

Prime Minister

You will no doubt want to consider Sir John Hunt's advice on teachers' pay when you have proposals from your Secretary of State for Education. I have warned DES that you will expect an early submission.

CONFIDENTIAL

Ref. A09466

PRIME MINISTER

Thurston

T.L.  
4/5

Teachers' Pay

Most of the briefs I have ready for you are of an introductory nature and do not contain advice on substance. This applies to the brief on pay. I understand from Mr. Ryder, however, that you would welcome specific advice on the teachers' pay dispute - not only because it is urgent, but also because it has implications for the principle of comparability as it affects pay in the public services, the work and future of the Standing Commission on Comparability and the application of cash limits. In order to put the teachers' pay issue in perspective it may be helpful if I begin by filling in some of the background on (i) comparability and (ii) the Standing Commission: but my recommendations on teachers' pay are in paragraphs 11-14.

The principle of comparability

2. Since the Priestley Commission the pay of central Government non-industrial employees has hitherto always been expressly based on "fair comparisons". The rationale is that the Government should pay its own employees the "rate for the job" as measured by the pay of non-civil servants doing similar or identical jobs and after taking account of all other relevant factors like the terms and conditions of service, pension entitlements and so on. Properly determined such rates of pay would, it was believed, be fair both to the staff and the tax-payer and would ensure trouble-free industrial relations. The system has in fact worked well over the years. <sup>No - hold-down with inflation.</sup> The strikes which occurred this spring were the first in which the main Civil Service unions had ever engaged and, as they saw it, stemmed from the Government's failure to honour its implicit contract with its employees over a period of years.

With whom?  
In teaching  
what are  
the  
supply & demand?

3. The main instrument for conducting the research necessary to operate the system has been provided in recent years by the Pay Research Unit (PRU) which has, since last year, been under the supervision of a Pay Research Unit Board with Lord Shepherd as Chairman and Sir Derek Raynor as Deputy Chairman. In

CONFIDENTIAL

this year's negotiations with the Civil Service unions, based on the Pay Research evidence, the Civil Service Department achieved rates of pay for the grades concerned based on a very stringent interpretation of the evidence, and well below what the movement of general earnings indices would suggest. Negotiations on the staging of payment of the agreed rates was of course a separate exercise between the unions and the Government necessitated by the size of the increases which the evidence showed to be due as a consequence of recent years of pay policy.

4. The system of basing pay on proper research of the terms and conditions of outside analogues applies also to the Armed Forces (though the instrument here is the Armed Forces Pay Review Body) and in a less mechanistic way to the doctors and dentists (through their Review Body, the DDRB) and the "Top Salary" groups looked after by the TSRB. The Review Bodies differ from the PRU in that they determine what actual pay should be rather than provide information on which negotiations should be based. And in the case of the doctors and dentists and Top Salaries groups the Review Bodies exercise a degree of judgment on appropriate pay scales though they take broad comparisons into account.

5. In the course of last year it became apparent that the pay of wide groups of public employees, outside the PRU/Review Body system, had fallen well behind their peers outside the public service and that a "catching up" operation was inevitable. Last July the industrial Civil Service (Employees at dockyards, ROFs, etc.) were offered, and accepted, the opportunity to come within the PRU system. Ad hoc enquiries were launched for other major groups, e.g. Edmund Davies for the police, and his Committee report was based in part on considerations of comparability though without the detailed research inherent in the PRU system. In February of this year the then Prime Minister announced in the House of Commons that the Government would be prepared to see the principle of comparability extended as a means of determining the pay of any other public sector groups (other than the trading organisations like the nationalised industries) where management and unions asked for it. Subsequently the Standing Commission on Comparability was established to

Supply  
demand?

CONFIDENTIAL

provide the instrument through which such studies could be made. It draws heavily on the expertise of the PRU and the Office of Manpower Economics (OME) and has so far been given 9 remits covering nearly 2 million employees ranging from local authority manual workers to the nurses.

6. Over 3 million employees are therefore now within a system whereby their pay is directly or indirectly related to that of their peers outside the public service. The great extension of the comparability principle which has emerged over the past 12 months was in part a reaction to the particular problem of 're-entry' after several years of formal pay policies. However if Civil Service experience over many years is any guide, it also offers the hope of a disciplined approach to pay settlements which will reduce the scope, or need, for the unions involved to resort to industrial action.

