

cc. JV
AD (1)



Treasury Chambers, Parliament Street, SW1P 3AG
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2 pp. 5.

5 February 1982

Prime Minister

Michael Scholar, Esq.,
Private Secretary,
10, Downing Street

No adverse comments have been made by Ministerial colleagues; and the Policy Unit think this a clear and dispassionate analysis which indicates the Government's support in principle for greater local

Dear Michael,

EVIDENCE FOR MEGAW INQUIRY: LOCAL PAY

pay differentiation while identifying the

.....
In the memorandum on future pay arrangements dated October 1981 we said it was for consideration whether Civil Service rates for at least some (e.g. the non-mobile), if not all grades, should attempt to match local pay conditions more closely. I attach a paper which examines the case for a change in this direction, which the Chancellor proposes to submit to the Inquiry next week.

practical difficulties.

Agree to its submission

I will ~~assume~~ that the way is clear to send the paper if there are no ~~comments~~ before Thursday, 11 February.

Mes to Megaw?

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Defence, Social Services, and Employment, the Lord Advocate, the Attorney General and to Sir Robert Armstrong.

Mes 12/2

Yours ever,
Peter

les
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P.S. JENKINS

LOCAL PAY

Introduction

1. In its initial evidence to the Inquiry⁽¹⁾ the Government said "It is for consideration whether Civil Service rates for at least some (eg the non-mobile) grades, if not all grades, should attempt to match local pay conditions more closely."

This paper examines the case for a change in the present system of national pay rates and London Weighting; and discusses possible options for introducing greater geographical variation into Civil Service pay.

Background

2. At present, pay in the non-industrial Civil Service is set at national rates and these are negotiated at national level. When pay research operated, the Pay Agreements provided for comparisons to be made where possible with national rates outside, discounting any additional payments by the analogue employers such as London Weighting or large town allowances. In reporting on organisations outside London or those which operated different pay rates in different areas, the Pay Research Unit provided information where it could about the distribution of staff receiving the different rates or allowances.
3. London Weighting is paid as a supplement in the Civil Service, and is the only significant element of the pay bill which is related to geographical location. The present basis on which it is paid (related to the cost of living in London and not to the pay rates of other employers) was described in the Factual Background Memorandum submitted to the Inquiry.⁽²⁾

(1) Memorandum on Future Pay Arrangements for the Non-Industrial Civil Service, October 1981, paragraph 11e.
 (2) Factual Background Memorandum, Chapter 7, Section IV, Paragraphs 7.32 - 7.36.

4. The present system of national pay rates supplemented by London Weighting was introduced into the Civil Service in 1958, following the recommendations of the Priestley Royal Commission.⁽³⁾ Before then pay rates were on a three-tier basis applying in London, large towns and provincial areas. A brief history of "provincial differentiation" as the system was known is at Annex 1 to this paper. The system was based on setting a 'London' rate and making a series of flat-rate deductions from it.

5. Annex 2 shows the current distribution of Civil Service staff in the United Kingdom economic planning regions.

The case for a change

6. The main arguments for introducing greater geographical variation in pay rates than at present are threefold. First, the Civil Service is probably paying more than it needs to do in some areas to recruit and retain staff of adequate quality. As a large employer it may accordingly force up other employers' pay rates in the locality unnecessarily, or alternatively cream off the best available staff. Second, the Civil Service may be paying too little in other areas. Particular difficulties have arisen in recent years in some areas, especially in London, in recruiting enough staff of adequate quality for some grades although in current economic circumstances these difficulties have eased. (Examples of the difficulties which have been encountered in the past have been given in evidence by individual Departments, including Inland Revenue, Customs and Excise and the Department of Health and Social Security.) These considerations would weigh particularly strongly in any pay system which gave direct weight to the Civil Service's ability to recruit and retain staff. Third, if a new pay system were to include comparisons with outside rates these should be as accurate and wide-ranging as possible and should in principle therefore reflect geographical differences where these are significant. All three considerations apply with particular force to the pay of staff who are recruited locally rather than nationally, and who are not in practice required to move outside their home area.

(3) Report of the Priestley Royal Commission, 1955, paragraphs 292-308

7. Outside practice varies. A number of other large employers of white collar staff also rely on national rates with variations for London and sometimes for one or two other large cities. The Civil Service practice is not unique. We understand for example that ICI, Shell and a number of the nationalised industries have pay scales which apply nationally, with an additional London allowance. Some other organisations (eg the Clearing Banks; Marks and Spencer) have London rates, a standard provincial rate and higher rates in some urban areas where recruitment considerations require these. But the Committee may wish to obtain more information on the practices of other employers generally.

8. If a change were to be made to greater geographical differentiation in Civil Service pay rates a practical cost-effective system would be required which would not only be genuinely sensitive to local market variations (whilst continuing also to provide for differentiation by occupational groups of staff) but which would in practice help rather than hinder the efficient management of the Service. The following sections of this paper examine evidence of regional pay variations, possible ways of determining more localised rates in the Civil Service, and the management implications of these.

Evidence of pay variations

9. The case for moving to local pay in the Civil Service rests on the extent to which there are geographical variations both in the pay rates of comparable employers generally, and in the ease with which staff can be recruited and retained.

10. The main difficulty in making an accurate assessment of the case for change is the lack of detailed and reliable figures. The statistical material which is available is described in the following paragraphs. The Government suggests, however, that the Committee

may wish to commission further work not only on the practice of other employers but also on the evidence of geographical variations in non-manual pay generally on a more disaggregated basis than is available at present.

11. The best source of published information about geographical variations in earnings (rather than pay rates) amongst non-manual employees generally is the Department of Employment's New Earnings Survey (NES). The NES data on the category of clerical and related staff is one of the more closely matched groups to Civil Service work, although it covers a large range of jobs, some of which are undertaken by staff whom the Civil Service would not classify as 'clerical' (including telephonists and data processors). Additionally, within it returns show a marked disparity between the earnings of males and females. However, it can be used for illustrative purposes to give a broad-based indication of geographical variations in pay for this type of work.

