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18 May 1981

Policy Unit

PRIME MINISTER

Seen by

TL + CW.

INDEPENDENT INQUIRY INTO CIVIL SERVICE PAY

1. Your meeting tomorrow will discuss the terms of reference and possible composition of the inquiry team.

Terms of Reference

2. You have already accepted the case for wide terms of reference, including matters of organisation and structure. Although Christopher Soames and Jim Prior do not like this idea, Robert Armstrong and Robin Ibbs both support a wider inquiry. However, Derek Rayner's doubts about the words "organisation and structure" are understandable. We are not proposing that Departmental organisation should be included; the emphasis should be on management practice, and, in Derek's words, "pay as a motivator". It could turn out that pay at some senior levels needs to be higher, removing an obstacle to interchange with the outside world.
3. The opportunity for outside comment on the organisation and recruitment practices for the Civil Service, which are closely related to pay questions, is unlikely to recur during the decade. We are convinced that the Civil Service could benefit from a greater sense of individual accountability and more interchange at senior levels of both people and management practices with the outside world. These points will not arise if the terms of reference are strictly confined to pay.
4. It is very relevant that in 1955 the Priestley Commission devoted a chapter to "the limitations imposed by our terms of reference". They said that it was "extraordinarily difficult" to advise on pay rates without the opportunity of making positive proposals on intimately related matters like structure, grading, complementing, recruitment, training and promotion procedures. (For reference see Annex A - particularly paragraph 55.)
5. It is essential that we do not make the same mistake of narrowing the terms of reference. Scott provides a clear example of the dangers in that. Lord Soames's preamble with its explicit

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reference to inflation is now about right, but the substantive section of the terms of reference needs to be along the lines of that originally proposed by Sir Robert Armstrong.

6. If we are serious about relating these wider questions to pay, it seems important to include the TSRB groups within the study. You can't raise fundamental management questions in a study which excludes the top grades. The team would not be precluded from recommending the continuation of TSRB arrangements if they thought that appropriate. In any event, next year's TSRB report will be highly inconvenient - containing a large catching-up element. The inquiry's existence will provide a good reason for rejecting it.

Composition

7. We agree with Robert Armstrong that the Chairman should be from the private sector. If the team are able to devote enough time to the work, it should be possible to get results - despite the wider terms of reference - for 1983. This will be a paramount consideration in selecting people. This must rule out busy, full-time executives like Alan Lord.
8. We also favour a smallish team which will enable it to work more quickly. We think that team should contain two or three hard-headed people with practical experience of industrial relations in the private sector who are also numerate. I have discussed this with Walter Goldsmith, who says that the following are in this category:

Len Peach - Personnel Director IBM  
(very well regarded in the personnel field).

Ian Lockyer - Personnel Director of Mars  
(recently returned from a tour of duty in USA).

Peter Brown - Reward Regional Survey.

Tony Vernon-Harcourt - Charterhouse.

R.B. Ellis - Group Personnel Director, Corn Products.

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9. Another good choice in our view would be Christopher Foster: relevant business experience at Coopers and Lybrand; heavyweight academic; past experience of Whitehall. He could well be Chairman. From brief personal contact, and experience of friends, we expect that Dahrendorf would prove disappointingly woolly-minded.
10. Among the women suggested by Christopher Soames, Detta O'Cathain is forceful, numerate and has extensive commercial private sector experience. Another might be Mary Goldring - highly intelligent and economically literate.
11. A useful member of the team would be Bernard Donoghue. This would look like a concession to political balance, but he is known to have very strong views about high relative pay of many Civil Servants and the need for reform. There is a case for having a member from the old PRUB in terms of experience. Lord Shepherd has been suggested. We must beware of co-opting a PRUB member with an "ego-investment" at stake. Another member may have been more sceptical about PRU and therefore more useful now.
12. As far as trade unionists are concerned, we suspect that Frank Chapple would be seen as an enemy by the Civil Service unions. We cannot think of any economically literate union leaders though there are, of course, several who are at least well intentioned. For example Roy Grantham or John Lyons. They would not be much help but they would do no damage provided the rest of the team are hard-headed realists.
13. I am copying this to Sir Robert Armstrong.



JOHN HOSKYNS

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