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P 02210

PRIME MINISTER

TEACHERS' PAY FOR 1989-90:  
A REMIT FOR THE INTERIM ADVISORY COMMITTEE

E(EP)(88) 19

DECISIONS

Mr Baker seeks agreement to tell the Interim Advisory Committee (IAC) that their recommendations on teachers' pay in England and Wales for 1989-90, should not cost more than an additional £450 million in 1989-90 or later years, and that some £50-60 million of this should be for selective payments. Such a constraint would give teachers an average increase of 6%, which Mr Baker expects to be close to the rate of inflation by next April.

2. We understand that the Chief Secretary is being briefed to propose £375 million, equivalent to a 5% increase, of which £75 million would be for selective payments.

3. You will wish to decide:

i. what the financial constraint on cost should be: £450 million, £375 million or some other figure;

ii. the amount to be reserved for selective payments;

iii. whether the IAC's remit should be announced as soon as possible. There could be some advantage in an early announcement (see paragraph 8 below); and

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iv. whether the IAC should be directed to report no later than the Review Bodies, by January 1989 or mid February 1989 at the latest.

#### BACKGROUND

4. In October 1987 the IAC was given its first remit, which was to recommend increases in teachers' pay from April 1988 within a financial constraint of £300 million. The IAC proposed that this sum should be used to raise basic pay by 4.25% and to increase London weighting by 7.5%. They also recommended increases in incentive payments costing an additional £32 million in 1988-89. Ministers agreed to accept these recommendations in full. The increase was worth an average of 4.75%. In the previous two years teachers had received increases totalling 25%.

#### ISSUES

##### The case for a 6% increase

5. Mr Baker is likely to argue:

a. that around 6% will be needed to compensate teachers for inflation by next April (paragraph 8 of his paper). He may say that a pay cut in real terms would be highly emotive and likely to cause serious political difficulties, and that last year's IAC constraint was set at the then expected inflation rate. He may point out that the RPI reached 4.8% in July and that the Chancellor forecast in his Cabinet paper on economic prospects in July that it would 5.5% by the fourth quarter of 1988 (indeed, the Department of Employment expect the index for August, to be published on 16 September, to be 5.5-5.75%, although this may not be known to Mr Baker);

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- b. that the Department of Employment's tentative projection of prospects for the 1988-89 wage round is for settlements to average 6-7% (paragraph 6), so that 6% should not be repercussive.;
- c. that teachers' motivation and co-operation needs to be maintained if the Government's major educational reforms are to succeed (paragraph 7);
- d. that some money needs to be available to tackle problems of recruitment in certain locations and subjects;
- and e. that a more stringent constraint this year would make even more difficult the forthcoming discussions with the teachers' unions over long-term pay arrangements (paragraph 8). It might also lead to resignations from the IAC (Mr Baker raised this concern last year, although in the event it proved groundless).

#### The case for a lower increase

6. The Chief Secretary is likely to argue:
- a. that it is essential to give a clear signal that the Government intends to keep a firm grip on public expenditure. The new pay round needs to start from as low a base as possible, and around 5% is as much as should be contemplated. We should not assume that all groups will automatically be fully compensated for inflation every year, whatever the economic circumstances. In any event, the teachers have recently had substantial increases, so there is no need to be particularly generous to them this year;
- b. that one million local authority manual workers are likely to accept a 5.6% settlement on 13 September. It would be unhelpful to offer the teachers more than this;

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c. that the settlement agreed by E(LA) in July assumed that provision for local authority spending would increase by 4.5% in 1988-89. As teachers' pay is a large component of this, any increase cannot significantly exceed 4.5% without serious consequences;

d. that Mr Baker's analogy with the civil service is inappropriate. Mr Baker argues that under the new long-term pay arrangements for some civil servants, they are likely to get increases based on an interquartile comparison in the range 5 1/2-7%. This is not relevant because the first pay award on this basis will not be settled until August 1989.

#### Selective measures

7. Mr Baker proposes that £50-60 million of the £450 million should be devoted to selective payments. The Chief Secretary is likely to favour a greater allocation for selective payments, perhaps £75 million, equivalent to 1% on teachers' pay. He is also likely to resist any proposal from Mr Baker that the amount for selective payments be reduced if the total figure agreed is less than £450 million. Mr Baker may wish to do this, as he knows that the teachers' unions will be most concerned about the increase on main scale rates.

#### Timing of the announcement of the IAC's remit

8. There would be some advantage in announcing the IAC's remit shortly after the meeting, whilst the latest published RPI figure is only 4.8% and a week or so before the August RPI figure incorporating the mortgage rate increases comes out on 16 September. This points to settling the financial constraint at this meeting if at all possible. An early decision would also ease the task which E(LA) will have later in the month of determining local authority expenditure on the different services in 1989-90.

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9. In the last pay round the IAC exceeded its remit by recommending increases in incentive allowances of £32 million, on top of the £300 million which had been specified. You may wish to ask Mr Baker to make clear in the formal letter to the IAC, in suitable terms, that this should not be repeated.

#### Timing of the IAC's report

10. Mr Baker proposes that the IAC should report by the end of January 1989, or by mid-February at the latest, so that the Committee concludes its deliberations in parallel with the Pay Review Bodies (paragraph 10). You may wish to endorse this timing.

#### HANDLING

11. You will want to ask the Secretary of State for Education and Science to introduce his paper. The Chief Secretary, Treasury will wish to respond. The Secretary of State for Employment may wish to comment on the implications for the forthcoming pay round of the decision on the IAC's remit. The Secretary of State for Energy has been invited as chairman of E(LA). Due to a combination of holidays and overseas visits, the Secretaries of State for the Environment, for Trade and Industry and for Scotland are not expected to attend.

R.T.W.

R T J WILSON  
Cabinet Office

2 September 1988

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PRIME MINISTERMEETING OF E(EP): 6 SEPTEMBER

You may like to glance over the weekend at the papers for next Tuesday's meeting. The only item is to settle the remit for the Interim Advisory Committee on teachers' pay in England and Wales.

The papers are:

- Flag A: Mr. Baker's paper
- Flag B: Cabinet Office brief
- Flag C: A private and confidential letter you have just received from Henry Chilver (Chairman of the Committee). This has not been seen by anyone else, including Kenneth Baker

The key issues are:

- (i) The level of the financial constraint and, within it, the amount to be reserved for selective payments. Mr. Baker is going for the equivalent of 6 per cent; the Chief <sup>Secretary</sup> Whip the equivalent of 5 per cent, with a higher proportion for selective payments. Henry Chilver argues for a margin around ½ per cent above the estimated RPI - perhaps if anything slightly above Kenneth Baker's figure;
- (ii) The timing of announcement of the IAC's remit. With the RPI currently increasing, this points to the advantages of an early announcement;
- (iii) The timing for the IAC to report - unlikely to be controversial.

PRCG.

Paul Gray

2 September 1988

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MEETING OF E(EP): 6 SEPTEMBER

You saw the papers (below) over the weekend.

You should not refer to the Henry Chilver letter. No-one else has seen it.

fccg

Paul Gray

5 September 1988

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