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MR LANKESTER

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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.