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cc Mr. Duguid

MR. WALTERS

*No handwritten
No Whitmore 1/13/62
Ray likes to see how
this is going. ✓ 11/3*

Civil Service Pay

Many thanks for your note of 10 March about the possible use of a voluntary quit rate, as a determinant of Civil Service pay, which we discussed. The Official Group on Civil Service pay met this morning to discuss the paper which I showed you, and made a certain amount of progress.

The CSD clearly wanted to have discussion in the form of consideration of possible improvements to the existing pay comparison arrangements, of which the introduction of market factors of one kind or another might form an element. With some support from the Treasury, I succeeded in arranging that the Group looked first at the possibility of market factors being used as determinates of pay, and I then deployed a (not too greatly) modified version of your proposal. I suggested that, first, recruitment/wastage figures would in themselves be adequate proxies for the market, making it unnecessary to look at wider market factors such as high unemployment, or job security; second, that because recruitment figures could be randomly influenced, only wastage rates constituted good indicators; and third, that the Group should not rule out the possibility of wastage in the form of voluntary quit rates being used as a complete determinant of pay. Even if it turned out that there were practical or conceptual obstacles it should certainly be possible to use them in the sense of paragraph 12(b) of annex B of the CSD paper, that is as specified data available to the parties to be taken into account in the negotiations. I then suggested, in response to the CSD's assertion that it would be hard to construct an appropriate formula for the use of quit rates, that a suitable dynamic formula would be that the rate of change of Civil Service wages should be determined by the rate of change of analogue wages, multiplied by the ratio between the Civil Service quit rate and the analogue quit rate; that this would provide an indicator of the direction in which pay should move at any time, but that clearly some further work needed to be done to define the analogues.

Although the Group had a number of doubts, of which more below, the outcome was as I had hoped: the minutes will record that we

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(which I think

(which I think means you and I) should get together urgently with the Treasury and the CSD to crawl over the details, and put an early paper back to the Group with our conclusions. That will be the point at which the going will get difficult, since the CSD have a virtual monopoly of access to the necessary data, the main employing departments (Defence, Social Security and Revenue) are strongly opposed, and even the CPRS is sceptical.

Some of the points on which we shall be cross-examined:

1. Exclusion of recruitment rates. The point was strongly made that almost all employers look at recruitment rates as an indicator of pay levels, and that if we looked at quit rates ^{alone} we would always be acting retrospectively. I think we may have to look at this again, and I said I had an open mind.
2. Definition of analogues. In response to questioning I suggested that analogues should be grouped by industry, and that the Civil Service should be regarded as a unit. We shall need to demonstrate that the formula is not too insensitive to the decisions on analogue grouping.
3. Data. It was asserted that analogue data would be difficult to come by. We shall need to point to organisations who have already done some work on this.
4. Job security and other factors. There were some who simply did not understand the concept, and insisted that job security would need to be taken into account separately as a sort of "reverse x factor"; but there is the more serious point that if most of the analogues are large organisations, as they may be, they too have high job security.
5. Quantifiability. Some doubted that this approach would lead to a satisfactorily quantifiable outcome. The Treasury and I countered this by pointing out that at least some Ministers did not particularly want a mechanistic formula.
6. Grade differentiation. The CPRS suggested, I think rightly, that we ought to look and see whether quit rates would work better

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at a particular group of grades than at other groups. For instance, at desk level and above in the Civil Service the public expenditure implication of pay is relatively small.

7. Regional differentiation and local bargaining. The CPRS also suggested that it would be a pity if we came up with a system that excluded these possibilities. I suppose it would be possible to measure regional and local quit rates, but it might prove too labour intensive - and the sample would be very small.

8. Finally the CSD made the perfectly valid point that although we were not trying to design a complete blueprint for a new pay agreement, whatever new approach we ~~made~~ decided might be desirable would have to stand up to scrutiny by, first, Ministers and, second, the unions. So some thought would have to be given to the presentability of the package.

I expect the CSD to be in touch with me very soon to arrange a meeting, to which I hope you will be able to come.

J.M.M. Vereker

11 March 1981

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