12. Annex 3 shows variations in clerical earnings for male and female adult workers at regional and county level in 1980, weighted according to their participation rates in the relevant labour markets. It shows that:-

- i. in four of the 10 main regions (East Anglia, East Midlands, Yorkshire and Humberside, and Scotland) average clerical earnings are more than £5.00 a week below the national average, although in no case is the difference more than £7.00 per week. National average earnings are heavily weighted by relatively high earnings in London, so no regional average is higher than the national average. If a comparison is made between average earnings excluding London, the biggest regional difference is only £3.00 a week. Thus, London apart, there is relatively little variation between regions and such variation is in many cases within the confidence limits of the sample.

- ii. There are wider variations at county level. Average earnings between individual counties vary significantly, the range from top to bottom of the county data being as much as £20 a week. In many cases county earnings also vary considerably from the average for the region which contains them. It should be noted, however, that because of the small sample sizes the NES data are much less reliable at this level.

13. The picture presented by this analysis is perhaps not surprising. The NES standard regions do not correspond to any pay bargaining level and prima facie the region is a doubtful level of disaggregation to reflect the pay market. The evidence indicates more variation in earnings at county level, but more data are needed to test whether the more significant differences between counties are due mainly to the presence of the larger towns within them or as much to urban/rural differences as to geographical variations.

The existence of high pay counties in otherwise low pay regions may be due to the influence of individual cities (Bristol in Avon, Cardiff in South Glamorgan, Edinburgh in Lothian and Aberdeen in Grampian). Taking Great Britain as a whole, however, (and leaving London to one side) there is no significant difference between earnings in the "metropolitan" counties and the rest.

14. It is not clear how far geographical variations in pay rates are linked to other factors such as local living costs, local differences in the ease with which staff can be recruited, or the presence within an area of large high-or-low-paying organisations. Nor is it clear how far geographical variations apply in the same way to different groups of staff. The pattern of market rates for specialist staff, for example, may be very different from that for general clerical and administrative staff, and this would need to be taken into account in devising any local pay scheme.

Determination of local rates

15. There would be three main options for fixing the new pattern of rates on the basis of greater geographical differentiation in pay:

a. Distribution of a "national pay kitty"

On a relatively mechanistic basis data from, for example, the New Earnings Survey could be used to establish a "regional index" reflecting relative pay levels in different parts of the country, but weighted to take account of the geographical distribution of Civil Service staff. The total money available for Civil Service pay, however this was to be determined, would be distributed each year in accordance with this index. Annex 4 illustrates how this approach might work in practice for Clerical Officer pay.

This method could in theory have provided a relatively simple, though crude, approach for introducing a degree of geographical variation in the Civil Service rates which were derived from the old pay research system without increasing the overall pay bill in the process. For use in the future it would have three main drawbacks. First, statistics would almost certainly not be available to match all the grades in the Civil Service pay structure and the "index" would therefore be very rough and ready in its effect.

Second, the combination of the "pay kitty" and "geographical index" could lead to modifications in the way pay varied between different areas. Where the geographical distribution of staff in a Civil Service grade was markedly different from the distribution of employees at large covered by the comparable NES category, this would influence the resulting degree of variation in Civil Service pay rates.

Third, a mechanistic index approach of this kind, although relatively simple and economical to operate, would be derived entirely from statistical material on pay variations. It would not necessarily reflect the actual local recruitment and retention position either in the Civil Service or in other organisations.

b. Use of Local Market Evidence

Under this option pay rates would continue to be negotiated centrally, but evidence would be collected about actual pay

rates, together with information on the relative recruitment and retention position in each locality separately. Any significant variations in living costs might also need to be assessed. The data would be used to determine local pay rates for the Civil Service, at whatever level of disaggregation were chosen.

This approach, if applied fully, would inevitably be complicated and costly, involving in effect several parallel pay determination exercises. The process could however be simplified in a number of ways: for instance if local pay was restricted to a limited number of grades, and if detailed surveys were carried out only at intervals, even though this would mean that the system would be unable to respond to any rapid changes in geographical pay relativities. It might also be possible to restrict the range of pay variations. UK local authorities, for instance, agree national salary scales containing a spread of incremental points, but for some grades individual authorities have discretion to choose which particular group of points within the scale to use. Their rates can accordingly be pitched higher or lower (within the nationally agreed limits) according to local pay and other market considerations. In the non-industrial Civil Service it would be possible to use local evidence on pay rates and other market conditions to assign office locations to a number of pay "bands". But this would be a cruder approach, and would give a less accurate reflection of local market conditions.

c. Variations for specific areas (including London)

As an alternative, variations from a national rate might be introduced only in some areas outside London - including some large towns and also other demarcated areas of exceptionally low or high pay. The national rate applying outside London and other designated areas could then perhaps be relatively lower than it is at present. To make special payments for staff in large towns would be in line with the practice of some outside employers. Variations of this kind might be calculated in two ways.

First by local market surveys, as in option b above. This approach would offer the greatest flexibility, though it would be subject to the same disadvantages as option b. Alternatively, there might be a flat rate allowance, on the lines of the present London Weighting allowance but applying to other listed large towns. This option would be a simpler but cruder form of local differentiation but would be similar to the system of provincial differentiation abandoned over 20 years ago. Either approach would have to be strictly operated, in order to resist pressure to add further contributions to the list.

Decentralised Pay Bargaining

16. A much more far-reaching change in moving to greater geographical variation in pay rates would be to end the present practice of centralised pay negotiations in the non-industrial Civil Service and to delegate control over pay levels to local (or to regional) managers who would take local market conditions directly into account in negotiating pay rates for their staff. The Government would welcome the Committee's general views on this possibility.

17. The Government believes that it is important that managers in the Civil Service should have greater discretion in controlling their resource allocations perhaps within a framework of local budgets, and departments are being encouraged to delegate resource control down the management chain where this is possible. To decentralise the determination of pay rates for a manager's staff would, in principle, be consistent with this approach. Pay could then be set in a way which took maximum account of variations in the managerial requirements of different departments and of different functional activities within them. Bargaining at local level would also be the most direct way in which to take account of local employment conditions and other market factors in fixing Civil Service pay rates.

