



Kevin Bol

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Ref. A01401

PRIME MINISTER

Public Service Pay Negotiating Machinery

(E(80) 8)

BACKGROUND

This paper by the Chancellor explores the scope for decentralising pay negotiations in the public services (excluding the nationalised industries). It fulfils a remit given by Cabinet last summer when it was considering the pay of industrial civil servants. The report attached to the Chancellor's paper was prepared by officials under Treasury chairmanship.

2. The report lists the basic objectives of any decentralisation. The most important aims are:-

- (a) To make the maximum use of cash limit controls as a restraint on wage increases, by making the management unit responsible for pay bargaining the same as the unit to which the financial controls apply.
- (b) To make pay bargaining more responsive to the local labour market by allowing greater variation in wage levels between different management units.

3. The paper also points out a number of risks in decentralisation. The main one is that unions would exploit the opportunities it provided for leap-frogging - i. e. if one local unit conceded a higher than average rate, then unions would use this as a floor to seek to bid up the rates in their units on the same organisation. And linked with this are doubts about the capacity of local management, e. g. in the NHS, to bargain toughly when such bargaining is largely outside their experience.

4. Officials in most Departments attached a good deal of importance to these risks. As a result most Departments' officials are distinctly uneasy about decentralisation, with only the Treasury really in favour. This is despite the Ministry of Defence having earlier argued that the existing system made it impossible for them to compete for scarce labour in some of their industrial establishments (a situation where their motive is to pay more not less).

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HANDLING

5. You will want to ask the Chancellor to introduce his paper and then seek comments both from Mr. Prior and Sir Keith Joseph, who have a general interest, and from the Ministers responsible for the large blocks of public service employees covered in the paper, (Mr. Heseltine for local authorities, Mr. Jenkin for the NHS, Mr. Carlisle for teachers, Mr. Channon and Mr. Pym for the Civil Service and Mr. Younger for Scotland).

6. You might then like to go through the specific proposals in the paper:

(a) Local authorities

The paper proposes (in paragraph 10a.) terms of reference for a study of the scope for decentralisation of pay bargaining in local authorities. Such a study would require the co-operation of the local authority associations, as the Government cannot compel them to change their arrangements. Local authorities have the advantage of a system of financial control which is already decentralised but have been moving towards a more centralised pay bargaining system in recent years. How far is it possible to reverse the tide? Would local authorities see such a study as a distraction from what they regarded as more immediate problems? Should they be asked for their views before any study is launched?

(b) National Health Service

The paper does not advocate full-scale decentralisation - on the grounds that the imminent major reorganisation of the NHS rules it out as a practical possibility at present. It does however report existing consideration of the scope for a limited increase in the flexibility of local management, especially over grading of posts. Does Mr. Jenkin have any comments?

(c) Non-industrial Civil Service

There is generally recognised to be a problem in the pay of some grades - a good example is personal secretaries: because there is one national pay-scale (modified only to a limited extent by London weighting) the Government tends to pay below the market in London but above it in

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many other parts of the country. The paper reports that the Civil Service Department are already examining the scope for allowing greater variation in pay for junior grades to reflect local pay rates. The most obvious mechanism would be to collect and analyse PRU data on a regional basis and seek to evolve regionally differentiated rates of pay in negotiation. Does Mr. Channon support this? And is there scope for action in time for this year's pay negotiations (probably not)? Or should preparations be set in hand with a view to action in the new PRU cycle due to start this summer?

(d) Industrial Civil Service

The paper reports:-

- (i) That MOD and CSD Ministers have already agreed to examine, for MOD industrials as a whole, the possibility of a degree of decentralisation in relation to productivity bargaining and allowances. The report suggests that Ministers may not want to go further until this examination is completed. Is this a correct interpretation of Ministers' views? Mr. Pym and Mr. Channon will wish to comment.
- (ii) That there is scope for a study of the possibility of decentralisation in HMSO, due to become a trading fund in April. Does Mr. Channon agree? In commenting on this issue Mr. Channon may raise a separate issue by seeking Ministerial endorsement for a comparability study to determine pay among HMSO staff. This proposal is due to be discussed by E(EA) next week and you might suggest that a decision should be left to E(EA) at least in the first instance.

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Sir Keith Joseph has separately proposed - in his letter of 11th February to the Chancellor - that there should be a more radical review of the scope for the disposal of Government Industrial Establishments to the private sector - he mentions the Royal Ordnance Factories and the Royal Mint as examples. He argues that one of the benefits of this

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course would be that it would achieve a greater degree of financial discipline and decentralisation into pay bargaining. Most Ministers will probably not have had time to give this letter full consideration. You might suggest that it raises important issues, which could best be discussed through Sir Keith Joseph submitting a paper to E(DL) - the Group under the Chancellor on disposal of public sector assets. In other words it can be kept quite separate from the further work proposed in the Chancellor's paper on decentralisation within the public services.

CONCLUSIONS

7. You will want to record conclusions on each of the main candidates for studies of decentralisation covered above. Where follow-up action is agreed, you may like to give a fairly clear indication of the timescale for reporting back by individual Ministers, to avoid slippage:-

(a) Local authorities

Is it agreed that local authority associations should be consulted about a study? If so Mr. Heseltine and Mr. Younger could be asked to take soundings and report back in, say, two months.

(b) NHS

Is it agreed that consideration of full-scale decentralisation should be put off until the NHS reorganisation is out of the way? Should Mr. Jenkin be asked to report progress on the more limited study he already has in hand - again perhaps in two months?

(c) Non-industrial Civil Service

Is there any guidance the Committee wishes to give Mr. Channon on his consideration of the scope for geographical pay variations in non-mobile grades? When should he report progress - in one month or two?

(d) Industrial Civil Service

How soon can Mr. Pym and Mr. Channon report back on the limited exercise (i. e. on productivity bargaining and allowances) they are already considering? Do Ministers want them to go further and to study full-scale decentralisation in this area?

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(e) HMSO

As this is due to be considered by E(EA) next week you might simply ask for the decision to be reported to you after that meeting.

(f) Disposals of Government Industrial Establishments to the private sector

Sir Keith Joseph might be asked to submit a paper to E(DL).

J. Knight
PP. (Robert Armstrong)

12th February, 1980