower paid and arbitration in 1982 subject only to override by the House of Commons. Their reason for preferring a House of Commons override to a Government override was partly that they believed that their members would be more likely to acquiesce if the Government were to decide that an arbitration award was too high. They had indicated that if these two concessions could be made, the dispute could almost certainly be brought to an end. They would have to consult their members, and they would

/ do so on

SECRET

do so on a totally neutral basis: they would not make a recommendation. However, they were quite clear that their members would vote in favour of a settlement. They had also said that they would not be able to call off the industrial action during the consultation process, but they had promised that it would be reduced in intensity.

In discussion the following points were made:

i) It was suggested that the slanting of the extra $\frac{1}{2}\%$ in favour of the lower paid would be undesirable insofar as it would compress differentials. It would also tend to reward those who had been on strike. If an extra $\frac{1}{2}\%$ was not to be offered to all civil servants, it would be far better to provide them with a flat rate addition - rather than, for example, giving £50 to all grades below Executive Officer. On the other hand, it was pointed out that the strikers had not been only amongst the lowest paid. Also, it might be necessary to go along with the unions in order to reach a settlement.

ii) It was suggested that the real reason why the unions preferred arbitration subject to override by the House of Commons was that they believed they would be able to persuade a sufficient number of Conservative MPs to vote against the Government. On the other hand, it was pointed out that very few of those Conservative MPs with large Civil Service constituencies would be likely to vote in this way. Also, the reason that the unions had given to Mr. Burrett appeared to have some force to it.

iii) It was suggested that any extra flat rate addition to the 7% should not be consolidated into basic rates, and that therefore it should not be taken into account for pension purposes nor as the basis for next year's negotiations. Against this, it was argued that it would severely complicate next year's negotiations.

Summing up, the Prime Minister said that Mr. Burrett should continue his informal negotiations with the union side on the basis agreed by Cabinet. But in addition, he now had discretion to indicate that the extra $\frac{1}{2}\%$ could, if necessary to reach a settlement, be slanted in favour of the lower paid. But Ministers were agreed that a flat rate increase would be strongly preferable to an increase that would apply only to the lower paid, and Mr. Burrett should do his best to persuade the union side to accept this. They also agreed that the extra money should be consolidated into basic rates.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office). As before, I am sending numbered copies and they should only be seen on a strictly need-to-know basis.

Jim Buckley, Esq.,
Lord President's Office

ew.
Tim Landusti

PRIME MINISTER

You asked that the names of the members of the Civil Service pay inquiry should be enclosed with your letter to Lord Lever along with the terms of reference.

The position of the membership is as follows: Lady Sear, Lord Lever, and Mr. Ackers have accepted; Mr. Russell, Mr. Ramsey, and Christopher Foster have said they will probably accept; Alan Lord and Gavin Laird have both turned it down on the grounds that they do not have enough time.

Lord Soames will be minuting you shortly on a replacement for Alan Lord. It was agreed earlier that John Chalmers would make a good choice if Gavin Laird were unable to serve; he will almost certainly now be asked, though Lord Soames is holding back another day or two in case he feels that the Civil Service unions should - after all - be offered a nominee.

With the membership still up in the air, I do not think we can send Harold Lever any list of names. But I can of course enclose the terms of reference. Perhaps you could just add a P.S. that the terms of reference are enclosed.

12
..

13 July, 1981.



10 DOWNING STREET

Prime Minister

The synopsis does
in fact include regional
variations and merit
payments. But I have
passed on your general
point about it not
being fundamental enough.

This goes with
LPC to PM
10.7.81

12

137

Notes for the file

Secret Minute + Draft letter to Home Sec

att to TC → PM with 18/7/87 (14)

Civil Service

TO BE DISTRIBUTED

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Mr. Whitmore

Mr. Lankester

Mr. Vereker taken ✓

X

Mr. Wolfson ✓

Mr. Hoskyns

Chief Whip - ✓

Sir Robert Armstrong - ~~no 5~~ ✓ X

(30)

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more - no 4 ✓ X

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A. Lops 13/7/81

E.R.

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COPY NO. 1 of 3

PRIME MINISTER

CIVIL SERVICE DISPUTE: PROGRESS
OF NEGOTIATIONS

The Lord President held a meeting this morning, attended by Sir Ian Bancroft and Sir John Herbecq, for Gordon Burrett to report how he had been getting on in his private meetings with the unions; I was invited. Lord Soames asked that I should keep you informed, and there is one point on which it would be useful to have a steer from you.

The position is, in short, that Gordon Burrett has - without indicating that Ministers are prepared to make particular concessions - established that the unions are prepared to move to a position which is very close to the maximum authority given by Cabinet last Thursday. The CSD hope not to use all of that authority, and intend to let the unions sweat it out for a day or two, which will also cover their meeting tomorrow morning.

