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PRIME MINISTER

FUTURE MACHINERY FOR SCHOOL TEACHERS' PAY AND CONDITIONS

We are to discuss Kenneth Baker's note on this subject on Thursday in E(EP). In view of the far reaching consequences of our decision for public expenditure I should like to set out my views in more detail, and in particular to explain why I think Kenneth Baker's preferred option, the Independent Advisory Committee, would be so damaging to public expenditure control.

✓ The Independent Advisory Committee is really a Review Body masquerading under another name. It is fundamentally different from the present Interim Committee, where we can directly limit the overall cost of its recommendations to a certain figure. The task of the Interim Advisory Committee, as agreed by Cabinet on 30 October 1986, is simply to advise on "the distribution of pay within the amount decided by the Government". (See CC(86)35th Conclusions, Item 5). Kenneth Baker's statement of 30 October 1986, announcing the establishment of the Interim Committee made this point clear, in saying that the Committee would advise on "the distribution of pay within the resources available at the appropriate time". This, of course, is why we took powers in the Act to direct the Committee to make its recommendations within a certain ceiling.

I am quite clear that we will need to use this power for as long as the Interim Committee exists. But, if the present Interim Committee is replaced by this new "Independent"



Committee, as Kenneth Baker proposes, it is unclear whether we would retain this power. Paragraph 4 of the paper implies that we might, but there is no commitment to this.

Without both a power to give directions and the willingness to use it, we would be in at least as bad a position as we are with the present Review Bodies. Our experience of Review Bodies is that they typically made recommendations well above settlements in the rest of the public services and the private ... sector. The table attached to this minute sets out the details. Review Body groups have received awards worth 65 per cent since 1980-81 compared with 46½ per cent for other central Government groups and 55½ per cent in the private sector.

The teachers' pay bill in England and Wales is currently about £6½ billion a year. Settlements in Northern Ireland follow those in England and Wales almost automatically and it would be unrealistic to expect teachers in Scotland, even if they were not formally covered by the Independent Committee, to accept anything below the awards of the Committee. Altogether we would be putting into commission public expenditure of nearly £8 billion per year. This compares with a pay bill for the present Review Body groups of £12½ billion.

Kenneth Baker says that the over-ride power will enable us to safeguard the position on costs, and points out that we staged the Main Report without difficulty. I believe the over-ride power will turn out to be virtually unusable because of the required Affirmative Resolution procedure. Even staging would be difficult: the comparison with the Main Report is a red herring because that staging was not subject to Affirmative Resolution, while future staging would be.



I have a further worry. If we establish this new Committee, whose recommendations we will not be able to stage, we will then have the greatest difficulty amending in any way the recommendations of the other Review Bodies. I fear that the consequence of establishing this new Committee would be that we would lose all control over the pay of 1½ million workers with a pay bill in excess of £20 billion per year. The public expenditure implications could not be more serious.

There is also the point of principle that Review Bodies are only justified for groups who do not take industrial action. It was made clear in 1983 when the Nurses Review Body was established that this had been done because nurses did not take industrial action. It was also stated that if this policy ever changed their inclusion within the Review Body system would have to be reconsidered. The other Review Body groups - Armed Forces, Doctors and Dentists, Top Salaries - also refrain from industrial action. Teachers, on the other hand, manifestly do take industrial action. To give them a Review Body would set the dangerous precedent that the way to gain a Review Bodies by a prolonged campaign of industrial action.

My firm view is that we must therefore restore negotiations within a body whose constitution represents a fair balance of all the interests, including the Government's interest in cost. I do not accept that such a structure would inevitably bring us into conflict with the combined forces of the unions and the local authorities. We are giving back to the unions what they want, negotiating rights. And, the composition of the Management Panel simply reflects the relative financial shares of the Government and local authorities for local authority spending. This is surely fair and is close to the arrangement that the local authorities accepted for 20 years, with the Government having a weighted vote and a veto on



offers for cost reasons, until the concordat was renounced in 1985. My proposed machinery also provides for ways of breaking deadlocks in negotiations. I think it is fair to all parties and should be the basis of the consultations envisaged in the Green Paper, although we may well wish, in the light of those consultations, to make changes of detail.

Finally, on procedure, I can see no arguments at all for the tactics recommended by Kenneth Baker in paragraph 19 of the paper. Once we have made up our minds we should consult on that basis. To issue a neutral Green Paper after we have made up our minds seems wholly misconceived and indeed perverse.

I am copying to E(EP) colleagues and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "N.L." with a flourish.

N.L.

7 September 1987

Table 1: Percentage increase in settlements¹ by pay year and cumulative increases in settlements

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87*	Cumulative full year increases settlements
Private Sector	8½(9%)	7(7½)	5½(6)	5½	6(6%)	5½(6)	5(5%)	55%
Police and Firemen	20%(20%)	12½	9%	8%	5½	7½	7½	96%
Review body groups	7½	7	5½(6)	6½(7½)	6½(8%)	5½(7%)	8	65
Other Local Govt	7½	6½(8½)	5	4%	5½(6%)	6%	7½(9)	58½
Other Central Govt	7%	6	4%	4½	5	6(6%)	5½ ²	46%
Public Services	8	6½(7%)	5%	5½(5½)	5½(6%)	6½(7)	7(8%)	58%
Overall								

1 figures in brackets full year costs

* latest available

2 Civil Service and NHS non review group settlements are included at 5.2%.