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Ref. A02165

PRIME MINISTER

*Primitivist*  
Lord Shepherd's letter is at  
Flag B; CSD brief at Flag C.  
Lord Soames and Mr. Hamon are  
coming at 9.45 for a preliminary  
chat.

Pay Research: Meeting with Lord Shepherd

*Pl. 13/5*

This note is to supplement the brief provided by the Civil Service Department.

2. The main object of the meeting is to listen to Lord Shepherd's views, rather than to try out on him options for other methods than pay research of settling Civil Service pay: it would be premature to do that in advance of the meeting which ~~the Prime Minister is~~ <sup>you are</sup> to have next week, and Lord Shepherd might conceivably draw - and pass on - the wrong conclusions from cockshys thrown out in the course of discussion.

3. The pay research system dates from the Priestley Royal Commission Report of the early 1950s. The theory is that the public service should follow wage and salary rates for comparable jobs in the private sector (and in some nationalised industries). The Pay Research Unit (PRU) does not choose the "analogues" - the outside firms etc. with which comparisons are drawn. It makes strict comparisons between the contents of jobs in the public service and in the private sector and collects the information about the quantifiable elements in the pay and conditions of service. The parties - the Official Side and the National Staff Side of the Whitley Council - choose the analogues and then negotiate on the figures produced by the PRU.

4. Neither the PRU nor the PRU Board chooses analogues. It is arguable that they should get involved in that. The theory is that, if the choice is made by the two sides, biases either way will cancel each other out. One cannot be absolutely sure about that. For one thing the Priestley Report said that the Government ought to be a good employer and should therefore look among good employers for its analogues. For another, the tendency is always to go for analogues in the large organisations - like ICI, for instance - which have organised grading and salary structures which lend themselves to comparison with the Civil Service.

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5. The major risk in the system has always seemed to me to be that of "circularity". It was probably not a danger which would have troubled the minds of the Priestley Commission, because rates of inflation were very low at that time. It is a more serious risk today. If a pay increase of, say, 10 per cent in ICI is reflected in the subsequent pay research increase for the Civil Service, there is then a danger that ICI will say that the Civil Service has put its rates up by 10 per cent, so that it must restore the old differential. The resultant increase will be played back into the Civil Service pay rates in the next pay research round. It is easier to identify this weakness than to know what one can do about it. But I think the danger remains: particularly in relation to the nationalised industries.

6. When all that has been said, one has to consider whether any possible alternative would be better than a PRU system as good as one could make it. This is something which Ministers will no doubt be discussing next week. Lord Shepherd's ideas for expanding the role of the PRU and its Board into the Civil Service pay negotiations - cp. for example the fourth paragraph of the note of his meeting with the Lord President last July - would go far to transform the Pay Research Unit and its Board from a technical provider of material on comparisons into a pay board or review body. The Government could decide - as it has done in the case of the Armed Forces and doctors and dentists - that some kind of review machinery would be a better method of settling Civil Service pay negotiations between the Official Side and the Staff Side; but previous experience does not prove that that would produce a better result, even though it would to some extent (though never completely) take decisions out of politics.

7. It is easy to think of the pay research system as an engine of inflation, and no doubt in some situations it is. But it can work the other way. Human nature being what it is, comparability is inevitably a subjective factor in what people think about fair rates of pay. The pay research system, even in its present form, takes a considerable amount of the subjectivity out of fair comparisons, and there have been occasions on which the resulting increases were almost certainly less than they would have been if they had been determined either by free collective bargaining without pay research or by a review body relating to more impressionistic material.

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ROBERT ARMSTRONG

13th May, 1980

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