18. Such a change, especially if introduced for the non-industrial Civil Service as a whole, would have considerable implications for the present financial and management structure. The framework of financial control over the administrative costs of central government rests on departmental cash limits for which the Ministers in charge of Departments are accountable to Parliament. It could be difficult to give local managers sufficient freedom of action, whilst retaining the degree of central financial control on which the present system is based. Also, a high proportion of Civil Service offices in

each locality are individually very small, and are part of national networks (such as the Inland Revenue tax and collection offices, the DHSS social security offices and the local offices of the Department of Employment and Manpower Services Commission). Most local offices are providing a specified (often statutory) service, and local managers would accordingly have only limited scope, if any, to vary the scale of their activities as a means of adjusting the pay levels they could afford from the budgets allocated to them and would also have limited flexibility for changes in the pattern of resources, particularly manpower, which they were using. Greater flexibility could imply a willingness to accept variations in the local operating standards of national services such as those provided by DHSS and the Inland Revenue. But this would be contrary to the policy approach on which these services are based.

19. There could, therefore, be difficulties in local pay bargaining at the office level. More generally, if decentralisation were on the basis of individual management units, this could lead to different Civil Service pay rates for similar jobs in the same locality and the risk of "leap-frogging" claims. On the other hand, pay bargaining "cross-departmentally" at regional, or local, level would cut across departmental responsibilities and would present problems given the different departmental regional boundaries and departmentally based structure of financial control.

20. Decentralised pay bargaining for non-manual workers does not appear to be a common practice in other large organisations. If it was applied in the Civil Service as a whole it would have implications for the whole framework of financial and managerial control at departmental and sub-departmental level.

MANAGEMENT: IN CONFIDENCE

21. . . The main scope for considering the introduction of decentralised pay bargaining may be in a limited number of areas where management operations are relatively self-contained and where the existing financial and management structure provides a better basis for delegating more responsibility for setting pay levels. These include establishments such as the Royal Ordnance Factories and the Royal Mint which operate on commercial lines and whose costs are controlled through Trading Funds. The Government would, in any case, wish to examine the possibility of changes in areas such as these in the light of the Inquiry's general recommendations on this issue.

MANAGEMENT: IN CONFIDENCE

London Weighting or London pay

22. Since the 1967 Report of the National Board for Prices and Incomes London Weighting has been based on compensation for the higher costs of working and living in London. An approach based on relative living costs has been seen as having the advantage of preventing rates of pay from becoming inflated as a result of competition for staff between employers on the basis of straightforward pay differentials for work in London. The Pay Board made recommendations in 1974 on the calculation of allowances based on this approach and the method they proposed was subsequently widely adopted in both the public and private sectors. During periods of pay policy in recent years increases in London Weighting had to conform to limitations on increases in pay. In 1981 the increase in London Weighting for the Civil Service was restricted to 7% to accommodate the cost within the cash limits fixed for expenditure on Civil Service pay. Full implementation of the increase indicated by the Department of Employment's indices (available in June each year) would have involved an increase of 12½%. No decision has yet been reached about the basis on which London Weighting should be settled this year for the Civil Service. But the Government will take account of the present

Inquiry's recommendations if its report is available in time and bears on the general question of local differentials in pay for the Civil Service.

23. If it were decided to introduce a new pay system for the Civil Service based on geographical variations in pay rates in the country as a whole it would clearly be anomalous to maintain a separate London Weighting allowance calculated on living costs. Instead the new system could be applied in London as in all other parts of the country. Even if local pay variations were not to be introduced generally it would be possible to consider moving London Weighting from a living cost to a pay market basis. There is, however, no reason to suppose that London rates of pay based on evidence of pay market variations would be lower than the present combination of national rates plus London Weighting based on living costs.

24. A separate possibility for consideration would be to increase the number of London Weighting zones to reduce the size of the "cliff edge" between them and the national rate. But this would also add to the range of boundary problems.

25. Any change in the London Weighting arrangements for the Civil Service could have wider repercussions in view of the widespread use of London Weighting payments in the public sector as a whole.

"Mobile" and "non-mobile" grades

26. There is a stronger case on management grounds for local pay for more junior staff, than for those above. Staff below Executive Officer (EO) and equivalent levels may not, under their conditions of service, be moved beyond reasonable travelling distance of the home established in connection with their original job; these are junior "non-mobile" grades. Prospective recruits for jobs at these levels (such as typists, data processors, clerks and messengers) are likely to be influenced more by the current pay rates offered by employers within their home area and less by longer-term career prospects. Rates offered by other employers in each area are therefore more directly relevant in the case of more junior staff.

27. The more senior Civil Service staff are "mobile" - that is, they are expected to move their home if necessary to meet the needs of their work. In fact, a number of staff at the more junior management levels (especially Executive Officer and equivalent grades) join the

Civil Service in the hope of continuing to work in their home area. But other entrants at the same level join for career reasons and readily accept moves to new locations. Departments with regional and local office networks such as Inland Revenue, DHSS, Customs and Excise and the Departments of Employment, Industry and the Environment, do frequently need to move staff between locations at both middle management and the most senior levels.

28. The Civil Service recruits and manages all its "mobile" staff nationally. Local differences in pay rates are accordingly less relevant at these levels, especially above the junior management grades at Executive Officer level.

