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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

STANDING COMMISSION ON PAY COMPARABILITY

Note by the Chancellor of the Exchequer

I attach a report by an inter-departmental committee of officials reviewing the work of the Clegg Commission in the light of its first two reports. This represents a response to the request in the letter of 23 July 1979 from the Prime Minister's Private Secretary to the Private Secretary to the Secretary of State for Employment. It came into my hands too late for consideration by any Minister if it was to be circulated in time for this meeting. It should, however, serve as a basis for discussion of at least the most urgent issues.

(G.H.)

HM Treasury
6 September 1979

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STANDING COMMISSION ON PAY COMPARABILITY

Report by Officials

Officials have now studied the first two reports of the Clegg Commission and offer the following general appraisal and comments on possible future developments.

Appraisal

2. A detailed commentary on the techniques and judgments in the two reports is given in Annex 1.

3. Generally, the Commission has done a skilful and competent job and it was a considerable achievement to complete the reports, with unanimity, within the limited time available. The approach to comparisons is as rigorous as possible: union arguments against this were roundly rejected. Where short cuts were taken they seem to have been sensibly conceived and unlikely to have distorted the results at all seriously (with the possible exception of the way in which a "trend-line" has been used to match their findings to the existing pay structures). Comment is made at several points on possibilities of future improvement of technique.

4. As additions to the interim increases already agreed in February, the overall recommendations are inevitably expensive given the legacy of past pay policies, though less so than some other similar settlements. It is impossible to tell whether they represent a better deal than that which might have been achieved by direct negotiations in the circumstances of last winter. They do however fall a long way short of last winter's union claims, and are welcome to management in their structure: relatively low increases for the lowest paid and least skilled, with much higher increases higher up the scale. Such a helpful structure (and indeed the reduced initial cost through staging) would hardly have been possible through negotiation in the circumstances of last spring. ^{moreover} However it will be difficult for unions in future to challenge the carefully and clearly argued basis of the Clegg

recommendations. Details of the actual cost and of the way in which it might be financed are dealt with in a separate paper by the Chancellor of the Exchequer (E(79)33).

5. Officials judge that the Commission is aiming at the highest standards previously achieved in pay determination based on comparability (e.g. P.R.U. and some Prices and Incomes Board work), and shows a willingness to explore new ground. There are however three areas - notoriously difficult in themselves and in relation to the comparability concept - where the Commission has made little or no advance. These are: efficiency, job security and similar unquantifiable considerations and labour supply and demand:-

(a) Efficiency: the Commission was very much alive to the importance of relative efficiency in work. Shortage of time was obviously a major problem, but they did dip a toe in the water, by drawing attention to a number of artificial practices of bonus and other payments designed to enhance pay rather than to reward additional output. It would have been more helpful if this could have been more fully treated and if the recommendations had been made in some way conditional upon appropriate changes in practices. It would evidently be well worth encouraging the Commission to develop the subject in future reports.

(b) Job Security, Etc: while acknowledging the possible importance of such factors which are difficult or impossible to quantify, the Commission does not try to take them into account, merely commenting that no method of quantifying them has been suggested (nor indeed has any such method been used in any other form of pay enquiry). However the real question may well be, not whether any mathematical formula can be suggested and validated, but whether a body of experience such as the Commission, speaking as the best authority in the field, can survey these factors and make its own judgmental valuation in a form which can be applied to rates of pay. This would be an innovation, compared with what is done, for example, in Civil Service/PRU analysis

and negotiation, although it is worth noting that Lord Boyle purports to reflect judgments of this kind in his Top Salary recommendations.

(c) Labour supply and demand: it is disappointing that the Commission, although explicitly accepting the CBI view that evidence on labour supply should be used to check the acceptability of the comparisons, does not appear at any point to have applied this check, even though the employers of the major groups argued, and presented evidence, that they could generally recruit and retain staff without serious difficulty on existing pay and conditions.

If, as a majority of officials suspect, there is at least some substance in (b) and (c) above, the implication is that the overall recommendations may overstate what is needed to balance the relative attractiveness of work in the public services under reference and outside employments. To extend a comparability study in these respects would, as already indicated, be an innovation, but if comparability is to be used, there must be a strong case for extending it in this way, and the Commission should be urged to do so.

Scope for Negotiation

6. Before turning to future possibilities, an important comment must be made on the nature of the conclusions which the Clegg Commission was required to reach on these first references (and on others with which it has already been charged, except teachers). The Commission was required to make final recommendations on rates of pay, which unions, employers and Government had bound themselves in advance to accept. This contrasts with the PRU procedure in Civil Service negotiations, in which the reporting body confines itself to fact-finding and leaves the settlement of rates of pay to be negotiated between employers and unions. The Clegg Commission state in their first report that they would have preferred this alternative procedure.

