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PRIME MINISTER

CIVIL SERVICE PAY

1. You have kindly suggested that I should join you, the Chancellor of the Exchequer, the Lord President of the Council and the Secretary of State for Employment to discuss aspects of the proposed inquiry into civil service pay.

2. Unhappily, I am in Toronto on business this weekend and next week. At the time which has now been proposed - the morning of Tuesday 19 May - I am heavily occupied with M&S business, that being when we finalise our report and trading results for the year just completed. I would not want the matter to be unduly held up on my account, so I am sending you the thoughts which occurred to me on reading the Lord President's minute of 1 May in the hope that they will be helpful to you and your colleagues.

Scope of the inquiry

3. Not having seen all the papers, I am unsure exactly what is meant by "structure and organisation" as possible extra subjects over and above pay.

4. However, my advice would be that the inquiry should concentrate on pay principles and policy, rather than being asked in addition to get into questions which have to do with (for example) how many civil servants are employed and in what sorts of management hierarchies. My reasons for this are briefly:

a. Pay principles and policy are enough for an inquiry to deal with, if you want advice reasonably soon.

b. Extending the terms of reference extends the area of debate with the unions both before the inquiry gets under way and when its report is available.



c. Other relevant work is in hand - notably the Civil Service manpower policy, including the chain of command reviews - and it would be a pity if it were impeded.

5. That said, I would hope that the inquiry would consider pay as a motivator as well as a wage. I remain convinced that civil service efficiency would be greatly increased if:

a. An officer to whom no hierarchical progression is available in a field which he has mastered, and whose expertise would be wasted if he were moved to another field in order to get his reward through promotion, could be rewarded by bonus (or merit) payment or personal promotion.

b. Officers could be advanced by two or more grades in recognition of their track record, potential and the needs of the Government service.

c. Officers whose performance was poor and indifferent ceased to be entitled to automatic increments.

Inclusion or exclusion of TSRB grades

6. I think that it would be right to include Under Secretaries and above in the inquiry's remit.

7. There is something awkward about "Top Salaries" in modern conditions. More important, I think that the work and pay of the higher grades need to be considered more in relation to the work and pay of the rest of the civil service for which they are responsible and less in relation to those of the judiciary and the upper reaches of HM Forces.

8. There is also the practical difficulty that the operation of separate systems for grades up to Assistant Secretary on the _____



one hand and from Under Secretary on the other has produced numerous recent "boundary" problems, making for friction, embarrassment and delay.

9. In addition, I am far from sure that for the purpose of comparing pay rates in the Civil Service with those outside it is sensible to fix on the Assistant Secretary/Under Secretary border as marking a clear dividing line between one kind of commodity and another. I suspect that the dividing line should perhaps fall at the Principal/Assistant Secretary border. This is because something equivalent to the Principal grade can, I believe, be found in most firms, whatever their size; we certainly have "Principals" in M&S. But many firms do not have an equivalent to the "Assistant Secretary" (or for that matter the "Deputy Secretary"). The "Under Secretary" equivalent in business is the main board director, while the "Permanent Secretary" equivalent is the managing director. But the "Assistant Secretary" is, I think, far more likely to be found in bureaucratic organisations like banking and insurance than in industry or commerce. This, if I am right, may mean that it would be wise to handle the question of Assistant Secretary analogues and their effect on the pay of higher grades with particular care.

Starting point for the inquiry

10. I am broadly content with the terms of reference, but offer three thoughts.

11. First, the draft implies that the inquiry may take a fresh sheet of paper and devise new principles from scratch. Is this what is required?

12. My own preference would be to ask the inquiry to consider whether the existing principles produce a result which inspires public confidence and is workable and correct in the circumstances of today and to advise in what respects,



and how, they need up-dating. I suspect that the existing principles may well be valid but that it is the way in which they are applied that causes trouble, especially when the employer's room for manoeuvre is restricted.

13. Secondly, I think that the Government should lay more emphasis on the importance of room for manoeuvre and of avoiding arrangements which are too mechanistic. While the basic principles by which pay is determined and the view taken of pay as part of the complete personnel management package should be fair, decent and honourable, all managements (including Government) need to keep an element of flexibility. For example, they should resist the temptation to attach a fixed quantity to terms and conditions of service which are unquantifiable and whose value, in any case, will vary according to the state of the labour market. Job security is the prime example - especially now when some employees in the private sector are taking effective cuts in income in order to preserve their jobs.

14. Thirdly, there is the important consideration that the State cannot be well managed if its operations are regularly turned into an industrial relations football. It may be romantic in these days to suppose that a "no strike" agreement could be devised, but I think it is well worth considering.

Membership

15. A small group, and one which will think for itself, is indicated; it must not allow itself to be taken over by its secretariat.

16. I would think that Sir Hector Laing would make a good chairman.

17. I think that Mr Lord, Lord Shepherd and Mr Chapple are good candidates, although each for different reasons.



Of the women listed, I would not favour the High Mistress of St Paul's; Mrs Davies might be a good choice as someone from a large employer is needed.

18. I will give this some further thought and see whether I can offer any other names. Two possible ones which come to mind at once are those of Lord Rothschild and Professor Dahrendorf. Both are of standing, independent, and would bring fresh minds to bear.

19. I am copying this to the Chancellor, Lord President and Secretary of State for Employment.

Clive Priestley

M. Derek Rayner
7 May 1981

*Prepared by Sir Derek Rayner
before his departure and submitted
on his instructions.*