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CABINET

STANDING COMMISSION ON PAY COMPARABILITY

Memorandum by the Chancellor of the Exchequer and
the Secretary of State for Employment

1. The Government need quickly to determine their attitude towards the Standing Commission on Pay Comparability, both generally as regards its continued existence and the work with which it was charged by the previous Administration, and in relation to one or two outstanding negotiations, notably that of the pay of teachers.
2. We attach at Annex A a note by officials which sets out the basis on which the Commission was established, its membership under the chairmanship of Professor Clegg, the cases which had been, or were about to be, referred to it.
3. It seems to us that there is little choice but to accept the existence of the Clegg Commission for the purpose of dealing with those cases which have already been formally referred to it. If the Government were to cancel the arrangements which have already been made, the important and so recently troublesome cases of employees in local authorities and the Health Service, including nurses, would inevitably be reopened, and there is no alternative basis for fresh negotiations which would avoid a great deal of trouble.
4. We shall all want to reserve judgment on the longer-term future of the Commission until we can review the results of its immediate work. On this basis, there are three further questions to be considered:
 - a. New references: the decision whether or not to admit any further references rests with the Government. The fact that the Commission already has work which will occupy it until the end of 1979 may deter some potential demands anyway. There are, however, two relatively minor cases, local authority craftsmen and British Waterways Board staff, which might well be added, since this had effectively been agreed between the parties and only the timing of the Election prevented formal reference. We could also add teachers,

as part of the inheritance of immediate current negotiations, if we wished to choose this way of dealing with them, and on terms which were otherwise satisfactory. Looking ahead, the one important additional case on which we might be pressed is the large and varied group of local authority white-collar staff. But no decision on this is needed yet.

b. Terms of reference and membership: the terms of reference of cases already referred are less than satisfactory, but they were agreed with the relevant parties and an attempt to change them would risk reopening the basic negotiations with the employees affected. For similar reasons, we would think it a mistake to interfere with the existing membership, but would propose to keep open the option of strengthening the Commission with one or two additional members, particularly to give stronger representation of private sector management.

c. Evidence: the Government is free to give and publish both general and particular evidence to the Commission, but has not yet done so. Officials have, however, been working on possible general evidence, and we attach at Annex B a draft which has been shown informally to Professor Clegg. This covers important points which we would want the Commission to take into account. The existing presentation could be improved, and more emphasis given to supply and demand considerations. Subject to amendments on these lines, however, we would see great merit in putting general evidence forward, and doing so publicly. We do not think it would prove to be an embarrassing commitment if subsequently we found the results of the Commission's work unsatisfactory. (We understand that the Confederation of British Industry plan to put general evidence to the Commission, and that its general tenor and coverage is closely parallel to that of the draft Government evidence.)

CONCLUSIONS

5. We invite our colleagues to agree:
 - a. that the Standing Commission on Pay Comparability should be allowed to complete the work with which it has already been charged on the basis previously arranged.
 - b. That general Government evidence should be submitted to the Commission and published as soon as convenient, in a suitably amended version of the draft prepared by officials.

c. That the references to the Commission already agreed between the parties for local authority craftsmen and British Waterways Board staff (paragraph 4a. above) should now be made, subject to the Ministers concerned being satisfied with the specific terms of reference; and that the question of referring teachers should be decided on its merits in the light of the separate Ministerial discussions of that subject.

G H
J P

Treasury Chambers

11 May 1979

THE STANDING COMMISSION ON PAY COMPARABILITY

Note by Officials

1. This note describes the origins, membership and terms of reference of the Standing Commission on Pay Comparability.

Origins

2. The Commission was established as part of a negotiation with 4 unions representing manual workers in local authorities, National Health Service ancillaries and ambulancemen. The previous Government was guided by two main considerations: first, the belief that outside appraisal of certain public service pay claims, based on comparability, already firmly established in a number of individual cases, would have to be extended to other groups; and the further belief that it would be best to avoid ad hoc enquiries by separate bodies (which on past experience tend to develop a "client bias") and seek to develop a single and relatively systematic framework.

Terms of Reference - General

3. There is no single document which contains the general terms of reference of the Standing Commission (specific terms of reference are devised in agreement with the parties for each of the references made to it). Nevertheless there are three sources of general guidance to the Commission: the initial statement by Mr Callaghan on 16 January when he indicated the Government's willingness to consider comparability studies as a solution in public service pay settlements; Mr Callaghan's statement to the House on 7 March announcing the setting up of the Standing Commission; and the letters of appointment sent to the individual members of the Standing Commission.