7. The requirement to make final and binding recommendations has the advantage of avoiding subsequent argument, and this was an important consideration in the special circumstances in which this first group of references to the Clegg Commission was agreed. In general, however, employers and unions would prefer to have some scope for negotiation in findings, and officials would strongly support the preference for negotiation as a general rule (not necessarily excluding occasional exceptions to meet special circumstances). Apart from the advantage of giving negotiators some scope to exercise their skills and to make allowance for factors best known to themselves, there could be two other advantages:-

(a) The process of negotiation could provide an opportunity to horse-trade over adjustments for the factors mentioned in paragraph 5; although it must be noted, first, that these do not at present significantly affect the outcome in Civil Service negotiations, and secondly that it could still be very desirable for the Commission to offer findings and judgments.

(b) It would be reasonable to expect that a fact-finding report would leave a range of a few percentage points within which negotiation could take place. This in turn might give scope for the severity or otherwise of financial controls from time to time to be reflected in pay settlements.

8. Officials accordingly recommend that consideration of any future work by the Clegg Commission (apart from references already agreed on the recommendation basis) should usually be on the basis that the Commission would present findings as a basis for negotiation, and not final recommendations. The process would require some framework agreements - a difficult matter on which there is a good deal of experience already in relation to Civil Service negotiations - to establish the basis and limits of the negotiating process in relation to the facts reported.

Possible Future Developments: Short-Term

9. There is no ground for stopping the further work with which

the Commission has already been charged. However, some of the comments which the Government has in relation to the first two reports could with advantage be conveyed to the Commission, to influence their approach to the outstanding references. We revert to this later in considering possible Government evidence.

10. There may be a few - generally speaking minor - candidates for additional references to the Commission, which can be seen as a tail end tidying-up from the period of the last pay round. Each should be considered on its merits, and there would seem to be no reason why appropriate cases should not be added to the outstanding work of the Clegg Commission, without prejudice to its longer-term future.

11. A more important question arises over claims likely to be put forward in the coming months for local authority manuals and other groups covered in the first Clegg reports by recommendations relating to their settlement dates of last winter. The idea of an immediate full-scale review by the Commission, with the possibility that they might improve upon the work already done, must be ruled out for lack of time. There are therefore two possibilities of dealing with the immediate situation: one would be to leave all these claims to normal negotiation, subject to cash limit constraints as appropriate; the other would be to invite the Clegg Commission simply to undertake a rapid up-dating of the evidence in their first report (a relatively easy task in which material would be gathered by the Pay Research Unit). It would however also be possible - if the relevant employers and unions were interested in this and the Government were prepared to agree, to set either of these two approaches in the context of a full-scale and improved review by the Commission for the settlements due at the end of 1980 or early in 1981.

12. The choice will not be entirely in Government hands. It is thought that the present disposition of local authority employers and all or most unions involved is to want to get back to normal negotiation. They might not even accept assistance in the form of up-dating of the recent Clegg findings, and could well be hostile

to any commitment to any new and fuller study by the Commission. But they might come to a different attitude if negotiations were proving troublesome, and this possibility could make it worth keeping the option open. From the Government point of view, the relatively simple up-dating process could be carried out without prejudice to the question whether the Commission has a long-term future, provided that the Government were not seeking to force this technique on the negotiating parties. To go further and accept an arrangement for further full review for next year would of course be a considerable step towards giving permanence to the Commission.

The Longer-Term

13. The longer-term question is whether the use of comparability can contribute to a satisfactory basis for determining public service pay (it is understood that this is narrowly defined to exclude nationalised industries and other public sector trading bodies). Some general arguments are considered under five headings below, drawing on the lessons of the first Clegg reports where appropriate.

14. First the objective which the Government would like to achieve is a market valuation, reflecting general economic pressures and secular economic changes. There can be no direct commercial test in the public services, but a rigorous comparability exercise may provide the best available substitute. If it is to do so, however, it must not only cover the ground which the first Clegg Commission reports cover - on the whole very effectively. It must also take the best possible account of factors which cannot readily be quantified, but which nevertheless may have an important bearing on the disposition of people to undertake and remain in particular jobs; and it must be checked against market influences of fluctuating supply and demand which are accommodated in the private sector, however imperfectly, by changes in total remuneration. These are precisely the areas which the first Clegg reports do not fully explore. Unless and until a satisfactory way can be found of taking these factors into account, and reflecting them in its findings or recommendations, doubts about the adequacy of comparability exercises must remain.

