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cc: Mr. Verelker

10 DOWNING STREET

From the Private Secretary

MR. GREGSON

CABINET OFFICE

POLICE PAY ARRANGEMENTS

Thank you for your minute of 14 January, with which you enclosed a copy of the Report on the police pay system by the Official Committee on Public Service Pay.

The Prime Minister saw these papers over the weekend. She was most grateful to you and to the Official Committee for the work they have done on this matter. On the matters for decision, set out in paragraph 8 of your minute to me, the Prime Minister's conclusion is that in present circumstances none of the possible changes envisaged would be worth making. The Prime Minister is, therefore, inclined not to pursue these particular suggestions at present.

I am sending copies of this minute to John Halliday (Home Office), Margaret O'Mara (HM Treasury), John Lyon (Northern Ireland Office), Muir Russell (Scottish Office), Barnaby Shaw (Department of Employment), John Sparrow (CPRS) and Richard Hatfield (Cabinet Office).

MCS

24 January 1983

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MR SCHOLAR

cc Mr Mount

Having seen Lord Alton's letter to be satisfied the need to increase the pay will be very difficult. I don't think we should do it. I think we should not.

X overleaf seems to me too

peremptory. I understand that the Chancellor inclines towards 8(ii)(a); and Mr Tebbit doubts whether these changes would be worth the row.

POLICE PAY

Do you want a meeting with them and the Home Secretary + Peter Gregson?

(attached)

You invited my comments on Peter Gregson's note of 14 January, MCS 21/1 to which was attached the report of the restricted group of officials (including myself) which considered how to improve the arrangements for determining police pay.

The first thing to say is that the group interpreted its terms of reference very narrowly, and remained strictly within the limits established by the Prime Minister, and recorded in your letter of 2 November: there was no consideration of the abandonment of Edmund Davies, nor of making any radical change in police pay arrangements.

As a result, it is not surprising that the group has concluded that only rather limited improvements can be made in the arrangements. A substantial reduction in the level of police pay, and indeed in the level of future settlements, will not be achieved until the present highly favourable indexation arrangements are ended.

The changes suggested by the Official Group are nonetheless worthwhile - especially the introduction of a range of a percentage point or so, either side of the increase produced by the indexation formula, within which market factors would be taken into account (paragraph 5 of Peter Gregson's covering note). That would be consistent with our general approach to public sector pay, and would tend to result in settlements lower than would otherwise be the case because the police are having no difficulty in recruiting and retaining staff.

Both the official report and Peter Gregson's covering note indicate some doubt as to whether the small effect of these changes would be worth the effort involved in negotiating them. In my view the difficulties of negotiating with the Police Federation are always exaggerated by the Home Office. Far tougher negotiations

with highly organised unions take place elsewhere in the public sector. And the principal benefit of achieving the change is not so much the effect on police pay, but on pay in the rest of the public services. As the official report says (paragraph 4.1(b)) the police are widely perceived at present as enjoying different and better treatment than most public service employees, and that makes it harder to get pay lower generally.

I do not believe that Ministers will find it any easier to get out of the Edmund Davies commitment after an election. Our advice is that we should make the small improvements now offered, that is both the technical change described in Peter Gregson's note, and the introduction of the range for market factors. Even 1 or 2% saved on a pay settlement is a valuable achievement now that inflation is moving towards low single figures.

Peter Gregson is right to warn that there will be some opposition to this from the Prime Minister's colleagues. There generally is, when it comes to tightening the noose on pay, however slightly. It might be best to avoid a meeting: if the Prime Minister agrees, you could write to Mr Whitelaw's office saying that she is satisfied that it is in the wider national interest to make the small changes suggested.

J.

17 January 1983



Chamber 8 (a) met (b)
Mr. Professor to let lie.

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P.0938

Prime Minister

MR SCHOLAR

POLICE PAY ARRANGEMENTS

This minute is to direct your attention to the circulation list at the end of my minute to you of today's date covering PSP(0)'s report on police pay.

2. Bearing in mind the Prime Minister's concern with the political sensitivity of this issue, and her wish that it should be considered not by E(PSP) but by her and a small group of Ministers, I have sent copies only to the minimum number of Ministers, ie to the two Ministers with general pay responsibilities and the three Ministers with police responsibilities. I have not sent copies to ~~six~~ six Ministers who are members of E(PSP). Three of them (the Secretaries of State for Education and Science, the Environment, and Social Services) have a strong interest in the repercussive effects of the police pay arrangements and an official from each of these departments (albeit on a tightly restricted basis) has assisted in the preparation of the PSP(0) report. I am assuming that if the Prime Minister wants the report to be circulated additionally to these three Ministers, or to other Ministers, you will instruct me accordingly.

I assume
you want
no further

circulation.

Agree?

MCS 21/1

3. The Prime Minister will also wish to consider whether she wants a meeting to discuss the report as she envisaged earlier. It is to be expected that the three Ministers with police responsibilities will argue against making even a modest change in the police pay arrangements during the life of this Parliament. It is more difficult to judge what view the Chancellor of the Exchequer and the Secretary of State for Employment will take. The Prime Minister will probably not however want to have a meeting unless she or at least one of the two Ministers with general pay responsibilities feels strongly that some change should be attempted within the life of this Parliament.

