

cf J Hoskyns
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Ref. A02244

PRIME MINISTER

Public Sector Pay

(E(80) 46, 48, 49, 53, 55, 56 and 59)

BACKGROUND

The Committee will resume their discussion of public sector pay which was centred on the CPRS paper on the main issues (E(80) 55). At the last meeting they dealt with the Civil Service, the Armed Forces and the National Health Service. In addition to the papers the Committee had last time there is a note by the Lord President of the Council (E(80) 59) covering a paper by officials on the possibility of changing the membership and the terms of reference of the three pay review bodies (asked for last time) and a minute of 23rd June from the Secretary of State for Employment on the Clegg Commission.

This is in the Action folder because there is a decision to be taken on an appointment.

HANDLING

2. You might open the discussion by reminding the Committee which sectors were covered at the last meeting and proposing that, again, the CPRS paper E(80) 55 should be used as an annotated agenda.

Prison Officers, Policemen and Firemen (paragraphs 7(e), 8(f) and 8(g) of E(80) 55)

3. The pay of prison officers is determined as an average of all Civil Service increases. Police pay is index-linked and is not cash limited. The settlement date is September 1980. Firemen's pay is also indexed and is not constrained by the general local authority cash limit. Their settlement date is November.

4. The Home Secretary will wish to comment on the case for maintaining special treatment for policemen and firemen (he has discussed the former with the Chancellor of the Exchequer since the last meeting). He will also wish to comment on whether any special consideration should be given to prison officers in view of the serious consequences of disruption in the prison service. Both he and the Secretary of State for the Environment will wish to comment on the

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possibility of seeking to influence local authorities on the arrangements for the firemen. The likely outcome for these three services is that the present arrangements will have to continue.

Local authorities and teachers (paragraphs 9(h) and (i))

5. In effect the constraint is the Rate Support Grant cash limit which has to be settled by November. Subject to any points the Secretary of State for the Environment makes there is probably nothing more to be discussed at this stage. He will be reporting early next month on the options for dealing with the likely overspend in the current year.

6. For teachers, Ministers will have to decide on the current claim when the arbitration awards are available (probably the last week in July). If the Committee were disposed to pursue the longer term possibility of legislating to withdraw the right to arbitration, it would be necessary to involve the Secretary of State for Education before any decision could be taken.

Nationalised industries (paragraph 9(j))

7. The main constraints are the external financing limits. The main question is whether these should be set in November, as last year, in order to influence the pay negotiations, or later. The Chancellor of the Exchequer will wish to speak on this and on his proposals in paragraph 21 of E(80) 46 - tight pay assumptions in the 1981-82 EFLs to be announced this autumn (though the pay assumptions would not be made public); pressure on chairmen to hold settlements to these assumptions; a requirement on all the nationalised industries to adopt performance targets related to costs per unit of output before the autumn.

8. The Committee may well favour the Chancellor's approach here (and he would I know welcome a specific endorsement recorded in the minutes). You could also invite him to supervise further work through his E(NF) Sub-Committee.

The future of the Clegg Commission (paragraph 10(k))

9. The Secretary of State for Employment will wish to enlarge on his minute to you of 23rd June, which points to the difficulties of maintaining sufficient members of the Commission to complete the present reviews, and advises that the Commission should be wound up when its present references

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are completed. This would be a popular move with your supporters in Parliament and the House but you will need to ask the Chancellor of the Exchequer to comment especially in view of the suggestion in his own paper (E(80) 46) that there would be merit in retaining a fact finding body as an aid for the settlement of particularly difficult disputes. Could the Office of Manpower Economics (which already services the review bodies) take this on? Other Ministers may also wish to comment. It is not essential to take a decision on the long term future of the Commission immediately, but there should probably be an announcement one way or the other before the Recess.

Membership and Terms of Reference of the Review Bodies

10. In earlier discussion it was agreed that the Armed Forces Pay Review Body (AFPRB) and the Doctors and Dentists Review Body (DDRB) should continue, though no specific discussions took place on the future of the Top Salaries Review Body (TSRB). It was however also agreed that further thought should be given to the possibility of tightening the terms of reference and changing the membership of these Bodies, and that this would be considered further in the light of a note by the Lord President (E(80) 59 now before the Committee). You may prefer to defer taking final decisions on this paper until after Cabinet's discussion of the TSRB reports next Tuesday. →

11. The note by officials points out that while the members of the TSRB can be changed at any time, those of the other two bodies have fixed appointments and for the most part the terms of the present members continue until the end of 1981 or 1982. It goes on to make the obvious point that any blatant attempt to alter the membership in order to encourage recommendations more in accordance with the Government's wishes could backfire. The doctors and dentists could be particularly troublesome in this respect (you will remember that last year they were arguing for the DDRB to be slanted more in their direction).

12. On terms of reference, officials point out that it is open to the Government to submit evidence to the review bodies about economic considerations which should be taken into account, and that this could be done with or without a change in the terms of reference. The risk of changing the

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terms of reference is that the Government could then reduce its freedom for manoeuvre since it might be difficult to reject recommendations which the Review Bodies claimed already took account of economic considerations as put to them by the Government.

13. You will wish to invite the Lord President to speak to his paper. The Chancellor of the Exchequer, the Secretary of State for Defence and the Secretary of State for Social Services will wish to comment.

Size and timing of cash limits

14. The Committee has already agreed that cash limits and External Financing Limits for the nationalised industries should be the overriding constraint on pay. The size of these limits will be crucial and you may wish to remind the Committee that there will be an opportunity to discuss them when the Chancellor comes forward with his specific proposals in the autumn. You might also hold open until later in the year final decisions on whether the quantum and timing of cash limit should be uniform or varied, so that account can be taken of circumstances nearer to the operational deadlines.

CONCLUSIONS

15. You will wish to record conclusions on as many of these issues as possible, but probably to reserve a final decision on the membership and terms of reference of the Review Bodies until Cabinet has discussed the current TSRB reports. You might also care to envisage a further meeting of E to confirm the totality of the decisions taken (possibly on the basis of a note by the Secretaries drawing them all together) and to discuss public presentation and handling.

16. In addition you have had John Hoskyns's paper of 25th June which recommends that a good deal of work needs to be done to quantify the costs and risks attaching to the individual elements which make up the totality of the public sector pay problem. I have a good deal of sympathy with that approach. At the same time I doubt whether present decisions need be delayed while the work he suggests is put in hand - much of it relates to the actual numbers to be

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inserted into the policy when we come to set cash limits, etc., in the autumn. Nevertheless you might care to ask the Treasury or the CPRS to pick up his suggestions and let you have a quick report on what can or can't be done and on what timescale.

RA

(Robert Armstrong)

25th June, 1980