15. Secondly, cost control. There are problems here which appear in exaggerated form during a period of high inflation, turbulent and varied pay movements, and expectations of catching-up. In considering the longer-term, we should perhaps look for a less extreme, albeit still difficult scenario. On this basis the most important consideration may be that management should have sufficient scope, both to influence its own attitude in negotiation, and therefore the final outcome, in relation to pay, and to be left with a feasible task of adjustment of total manpower to enable cash limits to be respected. It would be a great mistake in this context for management to be given rates of pay without opportunity for negotiation, and this is an important reason, as already indicated, for preferring that any Standing Commission should present findings as the basis for negotiation, rather than final recommendations. In normal times, it would be reasonable to hope that a small negotiating margin, coupled with the margin which must always exist for feasible adjustments in manpower, would be a sufficient protection of financial resources.

16. Thirdly, expectations of comparability cannot be entirely avoided. It is regularly adduced by both sides as a major factor in negotiations. Nearly all the areas of the public service which might be candidates for a comparability inquiry either are or have been in the past year directly subject to one, or are linked to one, and there is a long history of governments (here and in other countries) meeting insoluble negotiating problems by the establishment of special enquiries. The long history of special enquiries is little short of disastrous. They tend to be established, by definition, in a crisis atmosphere; often in situations where pay rates have lagged behind over a period; they concentrate on the claims of the particular group in question which can result in damaging bias; inconsistencies between one enquiry and another abound. Against this background, officials have for long been convinced that there would be advantage in some machinery for developing wide experience, authority and consistency, which would be available to undertake work of this kind systematically, thus avoiding some of the damaging features of ad hoc enquiries. From this point of view, the initial approach of the Clegg Commission to its work is very promising.

17. Fourthly, an ordered and orderly way of approaching pay negotiations. There are areas in the public services where, over the years, pay bargaining has been less structured, and outbreaks of industrial action in connection with pay bargaining have been all too frequent. A pattern of comparability studies leading to negotiations constrained within a clear framework offers the prospect of more orderly and less acrimonious bargaining. It cannot of course in the last resort prevent unions causing trouble where they are minded to do so (witness this year's non-industrial civil service negotiations, although the main dispute there was about staging, not about the comparability studies or the resulting pay rates): and there is the further risk that, in current circumstances, disputes about cuts and redundancies may overflow into pay negotiations. Nevertheless, experience with civil service negotiations over many years shows the advantages such arrangements can offer.

18. Finally, there is the question of public acceptability, which covers the reactions of employers and unions, and the wider public. In relation to the public service, it is especially important that the private sector, and ratepayers and taxpayers, should feel satisfied about the quality of the approach and results, and the most important aspect of this is that it underlines the importance of the points already made in relation to market valuation.

19. These considerations, and the comments already made on them, point to a conditional view that retention of the Clegg Commission would be useful for the pay of the public services. The condition is that the Commission should itself develop studies, be prepared to offer judgments on important unquantifiable factors, and check against the market labour situation.

20. There is some difference of view among officials, however, about the desirability of emphasising the market factor. On the one hand, some consider it essential as a means of reconciling the comparability principle with market valuation in the final determination of public sector pay. Others are worried that it might open up very difficult arguments about the logic of taking account of market factors in job-for-job comparisons. This would make the present situation worse,

particularly in relation to the non-industrial Civil Service, where the pay system does not provide for taking account of market factors. There is also concern that the unions would seek to exploit the market labour situation argument, given the frequent past experience in the Civil Service of difficulty in recruiting staff of the required quality and number. Even job security, though it would be consistent with comparability to give it weight, has so far defied quantification and the widespread assumption that public service jobs are specially secure could be falsified if the economies pursued by the present Government lead to much-publicised redundancies.

21. If the Clegg Commission were to be retained on a long-term basis, a variety of subsidiary questions would arise, not all needing to be settled at once. It may be worth outlining some of the more important ones:-

(a) Membership of the Commission: some strengthening would doubtless be needed if the volume of work was to be considerable; the opportunity could be taken to bring in more market and specialist experience, although the problem of balance would need to be respected.

(b) Other machinery: assuming a move from recommendations to a fact-finding basis for negotiation, some ground-rules about the negotiation would need to be developed, consistently with what exists or can be developed in the non-industrial Civil Service.

(c) Rivals: the question of linking the non-industrial Civil Service arrangements, arrangements currently covered by Review Bodies, and the work of the Commission would arise at some stage. From the outset, however, it would probably be desirable to discourage separate and independent enquiries. (Two or three such enquiries have already been launched without Government blessing, and it remains to be decided when their reports are available what is to be done about them.)

(d) Standing or occasional references: should groups which are referred to a Standing Commission be so referred automatically and regularly? Or could the Commission be simply the point of reference if normal negotiation runs into difficulties? This is linked with the immediately following point.

