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NOTE OF MEETING HELD AT 4pm ON MONDAY 19 MAY IN THE PRIME MINISTER'S
ROOM AT THE HOUSE OF COMMONS TO DISCUSS PUBLIC SECTOR PAY POLICY

PRESENT:

The Prime Minister
Secretary of State for the Home Department
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for the Environment
Secretary of State for Social Services
Chief Secretary, Treasury
Minister of State, Civil Service Department
Mr J R Ibbs, CPRS
Mr J Hoskyns, No:10 Policy Unit

Secretariat:

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

The Meeting had before it a paper on Public Sector Pay Policy by the Chancellor of the Exchequer, circulated under cover of a letter of 15 May to the Prime Minister's office; a paper by the Minister of State, Civil Service Department on the Pay Research System, circulated under cover of a letter to the Prime Minister's office of 16 May; and a Report by Officials on the prospects for industrial trouble in the next pay round, circulated under cover of a minute of 15 May to the Prime Minister from the Secretary of the Cabinet.

THE PRIME MINISTER said that the purpose of the meeting was a preliminary and general discussion on the Government's approach to dealing with pay in the three public sector areas: the Civil Service, the nationalised industries, and the local authorities. Her meeting with Lord Shepherd, the Chairman of the Pay Research Unit (PRU) Board, on 14 May had revealed considerable deficiencies in the role of the PRU Board and weaknesses in the application of fair comparisons in the Civil Service. The analogues which were the basis for comparability with the private sector were chosen in negotiation between the two sides of the Whitley Council, and included too many public sector bodies and too few small firms. The process was not in practice a true measure of comparability. All parts of the public sector expected to be treated well, even when living standards were falling generally. In contrast the pay of employees in the private sector depended on how well their firms were doing. She had asked Lord Shepherd to set

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out his views in writing for changes in the pay research process and in the role of the PRU Board.

THE CHANCELLOR OF THE EXCHEQUER said that it was crucial to influence pay settlements in the public sector where the Government was responsible directly or indirectly. If the Government's monetary targets were to be met, the 1981-82 cash limits for central and local government had to be struck at levels below those in previous years. These cash limits should be given primacy; and the Government should not accept an obligation to allow pay in the public services to be determined solely by comparability. This would be so even if the present system of comparability could be improved. But he did not recommend abandoning comparability altogether; otherwise the unions would continue to make their own calculations and in due course demand a major review to restore what, in their view, they had lost by comparison with the private sector. His preference, therefore, would be to attempt to dethrone comparability so that it survived as only one among many considerations in pay determination. The Government would take it into account in negotiations but would not be bound by the results. For the nationalised industries it would be necessary to use a variety of weapons: External Financing Limits; more pressure on Chairmen to hold down settlements; and the development of performance targets and further references to Monopolies and Merger Commission on efficiency. The Rate Support Grant should be used to set the framework for limitations on pay in the local authorities. This approach should be accompanied by an intensive public campaign to create an atmosphere in which pay bargaining beginning in the autumn would be at levels very substantially below the rates of the past year.

In discussion the following main points were made -

- a. It was agreed that the terms of reference and the method of operation of the PRU should be reviewed urgently. However, the question of how the method of comparability might be improved was secondary to that of whether comparability should continue to have a role in the determination of public sector pay.
- b. There were serious objections to abandoning the pay research system altogether in the Civil Service. The militants in the Civil Service unions had always wanted it abandoned, and to do so would be to play into their hands.

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There would be an early and major confrontation. The choice would then be either to fight the changes through, and to accept the disruptions which would result, or to retreat.

c. In making any changes to the present system it would be important to bear in mind the lessons of the late 1950s and early 1960s. Public sector pay had then been held down with the aim of influencing private sector pay. The private sector had not responded and public sector pay had lagged badly behind. This had led to confrontations with major public sector groups such as the nurses, the police, the doctors and prison officers, to embarrassingly large "catching up" increases, and to the creation of new institutions for determining pay in the hope of avoiding these problems. It was essential not to get into this cycle again. This pointed towards a compromise on the lines of the Chancellor of the Exchequer's proposal, whereby comparability studies would be continued but would be no more than one factor in the determination of pay. In future it would be necessary to be flexible and to recognise the fact that while there might be over-manning in some parts of the public sector there were shortages in others. The present structure of links between different grades should be broken.

d. On the other hand there was a danger that the approach recommended by the Chancellor of the Exchequer could lead to the Government getting the worst of both worlds. The comparability studies would tell the unions what in their view they ought to be getting, and the Government through the cash limits system would be telling them that they were to be denied those increases. All the signs were that pay was the one issue on which the militants in the Civil Service unions could hope to attract widespread support.

e. Hitherto the Government had tended to be reactive in dealing with public sector pay problems. It was now necessary to take the initiative and mount a campaign for improved productivity and the removal of restrictive practices throughout the public sector. The public generally, and the public sector unions in particular, should be brought to recognise that if national living standards were not to fall the present levels of public sector pay increases could not be continued. There would be a major task of negotiation to secure recognition by the Civil Service unions that in future comparability could not be paramount.

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f. It would be helpful if the Departments of Industry, Employment and Environment could bring up to date their lists of over-manning and restrictive practices within the public sector.

g. The Secretary of State for the Environment was putting forward proposals separately to the Ministerial Committee on Economic Strategy on ways for securing improvements in the local authority field. He was also examining the method of determining pay by the water authorities. His Department would be discussing further with the Department of Employment the possibilities for getting better undertakings on working practices from the workers in the water industry.

h. One of the earliest, and most difficult decisions, facing the Government would be that to be taken at the end of June on the pay of Members of Parliament. The combined process of catching-up and uprating to 1980 levels was likely to point to high increases. However, it would be very difficult to avoid accepting these increases in view of undertakings which the Government had already given on the pay of MPs.

THE PRIME MINISTER, summing up the discussion, said that the next step would be for the Ministerial Committee on Economic Strategy (E) to consider papers on these questions. The Chancellor of the Exchequer should now prepare a paper for E, based on the paper before the meeting and taking account of the points made in discussion. He should include an analysis of the implications of the options for each of the main public service groups. This analysis should indicate, if possible, what might be the difference between pay settlements which the groups could expect if comparability were to be maintained and what they might get if his proposals were to be implemented. It should also indicate what might be the costs, results and likely course of pay disputes in the public sector as a whole which might result from following this course. It would be helpful to have a time-table of the critical dates on cash limits and External Financing Limits. The Chancellor of the Exchequer should also bring forward proposals, in consultation with the Paymaster General and her own Press Office, on a publicity campaign to create the atmosphere for pay bargaining beginning in the autumn. He should also make proposals for the future of Professor Clegg's Group on comparability and of other review bodies. The Secretaries of State for Industry, Employment and the Environment should send notes to her on

examples of over-manning and restrictive practices in the areas for which they were responsible. The Lord President of the Council should bring forward proposals in due course for changes in the terms of reference and method of operation of the PRU taking into account the further letter which Lord Shepherd would be sending.

The Meeting -

1. Invited the Chancellor of the Exchequer to circulate to E Committee, in time for discussion on 5 June, papers on the lines indicated by the Prime Minister in her summing up of their discussion.
2. Invited the Secretaries of State for Industry, Employment and the Environment to send notes to the Prime Minister, with copies to members of E Committee, on examples of over-manning and restrictive practices in the public sector areas with which they were concerned.
3. Took note that the Prime Minister would arrange for the Lord President of the Council to report to E and to make recommendations on the terms of reference and method of operation of the PRU, taking account of the further letter which Lord Shepherd would be sending.

Cabinet Office

21 May 1980