

cc Mr. Wilson
Mr. Bidley
Mr. Dyde

Prime Minister

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Ref. A09494

PRIME MINISTER

There are big issues here. I suggest we ask the Chancellor (not Mr. Prior) for an early paper on the future of comparability to be considered by the Economic Strategy Committee under your chairmanship. The paper could cover the points at x and y in paras 10 and 11. Agree?

Teachers' Pay

T.L. 2/15

Flag A

Your comments on the note I gave you on teachers' pay and the related question of comparability, the Standing Commission, cash limits, etc. go to the heart of the matter: and this minute seeks mainly to answer the crucial question "What is comparability?" (Your office have, I understand, already asked for an early submission by Mr. Carlisle on the specific issue of teachers' pay).

This should be round tomorrow before he meets the teachers - i.e. he will be asking for a steer.

T.L.

General

2. I start with one general point. There is no magic "philosophy" about comparability. Successive Governments have found it convenient to take certain groups for whom they have direct or indirect responsibility out of the normal pay bargaining situation with a view to producing something which will be both largely automatic and also demonstrably fair. This is simple when you are genuinely comparing like with like (e.g. typists). It gets much harder when there are no direct analogues. Yet the temptation (particularly recently in the face of industrial muscle) has been to offer comparability to more and more groups.

History and present position

3. The Government is the direct employer of over one million people (civil servants both industrial and non-industrial and the Armed Forces), the sole paymaster for another million in the NHS and the major source of finance (through the RSG) for perhaps two and a half million people in local government (including teachers, police, firemen, etc.). The pay of non-industrial civil servants and members of the Armed Forces has been determined for a good many years by "comparability" by two different systems: the Civil Service by "pay research" which seeks to establish what similar people doing similar jobs are paid in the general labour market, adjusting the information for difference in terms and conditions of employment - hours, leave, pensions, perks - followed by

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"constrained" negotiations based on the result of the research; the Armed Forces - where "negotiation" is not possible - by conducting a similar, though inevitably more indirect, exercise, under the guidance of the Armed Forces Pay Review Body designed to show, by what is known in the jargon as "factorial comparison", what pay similar people with similar skills might expect to command in the labour market, adding an "X factor" for purely military considerations and then handing down a pay award akin to a decision and arbitration. Both systems have been accepted by successive Governments and by the employees concerned, as "fair".

4. In the rest of the public services some employees, notably the doctors and dentists, have enjoyed a system roughly equivalent to that applying to the Armed Forces, while the pay of others has been determined by a wide variety of arrangements ranging from direct negotiations e.g. for many local government employees to periodic ad hoc enquiries e.g. for the police, nurses and teachers (coupled in the latter case with special arrangements for arbitration built in to the 1965 Remuneration of Teachers Act).

5. The last Government in its closing year made "comparability" much more widely available to the public services through the creation of the Standing Commission. I think there were two motivations here: firstly a wish to find a way out of a situation where there were no bench-marks left because operation of pay policy since 1975 had left pay in the public services well below the levels actually achieved in the private sector: and secondly a wish to devise a more permanent system which would avoid damaging industrial disputes in areas where there would be great inconvenience to the general public.

Comparability

6. You asked about the philosophy underlying "fair comparisons". The origins go back to the Priestley Royal Commission on the Civil Service which reported in 1955. Their theme was essentially that the Government ought to pay its employees the "rate for the job", neither more nor less, after taking into account differences in terms and conditions of employment as between them and their counterparts in the general labour market. As they put it:

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"We think that a correct balance will be achieved i. e. a balance between the interests of the community in general, of those responsible for administering the Civil Service and of the individual civil servants/ only if the primary principle of Civil Service pay is fair comparison with the current remuneration of outside staffs employed on broadly comparable work, taking account of differences in other conditions of service. "Fair comparison" as the primary principle is fair to the community at large for two reasons. First, it looks after the ordinary citizen's interests as a taxpayer. If the Government which represents him pays what other responsible employers pay for comparable work, the citizen cannot reasonably complain that he is being exploited. Equally, we consider that he would agree that he could not, in the long run, obtain an efficient service by paying less.

Secondly, the principle safeguards the Civil Service from political pressures. We think it will be generally accepted that no improper influence should be exercised by tampering with the salaries of particular posts or individuals. This.... means that principles are needed to govern Civil Service pay that can be applied consistently by successive Governments of different political complexions. We think that the principle of fair comparison in the sense in which we define it is the only primary principle that will serve the purpose."

7. This is perhaps the point to suggest that the term "civil servant" as such is not particularly useful in considering the labour market. What the Government is seeking to do is to hire adequate numbers of typists, clerks, accountants, scientists, engineers, surveyors, computer operators, van drivers, cleaners, etc. Each category has to be recruited from a labour market which is still, for the most part, dominated by the private sector, and where going rates of pay are discoverable by analysis and research.