(e) Frequency: in the case of any regular candidates, it should not be necessary in normal times to institute full enquiries annually (although that has become a practice for the non-industrial Civil Service). With lower prevailing rates of inflation, a fuller study every two or three years should suffice.

(f) Timing: one of the perennial problems about public service settlements based on comparability has been that the increases awarded at a particular time reflect experience in the market at some earlier stage. At a time of declining inflation this can be very damaging. There could be advantage in seeking to move public service settlements subject to the Commission towards the end of any annual pay cycle, so that it will be easier to demonstrate that they belong to that cycle, and do not interfere with the next. The timing in relation to the annual setting of cash limits would also be important.

Next Steps

22. There does not at present appear to be any particular future time at which the Government must decide whether or not to extend the life of the Commission - short of the time at which it completes its present work, which takes us at least until Easter of next year. Pressure will of course build up for some indication of the Government's intentions. There may be a general public expectation of Government comment, particularly when Parliament is in session again, following receipt of the first reports. The next round of negotiations for local authority manuals, etc., will reinforce this. If the Government were to see advantage in offering future recourse to the Commission to help resolve these negotiations (on the lines mentioned in paragraph 11 above), or to accept any other candidates which might present themselves for reference to the Commission, then the life of the Commission would automatically be extended, and there would be

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pressure on the first occasion for the Government to explain its views generally, and there could even be advantage in doing so. Finally, members of the Commission will themselves be anxious, as time goes by, to know where they stand, and if further work is envisaged a new Chairman may be needed early in 1980.

23. For the Government, however, there may be two considerations pointing to delay of any final decision. First, it may be useful to see how the Clegg Commission handles its further work, partly because some of that work (nurses and teachers in particular) covers areas in which direct job-for-job comparison is likely to prove elusive and partly because there may be opportunity to test the reactions of the Commission to Government suggestions. Secondly, the Government will shortly be embarking on the process of establishing cash limits of its own for a full year for the first time, and may wish to see how normal negotiations against this background develop. It might well be possible for the Government to continue for some time, and even add a few pieces of work to the Commission's existing programme, without commitment to retention of the Commission indefinitely, and on the basis that they still regard it as being on trial.

24. Officials recommend that in any case, for the possible useful influence on the remaining work programme, the Government should now convey to the Commission some comments, in a tone of encouragement and suggestion, rather than criticism, in lower key than the draft prepared in July, on the lines of the draft at Annex 2. Broadly this supports the work the Commission have been doing, as far as it goes, but urges more work in the directions so far missing or inadequately covered. The tone could be strengthened, to the point of making it clear to the Commission (and the public at large, since Government evidence is likely to become public) that the Government would regard it as a test of the future utility of the Commission that they should tackle these difficult additional problems. On this basis, the possibility of future extension of the Commission would by no means be ruled out, and individual references could be added to the existing programme, but the Government would not need to commit itself to the principle of using comparability long-term.

25. The following is a summary of the main points:-

(a) In the traditional areas of pay comparison studies, the Clegg Commission in its first two reports has tried to apply rigorous standards and, given the time constraint, has done a competent job (paragraph 3 and annex 1).

(b) In other areas: little account was taken of relative efficiency (probably mainly because of shortage of time); no allowance was made for job security and some other factors because the Commission was unable to find means of quantifying them; and although purporting to acknowledge the importance of checking results against labour supply and demand, the Commission do not appear to have done so (paragraph 5).

(c) Although the overall recommendations fall a long way short of union claims, and are welcome to management in their structure, a majority of officials suspect that they overstate what is needed to balance the relative attractiveness of the jobs under review and jobs elsewhere in the economy, and could have been improved if the Commission had found ways of taking account of the factors mentioned in (b) above (paragraphs 4 - 5, with some reservations in paragraph 20).

(d) Although the references covered by the first two reports, and others already made apart from teachers, required the Commission to make final pay recommendations binding on all parties, officials strongly recommend that a more satisfactory normal basis of work would be for the Commission to present findings as a basis for negotiation - a view shared also by the Commission (paragraphs 6 - 8).

(e) For the immediate future, officials see no ground for stopping the further work with which the Commission has already been charged, or for ruling out a few additional references without prejudice to the longer-term future; negotiations over the coming months for local authority manuals and other groups

covered in the first Clegg reports may prove troublesome and it may be desirable to keep open the option of some further use of the Clegg Commission to help in resolving them (paragraphs 9 - 12).

(f) On the longer-term future, officials take a conditional view that retention of the Clegg Commission would be useful: the condition is that the Commission should itself develop studies and be prepared to offer judgments on important factors which are at present impossible or difficult to quantify, and check their results against the market labour situation (paragraphs 13 - 19).

(g) Several important questions are listed which would require further consideration if the Commission were developing a longer-term role (paragraph 21).