*Comparability has not been defined*

7. The Conservative Party's Manifesto for the recent Election implicitly accepted the principle of comparability as an element in pay bargaining in central and local Government subject to such matters as manning levels, job security and pension arrangements being taken fully into account and to a reconciliation of pay determination with the cash limits used to control public expenditure. I think that pay comparisons properly done (i. e. genuinely comparing like with like and avoiding circularity) continue to provide a sound basis for determining public service pay. *Also - they are never properly done.*

The Standing Commission

8. The origins of the Standing Commission are briefly outlined above. It has three tasks:-

- (a) To investigate the feasibility of the use of systematic comparisons as a basis for determining pay for particular groups of public service workers.
- (b) To oversee the carrying out of the necessary research work on which to have such comparisons where the parties want this to be done.
- (c) At the choice of the parties, either to make an award (akin to an arbitration award) which will, where the parties agree, be binding on both sides; or, again with the consent of the parties, to provide the data on which the parties themselves can then negotiate.

CONFIDENTIAL

9. The Standing Commission has already accepted a formidable workload (it currently has nine specific references before it) and has probably reached, or is approaching, the limit of the work it can handle in the remainder of this year. Almost by accident the initial cases it has taken on have been of the "award" type. Professor Clegg and his colleagues are however anxious that this should not become the standard pattern. They would prefer progressively to move to a situation in which, like the PRU, they provide the data on which others can base a negotiation. It is worth making the point however that the PRU model depends not only on a thorough and professional job of research but also requires detailed agreements between the Parties as to how the information obtained will be used in negotiation (the Civil Service, for example, has elaborate pay agreements which sharply constrain the negotiating procedures once the PRU reports are available. Were this not to be the case the research data might become the base on which the union negotiators sought to build upwards rather than a prime determinant of the outcome).

10. It is arguable that the Standing Commission is a useful development in itself and offers the opportunity, not only of avoiding future disruption in wide areas of the public services, but of achieving consistency of treatment between one group of public employees and another. Indeed it is relevant that not all of the trade unions concerned are particularly enamoured of the prospect of submitting themselves to the discipline of rigorous comparability. The NHS unions, for example, are conscious that properly conducted research could well show some of their members to be over rather than under paid. And the draft general Government evidence to the Standing Commission now ready for consideration by Ministers points to this possibility as a necessary consequence of the adoption of the general principle. Of course it is early days yet and we have no experience of the results of the Commission's activities. My advice, however, would be that, subject to any re-examination of the membership of the Commission on which you may wish, or need, to embark, the Government might:-

CONFIDENTIAL

We must look at the teachers' references - they were very reluctant.

- (a) Let the Commission get on with its existing references (to do otherwise would be to reopen a wide range of existing settlements).
- (b) Hold firmly to the underlying proposition that the objective of the Standing Commission is to make an honest assessment of what the employees concerned might expect to earn in current circumstances outside their particular part of the public service; and not to get engaged in value judgments about the relative worth of individual occupations or the desirability of any group maintaining a particular pace in the wages table.
- (c) Be cautious for the time being about accepting new references to the Commission until it has had time to win its spurs and public confidence in the impartiality of its judgments. This need not wholly rule out new references, e.g. for the teachers or the local authority white-collar employees whose negotiations begin soon (though the latter may well not wish to be exposed to the Commission's examination). But it should certainly rule out as some argue the early extension of the Commission's activities into either the trading parts of the public sector or more widely.

Teachers already have a system of compulsory arbitration.

Teachers' Pay

11. As you will know well, the machinery for settling teachers' pay has a number of special features. In particular the teachers have the statutory right to have their pay settled by arbitration with any resulting award binding on both sides subject only to overturn by Resolution of both Houses of Parliament. Moreover although the Government is in effect, through the RSG, the main paymaster of the teaching profession, negotiations are carried on within the Burnham Committee structure where the Government is represented only as a minority element in the management side. It is also relevant that the teachers had, in 1974, the benefit of an ad hoc inquiry into their pay (the Houghton Committee) which was probably over-generous and which the teachers regard as establishing their relative worth within the national pay structure.