Administrative Considerations

29. Whether local pay were introduced at all levels, or only for the more junior grades, it would inevitably add to the complexity of the pay system, as follows:-

i. Costs

It is likely that any new system would add to the cost of administering the pay system. As was found to be the case with the earlier system of provincial differentiation, the pay negotiating process would itself become more complex and probably more lengthy too. There could also be a considerable extra load on departmental personnel units, pay offices and computer centres where the number of pay scales in use would be multiplied and disputes about the boundaries stemming from pay variation would have to be handled. The costs of administration would increase in proportion to the number of separate pay zones (or large town allowances).

ii. Boundaries

Where departments are organised regionally, their regional boundaries do not necessarily coincide either with each other or with the standard regions; and at both the regional and more local levels it would be difficult to find boundaries which met the management requirements of all departments. Unless agreement could be reached on aligning the various boundaries,

problems
 /could occur for departments who needed to move staff within a departmental region but across a pay boundary. Staff would be reluctant to move from a high paying area to a lower paying one, especially if there were no noticeable difference in living costs between the two. Boundary problems would obviously be greatest if local pay were applied to more senior as well as junior staff. The smaller the unit of variation which was adopted in any scheme, the greater the number of boundaries and therefore the problems stemming from staff crossing boundaries.

iii. "Interface" Problems

If local pay applied to non-mobile staff only, this would give rise to difficulties at the "interface" between grades whose pay was determined regionally and those whose pay was determined nationally. There could be a squeezing of differentials in high pay areas, and wide differentials in low pay areas. Apart from the internal management difficulties this would cause, there could be pressure to increase the national rates in order to ensure reasonable differentials in all areas. If geographical variations were introduced into non-industrial pay it would almost certainly be necessary to make similar changes in the pay of industrial staff, in order to avoid problems at the "interface" between the two groups.

30. The Committee may wish to consider the case for testing the management effects of more varied pay rates by [launching] a limited experiment covering, for example, selected groups of staff such as the typing grades and messengers who are generally non-mobile and whom the Civil Service recruits locally, often in direct competition with other employers. A decision on whether to introduce variations in pay more generally could be taken in the light of the outcome of this experiment.

Conclusions

31. There would, in principle, be attraction in moving towards local variations in Civil Service pay. Bringing Civil Service pay rates closer to local market conditions could help with the management task of recruiting and retaining sufficient staff; ensure that pay was no higher than necessary to achieve these ends; and reassure other local employers that the Civil Service was not distorting the market by importing national rates. The main drawbacks to adopting this approach lie in the [considerable] management problems which its widespread application would cause, and the consequent administrative costs.

32. The Government considers that it would be desirable for more work to be undertaken in order to obtain more refined data, and to gain more information on the practices of other employers.

PROVINCIAL DIFFERENTIATION

1. A "three tier" system of provincial differentiation was introduced in 1920 in accordance with a recommendation of the Reorganisation Committee of the National Whitley Council. Only Edinburgh and Dublin were classified as intermediate, the rest of the country being treated as provincial. This system involved different scales for salaried staff employed outside London; not more than 10% less for provincial staff but no more than 5% less for intermediate staff. Not all grades were subject to provincial differentiation and in particular it was agreed that mobile staff would remain on undifferentiated rates.
2. The Tomlin Royal Commission of 1929/31 recommended that a system of provincial differentiation should be maintained but that, for administrative convenience, provincial and intermediate rates should be fixed by reducing the London salaries by a series of flat rate reductions. They also recommended that the exemption from differentiation should be continued for the mobile classes. They further recommended that the intermediate classification should be extended to six more large towns. The substance of these recommendations was put into effect in 1935 with a total of 11 large towns in the intermediate category.
3. After the 1939-45 war the system of provincial differentiation was extended to monthly paid staff generally, including those classified as mobile, and in 1947 the system of calculating rates outside London had become virtually uniform. Thereafter, only one scale for each grade was produced - the London scale. The pay for officers elsewhere was calculated by a system of deductions for intermediate and provincial officers, varying according to the London salary band, as shown in the attached table.
4. In 1951 the London area was extended to an area within a 12 mile radius from Charing Cross. The intermediate rate was extended to all offices in an area beyond this 12 mile

radius but within 16 miles of Charing Cross and offices within the boundaries of the following local authorities:-

Belfast	Leeds
Birmingham	Leicester
Bradford	Liverpool
Bristol	Manchester
Cardiff	Newcastle-upon-Tyne
Coventry	Nottingham
Edinburgh	Portsmouth
Glasgow	Sheffield
Hull	Stoke

The rough criterion was a population of 250,000 or more.

5. The Priestley Royal Commission (1953/55) concluded that some form of provincial differentiation was necessary in view of the almost universal practice outside the Civil Service. Outside comparison had revealed that a two-tier system of differentiation based on a national rate with a London allowance addition was the most common practice and it was therefore recommended for the Civil Service. On 1 April 1956 higher rates of differentiation which had been recommended as an interim step by the Priestley Royal Commission were implemented and on 1 January 1958 the present two-tier system of London Weighting was introduced, progress from the old provincial rate to the intermediate (new national) being achieved in stages over four years. The London pay area was redefined on 1 January 1953 as a radius of 16 miles from Charing Cross plus the local authority areas of four intersected towns. Staff in the London area received a London Weighting equal to the previous differentiation between London and intermediate rates.

PROVINCIAL DIFFERENTIATION

Deductions from London Annual Salaries for Intermediate and Provincial Offices: operative from 1947.