(h) There is a balance of arguments over the questions whether and when the Government may need to decide on the longer-term future of the Commission (paragraphs 22 - 23).

(i) Evidence should be put to the Commission now, in the light of the first two reports, giving some encouragement where appropriate and urging more work in the directions so far missing or inadequately covered, on the lines of the draft at Annex 2: future judgment could be guided by the response of the Commission (paragraph 24).

HM Treasury
6 September, 1979

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CONFIDENTIALSTANDING COMMISSION ON PAY COMPARABILITYAPPRAISAL OF FIRST REPORTS

1. This annex assesses the work of the Commission as revealed in its first two reports on local authority and university manuals, NHS ancillaries and ambulancemen, and university technicians, and identifies points for consideration in the context of the Government's general evidence to the Commission.

General

2. It needs to be borne in mind throughout that the Commission had less than 5 months to study and report on nearly 1.5m employees in a wide range of different jobs; and that for these the Commission was asked in effect to make awards on pay levels, though in some other cases (e.g. teachers) it has been asked to report its findings as a basis for negotiation by the parties.

3. The Commission reviewed the main methods of comparison. On indexation, whilst the argument is relatively low-key (no doubt to avoid giving gratuitous offence to those unions, particularly NUPE, which had fought strongly for indexation), it is clear and firm in rejecting indexation, both as a continuing method of establishing pay and as an argument for retaining a place in the pay hierarchy. The Commission rule out indexation save for short periods, where it can be shown both that the original pay relationship was right at the time it was drawn and that there have been no substantial changes in the interval. This approach is not only helpful in establishing that the Commission is opposed to indexation save for short periods, but also questions by implication existing indexation arrangements, e.g. for police and firemen.

4. Like the Government, the Commission prefers rigorous job-for-job comparison to other methods of comparison. Where job-for-job

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comparisons were possible, the Commission used the PRU who employed their standard methods for Civil Service pay research. Shortage of time prevented the Commission making comparisons with a wholly adequate selection of benchmark jobs throughout the pay structures; the Commission readily acknowledged this as a deficiency.

5. Where job-for-job comparisons were not possible, the Commission made use of factor analysis. The Commission itself is frank in recognising the limitations of factorial comparisons. It acknowledges that the job-for-job method is the more straightforward and convincing; and because of lack of time it had to use the already existing factor plan used by the Armed Forces' Pay Review Body, which was not ideally suited to its references. For the future the Commission intends to review its methods and design arrangements of its own. But factor analysis must be used if comparisons are to be made for jobs which have no or few counterparts in outside employment, e.g. ambulancemen, nurses or teachers.

6. The specific points arising on the Commission's approach are discussed in the following paragraphs.

Selection of comparators

7. The Commission (Report No 1, para 68) rightly excluded comparisons with jobs falling within the reference groups, which would be circular. Otherwise they accepted any relevant comparators from private or public sector, as does PRU; but the Commission has doubts about including the comparators from public services which might be referred to it in future, and intends to give this more thought. This problem has of course arisen in Civil Service pay research, which excludes outside rates linked to the Civil Service. It is essential to avoid circularity, and accordingly there can be no comparisons with groups whose pay is determined by comparison on a regular and systematic basis.

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There may be further questions as to whether in addition particular groups should be excluded from the comparators (for example because their rates do not bear any relation to the impact of market forces), but it is difficult to see how detailed rules explicitly excluding other groups could be formulated. Given that the Commission intends to give the matter further thought, Ministers may think it best to allow it to do so within the framework of what is said above.

8. The reports give very little information on what comparators were selected, and how this was done. This may in part be due to time constraints, but there is also the very real problem of maintaining confidentiality in respect of comparators and the information they supply. Nevertheless this has not prevented the Pay Research Unit from publishing a good deal of information. If comparisons are to command public confidence, they must be seen to be fair. Ministers may therefore wish to impress this on the Commission, and suggest that it should in future seek to give more information, at least to satisfy outsiders that a balanced and representative selection of comparators has been achieved.

9. In respect of the current reports, we have no direct means of assessing whether the Commission ^{used} ~~do~~ an adequate geographical spread, or drew a reasonable balance between large and small employers. However, the selection of job comparisons was carried out for the Commission by the PRU using its normal method of working, and their method of selection was recently examined and endorsed by the independent PRU Board in the Civil Service pay context. Further we understand that the employer members of the Commission were exercised on precisely this point, and spent several days with those who carried out the selection satisfying themselves that the selection was a fair and adequate one.

