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PRIME MINISTER

Evon PD
cc Public Sector
Part - Pt 2.

Comparability and Cash Limits
(E(80) 71, E(80) 75 and the minute from
Mr. Hoskyns dated 18th July also relevant)

BACKGROUND

The Chancellor's paper (E(80) 71) covers a lot of ground and overlaps at the margin with the Lord President's paper on the Review Bodies (E(80) 59) - to be taken as Item 2 on the agenda - and the proposals on nurses' pay (E(80) 74) to be taken under Item 3 of the agenda. The Committee will also have before it Mr. Hoskyns' minute to you of 18th July and, as background, the note by officials (E(80) 75) listing the decisions which have already been taken and those which have to be taken over the months ahead on public sector pay issues.

2. The Chancellor's paper is a logical development of the arguments he put forward at earlier E discussions on public service pay. You will recall that the basic division of opinion then was between the Lord President of the Council who believed that Civil Service pay should continue to be based on comparability - improved as necessary and with the Government bargaining toughly for the lowest outcome - and the Chancellor of the Exchequer who wanted to set cash limits in advance and stick to them irrespective of the findings of Pay Research. The issue of principle was not resolved, and indeed, as the Chief Secretary pointed out, the two approaches are not necessarily in conflict - everything depends on the size of the cash limit actually set. The logic of the Chief Secretary's position is that the Government should hold its hand until nearer the time when the cash limit has to be set.

3. What the Chancellor of the Exchequer is now saying is that he wants a cash limit figure below 10 per cent, if at all possible, and that this is likely to be irreconcilable with any conceivable PRU outcome. It follows, he suggests, that Pay Research should be suspended and an announcement made to this

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effect before the summer Recess. The mechanism would be to suspend the Civil Service Pay Agreement and (although the Chancellor does not say so) the Arbitration Agreement which is an integral part of the Government's present agreements on pay with its staff.

4. The main weakness of the Chancellor's approach is that he barely considers the question of whether, in the absence of agreed procedures for settling pay, the Government's employees would simply take what they were being offered or would fight for more - and what the outcome of such a fight might be. This is the point at which Mr. Hoskyns' approach is most relevant. He argues for further analytical work on the alternatives before the Government goes out on a limb. It is also the point at which the Committee will need an assessment from the Lord President and Departmental Ministers most closely in touch with their staffs as to their likely reaction to the suspension of the Pay Agreement and at attempts to impose a single-figure settlement next year.

5. Some of your colleagues may also wish to probe the apparent inconsistencies in the Chancellor's paper. Thus, in paragraph 6 he says that the Government should make it clear that suspension of the Pay Agreements "does not imply any intention to discriminate against the Civil Service as compared with the rest of the public services". How will the Civil Service reconcile that statement with decisions already taken on the Armed Forces (where the Government has decided to implement next year's comparability exercise irrespective of cash limits), the police (where index-linking is about to be implemented), the teachers (where the statutory right to arbitration exists) and the nurses (where the Government is contemplating introducing a new comparability system)? In addition, paragraph 11(iv) of the Chancellor's paper expressly holds out the possibility that the Government might adopt a "topping-up" scheme based on the CPRS ideas considered at an earlier meeting. Whatever its other merits - and they are real - such a scheme would mean that, if the topping-up mechanism was activated, cash limits would have to be adjusted from the figure first set. This would weaken the impact of cash limits but might be preferable to setting a cash limit too low and being forced to adjust it because of a pay increase that broke it.

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6. There is a major question of tactics and timing: does it make sense to announce the suspension of the Civil Service Pay Agreements before the Recess, or should a final decision be held over until the Chancellor's proposal for a study of the options for the future of comparability has been completed, and until the Lord President has had time to try to negotiate changes in the agreements to improve the pay research system: failure to negotiate such changes could help to justify a subsequent decision to suspend the agreements.

7. I doubt whether your colleagues will want to discuss Mr. Hoskyns paper in any depth. In effect it argues for a good deal more study, case by case, of the public sector pay cases which will have to be decided in the next six months to a year as a preliminary to deciding whether the Government should decide upon a formula - which would inevitably be very like a "norm". The case for "looking before you leap" is strong (you will remember Mr. Hoskyns' earlier report to you on the events leading up to last winter's steel strike); but ideas of a "norm" are unlikely to attract your colleagues, and are of course vulnerable to destruction if they are extended to the main nationalised industries.

8. The background paper by officials (E(80) 75) does not call for decisions, but may serve to remind the Committee of the substantial range of practical issues which they will have to resolve as the months pass.

HANDLING

9. You will no doubt want to begin by asking the Chancellor of the Exchequer to introduce his paper. Thereafter, while some general discussion is inevitable - and the Lord President and the Secretary of State for Employment will want to contribute to this - you will probably find it easiest to handle the discussion by concentrating on the specific recommendations in paragraph 33 of the Chancellor's paper (E(80) 71). The questions which arise from these conclusions are:-

- (a) (33a) Whether it is necessary or sensible to make an announcement about the future of Civil Service pay before the end of this month: this is the immediate operational decision.

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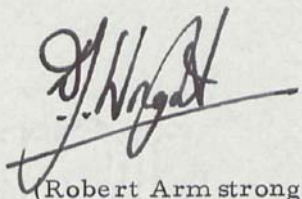
- (b) (33a(i)) What the content of such an announcement should be: the Chancellor comes down in favour of the possibility in paragraph 9(b) (not 6(b) as his paper says), but other options are displayed in paragraph 9 and one of them (9(c)) would require further work to be done before anything could be said.
- (c) (33a(ii)) The abolition of the Clegg Commission: no problem for Ministers and a presentational plus point.
- (d) (33a(iii)) The Review Bodies: a decision here could be left until the discussion, later in the meeting, of the Lord President's paper on the subject.
- (e) (33b) A remit to officials to study the options in paragraph 11: a sensible and necessary piece of work: I have made proposals to you on this.
- (f) (33c) Final decisions on cash limits and EFLs to be taken in November: obviously some decisions will be needed by then. There is however no need for the Committee to commit itself now to taking all of the relevant decisions on this timetable.
- (g) (33d) Adjusting cash limits to avoid carrying through the effects of staging to the base figures for the following year: this is really a reaction to last year's problem - because of the main staging process is now behind us - but is still relevant to the main Civil Service settlement where the Government saved 2½ per cent of the cost of this year's settlement by delaying the implementation of the settlement by 5 weeks. The 2½ per cent of the wage bill involved could be important next year if the Government is striving for a settlement in single figures. Retention of a little flexibility could be useful in the event.
- (h) (33e) Provisionally, the pay element in cash limits and EFLs should be in single figures subject to review "for realism" in the autumn: the proviso invalidates the conclusion and colleagues may not want to go this far this quickly.

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- (j) (33f) Ministers should explain the Government's policies to their staff: this will clearly be necessary when decisions have been taken because the acquiescence of staff is essential if the policy is to work. Moreover, Civil Service morale is poor and the militants are ready to exploit grievances. Your colleagues may feel that they would prefer to know the answers to the questions which will be asked before facing their employees. If so, this would point to a deferred announcement until further work has been done.

CONCLUSIONS

10. Subject to discussion, you will wish to record specific conclusions on each of the points set out in paragraph 33 of the Chancellor's paper.


(Robert Armstrong)

(Approved by Sir R. Armstrong
and signed on his
behalf)

22nd July 1980