4. The key passage from the 16 January statement is -

"Some public service groups already make use of comparisons with rewards paid to employees in the private sector in their negotiations. The Government will be ready to see in some additional areas of the public sector, other than those engaged in trading, where there is a different set of negotiations, a greater role for comparability in determining pay. The guiding principle should be the achievement of comparable pay for comparable work and comparable effort. Where the employers and the unions concerned make a request, therefore, the Government will be prepared to agree to an investigation into the possibility of establishing, for particular groups of workers, acceptable forms of comparison with terms and conditions for other comparable work."

5. The key passage from the statement of 7 March is -

"In my speech to the House on 16 January I commented on the present method of fixing pay and conditions in some areas of the public service and expressed the Government's readiness to see a greater role for measuring their pay and conditions by making comparisons with pay for comparable work and effort in other occupations where both sides so request... The Government have a responsibility both to be fair to public service employees and to avoid arrangements which could in themselves prove inflationary. Comparability studies must therefore be made in a systematic and thorough manner, taking all relevant factors into account. A Standing Commission on Pay Comparability is accordingly being set up for the Government to examine the terms and conditions of employment of particular groups of workers referred to it by the Government, in agreement with the employers and unions concerned, and to report in each case on the possibility of establishing acceptable bases of comparison, including comparison with terms and conditions for other comparable work and of maintaining appropriate internal relativities. Any further role for the Commission in each case will be a matter for agreement between the Government and the parties."

6. The letters of appointment sent to the members of the Standing Commission were repeated, but did not further amplify the main points in Mr Callaghan's two statements.

7. Mr Callaghan also confirmed in the House of Commons, on 20 February that the criteria for manning levels, job security and inflation-proof pensions would be among the criteria to be taken into account in comparability studies.

8. The Standing Commission is not free-standing from Government. Mr Callaghan made clear in his statement of 7 March that it is for the Government to refer individual cases to the Commission, in agreement with the parties. There is no right of access without Government approval; and there is no question of the Commission making awards unless this is asked for in the terms of reference of a specific case. The Commission reports to the Government in each case.

Terms of Reference - Individual Cases

9. Nine separate groups of public service workers have already been referred to the Standing Commission. They are: local authority manuals; NHS ancillary staff; ambulancemen; university manuals; university technicians; nurses; manual air traffic workers; professions supplementary to medicine; and ambulance officers. In all of these cases the unions and employers concerned opted for the Commission.

recommend actual pay levels on this occasion (not necessarily in the future) and the employers, the unions and the Government were committed to accepting the results. In addition there are six groups where the previous Government had approved pay offers which included a reference to the Commission but where agreement was not reached in time for actual references to be made before the Election. These groups were: local authority craftsmen; British Waterway Board staff; university teachers; schoolteachers (England and Wales); teachers in central institutions in Scotland; and teachers in colleges of education in Scotland. The offer for the first two of those groups included asking the Standing Commission to recommend actual pay levels. Discussion with the other groups had not reached this point though the draft terms of reference which the English and Welsh schoolteachers and their employers (with Government dissenting) had agreed immediately prior to the Election did not seek recommendations on pay levels, ie the Commission's work was seen by them as a basis for further negotiation.

10. The terms of reference for these various groups differ but those agreed for the four original clients (local authority manuals, NHS ancillaries, ambulancemen and university manuals) can be regarded as the basic model. The text agreed for these groups is at Appendix 1. They referred to "terms and conditions for comparable work" but did not further elaborate the comparability process. The envisaged process can be divided into three parts; a study of the feasibility of making use of comparisons; the carrying out of comparisons; and the implementation of the comparisons. In the earliest cases both sides said they would accept the outcome of the Commission's studies as a pay award. It was however always envisaged that, where the parties preferred, the findings of the Commission should be used as the basis of separate negotiations (as in the Civil Service PRU system). It is known that Professor Clegg hopes that the Commission will be able progressively to move away from an award function and to concentrate more on providing relevant data to the parties.

Membership

11. The present membership of the Standing Commission is -

Professor Hugh Clegg (Chairman) (Professor of Industrial Relations,
Warwick University)

Mr Peter Gibson (ex-Director of Personnel, BP Oil Ltd)

Sir William Ryland	(ex-Chairman of the Post Office)
Mr Harry Urwin	(TGWU)
Sir Leslie Williams	(ex-Secretary General of the Civil Service Staff Side)
Professor Joan Mitchell	(Professor of Political Economy, Nottingham University)

Machinery

12. The Standing Commission is served by the Staff of the Office Manpower Economics (who also service the Armed Forces, Doctors and Dentists and Top Salaries Review Bodies) and draw on the staff and expertise of the Civil Service Pay Research Unit. It also uses outside consultants as necessary, as is also the practice with the Review Bodies.

Evidence to the Commission

13. All parties (including where appropriate the Government) are free to submit evidence to the Commission, and it must be assumed that any such evidence may become public. The Commission have indicated that they welcome exchange of evidence among the parties.