The details are, briefly, as follows. The unions are pressing hard for an extra £50 a head for Executive Officers and below for 1981, rather than the extra ½% across the board, although the cost would be much the same. This would help "buy off" the (militant) CPSA. And they are strongly attached to the House of Commons override formula for arbitration in 1982. They also want early negotiations for the 1982 settlement, so as not to get caught by cash limits.

Gordon Burrett has not so far indicated that he has consulted Ministers, and the only newspaper story so far about the negotiations (in Saturday's Daily Telegraph) has been helpful. But it will be difficult to maintain the fiction that Ministers have not been consulted for much longer and in the next round of discussions it will probably be necessary to make an offer backed with Ministerial authority.

/Gordon Burrett

SECRET

Gordon Burrett believes that there is still a chance of a settlement without anything extra for 1981, if the right arbitration formula can be reached. CSD also think that if the unions accept the House of Commons override, they are less likely to take industrial action in pursuit of their claim. But it may be necessary to decide whether, in place of the extra ½% authorised by Cabinet, we can agree to the equivalent amount, which will be a little less than £50, being given to the lower paid (EOs and below). On the surface, it looks like rewarding the strikers. But that is only partly true: about half the Civil Service is in the grades at EO and below, and it is thought that about one-third of those regularly taking selective action have been in the grades above. So it could be defended as bearing more on the low paid - cleaners and messengers and so on - than on the strikers. And there is the important point that we have always said that although the 7% offer is final, we are prepared to negotiate its distribution.

Would you be content for Gordon Burrett if necessary to agree the "£50 for EOs and below" formula, as long as the total offer is kept within the 7½% authorised by Cabinet?

J.N.

The Lord President will probably want
 a hand with you about this after
 E tomorrow

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13 July 1981

*✓ Mr Verdon
Mr Duggan
Am not very happy about the
synopsis - not
fundamental*



Prime Minister

*Cabinet office will be
sending a brief, for the
meeting on Wednesday*

PRIME MINISTER

*enough in the way
of thinking on this
for water in the
proposal
Don't pay
me*

*St Peter's Club
10.7.*

I welcome the suggestion in your Private Secretary's letter of 2 July of an early meeting to consider the handling of Government evidence to the Civil Service pay inquiry under Sir John Megaw, and I attach to this minute a synopsis of a suggested approach.

The inquiry will require a good deal of factual background material; the preparation of this is in hand. But more important will be how we present our views on the shortcomings of the present pay system and on the points we want the inquiry to consider in particular. We need to reach early agreement on this framework.

In his minute to you of 7 July the Chancellor of the Exchequer suggests that we should first consider the inter-departmental report by officials prepared some time ago on Civil Service pay arrangements. As he says many of the issues raised by the report are relevant to our evidence and we can draw on it in presenting the arguments to the Committee. Indeed we could set about framing a set of detailed proposals for a new system to put to the Committee. But I think that would be the wrong approach for us to take, for I would not want the inquiry to see itself or to appear as sitting in judgment on a Government scheme. For that would seriously reduce our room for manoeuvre after we have its report.

We shall need to cover a number of topics:-

a. Nature of new pay system

We need new arrangements better able to meet the requirements of varying economic circumstances. We have also said that we want an "ordered and agreed" system, i.e. one to which both Government and unions are hopefully prepared to be committed to minimise the risk of recurring industrial trouble. We must not suggest that we are not prepared to look on its merits at a "committed" system providing it offers sufficient safeguards.

b. Role of cost and economic circumstances

As the report by officials clearly brings out there are very difficult questions to be faced in securing arrangements which though ordered ones enable the Government to meet its wider economic responsibilities in controlling public expenditure. The report discusses various options for dealing with this dilemma. I do not think that we need to choose between them now for the purposes of our evidence to the Committee. What we must do is to make it clear that questions of cost and economic circumstances have to be taken into account as a sine qua non. We should show ourselves ready to examine any recommendations by the

Committee for reconciling these wider requirements with a reasonably stable system of pay determination.

c. Arbitration

We do not want to offer any firm guarantees now about the future of arbitration. But if we were to suggest in our evidence that arbitration will not normally be available in future this would have a serious effect on our industrial relations and our attempts to rebuild these. We do not need to precipitate a conflict now on arbitration as an issue of principle. We can underline the need for the Government to be able to withhold arbitration on policy grounds but say that a view will have to be taken on the role of arbitration in the light of the new pay system which emerges from the Committee's work and the Government's subsequent discussion with the unions.

d. Pay factors

We regard it as essential that "market" factors such as recruitment, retention and relative job security be included in this new system.

e. Pay comparisons

We have said that comparisons should continue to have a part to play. If the comparisons are to be valid ones they must be based primarily on outside rates. But the report by officials suggests ways in which the present pay research arrangements are defective and which must be remedied in making comparisons under a new system.

