

PRIME MINISTERPUBLIC SERVICE PAY: YOUR 27 APRIL MEETING

The decisions taken on the issues before this meeting will set the pattern for public service pay for the remainder of this pay round - and will provide a reference point for the next one.

The Broad Perspective

So I think you may find it helpful to approach these decisions with these points in mind:

(i) What we are trying to achieve in this pay round is, above all, a continuation of the downward trend of pay settlements generally. After last year's massive fall - from well over 20% to about 9% generally and 7½% in the public services - we do well to get much below 7%, particularly since the local authority manuals settled for 6.9% in the autumn and inflation is still in double figures.

(ii) We want pay rises kept down not so much for its own sake, although the public expenditure involved does matter, but for the sake of increased competitiveness and a recovery in employment. That's going to be a continuing struggle, and we need to look ahead: establishing a serious grievance now could cost us dearly in the next pay round - and the Government may be more vulnerable to threats of industrial action as the election approaches. Conversely, there should be substantial benefits for starting the post-Megaw pay system, whatever it may be, from an independently established base, and a clean sheet.

(iii) But our approach to pay has another important feature: we don't just want to keep it down, we want pay rises to be related to the justification for them. Uniformity of treatment of all public service groups will not be a virtue: it will imply we are in the "norm" business.

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Decisions Required

Peter Gregson's note covers the options thoroughly. The Chancellor will no doubt make his own recommendations at the meeting. My own views are as follows, in the order in which I think you will find it easiest to take the decisions:

(i) The Civil Service. The CSAT award is generally coming across in the media as 5.9% or 6% , with Kendall's claim that it's 6½% accurately seen as a union tactic. In fact the extra leave proposed - 2 days a year for clerical grades - does bring the award over 6%, which is probably well over what can be squeezed out of the cash limit (about 5½%, subject to recalculation by the Treasury). But seen in the broader perspectives outlined above it is not sufficiently far above our original offer to justify our overriding it, and I am sure we should accept it.

(ii) The Armed Forces. Of the three Review Body Reports, the AFPRB's is easiest to deal with. Aware that their system is now under close scrutiny, and that the armed forces have done well out of them so far, they recommend an average of 6.1%, with a higher range for officers. On all grounds - inherent justification, broader pay policy, morale during the Falklands engagement - the report should clearly be accepted as regards pay; the detailed recommendations on allowances and charges should be studied separately by MOD and the Treasury.

(iii) The Doctors and Dentists. The DDRB recommend about 9% overall, of which 3% represents the restoration of the amount by which their 1981 award was cut back. There are good reasons for not restoring that 3%. First, bygones are bygones and we don't believe in catching up for its own sake - only if justified on recruitment and retention grounds. Second, other NHS workers will regard their 4% - 6.4% pay offer as even less acceptable if doctors and dentists get 9%. Third, 9% is too high for a major public service settlement this pay round. And fourth, DHSS believe the DDRB would accept the logic that the 3% is gone forever. So I recommend acceptance of the report less the 3% deducted last year. Again, there are details of allowances for

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officials to work over subsequently.

(iv) Top Salaries. The TSRB recommends an average of 19.4% for senior civil servants and service officers, and 24.3% for the judiciary. This is partly catching up from 1980 but also, as the report indicates, in response to market factors.

← The case for accepting the TSRB report is strong. We are committed to doing so unless there are "clear and compelling reasons" to the contrary. The cost would be only £10m. It would be consistent with our evidence to the CSAT on the importance of management requirements. Above all, it would improve quality - especially in the Civil Service, where the combination of sharply reduced promotion prospects and absurdly low pay differentials leads many of the more able staff to leave in mid-career, and almost none to join.

So I think it would be defensible to accept the TSRB while cutting the DDRB back. The alternative would be to treat it similarly: last year the TSRB said it would take 12% to bring top salaries up to 1980 levels, and only 7% was given, so it would be possible to argue that the 5% then lost should not now be restored. I recommend that as second best to full implementation.

Consequences for other Groups

Whatever decisions are taken, it will be important to have in mind their impact on other public service groups:

← (i) The NHS. Those who have been offered 4% are capable of causing trouble, especially since they got 1½% less than the Civil Service last year as well. Mr. Fowler will no doubt advise what more they should be given: some increase, not necessarily to 5.2%, is a pill we must swallow. There is no case for the nurses, who have already been offered 6.4%, being given more again, at least until the outcome of their ballot is known.

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(ii) The Teachers. It is reasonable to hope that, with Scottish further education teachers having settled at 5.5% and the CSAT at 5.9%, the teachers' arbitration will come out below 6%. If it is much above, we will have to be prepared to override it - there is no case for teachers getting more than the NHS and the civil servants.

(iii) The Police. You have asked for a discussion of police pay at this meeting, but I doubt if there will be much time. I have had a first look at the official side report on the police pay system. Notwithstanding its conclusions I still have doubts. Apart from the general objections to indexation - its lack of relation to market factors and job security, its reflection of earnings rather than basic rates, and its imputation of productivity gains - there can be little doubt that, with an ordinary constable in London receiving an average of £12,328 (some 2½ times a qualified staff nurse, roughly twice a private or an executive officer) the police have done exceptionally well. The way forward is to ask the Official Committee on Pay (which Peter Gregson chairs) to look in detail at the report and prepare a paper for Ministers, before Mr. Whitelaw is authorised to reaffirm the commitment to the Edmund-Davies formula.

Presentation

I recommend that:

(i) Decisions on the CSAT and the main elements of the Review Body reports be announced as soon as possible, preferably later this week; and

(ii) That the announcement makes it clear that the Government sees these pay rises as part of a continuing downward trend in pay settlements, and therefore good news for everyone because everyone will benefit; and that our efforts to maintain that downward trend will continue in the next pay round.

26 April 1982

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