TERMS OF REFERENCE FOR LOCAL AUTHORITY MANUALS, ETC

The Government wishes to encourage negotiators to consider comparability exercises in the public services and the Government will be initiating further talks to this end. The Government will now establish an independent investigation, a Standing Commission, to examine the terms and conditions of workers in the public services and to report on the possibility of establishing acceptable bases of comparison, including comparison with terms and conditions for other comparable work, and of maintaining appropriate internal relativities. The first groups to be investigated will be local authority manual workers, NHS ancillaries, ambulancemen and university manual workers.

In particular the investigation should -

- i. assess the appropriate form of comparisons with terms and conditions in other sections of the economy, and identify relevant comparators;
- ii. make suggestions on how such comparisons should be carried out and on the resources required for carrying them out;
- iii. make suggestions as to how the comparisons should be made available to the relevant negotiators within the local authorities/NHS/universities;
- iv. consult the parties to the agreement on how the results of the comparisons of terms and conditions can be embodied in the relevant collective agreements;
- v. following i. to iv. make recommendations which the Government and the trade unions have undertaken to accept. In the case of the local authorities the Government undertakes to provide its share of the Rate Support Grant to enable them to implement the recommendation.

STANDING COMMISSION ON COMPARABILITY
GOVERNMENT GENERAL EVIDENCE

1. The Government offers this general evidence to the Standing Commission as it starts its work on the first references made to it. It may be supplemented from time to time by other background material, and the Government may wish to submit particular evidence in relation to individual references.

2. The Commission's task in each case will be to examine the feasibility of the comparability approach. Subject to feasibility, it will then carry out a comparability study. Paragraphs 3-8 below set out some general considerations which the Government believes are relevant to these aspects of its work. In some cases the Commission may also be asked, with the agreement of the parties concerned, to recommend levels of pay in the light of its comparability studies. This will be its task, for example, in relation to the first four groups referred to it. Paragraphs 9-17 below set out considerations which the Government believes are relevant to the Commission's work when asked to recommend levels of pay.

A. CONSIDERATIONS RELEVANT IN ALL CASES

The Comparability Approach

3. The use of disciplined comparability as a basis for determining pay for the non-trading public services is a response to the absence of a marketable output against which a market wage can be determined. In the absence of such a market test there is a need for a permanent and rational system which produces fair results, both from the point of view of workers and from that of the tax payer and rate payer. Workers in the group concerned and in other groups need to be satisfied that the resulting level of pay is fair and reasonable in the circumstances of the group. The public which meets the bill must be given the best value for their money, which means that rates of pay should be at such a level as to result in a service neither too elaborate nor inadequate. These requirements can best be met by a system of pay determination which produces rates of pay for public service workers broadly consistent with those enjoyed by workers doing comparable work with comparable effort outside the public services.

4. The technique of rigorous job-for-job comparison is by far the most satisfactory basis for such a system. It carries with it the necessary discipline to reassure the workers concerned and the public generally that its results are fair. By focusing on the middle of the range of pay levels of the comparators it can avoid the twin dangers of producing pay levels so high that they attract an undue proportion of the available labour or so low that the public service are unable to attract a fair share of it. It will be important in presenting the results to bring out that there are a variety of circumstances, including local labour market factors, which may justify a range of pay among the comparators; otherwise there may be a risk of consequential claims from those on lower rates in the private sector and a resulting tendency for the whole range to move upwards. (This paper returns to the question of labour supply in paragraphs 9-12 below). In seeking to apply the technique of job-for-job comparison it may be found that not all grades in a single pay structure, and indeed not all occupations, have external comparators. However, provided comparators for a sufficient number of benchmark grades can be found, the remainder can be dealt with by fixing inter-relativities. Where sufficient comparators cannot be identified it may be necessary to use the technique of factorial comparison. This involves identifying the salient factors which go to make up a job, and then seeking comparator jobs with similar factors. Whilst not as satisfactory as job-for-job comparison, because its results are not as precise, this technique provides a reasonable proxy.

5. It is sometimes argued that a fixed link to the Index of Average Earnings would be a satisfactory method of determining public service pay. This approach has crucial shortcomings. It provides no criterion for determining the appropriate pay of public service jobs or for enabling the Government to defend the cost to the tax payer. The concept of holding a place in the earnings distribution is quite foreign to the comparability approach, the principle of which is to hold a position relative to the level with comparable jobs, not to hold a position relative to the level of the economy. It would most probably bring about one of the dangers mentioned in paragraph 4. The result would be to impose a damaging

rigidity on the economy, impairing its ability to adjust to real economic developments. Comparability, on the other hand, permits the relative position of public service jobs to change in line with that of their comparators. (There is, however, less objection to using the movement in an appropriate index to up-date over a short period levels of pay indicated by surveys carried out some months before the operative date of recommendations.)

