

2.

Prime Minister

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- 1. Content that attached note be circulated to E for Wednesday's meeting? *Yes*
- 2. Agree that a group of officials should be established as at X? *No*
- 3. Agree to separate official group to work on Chancellor's proposals, as at Y? *Yes*

Ref. A02664

PRIME MINISTER

Mb

Public Sector Pay

Mr. Lankester's minute of 30th June recorded your agreement to the production of a note which would recapitulate the conclusions reached and the specific decisions made so far on public sector pay, and your request that the note should consider whether there should be a Government statement, or other pronouncement, at some stage.

2. I attach a factual note, prepared in consultation with officials of the Departments most closely concerned, about the decisions which have been taken on public sector pay issues, and the decisions which will have to be taken in the months to come. If you agree, I will circulate this as background material for next Wednesday's meeting of E Committee.

3. As to the possibility of a statement, the Chancellor of the Exchequer has dealt with the possibilities here in the paper which he is preparing for next week's E meeting; I understand that you have had an advance copy of that. Decisions can be taken at the meeting.

4. You decided not to establish a separate Ministerial Committee to deal with public sector pay matters. But I think that it will be useful over the coming months to have a group of officials, at a suitably high level, from the Departments concerned, to co-ordinate the approach to public sector pay matters and to report to Ministers, both in general terms and on specific cases as they arise. Those concerned already find it helpful to meet informally from time to time to co-ordinate advice, and we could gain by putting these arrangements on a more regular footing. If you agree, therefore, I propose to arrange for a Committee of this kind to be established, under Cabinet Office chairmanship.

5. The proposals which the Chancellor of the Exchequer has put forward in his memorandum for E Committee next week will need to be worked out in detail if the Committee agrees them. That will be a "one off" job rather than a continuing exercise, and I think that it would make best sense to have a

No / *X*

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x | separate group for that, under Treasury chairmanship. We will provide a Secretariat, and I shall ask Mr. Le Cheminant to serve on the group so that we know what is going on and can make sure that there is no overlap.

RA

(Robert Armstrong)

18th July, 1980

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PUBLIC SECTOR PAY

NOTE BY OFFICIALS

Introduction

The purpose of this note is to list in a convenient form the decisions which Ministers have taken in recent months about public sector pay, and to list the decisions which will have to be taken in the months ahead.

DECISIONS ALREADY TAKEN

2. The non-industrial Civil Service: A settlement for 1980 was reached in April with the bulk of the non-industrial Civil Service grades covered by PRU. The settlement, averaging ^{about} 18½ per cent, was reconciled with a 14 per cent cash limit by taking credit for a 2½ per cent reduction in staff numbers and by deferring implementation of the award for five weeks. The settlement was based on PRU evidence. A decision on the pay of the most senior grades covered by PRU - Assistant Secretaries and Senior Principals

and their equivalents - was deferred pending receipt of the report of the Top Salaries Review Body (TSRB) on the pay of the higher Civil Service.

3. In July after the TSRB Report had been received Ministers decided to cut the recommended increases for the higher Civil Service by more than half. The average increase allowed was $12\frac{1}{2}$ per cent. This decision caused unacceptable compression of differentials with the PRU grades; without special action there would have been * In consequence a settlement had to be imposed on the Assistant Secretaries and Senior Principals which, in the case of the Assistant Secretaries, was substantially below that indicated by the PRU evidence. Arbitration under the Civil Service Pay Agreements was refused.

*overtaking of the bottom TSRB grade.

4. The scientific Civil Service: The PRU evidence indicated a low average level of settlement for 1980 (about $12\frac{1}{4}$ per cent) and a negotiated settlement proved impossible. Both sides have now agreed that the dispute should go to arbitration.

5. The industrial Civil Service: The settlement date for the

industrial Civil Service is 1 July. Ministers decided that the

settlement should be contained within ^{(the} ~~a~~ 14 per cent cash limit,
as Civil Service manpower costs.