12. In the present pay negotiations the teachers have been reluctant to go to arbitration (partly because of differences between the various teaching unions concerned) and have sought to use the Government's willingness to make the services of the Standing Commission available to them as an opportunity for updating the Houghton award rather than of obtaining an independent assessment of

CONFIDENTIAL

One of the problems with teachers pay is that pay and terms of service are separate. That is nonsense. You can only compare if you compare like with like.

the value which the labour market would currently place on people with similar qualifications, skills and responsibilities. It was precisely the question of the terms of reference to be given to the Standing Commission which underlay the then Government's reluctance to see the negotiations brought to a conclusion at a late stage in the Election campaign when Ministers collectively could not adequately consider the implications of the terms of reference under discussion. There were of course other issues, like the size of the immediate payment to be made to teachers and the timetable for implementing the settlement finally reached when the Standing Commission had done its work, but the root issue was whether teachers were to be guaranteed a particular place in the national earnings league (by updating Houghton) or be subjected to a proper examination of their current worth (through the Standing Commission).

13. The Government will have to face this issue quickly, not least because of the effects of the teachers' industrial action on the children. My advice would be:-

- (a) That an early effort should be made to get the teachers to call off their industrial action. It is both unworthy and unnecessary. One approach might be for the Secretary of State for Education - and the Secretary of State for Scotland who is of course the responsible Minister in that country - to call in the teachers' representatives and ask them to call off their action in return for a promise of a considered Government view by a particular date (which might well have to be before the end of May).
- (b) The Government should then decide quickly whether it is prepared to insist that the Standing Commission is only available to the teachers if they accept that its investigations will be based on the fair comparison of all relevant factors affecting teachers' employment and is not simply a surrogate for updating Houghton. It would be entirely reasonable for the Government to insist that the Standing Commission should not be misused and that the terms of reference of any study by the Standing Commission should be drawn accordingly. If the teachers cannot accept this then it would be better, I think, to find another route to a solution rather than compromise the basic philosophy on which comparability has been developed.

we... better conditions of service.

Would someone please define the basic philosophy.

CONFIDENTIAL

- (c) The obvious means to a settlement not involving the Standing Commission would be for the issue to go to arbitration as provided for in the Teachers Remuneration Act of 1965. You will want your colleagues' views but arbitration clearly has the merit of avoiding early discussion of the merits of the comparability system and would deprive the teachers of any excuse for continuing their industrial action. It might however involve additional cost if the arbitrator made an award payable in full this year and if the Government were not prepared to seek the approval of both Houses to modify the award or to impose staging.

Cash Limits

14. The comparability system in general and the teachers' case in particular have implications for the control of public expenditure through the cash limits system. In the case of the teachers the previous Government has already given various undertakings to the local authorities about the extent to which it would provide RSG support for the settlement finally reached and you may feel that such commitments have to be honoured so far as 1979-80 is concerned. The level of the Government's RSG contribution to local authority finance for the years 1980-81 onwards is of course a matter to be negotiated later in the year.

15. A feature of all of the local authority pay negotiations this year has been the unwillingness of the local authorities to commit themselves to additional expenditure on pay without the promise of full RSG cover from the Government. This aspect of the teachers' pay situation points to one of the very real difficulties in operating cash limits as a control on public sector pay. Theoretically at least one can set a cash limit - necessarily on an assumption of future pay movements - and then stick to it with any additional expenditure being offset by increased rates or charges or a reduction in the numbers employed or other expenditures incurred. In practice it is unlikely to work out quite like this because the resulting cuts may be unacceptable for reasons other than money.

CONFIDENTIAL

16. Moreover, where pay is concerned it is difficult to reconcile a cash limit set in advance on the basis of a particular assumption about pay movements with the reality of those movements when the latter are determined largely by comparability with the private sector where pay bargaining is uncontrolled. Modest variations of outturn from expectation can be accommodated within the system but major differences may face the Government with a choice between amending its cash limits and cutting services. The latter course may nevertheless be the right one but there are obvious difficulties, which you have recognised, in cutting the real volume of expenditure on, say, defence or the National Health Service. These issues will of course lie at the heart of the public expenditure review which will be one of the early and highest priorities of the Government.

*J.H.*  
JOHN HUNT

4th May, 1979

Comparability  
the majority  
are in the public sector  
① where  
② where standards are given in the private  
sector - the basis of improved output  
per head. Then comparability becomes  
a market for production inflation.  
That is why there is a market - not  
market needs market - not  
reasoned thought - then it has  
yet been given  
not