London salary (exclusive of allowances)	Intermediate Offices		Provincial Offices		London salary (exclusive of allowances)	Intermediate Offices		Provincial Offices	
	Dedn.	Salary	Dedn.	Salary		Dedn.	Salary	Dedn.	Salary
1	2	3	4	5	1	2	3	4	5
£ -275	£ 5	£ -270	£ 10	£ -265	£ 751-754	£ 15	£ 736-739	£ 31	£ 720-723
276-279	5	271-274	11	265-268	755-758	16	739-742	32	723-726
280-283	6	274-277	12	268-271	759-762	16	743-746	33	726-729
284-287	6	278-281	13	271-274	763-766	17	746-749	34	729-732
288-291	7	281-284	14	274-277	767-770	17	750-753	35	732-735
292-295	7	285-288	15	277-280	771-774	18	753-756	36	735-738
296-299	8	288-291	16	280-283	775-778	18	757-760	37	738-741
300-303	8	292-295	17	283-286	779-782	19	760-763	38	741-744
304-307	9	295-298	18	286-289	783-786	19	764-767	39	744-747
308-311	9	299-302	19	289-292					
					787-1,000	20	767-980	40	747-960
312-450	10	302-440	20	292-430	1,001-1,004	20	981-984	41	960-963
					1,005-1,008	21	984-987	42	963-966
451-454	10	441-444	21	430-433	1,009-1,012	21	988-991	43	966-969
455-458	11	444-447	22	433-436	1,013-1,016	22	991-994	44	969-972
459-462	11	448-451	23	436-439	1,017-1,020	22	995-998	45	972-975
463-466	12	451-454	24	439-442	1,021-1,024	23	998-1,001	46	975-978
467-470	12	455-458	25	442-445	1,025-1,028	23	1,002-1,005	47	978-981
471-474	13	458-461	26	445-448	1,029-1,032	24	1,005-1,008	48	981-984
475-478	13	462-465	27	448-451	1,035-1,038	24	1,009-1,012	49	984-987
479-482	14	465-468	28	451-454	1,037-1,040	25	1,012-1,015	50	987-990
483-486	14	469-472	29	454-457	1,041-1,044	25	1,016-1,019	51	990-993
					1,045-1,048	26	1,019-1,022	52	993-996
487-750	15	472-735	30	457-720	1,049-1,052	26	1,023-1,026	53	996-999
					1,053-1,056	27	1,026-1,029	54	999-1,002

London salary (exclusive of allowances)	Intermediate Offices		Provincial Offices		London salary (exclusive of allowances)	Intermediate Offices		Provincial Offices	
	Dedn.	Salary	Dedn.	Salary		Dedn.	Salary	Dedn.	Salary
1	2	3	4	5	1	2	3	4	5
£ 1,057-1,060	£ 27	£ 1,030-1,033	£ 55	£ 1,002-1,005	£ 1,273-1,276	£ 39	£ 1,234-1,237	£ 79	£ 1,194-1,197
1,061-1,064	28	1,033-1,036	56	1,005-1,008					
1,065-1,068	28	1,037-1,040	57	1,008-1,011	1,277-1,500	40	1,237-1,460	80	1,197-1,420
1,069-1,072	29	1,040-1,043	58	1,011-1,014					
1,073-1,076	29	1,044-1,047	59	1,014-1,017	1,501-1,504	40	1,461-1,464	81	1,420-1,423
1,077-1,200	30	1,047-1,170	60	1,017-1,140	1,505-1,508	41	1,464-1,467	82	1,423-1,426
1,201-1,204	30	1,171-1,174	61	1,140-1,143	1,509-1,512	41	1,468-1,471	83	1,426-1,429
1,205-1,208	31	1,174-1,177	62	1,143-1,146	1,513-1,516	42	1,471-1,474	84	1,429-1,432
1,209-1,212	31	1,178-1,181	63	1,146-1,149	1,517-1,520	42	1,475-1,478	85	1,432-1,435
1,213-1,216	32	1,181-1,184	64	1,149-1,152	1,521-1,524	43	1,478-1,481	86	1,435-1,438
1,217-1,220	32	1,185-1,188	65	1,152-1,155	1,525-1,528	43	1,482-1,485	87	1,438-1,441
1,221-1,224	33	1,188-1,191	66	1,155-1,158	1,529-1,532	44	1,485-1,488	88	1,441-1,444
1,225-1,228	33	1,192-1,195	67	1,158-1,161	1,533-1,536	44	1,489-1,492	89	1,444-1,447
1,229-1,232	34	1,195-1,198	68	1,161-1,164	1,537-1,540	45	1,492-1,495	90	1,447-1,450
1,233-1,236	34	1,199-1,202	69	1,164-1,167	1,541-1,544	45	1,496-1,499	91	1,450-1,453
1,237-1,240	35	1,202-1,205	70	1,167-1,170	1,545-1,548	46	1,499-1,502	92	1,453-1,456
1,241-1,244	35	1,206-1,209	71	1,170-1,173	1,549-1,552	46	1,503-1,506	93	1,456-1,459
1,245-1,248	36	1,209-1,212	72	1,173-1,176	1,553-1,556	47	1,506-1,509	94	1,459-1,462
1,249-1,252	36	1,213-1,216	73	1,176-1,179	1,557-1,560	47	1,510-1,513	95	1,462-1,465
1,253-1,256	37	1,216-1,219	74	1,179-1,182	1,561-1,564	48	1,513-1,516	96	1,465-1,468
1,257-1,260	37	1,220-1,223	75	1,182-1,185	1,565-1,568	48	1,517-1,520	97	1,468-1,471
1,261-1,264	38	1,223-1,226	76	1,185-1,188	1,569-1,572	49	1,520-1,523	98	1,471-1,474
1,265-1,268	38	1,227-1,230	77	1,188-1,191	1,573-1,576	49	1,523-1,527	99	1,474-1,477
1,269-1,272	39	1,230-1,233	78	1,191-1,194					
					1,577-	50	1,527-	100	1,477-

(1)
Non-industrial Civil Service by economic planning region:
staff in post 1 January 1981 (full-time equivalent)

	<u>Thousands</u>	<u>Percentage</u>
South East of which:	217.0	40.0
Inner London	86.3	15.9
Outer London	45.5	8.4
South West	50.4	9.3
West Midlands	28.6	5.3
North West	54.3	10.0
Northern	35.6	6.6
Yorkshire & Humberside	30.4	5.6
East Midlands	20.8	3.8
East Anglia	12.6	2.3
Wales	30.1	5.6
Scotland	50.7	9.3
Northern Ireland	3.4	0.6
Elsewhere	8.7	1.6
Total	542.8	100

(1) Including Diplomatic Service

Average clerical earnings showing variations at regional and county level: 1980 New Earnings Survey Data for "clerical and related" category (i)