Negotiations are still in progress.

6. Armed Forces: Ministers accepted the recommendations in the 1980 Report of the Armed Forces Pay Review Body (AFPRB) and they were implemented in full from 1 April. Cash limits were adjusted ex post to accommodate the new rates of pay. The senior ranks except for the medical major generals, covered by the TSRB, were dealt with in the same way as the senior ranks of the Civil Service. Ministers have agreed to abide by their commitment to maintain Armed Forces' pay (interpreted as pay for the ranks covered by the AFPRB) at levels comparable with their civilian counterparts.

7. Members of Parliament and Ministers: Ministers have decided that the outstanding stages of the payment of the rates for MPs and Ministers proposed by the TSRB in 1979 should be paid on the due dates. The House of Commons has been invited to accept a one-third reduction on the 1980 'updating' increases recommended by TSRB in their most recent report.

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8. National Health Service: Ministers authorised a 1980 settlement with the nurses, nominally on the basis of a 14 per cent cash limit but with a full cost over and above Clegg in the financial year 1980/81 of around 20 per cent. Negotiations with NHS administrative and clerical staff for their 1980 settlement are still in train. Ministers have agreed that a settlement here must be reached within cash limits and on the same lines as that for the non-industrial Civil Service.

Ministers agreed in May that the recommended pay scales for 1980 (an increase of some 19 per cent) put forward by the Doctors and Dentists Review Body (DDRB) should be implemented in full from 1 April.

9. Police: Ministers remitted the commitment to update police pay in September in line with the general movement in earnings to separate discussions between the Home Secretary and the Chancellor of the Exchequer. They have agreed that the commitment continue to should/be implemented this year.

10. Prison officers: The pay of prison officers is linked to the average levels of settlement in the Civil Service. Ministers have agreed to leave the linkage unchanged.

11. Fire Service: The Local Authorities are committed to index-link the pay of firemen. Ministers have decided that they would not intervene if the Local Authorities - who are the firemen's employers - decided to break the linkage.

12. Nationalised industries: Ministers have decided that the pay of nationalised industry chairmen and board members should be taken out of the remit of the TSRB. The rates for 1980 recommended by TSRB have been reduced in line with the reductions imposed on the other TSRB groups. But new appointments in the coming year and the level of settlements from 1 April 1981 onwards are for individual negotiation by sponsoring Ministers in consultation with the CSD.

13. Cash limits and EFLs: Ministers have agreed in principle that public sector pay settlements in 1981 should be subject to cash limits (or in the case of nationalised industries EFLs)

set in advance. The nationalised industries' EFLs are to be supplemented in each case by performance targets related to unit costs.

14. Pay Research: Ministers have authorised the Lord President to seek to negotiate various detailed improvements in the PRU system with the Civil Service unions. Although the Lord President has indicated to the unions the areas in which improvements are required no substantive progress has been made.

15. Review Bodies: Ministers have decided to review the terms of reference and membership of all three Review Bodies (TSRB, DDRB and AFPRB).

16. The 'Clegg' Commission: Ministers have decided that the Clegg Commission should receive no new remits and should be wound up once its present remits have been completed. This decision has not yet been announced.

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DECISIONS TO BE TAKEN

17. A considerable number of specific decisions relating to public sector pay will have to be taken in the months ahead.

These include loose ends from the decisions already taken.

The main ones, and their timing, are set out in the following paragraphs.

18. Pay research: Three basic decisions will be needed:-

(a) Whether to maintain the PRU system in being?