Conducting Job-for-job Comparisons

6 In the identification of analogues, it is important to take the most representative and widest selection of analogues. This means that the selection should not be based solely or to an undue extent on the best outside employers and that it should take account of employers of different sizes and not be weighted too much towards the largest. It is also most important to avoid circular comparisons, ie two or more groups forming a closed chain, each providing analogues for the other's pay. Constant care is needed on this score, and it is desirable that analogues should be sought outside the groups in the public services whose pay is determined by comparability methods.

7 The assessment of the overall level of rewards received by each of the identified analogues should include all forms of remuneration (basic pay, bonuses, overtime, incremental scales) and other conditions of service (including hours of work, amount of annual leave, the provision of pensions, free meals, subsidised loans, and the provision of free or cheap cars). Total receipts, in terms of money and benefits in kind - and the hours of work required to obtain them - can be measured arithmetically. Other features of the comparable jobs (responsibility, satisfaction, security, liability to work unsocial hours, willingness to accept change and inconvenience) are less easy to quantify. They are, nevertheless, important aspects of employment and should be included

8 Similar considerations to those outlined in the two preceding paragraphs should apply as far as is practicable in the case of factorial comparisons.

B CONSIDERATIONS RELEVANT IN RECOMMENDING PAY LEVELS

Labour Market Considerations

9 A shortage of labour in a public service occupation does not necessarily indicate that the pay being offered is too low. There may be a general shortage of labour available for the type of job in the economy, in which case care must be taken in setting the public service level not to pre-empt too large a share of the available supply by effectively becoming a market leader. If the level is set too high, it would set off a chain of leap-frogging awards by other employers as they sought to keep their place in the labour market.

10 Similarly, if pay rates are established at too high a relative level workers may be attracted who are over-qualified for the job concerned. This would be a waste of the nation's resources, preventing the optimum use of qualified labour. The Government expressed its concern on this score in a report on "Some Wider Implications of the Industrial Strategy" which was presented to the NEDC in December 1977. There should be no question of paying more for qualifications whether or not they are necessary for the job.

11 Another possible explanation of shortage in the public service is that the established complement for the occupation concerned is too high. It may therefore be necessary to have regard to comparative manning levels in the jobs being compared, as a measure of comparability of effort.

12 What is relevant to a comparability study, therefore, is the relative shortage/surplus of labour in a public service compared with the position generally for comparable work. Obviously there may be temporary fluctuations due to sudden expansion or contraction of the numbers required, but if the relative supply position remains out of line for any length of time there must be a presumption that pay and/or other conditions are not truly comparable and some reassessment is called for.

13 In certain kinds of employment there may be strong tendencies for local labour markets to operate at pay levels which differ considerably reflecting many different local factors. In such circumstances the comparison exercise should be careful to avoid conclusions for national rates of pay based on untypical areas.

C RELEVANCE OF OTHER FACTORS

Levels of Price Inflation

14 Price inflation affects the private and public sectors equally, and is therefore, in the Government's view not a relevant consideration in recommending levels of pay following an exercise of comparison between the two sectors.

"Going Rate" of Current Wage Increases

15 The current rate of increase in pay settlements in the economy as a whole is irrelevant to the setting of appropriate levels of pay based on the job-for-job comparison process. To allow pay settlements to be influenced by ideas of a going rate would be a loose form of indexation, which could bring with it the disadvantages outlined in paragraph 5 above.

Low Pay

16 In the Government's view the Commission's task is to establish, for each public-service group referred to them, what are the comparable rates of pay in other sections of the economy for comparable work and comparable effort, taking account of other relevant conditions, and to recommend accordingly. Questions of general income distribution and re-distribution are the subject of wider Government and fiscal policies which must apply to the whole economy. The problem of low pay cannot be dealt with for particular public service groups in isolation, but must be tackled by other means across the private and public sectors generally. Comparability then comes into play to ensure that improvements in low pay generally are properly reflected in the public services.

Cost and Staging

17. Problems will arise if it transpires that the pay levels established according to the criteria above are widely different in direction from the present levels. If they are higher, this will involve additional costs. The public purse is not bottomless: the Government needs to maintain a fiscal balance consistent with its general economic and monetary policies. Large increases in the public sector pay bill may endanger those policies and in particular the Government's objective, agreed with the TUC, to reduce the rate of inflation to 5 per cent within 3 years. The Government may need to stage implementation taking the economic effects into account. The principle of staging has been accepted by both sides and the Government in relation to the references already agreed. It may also be necessary to seek savings in public expenditure programmes to help meet the cost of implementation. Similarly if the indicated pay levels are below current levels the Government would naturally stage the process of convergence through a period of "mark time", during which a decline in real income would need to be accepted.