	Average weekly earnings	County variation from regional average	Variation from national average (inc. London)	Variation from national average (exc. London)
London	£97.80	-	+£14.40	+£18.50
Rest of South East	£81.90	-	+£ 1.50	+£ 2.60
Bedfordshire	£82.80	+£0.90	-£ 0.60	+£ 3.50
Berkshire	£86.50	+£4.60	+£ 3.10	+£ 7.20
Buckinghamshire	£79.20	-£2.70	-£ 4.20	-£ 0.10
East Sussex	£78.30	-£3.60	-£ 5.10	-£ 1.00
Essex	£82.70	+£0.80	-£ 0.70	+£ 3.40
Hampshire	£82.60	+£0.70	-£ 0.80	+£ 3.30
Hertfordshire	£84.70	+£2.80	+£ 1.30	+£ 5.40
Isle of Wight	£74.50	-£7.40	-£ 8.90	-£ 4.80
Kent	£78.10	-£3.80	-£ 5.30	-£ 1.20
Oxfordshire	£78.10	-£3.80	-£ 5.30	-£ 1.20
Surrey	£84.00	+£2.10	+£ 0.60	+£ 4.70
West Sussex	£81.40	-£0.50	-£ 2.00	+£ 2.10
East Anglia	£77.90	-	-£ 5.50	-£ 1.40
Cambridge	£77.60	-£0.30	-£ 5.80	-£ 1.70
Norfolk	£77.90	£0.00	-£ 5.50	-£ 1.40
Suffolk	£78.50	+£0.60	-£ 4.90	-£ 0.80
South West	£79.90	-	-£ 3.50	+£ 0.60
Avon	£83.20	+£3.30	-£ 0.20	+£ 3.90
Cornwall	£71.50	-£8.40	-£11.90	-£ 7.80
Devon	£76.60	-£3.30	-£ 6.80	-£ 2.70
Dorset	£76.50	-£3.40	-£ 6.90	-£ 2.80
Gloucestershire	£88.30	+£8.40	+£ 4.90	+£ 9.00
Somerset	£74.70	-£5.20	-£ 8.70	-£ 4.60
Wiltshire	£78.50	-£1.40	-£ 4.90	-£ 0.80
West Midlands	£79.40	-	-£ 4.00	+£ 0.10
West Midlands				
Metropolitan County	£79.80	+£0.40	-£ 3.60	+£ 0.50
Hereford & Worcester	£76.80	-£2.60	-£ 6.60	-£ 2.50
Salop	£77.90	-£1.50	-£ 5.50	-£ 1.40
Staffordshire	£79.00	-£0.40	-£ 4.40	-£ 0.30
Warwickshire	£72.00	-£7.40	-£11.40	-£ 7.30
East Midlands	£76.30	-	-£ 7.10	-£ 3.00
Derbyshire	£74.70	-£1.60	-£ 8.70	-£ 4.60
Leicestershire	£76.20	-£0.10	-£ 7.20	-£ 3.10
Lincolnshire	£73.60	-£2.70	-£ 9.80	-£ 5.70
Northamptonshire	£78.40	+£2.10	-£ 5.00	-£ 0.90
Nottinghamshire	£77.40	+£1.10	-£ 6.00	-£ 1.90

(1) Northern Ireland is not covered by the NES data and is therefore excluded from Annexes 3 and 4. However, as Annex 2 shows, there is a small number of non-industrial home civil servants in Northern Ireland.

	Average weekly earnings	County variation from regional average	Variation from national average (inc. London)	Variation from national average (exc. London)
Yorkshire & Humberside	£76.80		-£ 6.60	-£ 2.50
South Yorkshire				
Metropolitan County	£76.70	-£0.10	-£ 6.70	-£ 2.60
West Yorkshire				
Metropolitan County	£76.60	-£0.20	-£ 6.80	-£ 2.70
Humberside	£74.90	-£1.90	-£ 8.50	-£ 4.40
North Yorkshire	£79.80	+£3.00	-£ 3.60	+£ 0.50
North West	£79.90	-	-£ 3.50	+£ 0.60
Greater Manchester	£79.70	-£0.20	-£ 3.70	+£ 0.40
Metropolitan County				
Merseyside Metropolitan	£80.70	+£0.80	-£ 2.70	+£ 1.40
County				
Cheshire	£80.80	+£0.90	-£ 2.60	+£ 1.50
Lancashire	£79.00	-£0.90	-£ 4.40	-£ 0.30
North	£78.70	-	-£ 4.70	-£ 0.60
Tyne & Wear Metropolitan	£80.40	+£1.70	-£ 3.00	+£ 1.10
County				
Cleveland	£77.10	-£1.60	-£ 6.30	-£ 2.20
Cumbria	£79.70	+£1.00	-£ 3.70	+£ 0.40
Durham	£76.10	-£2.60	-£ 7.30	-£ 3.20
Northumberland	£68.90	-£9.80	-£14.50	-£10.40
Wales	£79.40	-	-£ 4.00	+£ 0.10
Clwyd-West	£71.40	-£8.00	-£12.00	-£ 7.90
Clwyd-East	£77.10	-£2.30	-£ 6.30	-£ 2.20
Dyfed	£76.70	-£2.70	-£ 6.70	-£ 2.60
Gwent	£78.20	-£1.20	-£ 5.20	-£ 1.10
Gwynedd	£82.40	+£3.00	-£ 1.00	+£ 3.10
Mid Glamorgan	£75.60	-£3.80	-£ 7.80	-£ 3.70
Powys	£74.50	-£4.90	-£ 8.90	-£ 4.80
South Glamorgan	£83.80	+£4.40	+£ 0.40	+£ 4.50
West Glamorgan	£80.70	+£1.30	-£ 2.70	+£ 1.40
Scotland	£77.50	-	-£ 5.90	-£ 1.80
Borders	£68.20	-£9.30	-£15.20	-£11.1
Central	£72.70	-£4.80	-£10.70	-£ 6.60
Dumfries & Galloway	£68.70	-£8.80	-£14.70	-£10.60
Fife	£74.20	-£3.30	-£ 9.20	-£ 5.1
Grampian	£81.50	+£4.00	-£ 1.90	+£ 2.20
Highland	£74.70	-£2.80	-£ 8.70	-£ 4.60
Lothian	£80.90	+£3.40	-£ 2.50	+£ 1.60
Strathclyde	£78.00	+£0.50	-£ 5.40	-£ 1.30
Tayside	£68.50	-£9.00	-£14.90	-£10.80
Islands	£78.90	+£1.40	-£ 4.50	-£ 0.40
Great Britain	£83.40	-	-	+£ 4.10
Great Britain, excluding London	£79.30	-	-£ 4.10	-