10. The Commission followed the lead of the 1953-55 Royal Commission on Civil Service Pay (and indeed continuing PRU practice) in seeking comparisons with 'good' employers - i.e. those who provide good conditions of service, though not necessarily the highest pay rates (paras 69-70). This however did not lead the Commission, in spite of strong union arguments to the contrary, to reject comparison with non-unionised firms or with wages council rates. There is no

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suggestion that following this definition has in any way biased upwards the selection of employers, and thus led the Commission to recommend higher rates: indeed, Civil Service experience is that there is no clear correlation between pay levels and good or bad, or indeed large or small, employers. Any deliberate change in this definition to worsen the comparators would be extremely expensive in the case of the Civil Service: it would create strong pressures for pay to be based, not on the median (which the Commission, following Civil Service practice, has adopted without question) but on the upper quartile.

Basic pay or overall earnings?

11. The Commission based its recommendations on guaranteed pay for the standard (40 hour) working week, excluding overtime, incentive payments, shift pay etc. (para 72). It can be argued that this means the comparisons fail to reflect the total earning power of reference group job as compared with other jobs, and that they should; regular opportunities e.g. for overtime earnings may well be seen as a superior condition of service. But any other approach was impossible in the timescale, even if the Commission had thought it desirable, and there is certainly no suggestion that this approach has produced the wrong figures: indeed the same approach was used by the Official Side in the recent negotiations on the pay of the industrial Civil Service. So there seems no objection to this approach, provided that

- the relative levels of premia for overtime, shift work etc. and of incentive payments are taken into account in the comparisons (see para. 16 below)
- earnings in the reference groups are not inflated by 'bogus' overtime, loose incentive schemes etc. not found among the comparators. This is management's responsibility. The Commission tried to help with suggestions of a pruning of incentive schemes and an

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overhaul of practices designed to manufacture overtime.

If the Commission is to have a continuing role as a fact-finding body, with the actual determination of pay a matter for negotiation between the parties, then it would be for the parties to take account of additional earnings opportunities in negotiations on the basis of the Commission's report on the facts on actual earnings.

12. For part-timers, which constitute 63% of the LA manuals, the Commission accepted the existing practice, negotiated between management and unions, of paying the part-timers pro rata of the full-time rates. It did not question whether this method was appropriate - perhaps in part due to the undoubted difficulty of finding adequate part-timers elsewhere to serve as comparators.

Relativities between grades and the 'trend line'

13. In the case of LA manuals and NHS ancillaries grades 1-6, the Commission took the median rates of comparators and then drew a 'trend line' through the results (paras. 75 and 83). Its pay recommendations were drawn from the trend lines. There were not enough comparisons for a trend line for ancillaries grades 7-18 and the recommendation for them was based on the result for the top grade of LA manuals; similarly for university manuals no trend line was drawn and the recommendations were based on those for LA manuals (para. 87-88). For ambulancemen, with only 3 grades, recommendations were based directly on the comparisons and no trend line was drawn.

14. With the limited number of observations available, the fitting of a trend line is a somewhat subjective exercise. The Commission chose trend lines with a rather shallow angle, with the effect of raising the increases to lower grades (which are nevertheless still much the lowest) and lessening those to higher grades. It

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may be noted, too, that most of the observations from job-for-job comparisons lie below the trend lines.

15. The Commission's use of trend lines follows from its conclusion (para. 35) that it lacked sufficient evidence to make recommendations on internal relativities and grading structures. The trend line is a device for adjusting the overall level of pay without disrupting the grading structure. Lack of evidence is also a justification for not basing the recommendations for ancillaries grades 7-18 and university manuals directly on comparisons. Given the lack of time it is difficult to criticise the Commission for taking this approach: but future references should aim to allow the Commission sufficient time to draw a proper sample of comparisons for each grade and make recommendations based on these, and to make any suggestions it thought sensible about the consequences for the grading structure. Necessary adjustments to the grading structure might then be a matter for negotiation between the parties in the light of the Commission's report, and within the proper comparability cost.

Non-pay conditions of service

16. On pensions, the Commission reduced its recommendations to take account of the reference groups' more favourable arrangements, by amounts calculated by the Government Actuary (see further paragraph 17a below). The Commission provided considerable detail on other non-pay benefits (Appendix 8): where as in the case of shift premia and sick pay arrangements, significant differences between the reference groups and the comparators emerged, the Commission noted that the two factors operated in different directions and concluded that they more or less cancelled each other out. Although there is no reason to think this conclusion wrong, such approximations give a clear impression of being arbitrary and are not good practice, and although this is a difficult area, there is room for much more rigorous evaluation of non-pay conditions other than pensions. Expertise in this
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field has been built up gradually over the years in the non-industrial Civil Service pay negotiations, and is the best guidance we have.