Other aspects

f. I want the Committee to consider some specific issues on the framework of Civil Service pay rates. These include the role of internal relativities; the scope for greater geographical differentiation in Civil Service pay rates; the future of incremental scales; the case for merit pay and the scope for productivity bargaining.

No doubt as its work proceeds the Committee will want more detailed evidence on particular issues. We can also expect to be asked to comment on the evidence submitted by others including the unions (who will no doubt be asked to comment on ours). But I propose that the Government's initial evidence to the Committee should be on the lines which I have suggested. As background for our discussion it might be helpful for colleagues to have the attached synopsis of the ground that it would cover.

I am copying this minute to the Home Secretary, Chancellor of the Exchequer, the Secretaries of State for Employment, Defence and Social Services, the Chancellor of the Duchy of Lancaster, the Attorney General and Sir Robert Armstrong.

S.

CONFIDENTIAL

SYNOPSIS OF GOVERNMENT EVIDENCE TO THE INQUIRY ON CIVIL SERVICE PAY

INTRODUCTORY

1. Present arrangements no longer command confidence. Priestley Commission reported 25 years ago at a time of full employment and low inflation. Very different position now. Need for system capable of responding to changes in economic circumstances. Need to take account of recent problems thrown up by Pay Agreements.

APPROACH TO A NEW PAY SYSTEM

2. Government's aim is "ordered and agreed system" to which both sides can be committed. Desirable as basis for avoiding industrial disputes involving central Government directly. Scope for "no strikes" agreement?

3. Advantage if Committee can recommend procedures to keep increases in Civil Service pay more in line with those in pay generally. Present system leads to "out of phase" settlements causing real and presentational problems.

4. Full range of "market factors" important in fixing pay. Comparison with outside rates on its own inadequate. "Market factors" of recruitment and retention position (assessed against forward manpower requirements) should play more direct part than under Priestley approach. Also relative job security. Committee invited to make recommendations on practical methods of assessing these factors for pay purposes.

5. Cost and economic circumstances also need to be taken into account. Future arrangements must enable Government to meet its general economic responsibilities in controlling public expenditure. Government will occasionally need to curtail Civil Service pay increases in national interest even if justified on management grounds. Possible options include "override" for use in exceptional circumstances or more direct application year-by-year of cost and economic factors. But Government ready to examine ways of reconciling wider economic requirements with a stable system of pay determination. This objective is essential.

6. Government committed to finding means of reconciling procedures for fixing cash limits and negotiating Civil Service pay. Various options including possible change in operative date of Civil Service pay settlements.

Future arbitration arrangements best considered in light of decisions on pay system following Committee's report.

PAY COMPARISONS

8. Comparisons have an evident part to play, for Civil Service pay levels cannot be held below outside rates for any lengthy period of time without serious management problems. Comparisons need to be based primarily on outside rates for similar work.

9. Functional comparisons can readily be made where outside jobs have close similarity to Civil Service work, eg clerical jobs. More difficult at senior management levels. Committee asked to examine reliability of comparisons at different grading levels. Institutional arrangements required for fact-finding to be considered in light of PRUB's observations on scope for wider role for any successor body. Committee asked to consider relationship of new system to TSRB's work on pay of senior grades.

10. Specific points:-

- a. Comparisons to be based on much more representative sample of outside employers. Committee to examine suggestion of excluding public sector; and ways to extend comparisons with private sector including wider and more representative spread of firms.
- b. Outside pay rates need adjusting for differences in other benefits and conditions. Stringent assessment needed of value of "fringe benefits".
- c. To what extent is it necessary to consider "up-to-date" aspects of pay comparisons? "Uprating" procedures linked to price movements one of the most unsatisfactory aspects of the old system.

OTHER ASPECTS OF NEW SYSTEM

11. Committee invited to consider:-

- a. role for internal relativities;
- b. use of incremental scales;
- c. case for merit pay and scope for productivity bargaining at more junior levels;
- d. scope for greater geographical differentiation as alternative to present system of national rates plus London Weighting.

CONCLUSION

12. Committee asked to advise on both principles to form basis of new pay system and practical arrangements for applying. Terms of reference leave it free to examine any aspect of Civil Service management practice relevant to this.

CONFIDENTIAL



10 DOWNING STREET

bc Veneker
Duguid

From the Private Secretary

10 July 1981

Civil Service Pay Inquiry: Government Evidence

As you know, the Prime Minister is holding a meeting next Wednesday to discuss the evidence which the Government should put to the Civil Service Pay Inquiry. I understand that the Lord President will be circulating a note for that meeting later today.

The Prime Minister has seen the Chancellor's minute of 7 July on this subject, and she agrees that the issues raised by the report of MISC 54 should be considered at the meeting as a necessary preliminary to deciding what kind of evidence should be submitted.