Regional (and county) variations in Clerical Officer maximum resulting from indexation to the earnings of the clerical and related category in the 1980 NES

	I	II	III
	Index (Total GB=100)	Regionally indexed CO maximum (1.4.81 rate)	Variation from current maximum
<u>Standard Regions</u>			
London and South East of which:			
London	1.173	£6229 (Inner) (Outer)	+£ 40 +£673
Rest of South East	0.983 (0.893-1.037)	£5220 (£4742-5506)	+£118 (-£360, +£404)
East Anglia	0.935 (0.931-0.941)	£4965 (£4944-4997)	-£137 (-£158, -£105)
South West	0.969 (0.857-1.059)	£5145 (£4551-5623)	+£ 43 (-£551, +£521)
West Midlands	0.942 (0.863-0.947)	£5002 (£4583-5029)	-£100 (-£519, -£73)
East Midlands	0.918 (0.883-0.940)	£4875 (£4689-4991)	-£227 (-£ 413, +£111)
Yorkshire and Humberside	0.923 (0.898-0.957)	£4901 (£4768-5082)	-£201 (-£334, -£20)
North West	0.957 (0.947-0.969)	£5082 (£5029-5145)	-£ 20 (-£72, +£43)
Northern	0.949 (0.826-0.964)	£5039 (£4386-5119)	-£ 63 (-£716, +£17)
Wales	0.960 (0.856-1.005)	£5098 (£4545-5337)	-£ 4 (-£557, +£235)
Scotland	0.936 (0.818-0.970)	£4970 (£4344-5151)	-£132 (-£758, +£49)
Great Britain	1.000 (0.818-1.173)	£5310 ² (£4344-£6229)	-

Notes: 1. The current maximum is £5102 outside London, £6189 in Inner London and £5556 in Outer London

2. National average rate based on current national maximum (£5102), plus a notional element of £208 for London Weighting spread over the whole of Great Britain

3. Figures in brackets denote the range of the county figures within the region.

ILLUSTRATION OF THE "REGIONAL INDEX"

1. This annex illustrates the results of applying a "regional index" to the 1.4.81 scale maximum for clerical officers. It is based on data on "clerical and related earnings" (males aged 21 years and over and females aged 18 years and over) from the Department of Employment's annual New Earnings Survey (NES) for 1980. This is not entirely satisfactory since the "clerical and related" category aggregates data on jobs which in the Civil Service are carried out by separate and different grades. Moreover, the NES "clerical and related" category includes civil servants, so there is an element of circularity. However it is the best data available at present and the results should give a reasonable indication of regional variations.
2. The "regional index" (column 1 of the table) is calculated by dividing the gross weekly earnings of the "clerical and related" category in each region and county by the national average for this category, weighted by the numbers of Civil Service clerical officers in each county or region. It shows in index form the variations from a single national rate which would result from paying salaries in line with the average in each region and county. The index therefore reflects these relative earnings levels. Weighting the national average by the geographical distribution of clerical officers in the Civil Service would ensure that the total wage bill for this grade would be unaffected, since the cost of fixing pay in accordance with this index would then be the same as having a national rate with an index value of one.
3. Column II shows the results of applying the "regional index" to the current clerical officer maximum, on the assumption that the amount of money available for distribution is the present pay bill for clerical officers, including London Weighting. Regional rates (and also county rates although these are not shown in detail) have been calculated by multiplying by the index given in column 1 the current clerical officer maximum enhanced by an element for London Weighting equal to the average cost of London Weighting spread throughout the grade. Column III shows the extent to which these local rates exceed or fall short of current rates at the maximum (£5102 outside London, £6189 in Inner London and £5556 in Outer London). The figures in brackets show the range of county rates within each region. The relatively large range of rates within each region reflects the considerable variation at county level in the average earnings of the "clerical and related" category observed in Annex 3.

NOTE ON ISSUES ON LOCAL PAY*(not part of evidence to Megaw)*a. Should there be more varied geographical pay rates?

The idea is attractive in principle. Outside pay rates do vary and the Civil Service (in common with other employers) is probably paying too much in some areas and too little in others. In practice, however, local pay is likely to be an expensive option for us partly because of the large numbers of civil servants in London and the South East generally and in urban centres elsewhere. Annex 3 of the paper indicates (in its final column) the present range of geographical variations in clerical earnings. The London rate is 23% above the national average (excluding London itself): 25% of civil servants work there. Earnings are lowest in the East Midlands (4% below the national average): only 3.3% of civil servants work there.

Local pay would inevitably bring with it administrative complexities for pay centres and personnel divisions and pressures (from management as well as unions) to enlarge boundaries and improve differentials. Presumably it is similar factors that lead other large employers of non-manual staff to make only limited variations in pay on grounds of locality.

In their evidence to Megaw the EEF come down against localised pay on practical grounds while recognising its attractions in principle. The CBI ask for the possibility of making pay levels more responsive to local labour markets to be considered and refer to the possibility of returning to the old system of provincial differentiation (abolished following Priestley). But they point to the risk of "wage-drift" as a result of localised pay bargaining. In theory, the higher the number of areas designated for additional payments the lower the basic national rate would be. But in the Civil Service the number of staff in high paying areas (especially London) might well lead to an increase in total pay costs by comparison with the present national rate approach.

b. If local pay were introduced what type of scheme should be adopted?