8. You very fairly make the point that "supply and demand" are relevant factors. Indeed they are, though their key effect so far as the hire of Government employees is concerned is to establish a going market rate for the categories of staff we need. Of course, the market is not perfect in the

But it doesn't

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Trades, norms in health service the cost is saved - do the "market" they have security ↑

classical sense (few markets are), but in a free society its impact is still powerful. Indeed, the experience of recent years has shown the penalties of ignoring market signals. Thus, the Government has had growing difficulty in recruiting and retaining adequate numbers of soldiers, policemen, secretaries and computer programmers during the period when pay research has been suppressed and replaced by pay "norms" which have been applied strictly to the public services but less strictly elsewhere. I.e. the problems have not arisen from the PRU system, but rather from setting it aside. And of course the process has not been without cost. At one level, for example, the Government has been obliged to take on significant numbers of temporary "agency" typists at high cost to meet essential needs, and at another, as the Armed Forces Pay Review Body put it in its most recent report "the average training cost for all types of pilots is just under £800,000 per man [they gave a string of other illustrative costs down to £3,000 - £9,000 to train a private soldier]... it is extremely wasteful of resources to incur costs of this order in further training to replace losses that are clearly avoidable. These costs can only be avoided by stopping excessive outflow. This will not happen as long as pay and other day to day conditions of service are allowed to remain below an acceptable and competitive level".

*Likely to be areas are badly overmanned
Definitely arguments. Fewer by more would do the job better & more economically.*

9. Is there an alternative? You can of course reduce the area of comparability when the present references to the Standing Commission are completed but anything approaching free collective bargaining in the public services is probably unthinkable for the Armed Forces or the police and for the rest increases the likelihood of confrontation in some essential services. Moreover, there is no necessary reason to assume that the end result would be a reduced pay bill. Another route, quite common abroad, is for the public services to enjoy a contractual relationship with their employers. Again, there is no reason to suppose that contract (including, as is sometimes done abroad, automatic cost of living adjustments) is less expensive than our present system which tries, however imperfectly, to reflect changing market conditions. Indeed, the rigidities inherent in contract are more likely to point to greater expense.

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X | 10. In your comments you made two other points. First, that comparability breaks down where the majority are in the public sector or where there are no very clear analogues. The most obvious example of this situation is the Armed Forces: and the approach is to look for comparable skills and qualifications rather than comparable jobs. But this is complicated territory and you may well want to call for a report from CSD looking into this question.

Y | 11. The second point concerned the inflationary danger of bringing public service pay into line with increases in private sector based on improved output per head. I would agree that this danger exists, and it was for this reason that the previous Government expressly excluded the trading public sector from the scope of the Standing Commission. *Cash limits should be the safeguard!* But the question needs more measured thought than it has so far been given, and no doubt you will wish the CSD to report to you on the point. It is also relevant that the Civil Service system of staff inspection is the main existing engine for ensuring that posts are not overmanned. Whether this is adequate could tie in closely with the remit you are giving to Sir Derek Rayner. Indeed the fact that Sir Derek Rayner now has a year's experience behind him on the Pay Research Unit Board will make his advice particularly valuable and you may wish to arrange an early private talk with him on the subject.

Teachers

12. Finally, a word on the specific problem of teachers' pay. As you say, the key is to ensure that questions of pay and terms of service should be looked at together. A suitable reference to the Standing Commission could achieve this. But precisely for this reason you may find the teachers very reluctant to commit themselves to such an operation. If they will not do so, recourse to arbitration is perhaps the only sensible immediate course. For the longer term, however, you may wish to ask for the whole question of the proper calculation of teachers' rewards, including the provisions of the Remuneration of Teachers Act, to be looked at again.

John
(John Hunt)

I don't want further references to the Standing Commission until our minds & their performance are somewhat clearer! etc

7th May, 1979



bc: Mr. Wolfson
Mr. Ridley

10 DOWNING STREET

From the Private Secretary

MR. VILE
CABINET OFFICE

Teachers' Pay

The Prime Minister has now read Sir John Hunt's submission of 4 May on teachers' pay.

She has made the following comments:

- I On the principle of comparability, the Prime Minister has raised the question of which groups comparisons should be made with. She has noted, for example, the fact that there are no obvious analogues for teachers. She has also commented that, rather than "working well over the years", the PRU system has broken down with inflation. She has also raised the question of whether supply and demand are properly taken into account in comparability exercises. She has commented that, despite the good intentions, comparability exercises never are "properly done". Finally, she has questioned the basic philosophy underlying comparability, and has asked that this philosophy, as presently understood, should be defined.
- II On the Standing Commission, the Prime Minister has commented that it will be necessary to consider again the terms of reference for the existing references to the Commission - since, in her view, they were very nebulous.
- III On teachers' pay, the Prime Minister has commented that one of the difficulties is that pay and terms of service are separate, and that they should not be. If a comparability exercise is to be done, then terms of service must be compared too.

The Prime Minister has commented more generally:

"Comparability breaks down

- (a) where the majority are in the public sector
- (b) where awards are given in the private sector on the basis of improved output per head.

Then comparability becomes a machine for producing inflation. That is why I think the whole question needs much more reasoned thought than it has yet been given".

You will no doubt take these points into account in putting forward further advice on this nexus of questions. But in view of the Prime Minister's question about "basic philosophy", I would be grateful for a further note now defining comparability and setting out a little more fully the underlying philosophy

T. P. LANKESTER

6 May 1979

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