17. On two points the question of further studies arises:-

(a) Pensions. While following the Government Actuary's calculation in making deductions (ranging up to 4.5%) for pension arrangements, the Commission was not entirely satisfied with his method of evaluation and suggested (Appendix 7, para 12) an examination of the best way of allowing for differences in pension provision (recognising that it was not itself qualified to judge). Professor Clegg may take this up more directly with the Government. Similar doubts have been expressed about the deductions from Civil Service pay to take account of pension arrangements and the problem is being pursued in that context.

(b) Job security. The Commission said (para. 58) that for job security to be allowed for, it would be necessary both to test differences in security, and to quantify them so that an appropriate adjustment can be made; and commented that no method of quantification had been suggested to it, nor so far used in any other form of pay enquiry. Nevertheless it is an important factor, and the Government would like to see job security taken into account, at least by the exercise of judgement if no precise basis of quantification can be found. Ministers may wish to invite the Commission to consider how this is best done.

Efficiency

18. The Commission acknowledged the importance of comparing relative levels of efficiency (para. 60). It considered that a

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proper comparison would have required activity sampling and work measurement on a very large scale, and that the question of evaluation would have remained; but it stated that it intended to devote more attention to this as soon as time permits. The Government might encourage the Commission to do this, but it would be wrong to think there are any easy answers. Apart from anything else, there is the very real practical problem that comparators are unlikely to agree to the extensive activity sampling and work measurement that would be necessary to establish comparative levels of efficiency - because of cost, disruptive effect, union resistance. The Commission has already in these reports drawn attention in pretty blunt terms to examples of inefficiency it has discovered, but this, though helpful so far as it goes, may not be strong enough to solve the problem. Perhaps the most promising approach for the moment is to encourage the Commission

to look particularly for prima facie examples of inefficiency, to investigate those it finds, and where there is a clear-cut case, to draw attention to it and make its pay recommendations contingent upon the necessary improvements in efficiency. This of course should not prevent the Commission from going on, as it proposes, to seek a more rigorous solution.

Labour supply and cost

19. The Commission (para 59) accepted the CBI view that evidence on labour supply should be used not to adjust comparisons but to check on their acceptability - i.e. if there is a shortage in comparator groups but not in the reference group, the validity of the comparison must be in doubt. But it is not clear that the Commission in fact applied this check, even though the manuals' employers argued that they could generally recruit and retain staff without serious difficulty. This important subject is discussed further in the covering note.

20. In making its recommendations, the Commission sought to identify their total cost, but did not relate this to the

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employers' ability to pay. Their terms of reference did not require them to do so.

Reactions of employers

21. The general reaction of the employers to the report has been favourable. The NHS employers have particularly welcomed the Commission's widening of differentials and relatively low increases for the lowest paid as showing an appreciation of the recruitment and pay structure realities within the NHS. The endorsement by the Commission of points put to them by management about restrictive practices was also welcome. Employers appreciated the fact that the Commission had honestly drawn attention to the problems caused by shortage of time, and had pointed out the need for further work where necessary. The reaction of the local authority employers was less enthusiastic: they considered the range of benchmark jobs inadequate (a point which the Commission readily accepts as being due to shortage of time) and would have preferred the Commission to have given them a stronger negotiating hand to tackle inefficient bonus schemes e.g. by recommending that the increase in basic rates should not feed through into bonus payments. It must however be remembered that the local authority employers were reluctant to go to the Commission in the first place, and have seen it as a threat to their negotiating freedom: their comments must be viewed in this context.

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STANDING COMMISSION ON PAY COMPARABILITY

DRAFT GOVERNMENT EVIDENCE

The Government much appreciates the time and effort that the Commission and its staff have put into the first reports. These raise a number of issues for the future. The Government therefore offers the following comments on some of these issues in the hope that the Commission will find them helpful in carrying out work on its outstanding references.

Nature of Comparisons

2. The Government fully agrees with the Commission's view (Report I, paragraph 46) that job-for-job comparison is the most satisfactory method of carrying out comparisons where there is an adequate range of outside comparators. It welcomes the Commission's view (I paragraphs 39-45) that indexation is not a satisfactory means of determining pay on a continuing basis, nor an argument for retaining a given place in the pay hierarchy. It also welcomes the view, implicit in the Commission's arguments, that historical comparisons are not relevant as a basis for determining current pay levels, save in the unlikely event that it can be shown both that the historic pay level was entirely correct at the time it was set, and that there have been no substantive changes subsequently that would require the pay relationship implicit in that historic level to be changed.

3. The Commission is clearly well aware of the difficulties and potential dangers of comparison by factor analysis. The Government agrees with the Commission's view that it should only be used where job-for-job comparison is not possible, but that there will be a number of cases where its use is inevitable. The Government therefore welcomes the Commission's concern (I paragraph 51) to ensure that factor comparisons are carried out by the best available methods, designed wherever possible to fit the reference in hand, and hopes the Commission will find it possible to press ahead with its review and validation of existing methods, and the designing where appropriate of new ones.