The Government has already made it clear to the Inquiry that it wants market factors, including the recruitment and retention position, to play a significant part in any future system for determining Civil Service pay. Any local pay scheme would need to take account of these factors. There is therefore little to be said for any mechanistic kind of "distribution index" (on the lines discussed in paragraph 16(a) of the paper), which was an option put forward in the context of the pay research system. The use of local market evidence to fix a large number of different pay rates (paragraph 16(b)) would be the most sophisticated but also the most complex approach. Simpler (and cruder) approaches such as geographical "pay bands" (paragraph 16(b)) or large town allowances supplementary to a national rate (paragraph 16(c)) might in practice be the most feasible option for greater geographical variation. Most other

large employers of non-manual staff appear to settle a national rate and make additional payments in specified localities.

We have no quantitative estimate of the administrative cost of operating provincial differentiation up to 1953. But it is frequently mentioned as a concern in assessments at the time. A full list of the geographical differentiation involved at the time of the Priestley Report is attached. The main problems were the complexity of the pay scales themselves (illustrated in Annex 1 to the paper); the time consuming arguments with departments over the boundaries and numbers of staff to be included in the different "intermediate" areas; the growing inability of the unions to curb insistence by their members on tabling leap-frogging claims and claims for boundary adjustments and the creation of "special high cost" areas. At the time the Treasury concluded that the present approach represented an inexpensive way out of provincial differentiation as it existed and was likely to develop.

c. Should a scheme apply to all staff or "non-mobiles" only?

Our view (which we believe accords with outside practice) is that any geographical variations would be more appropriate for staff who were recruited locally and would expect to continue working locally; and not for those who joined the Civil Service for a career and may be required to move home if necessary to meet the needs of the job. Outside at middle and senior levels "national rates" generally apply regardless of location apart from a London allowance.

d. London Weighting.

If pay variations based on local market pay evidence were introduced nationally it would be anomalous to continue with the present two-tier London Weighting allowances, based on differential living costs.

There is also the question whether, even if no other changes were made, the level of London payments should be based on market pay factors. One reason for moving to market pay in London would be the recruitment and retention difficulties experienced there in the past. The experience of Inland Revenue and Customs and Excise of recruitment problems in London (at least until the current high level of unemployment) is not unique but has been shared by departments generally.

A change would, however, have significant repercussions in other public services and beyond because of the wide use which is made in the public sector of the present London Weighting approach. Past assessments have suggested that a move towards "London pay market" rates would add to London pay costs. We have inadequate data on the present position but there is no reason to suppose that when employment picks up again the picture will be different. There are other measures which could be contemplated at less cost such as advances of London Weighting for season tickets (which other employers practice widely). A separate possibility would be to increase the number of zones in order to reduce the size of the "cliff edge" between London rates and those elsewhere although at the cost of

adding to the overall number of boundary problems. Unless Megaw is to be invited to consider the use of London Weighting in the public services generally it might be preferable for the paper to be neutral on this, leaving the main issue for Megaw whether or not local pay should be introduced in the Civil Service countrywide.

e. Decentralised bargaining.

The main options discussed in the paper envisage that pay bargaining would continue to take place at national level under Treasury control. Decentralisation of pay bargaining to local or regional managers would be a much more far-reaching change.

If pay bargaining took place with the unions at local or regional level there would be a risk that negotiations would develop into a contest of prowess between trade unionists in different areas to maximise their relative gains. But more importantly decentralised bargaining would have implications going well beyond purely pay matters to the whole framework of financial and managerial control at departmental and sub-departmental level. If financial control was to remain effective a close degree of central monitoring would be required and limits would have to be set on the range of discretion for local management. In the absence of a sound basis for output budgeting the cash limit system could not be refined sufficiently to exert the necessary financial disciplines without a need for supplementary controls over pay. While local managers could be restrained by their cash allocation most local offices are producing a service (eg payment of social security or collection of taxes) and have no freedom to reduce the scale of their activities to match the staff resources they can extract from their allocated pay bill. If decentralisation was on the basis of management units this could lead to different Civil Service pay rates for the same job in the same locality which Ministers would find difficult to defend. But "cross-departmental" bargaining at regional or local level would present problems given the different departmental regional boundaries and the departmentally-based structure of financial control.

There may, however, be particular areas (eg the Royal Mint, the Royal Ordnance Factories) engaged on commercial or quasi-commercial operations where more decentralisation would work linked to an overall budgetary control approach. But the scope is limited if effective control is to be maintained over pay bill costs as a whole.

APPENDIX VIII

(see Chapter VI)

PROVINCIAL DIFFERENTIATION

Classification of areas: operative from 1951.

LONDON AREA

Offices within a 12 mile radius of Charing Cross (King Charles Statue).

INTERMEDIATE AREAS

Offices outside a 12 mile radius of Charing Cross but within a 16 mile radius thereof, and also those situated within the boundaries of the following local authorities:—

Belfast Area	...	...	...	Belfast
Birmingham Area	...	...	...	Birmingham Dudley Oldbury Smethwick Tipton West Bromwich
Bradford Area	...	...	...	Bradford Shipley
Bristol Area	...	...	...	Bristol Filton
Cardiff Area	...	...	...	Cardiff (municipal boundary only)
Coventry Area	...	...	...	Coventry
Edinburgh Area	...	...	...	Edinburgh Musselburgh
Glasgow Area	...	...	...	Glasgow Cambuslang Cathcart Clydebank Eastwood Rutherglen (including the Royal Burgh)
Hull Area	...	...	...	Kingston-upon-Hull
Leeds Area	...	...	...	Leeds
Leicester Area	...	...	...	Leicester
Liverpool Area	...	...	...	Liverpool Birkenhead Bootle Crosby Litherland Wallasey
Manchester Area	...	...	...	Manchester Eccles Prestwich Salford Stockport Stretford

Newcastle-upon-Tyne Area	...	...	...	Newcastle-upon-Tyne Felling Gateshead Hebburn Jarrow South Shields Tynemouth Wallsend
Nottingham Area	...	...	...	Nottingham Beeston and Stapleford
Portsmouth Area	...	...	...	Portsmouth Gosport
Sheffield Area	...	...	...	Sheffield
Stoke Area	Stoke Newcastle-under-Lyme (municipal boundary only)

PROVINCIAL AREAS

All offices elsewhere.

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