PLG

P L GREGSON

14 January 1983

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P.0936

MR SCHOLAR

POLICE PAY ARRANGEMENTS

The Official Committee on Public Service Pay (PSP(0)) was asked to consider how the arrangements for determining police pay might be improved, while avoiding any radical change in the near future, and maintaining the Government's commitment to uphold the Edmund-Davies Report; the Prime Minister said that she would wish to discuss PSP(0)'s report with the Ministers most closely concerned. (Your letters of 13 October and 2 November to the Home Secretary's Private Secretary).

2. PSP(0) found that the Edmund-Davies formula for up-dating police pay has three main defects:

i. it has led to increases in police pay which have been out of line with pay increases in the public services and, on occasion, with earnings more generally;

ii. it is based solely and automatically on comparability, and does not allow for other considerations such as market factors and affordability;

iii. it has some technical defects which mean that in certain circumstances it may not achieve its presumed objective of retaining the relativities between police pay and the pay of other groups established by Edmund-Davies.

3. The Edmund-Davies Committee said (paragraph 266 of their Second Report) that it was not their intention "to impose an inflexible system upon the new negotiating body" and they recommended "that either side should be able to propose variations to the up-dating process in the light of changes either in the police service or in pay movements in the economy as a whole". PSP(0) therefore considered how the up-dating process might be varied or made more flexible so as to remedy some or all of the identified defects.

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4. One option examined by PSP(0) was to correct the technical defects and in particular to deal with the time lag problem. The difficulty at present is that police pay increases under the formula reflect movements in average earnings several months ago. Thus, when inflation is falling, police pay increases tend to be greater than the increase in average earnings; the opposite applies when inflation is accelerating. PSP(0) devised a method of dealing with this problem which is set out in the report. They concluded however that the practical advantages of such a change would be modest. Although it would keep police pay increases more precisely in line with average earnings in each year, it would not help to bring the approach to police pay more in line with the approach to public service pay generally. There would also be the disadvantage that the police pay negotiations would have to be re-timed to November or thereabouts when their repercussive effects might be greater.

5. The other main option considered by PSP(0) was to apply the up-dating formula in a less automatic way. So far as affordability is concerned, the possibility already exists for Ministers to set aside a recommendation from the Police Negotiating Board, although this is clearly a power which would be used only very occasionally and in extreme circumstances. There is however no satisfactory means at present of bringing market factors into police pay determination despite the stress laid on recruitment and retention by the Edmund-Davies Committee (see extract quoted in paragraph 3.10 of PSP(0)'s Report). PSP(0) therefore envisaged that a negotiating range might be established either side of the increase generated by the up-dating formula - say of one percentage point in the case of a single figure pay increase or more in the case of a larger increase. Negotiations taking account of information about recruitment and retention (very good in recent years and likely to remain so over the next year or two at least) would determine the outcome within the range. This process of constrained bargaining would be similar in basic concept but not in detail to the proposals made by the Megaw Committee for the Civil Service. Further flexibility might also be achieved by moving away from the present system under which the same increase is applied automatically to all grades to an approach under which the increase emerging from the main negotiation was regarded as a kitty for allocation among grades either in negotiation or by the exercise of management discretion.

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6. PSP(0) recommend that, if Ministers wish to make some changes in the police pay system in the short term, this second option would bring the most benefit. It might result in police pay increases up to one percentage point less than under the existing formula which would be a substantial reduction if the pay settlement were in low single figures; and it would enable the Government to argue that the police pay arrangements, like those for other public service groups, were no longer based solely on comparability but with some regard to market factors.

7. In deciding whether to make even this limited change in the short term, Ministers will need to bear in mind the changes in the police rent allowance system now being negotiated and their effect on police attitudes, the risk that a modest change now may make it more difficult to achieve a radical change in the future, and the possible adverse effects on the Government's wider objectives for the police such as the achievement of changes in force organisation, policy methods, training and the complaints system.

8. The issues for Ministers are therefore as set out in paragraph 4.7 of the report, ie:

- i. whether they wish to make any changes in the police pay arrangements during the remaining life of this Parliament;
- ii. if so, whether these changes should involve:
 - a. the introduction of market factors within a negotiating range on the lines indicated in paragraphs 3.10 and 3.11 of the report and the use of the formula to generate a kitty as described in paragraph 3.14; or
 - b. the rectification of the technical deficiencies in the up-dating formula discussed in paragraphs 3.5 and 3.6 of the report; or
 - c. both a. and b.

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In the light of Ministers' decisions on these questions further work by PSP(0) may be necessary to develop the preferred option in detail.

9. I am sending copies of this minute and of the report to the private secretaries to the Home Secretary, Chancellor of the Exchequer and Secretaries of State for Northern Ireland, Scotland and Employment, to Mr Sparrow and to Sir Robert Armstrong.

Pg

P L GREGSON

14 January 1983

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