I am sending a copy of this letter to John Halliday (Home Office), Richard Tolkien (HM Treasury), Richard Dykes (Department of Employment), Brian Norbury (Ministry of Defence), Don Brereton (DHSS), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Jim Nursaw (Law Officers' Department), and David Wright (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL



10 DOWNING STREET

PRIME MINISTER

You said that you would like to write to Lord Lever confirming your conversation with him about his membership of the Civil Service Pay Inquiry.

TL

..

Can you enclose
the terms of reference
of the membership.

10 July 1981

TL will
need to provide

my
MAR

CONFIDENTIAL



Primi Annotati

2

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

*in Mr Veron
✓ in Brian*

*12
177*

Tim Lankester Esq
10 Downing Street
LONDON SW1

MW

10 July 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

4786 staff are currently involved in selective industrial action. The unions' tactic of calling this off in some areas to concentrate resources elsewhere, linked to a desire to return to work by some groups, appears to be continuing. Action at the Scottish Office (part), Registers of Scotland, FCO Photoprinters has ended this week and some MOD staff in Scotland have returned to work. Agreement for a return to work of Passport Office staff has been made with the unions, but there is some reluctance on the part of staff to accept the unions' decision. Certain local Unemployment Benefit Office staff appear to be going against the earlier commitment by the unions concerned not to hit the unemployed, and some Scottish Office staff are threatening, against union advice, to take action. Further details of developments in these and other departments are set out below, and a table showing numbers on strike is attached.

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ACTION WITHIN DEPARTMENTS

EMPLOYMENT

A growing problem is resulting from the refusal by staff in local Unemployment Benefit Offices to accept delivery of blank Girocheques from the Watford Office, which is being picketed. Keighley and Kinning Park (Glasgow) offices have been closed by strike action following TRD warnings; and warnings are currently being given at Hackney and Washington where strike action is likely to be supported by a minority of staff. Other offices are expected to follow the pattern, including Leyton where first TRD warnings are likely later today. Claimants are being advised to seek help from DHSS in cases where UBOs are closed. Discussions are being held urgently between union officials from these areas and those at national level about the implications of pursuing this form of action. The overall view of the Department is that a majority of staff will stay at work, notwithstanding the union decision.

CONFIDENTIAL

WELSH OFFICE/ECGD

A 24-hour picket of indefinite duration has been operating this week at the Cardiff complex which houses these two departments. Mail has been taken into and out of the premises by contractors but messengerial and sorting staff have refused to process it. TRD procedures against these staff are in progress, and it is considered likely that they will return to work at the final warning stage. Meanwhile senior managers have been performing their duties. One effect of the inevitable delays will be that weekly paid staff will not receive their Girocheques on time.

DHSS

The number of underemployed staff at the Newcastle centre is increasing. The position is under urgent review by DHSS management.

FCO/PASSPORTS

An agreement has been reached with the unions for a return to work of staff on strike at the various Passport Offices. If all goes according to plan this will be phased over the next 2 weeks. However staff in some areas are showing reluctance to comply.

DOE(DVLC)

The unions have planned to black the administrative arrangements relating to the switch to 'X' registration. However management has contingency plans to cope with this.

MOD

The number on strike has continued to decrease this week, with some staff at Culpport and the Clyde Submarine base returning to work. The trend is expected to continue. There are now 798 staff involved in selective action as compared with 845 last Friday.

CAA

There has been no action by ATCOs this week and flights have not been affected.

*Yours ever,
Jeremy*

JEREMY COLMAN
Private Secretary

COLLECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION -10 JULY 1981

Department	Number on strike	Remarks
Customs & Excise	354	Strikes by computer, customs and other staff at Southend Computer Centre (308); Manchester Betting Duty Office (43); Glasgow Betting Duty Office (3)
Ministry of Defence	798	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots.
Environment/Transport	85	EOs and Senior Data Processors at DVLC.
Foreign and Commonwealth Office	264	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre, Photoprinters (telegrams section).
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (56), Livingston Computer Centre (56), and Washington Computer Centre (100). Medicines Division DHSS HQ (3).
Home Office		
Inland Revenue	2252	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (402 TRDs)

Department	Number on strike	Remarks
Paymaster General's Office	43	Strike by 28 computer staff affecting pension payments; 12 in Finance Branch, disrupting Government banking transactions; 3 telephonists.
Property Services Agency	44	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, Shoburyness, St Athans, Trecwn, Cardiff DWO, Cumbernauld and Carlisle.
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff.
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
CCGD	4	4 Post room staff
MAFF	18	Staff at Guildford Computer Centre.
Employment	45	8 Computer staff at Reading and 7 staff in the Statistics Branch, Watford 30 UBO staff.
Ordnance Survey	1	1 Filmsetter Operator
TOTAL	4786	

PART 6 ends:-

9.7.81

PART 7 begins:-

10.7.81