Continuation of the PRU system is not incompatible with "the primacy of cash limits" though reconciliation becomes more difficult the wider the gap between the cash limits and the levels of settlement indicated by the PRU evidence. Moreover the PRU evidence is helpful in determining pay relativities and differentials as this year's experience with Government scientists has shown. A decision to abandon, or suspend, PRU would be a decision in favour of conducting next year's Civil Service pay negotiations by "free collective

bargaining" whose outcome would be uncertain. The Civil Service unions may take the decision out of the Government's hands by deciding that straightforward bargaining would give them a better result for their members than pay

*temporarily or otherwise from the system, Ministers will need to decide whether there is any halfway house (eg on the lines of the CPRS suggestion in E(80) 54) which might diminish the likelihood of damaging disputes with the Civil Service unions.

research constrained by cash limits. If PRU is excluded,*

(b) Whether to refuse arbitration to the Civil Service unions? The existing Arbitration Agreement establishes the right of unilateral access to the Civil Service Arbitration Tribunal for both management and unions. Whether or not the PRU system is to remain, separate decisions will be needed on whether to refuse arbitration in particular cases (not unprecedented but refusal is a breach of the Agreement) or to withdraw altogether from the Agreement.

(c) Whether to continue to press for improvements in the PRU system? It is already clear that the Civil Service unions' price for negotiated improvements in the PRU system is likely to include a Government commitment to honour the findings of pay research.

19. The Review Bodies: In addition to decisions on the terms of reference and membership of the three Pay Review Bodies the Government will have to decide, because they are bound to be asked, whether they are prepared to commit themselves to implement next year's report from the DDRB and, by extension, those of the TSRB. A key element here will be the nature of any commitment which is given to Members of Parliament about the future determination of their pay. If, for whatever reason, the DDRB and TSRB were to cease to function a whole range of new decisions would be required, eg on salary linkage for MPs, new negotiating arrangements for doctors and dentists and alternative solutions for the TSRB groups.

20. Cash limits: Decisions on cash limits (and External Financing Limits for nationalised industries) will be needed as follows:-

(a) Local Authorities: The pay element in the RSG settlement for Local Authorities needs to be decided in mid-October to fit in with the normal timing of the RSG announcement.

(b) Nationalised Industries: The pay assumptions underlying the EFL decisions for nationalised industries need to be determined by mid-October. The Government will also need to decide whether to set a common pay assumption in these decisions or, as in the past, to allow variations between industries at the latters' choice. A separate and somewhat earlier decision about the pay assumption for the EFL of the National Coal Board may be required to fit in with the NCB's negotiating timetable. In addition, and given their potential importance, Ministers may wish to consider collectively the proposed performance indicators for each nationalised industry.

(c) The NHS: Negotiations over the pay of a major group of NHS staff (the ancillaries) begin in November and the cash limit for the NHS needs to be set before then. It will effectively determine the upper limit of the pay settlement which can be accepted for the nurses next April.

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(d) Civil Service: Two basic decisions are needed: when to decide on the sums to be allocated in cash limits for next year's pay settlements (the effective choice is between November 1980 and February 1981); and the size of the adjustment as a percentage of the wage bill. As with the NHS, and given the decisions already taken on Civil Service manpower, the cash limit decisions this year will virtually determine the acceptable upper limit of pay settlement for the Civil Service next year.

21. Armed Forces: Given the decision to maintain the commitment to the armed forces it will be necessary to make special provision to accommodate next year's AFPRB recommendations within whatever cash limits have been set.

22. Pensions: The report of the committee evaluating index-linked pensions will be available in the autumn. The specific decisions to be taken will depend on the nature of the report.

23. Other matters: Other decisions which will, or may, be

required include:-

- (a) Whether the outcome of the current arbitration on teachers' pay is acceptable and if not whether the necessary Parliamentary procedures should be used to set aside the result?
- (b) Whether the present statutory arrangements governing teachers' pay should be repealed or replaced?
- (c) How the problem of the determination of nurses' pay should be examined and whether any resulting system should be implemented bearing in mind the twin traps of indexation and comparability?
- (d) When the abolition of the 'Clegg' Comparability Commission should be announced?
- (e) Related to (d) whether, and if so what, new fact-finding body might be created to provide basic data for wage negotiations?