

A09927

PRIME MINISTERCivil Service Pay Research(E(79) 14)

BACKGROUND

1. The paper explains the basis of "fair comparisons" on which Civil Service pay has been determined since 1956. The system is firmly entrenched, and since there is no obvious better alternative the Lord President suggests that to abandon it would play into the hands of the militants in the Civil Service Unions. Annex A shows that Civil Service pay has always lagged behind general pay rates - indeed the system of comparisons implies that it should - and the difficult presentational problems of very large increases have arisen only because the system was artificially held back in some periods. If operated annually there is no reason to expect increases which would arouse unreasonable expectations elsewhere.

2. The Lord President therefore suggests that the system should be retained, but improved.

HANDLING

3. Before his paper is reached you will already have had a discussion in E on the fundamental question of the way in which Pay research and Cash limits can be reconciled. The present paper goes for Course B of the Treasury paper, (E(79) 15) and so begs the question of what would happen if something closer to Course A were adopted.

4. With that background you might lead the Committee to consider the Lord President's specific proposals in turn -

- i. That pay research should be retained as the basis for Civil Service pay negotiation and allowed to operate annually.

ii. Pensions: That the allowance for inflation-proofing of pensions and, in particular, the Government Actuary's conclusions on the value of this to staff (Annex C of the paper) should be authoritatively examined. The Lord President suggests that the review should be undertaken by a strengthened Pay Research Unit Board. But will it, even when strengthened, have the right expertise to do the job?

iii. Independence: That the visible independence of the PR Board should be strengthened.

iv. No-strike agreements: E Committee on 19 June (E(79) 3rd Meeting, Item 1) referred the whole question of no-strike agreements for further consideration by the Departments of Employment, Environment, Industry, Health and Social Security, and Home Office. The issue of no-strike agreements in the Civil Service could be set on one side for consideration when the subject is discussed in the round.

v. Cash limits: The Committee's earlier discussion on E(79) 15 will have set the tone. If the Committee favoured course B in that paper it need not discuss the matter further on this paper. If however the Committee have already decided in principle in favour of ~~course~~ A, you might also ask how Pay Research would operate under a policy where Cash Limits were used to enforce constraint on pay? The probable answer is that it would still look something like what is proposed here, but that volume cuts would be more severe if the Government get the cash limits too low. The more rigorous the PRU system can be made, the less risk there is of this happening.

CONCLUSION

5. The Committee's conclusion will in part be contingent on their earlier discussion but, subject to that, the most likely conclusion is:-

To accept the conclusion of the Lord President's paper subject to points made in discussion and any prior decision on the handling of cash limits.

J.H.
JOHN HUNT

6 July 1979