4. The Commission recognises that the adequacy of job-for-job comparisons depends on having both sufficient 'benchmark' jobs and sufficient comparators, and draws attention to problems on both these fronts (I paragraphs 23 and 74). The former problem was clearly due to lack of time (I paragraph 23): the same was presumably true of the latter, where shortage of time doubtless limited field-work and forced reliance upon information already available to the Pay Research Unit. The Government is sure that it is the Commission's intention to seek to remedy both these problems in investigating subsequent references where more time is available.

5. One reason in particular for this should be mentioned. The Government is concerned that the Commission, rather than relying on specific results of job comparisons, used a 'trend line' (I paragraph 75). The Government understands that, in the context of its first reports, the Commission found this approach necessary because of its justifiable doubts about the coverage of the available evidence, and about the validity of particular results. But this technique has the effect, as the Commission recognises, of imposing a pattern of recommendations rather different from that shown by particular results. Further, because of the absence of adequate data in some areas, the Commission was forced (I paragraphs 85-88) to relate its recommendations to past pay relationships rather than base them on current comparisons. The Government very much hopes that the Commission will find it possible to avoid such expedients in the future, and rely throughout on up-to-date comparisons, even though this may entail the negotiation of substantial alterations in existing pay structures.

Selection of comparators

6. The Government fully endorses the Commission's rejection (paragraph 68) of comparators whose pay is determined by comparison on a regular and systematic basis: this is clearly essential in order to avoid circularity. It shares the Commission's doubts over the inclusion of other comparators from the public sector, though it would not seek to formulate any rules at this stage. It may for instance be that further comparators should be excluded - for example because their pay rates bear no relation to the impact of

market forces. The Government therefore welcomes the Commission's proposal to give further consideration to this problem.

7. The Government notes that the first reports give little information on what comparators were selected, and how this was done. Clearly there are limitations imposed by the need to maintain confidentiality of information obtained from particular comparators, and the decision must in the last resort be one for the Commission. But if comparisons are to command public confidence, they must be seen to be fair. The Government is sure that the Commission is acutely aware of this, and hopes that it may in future reports be able to give more information, at least to satisfy outsiders that a balanced and representative selection of comparators has been achieved.

Efficiency

8. The Government fully endorses the Commission's view (I paragraph 60) of the importance of comparing relative levels of efficiency: otherwise the comparisons will not be true ones, and will not justify the equation of pay levels. It therefore welcomes the Commission's intention to study the problem. Meanwhile the Commission has already drawn attention in its first reports to some examples of inefficiency it has discovered, and made suggestions to the parties about them. The Government hopes that the Commission will continue this practice in the future, and indeed carry it further by looking particularly during its inquiries for prima facie examples of inefficiency. The Commission could then investigate those it finds, and where there is a clear-cut case, draw attention to it and make its recommendations contingent upon the necessary improvements in efficiency.

Non-Pay Conditions of Service

9. The Government is concerned that, no doubt due to lack of time, specific non-pay benefits received less full treatment than might have been expected. The cancelling out between shift premia and sick pay is, as the Commission recognises (I paragraphs 81 and 84) at best an approximation. The Government hopes that, in subsequent references, the Commission will cover this area more fully: in doing so, it may wish to consider drawing on the methodology which

has been built up over the years for Civil Service pay negotiations.

10. The Government is particularly concerned to see that adequate account is taken in future comparisons of job security and similar factors, notoriously difficult to quantify but likely to have an important bearing on the relative attractiveness of jobs. It fully recognises the difficulties to which the Commission (I paragraph 58) draws attention, but hopes that the Commission will study possible ways of achieving this. Clearly it would be preferable to produce a method depending upon quantification. But if the Commission were to conclude after study that no precise basis of quantification could be found, the Government hopes that it would nevertheless be possible for the Commission to exercise its judgment so as to take into account these important factors.

Labour Supply

11. The Government welcomes the Commission's acceptance of the CBI view that evidence on labour supply should be used to check the acceptability of the comparisons that emerge for its work. The Government believes that this is the minimum that must be done to ensure that comparability studies do not produce results unjustified by labour market considerations, and hopes that the Commission will seek to apply this check fully in its work on outstanding references.

Conclusion

12. The Government fully recognises that in making the above points, it is asking much of the Commission. Although the Commission has already drawn attention to many of them, it recognised, as does the Government, that issues such as taking account of relative efficiency, job security and labour supply raise difficult theoretical and practical issues. Nevertheless, the Government believes that the Commission must strive to tackle these problems if its work is to have the full confidence of the general public. It is sure that the Commission is fully aware of this.