



Ref. A08227

PRIME MINISTER

Public Services Pay

Mr. Gregson has sent you a note on the issues for consideration at your meeting on pay on 27th April.

2. I have discussed with Sir Douglas Wass whether he and I should offer you any advice or comments as Joint Heads of the Civil Service. It is clearly invidious for either of us to do so, as our own pay is affected; and it would be particularly invidious for him, since the Government's decision on the TSRB recommendations will determine the level of his pension. He has therefore preferred not to put any thoughts to you himself; but he has encouraged me in the view that I ought to do so.

3. The Government has a commitment to the armed forces to implement the recommendations of the Armed Forces Pay Review Body (AFPRB). It would clearly be virtually impossible to do other than implement the recommendations now, with the Falklands Task Force in action in South Georgia and nearing the Falkland Islands themselves.

4. The award by the Civil Service Arbitration Tribunal (CSAT), at 5.9 per cent, is marginally below the 6.1 per cent recommended for the armed forces by the AFPRB. Both are less than the 6.4 per cent offered to and so far not accepted by the nurses (the levels of these awards may help to encourage a positive response in the nurses' ballot); and both are less than the average increases for the current round hitherto, in the private sector as well as in the public sector. There is no commitment to the Civil Service (save the commitment to go to Parliament if the Government proposes to override the award). I do not see any signs of active preparation for industrial action by the Civil Service unions. But a decision to implement the award would do something to restore the confidence in the Government as employer which was gravely damaged by last year's events; and contrariwise a decision to override would once again damage that confidence and alienate many of those who stuck by their work last year; I do not believe that industrial action of some kind could be avoided.

5. A decision to override the award would create a special sense of bitterness among the civilians in the Ministry of Defence who have worked hard and long hours to get the Falklands Task Force ready and are supporting it now (I could document this if you would like me to).

6. Turning now to the groups covered by the Top Salaries Review Body (TSRB), the senior officers of the armed forces, the higher Civil Service and the judiciary are, as you know, the only groups covered by Review Body recommendations whose salaries in payment are still below the levels recommended by the TSRB for 1st April 1980 (the judiciary did better than the other two groups last year). One result of this has been acute compression of differentials, particularly at the "interface" with the people immediately below. The Brigadier is now paid £20,900, and the Major General £21,935; the corresponding levels in the Civil Service are Assistant Secretary maximum £20,895 and Under Secretary £21,935. These differentials, at only just over £1,000 (about 5 per cent) are clearly extremely narrow at this level. The AFPRB recommendation would take the Brigadier to £22,750; the CSAT award would take the Assistant Secretary maximum to £22,200; and the TSRB recommendation would take the Major General and the Under Secretary to £26,000. The resulting differentials (£3,250 or 14.3 per cent for the armed forces, £3,800 or 17.1 per cent for the Civil Service) would not be unreasonable at these salary levels. Paragraphs 42 and 43 of the TSRB report deal with this matter.

7. Clearly many of the arguments for implementing the AFPRB recommendations, given the fact that the armed forces are in action, apply to the TSRB recommendations in respect of the senior officers of the armed forces. These arguments do not apply in the same way to the higher Civil Service, though there are many of those in the relevant Departments much involved in work in support of the operation. But there is a strong and long tradition of salary relationships between the senior officers and the senior civil servants, and the TSRB consider that a change in the relationships would be inadvisable. I would endorse that view, and so (I know) would Sir Frank Cooper. The senior service officers and senior civil servants work closely alongside each other, particularly in the Ministry of Defence, and are used to and accept the traditional links. A change either way would be disruptive to good management, particularly in the Ministry of Defence.



8. Holding back the salaries of the TSRB groups has also significantly increased the gap between their remuneration and remuneration in the private sector. As the Review Body says, these comparisons can be no more than an aid to judgment. But I have noticed, for example in making the arrangements for remunerating the Head of the CPRS, that in 1980 the man we engaged was costing about $2\frac{1}{2}$ times more than a Permanent Secretary's salary; that has in 1982 risen to about 3 times.

9. As to recruitment and retention, there is detectably more moving out of the higher Civil Service, and certainly a much greater disposition to consider moving out and to look out for opportunities to do so, than at any time I have known. Nor is this confined to the senior ranks; it extends to Assistant Secretaries and Principals, who are affected by future prospects as well as by current remuneration; and it tends to be the livelier and better people who go. No doubt this is not just a matter of remuneration. The general image of the Civil Service, and the sense of not being valued by its political masters, contribute to it. Moreover promotion prospects, already less good than for some time, will be further diminished by the job losses arising from the open structure review now just being completed. But remuneration is an aspect of present discontent, and there are many Under Secretaries who find themselves very tight for money: above all, those with high education commitments. As the TSRB recognises (paragraph 98), at these levels in a career service problems of retention and recruitment are slow to show up. But the retention problem is beginning to show up, affecting the administrative Civil Service down the line, and these factors must have something to do with the observed deterioration in the quality of recruitment. If the Government is not able to accept the TSRB recommendations, the sense of disenchantment will grow, job satisfaction and motivation will deteriorate further, and the risk of wastage will increase.

10. The coincidence of this year's TSRB recommendation with the open structure review is, I think, particularly important in this regard. That review is likely to result in a considerable reduction in the number of posts in the open structure (it is too soon to say how considerable, but figures of



15 to 20 per cent would come as no surprise). Many of us think that this is both right and necessary, to tauten efficiency, enforce delegation and improve job content. But there is no associated reduction of functions: the existing functions have to be absorbed by a smaller number of people by means of greater efficiency. There are already signs of a feeling that, if Ministers require the job reductions which will be proposed, they should not withhold the pay increases recommended by the TSRB as being appropriate for the job.

11. As Mr. Gregson's note makes clear, the cost of the TSRB's recommendations are neither here nor there in relation to the cost of the CSAT award or the cost of the AFPRB recommendations: 0.07 per cent of the wage bill for the Civil Service, 0.03 per cent of the wage bill for the armed forces. Thus the implementation of the TSRB recommendations in full, added to the CSAT and AFPRB awards, would produce increases of 5.97 per cent and 6.13 per cent respectively. The fact that on this occasion the Government will be in a position to announce all these increases together will help to put the TSRB recommendations in scale and perspective.

12. As the TSRB says, increases at these salary levels are bound to be politically sensitive. This year's recommendations are difficult because, as catching-up increases, they are uncomfortably large. But, as catching-up increases, they are in effect the legacy of past decisions not to accept TSRB recommendations in full. If Ministers conclude that they must ask Parliamentary agreement to override the CSAT award, it will no doubt be necessary to implement something less than the full amount of the TSRB recommendations. In that event, however, apart from the distinct possibility that the Review Body might resign, the problem of underpayment and the need for "catching-up" increases will remain for the future. If the senior officers and the higher Civil Service could "catch up" this year, next year's increase could be no greater than that for other groups, and need not create special embarrassment. Accepting the TSRB recommendations this year will no doubt be politically embarrassing; but the circumstances are conducive to making that embarrassment as little as possible, and "catching up" increases would be more embarrassing, and therefore more difficult to put into effect, next year, with a general election by then only at most a year away.

RA

ROBERT ARMSTRONG

26th April, 1982