



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

M A Hall Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
SW1

PL 1/11

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Dear Martin

STANDING COMMISSION ON PAY COMPARABILITY: GOVERNMENT EVIDENCE

My Secretary of State has now forwarded the Government's evidence to the Commission with two small changes to correct factual inaccuracies in paragraphs 4 and 5, which were agreed between our two offices.

I am sending copies of the version as submitted to the Private Secretaries to the other members of E Committee, Philip Hunter, Don Brereton and Martin Vile.

*Yours sincerely
I A W FAIR*

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STANDING COMMISSION ON PAY COMPARABILITY

GOVERNMENT EVIDENCE

The Government appreciates the time and effort that the Commission and its staff have put into its first two reports. Several of the issues raised by them are of direct relevance to the Commission's work on its outstanding references. The Government therefore offers the following comments on the most important of them.

Nature of Comparisons

2. The Government would like to emphasise its agreement with the Commission that:-

(a) job-for-job comparison is the most satisfactory method of carrying out comparisons where there is an adequate range of outside comparators;

(b) indexation is not a satisfactory means of determining pay;

(c) historical comparisons are not relevant as a basis for determining current pay levels.

3. The Commission is clearly well aware of the difficulties and dangers of factor analysis. The Government agrees that it should only be used where job-for-job comparison is not possible. The Government therefore welcomes the Commission's concern that, where factor comparisons do have to be used, they are rigorous and tailored to fit the reference. It hopes the Commission will press ahead with its review of existing methods, and will design new ones where necessary.

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. The former problem was clearly due to lack of time, as was presumably the latter, thus leaving no choice but to rely very largely

upon information already available to the Pay Research Unit. No doubt it is the Commission's intention to remedy both in future references.

5. One more specific problem should be mentioned. The use on this occasion of a 'trend line', and recommendations based on past pay relationships, are unsatisfactory, and were also due to pressure of time. The Government very much hopes that in future the Commission will find it possible to avoid these and to rely throughout on up-to-date comparisons. It accepts that this may entail the negotiation of substantial alterations in existing pay structures.

Selection of Comparators

6. The Government fully endorses the Commission's rejection of comparators whose pay is itself determined by comparison on a regular and systematic basis. This is clearly essential in order to avoid circularity. It shares doubts over using other comparators from the public sector, and suggests that some of these and, indeed, other possible comparators may turn out to be inappropriate because they are not sufficiently subject to market forces. It hopes the Commission will be able to press ahead quickly with consideration of this problem.

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

Efficiency

8. The Government fully endorses the Commission's view of the importance of investigating and comparing relative levels of efficiency:

otherwise the comparisons will not justify matching 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 develop this practice in future reports, by looking particularly during its inquiries for prima facie examples of inefficiency. Where there is a clear-cut case, the Commission should draw attention to it and express its findings or recommendations in such a way that pay levels are 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 giving of equal weight to shift premia and sick pay is, as the Commission recognises, at best an approximation. The Government hopes that, in subsequent references, the Commission will cover this area more fully.

10. The Government is particularly concerned that adequate account should be taken of job security and similar factors, which although difficult to quantify have a very important bearing on the relative attractiveness of jobs. Like the Commission, it fully recognises the difficulties involved. Nonetheless it hopes that the Commission will study ways of tackling this important problem. Clearly the ideal would be a fully quantified method. But even 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 full account of these important factors. The Government notes the Commission's doubt about arrangements for evaluating pensions. This is a matter which the Government is considering in relation to the Civil Service and its conclusions will be relevant to the work of the Commission.

Labour Supply

11. The Government welcomes the Commission's acknowledgement 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 is convinced that, if the comparability approach is to be used properly, it must reflect the general principle of "comparable pay for comparable work in comparable conditions", and welcomes the Commission's efforts to put this principle into practice. In submitting this evidence the Government recognises that it is asking much of the Commission. Although the Commission has already drawn attention to many of the points made, it recognised, as does the Government, that taking account of relative efficiency, job security and labour supply raises difficult theoretical and practical issues. Nevertheless, the Government believes that the Commission must 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.

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