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②
PRIME MINISTER

13 July 1984

Agree to Brittan's approach subject to
Policy Unit caveats on committing Government
to E-D formula and on starting salaries?
AT 1317

POLICE PAY

Yes

The police pay review concludes that the police have not appreciably improved their position in the pay league since May 1979. This is a surprising result. Police pay settlements have been well above the economy average in four of the last five pay rounds and previous comparisons of earnings have shown the police moving ahead.

However, comparisons of increases in pay depend very much on the starting point for the comparison, whether overtime is included or not, and, if so, whether police overtime is high in a particular year compared to that in the economy at large.

There is nothing to be gained by contesting the statistics, but it is important to dissuade Leon Brittan from endorsing the Edmund-Davies formula. The review needs to establish that the mechanical application of this or any indexing formula is capable, year in year out, of taking proper account of changes in a policeman's job and in the market in which he is recruited and retained, and of the ability of his employers to pay. Why, for example, is a new graduate recruit (outside London) paid a salary of £8,010 a year, compared to the average starting salary of £6,120 for all second class honours graduates in the country? Why is

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an "undermanning allowance" of £1,011 paid to all Metropolitan Police officers to assist recruitment when the Met is fully staffed? The review has not attempted to address these questions. It has simply amassed material.

The 1984 Settlement

This is not the time to pick a row with the police. We should be prepared to take advantage of the fact that the Average Earnings Index is distorted by the miners' dispute and the timing of other settlements, and settle at 5-6%. If the police wish to abandon the formula on this account, well and good. The important point is that Leon Brittan should be dissuaded from telling the Chairman of the Official Side of the PNB that the Government sees no case for changing the Edmund-Davies formula. There is no need to comment now on the future of the formula. A commitment to the formula will possibly result in a double figure award in 1985, when the anomaly in this year's index unwinds itself. It will commit the Government to increases in expenditure it cannot afford. 30% of the increase in local authority expenditure since 1979 (in cost terms) has gone on police pay. The levels of police pay are contributing to our current difficulties with the teachers.

E(PSP) meets to discuss this on Tuesday. We recommend that in advance of that meeting, you might encourage Leon Brittan to take the line that:

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In May the actual increase over 12 months was below the underlying figure 5.8% against 7³/₄%.

i. The material produced in the course of the review contains a mass of new material which there has not been sufficient time to digest. The Government should not commit itself on the future of the formula.

ii. The salary levels of new police recruits seem to be excessive. Could the 1984 award be structured towards the experienced officers?

You might also suggest that further consideration be given to alternative ways of determining police pay.

Nicholas Owen
NICHOLAS OWEN

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10 DOWNING STREET

From the Private Secretary

16 July 1984

bc N. Owen
c. HMT D/Trprt
DES CS, HMT
D/N M/Arts
D/Emp + below
DHSS
DTI
CDL
DOE

POLICE PAY

The Prime Minister has seen the Home Secretary's letter of 10 July to the Chancellor of the Exchequer. She agrees that, for this year, the best approach is to go through with strict application of the Edmund-Davies formula, leaving clawback of 1.1% for a future year. She suggests, however, that in doing so, Ministers should avoid committing themselves on the future of the formula until there has been time to adjust fully the material produced by the review. She has asked whether the pay currently being offered to police recruits is too high and whether the 1984 award should be slanted more towards experienced officers.

I am copying this letter to Private Secretaries to members of E(PSP), to John Graham (Scottish Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Hugh Taylor, Esq.,
Home Office.

Original in poor condition

NSPM AT 16/7 CENO



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 July 1984

Dear Chancellor of the Exchequer

POLICE PAY

I have no comment on the line Leon proposes to take with the chairman of the Official Side in respect of this year's pay negotiations other than to say that, although there may be a risk that it will prove to be a hostage to attempts next year to adjust the formula, this is probably outweighed by the advantage of securing the earliest possible settlement at the relatively low level envisaged. It is quite possible that the key local authority manuals negotiations in November will prove more than usually troublesome and the further we can separate the two settlements the better.

If we are going to concede an Edmund-Davies settlement on the basis of the May index, I accept that, as Leon suggests we shall need to give what have become the usual assurances on grant and expenditure provision for 1984/85.

But I am very worried about the implications of such a pay award for the provisional 1985/86 RSG settlement where we are now proposing a maximum increase on low spenders' budgets of 4½%, which we will need to present as a real terms standstill if our claim to have discharged the Pym commitment is to have any credibility. In the light of the possible outcome of the teachers' arbitration and a high police pay award, it will be very difficult to refute claims that 4½% represents not a standstill but a real terms cut.

Overall, the 1985/86 grant and provisional target package which we have agreed allows an increase in 1984/85 budgetted current expenditure of around 1%. I cannot accept so modest an uplift should be pre-empted by the proposed police pay award so I must insist that in discussing the service distribution for local authority allocated current expenditure for 1985/86 we assume that compensating economies can be made elsewhere in the police service so that no extra provision for police is made on account of this award.

If colleagues should decide not to accept Leon's proposal for a full formula related settlement this year, he would no doubt agree that the normal assurances about grant and disregard should not be given until we are satisfied that the Official

Police: Police Pay May 79.

Sides are prepared to negotiate a settlement on a satisfactory basis.

I am copying this letter to the recipients of Leon's.

Yours sincerely

A.H. Davis

for

PATRICK JENKIN

Approved by the SAs and
signed in his absence



NSBM

AT

16/7

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

The Rt Hon Leon Brittan QC MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 LONDON SW1H 9AT

16th July 1984

Dear Secretary of State,

POLICE PAY

I have seen your letter of 10th July to Nigel Lawson. I fear that if we say now that we see no case for changing the Edmund-Davies formula we shall find it much more difficult to secure any change in the future. I would prefer to avoid giving such a hostage to fortune. But we can discuss this issue more fully when E(PSP) meets on 17 July to consider police pay.

... Meanwhile, as you will see from the attached note, the Average Earnings Index for May, due to be published on 18 July, will show a year on year increase of 4.8 per cent. We shall obviously need to consider the implications of this surprisingly low figure when we meet on Tuesday. One important point to be borne in mind is that the factors pushing the actual index so far below the underlying rate, including of course the effects of the miners' strike, will work in the opposite direction next year. It is of course not possible now to predict with any accuracy what the index will be next May; but an increase as high as 10 per cent is a real possibility.

Copies of this letter go to the Prime Minister, other members of E(PSP), George Younger, Jim Prior and Robert Armstrong.

Yours sincerely,

John Smith

[Approved by the Secretary of State
 and signed in his absence.]

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON WEDNESDAY
18 JULY 1984

MONTHLY INDICES OF AVERAGE EARNINGS - ADVANCE INFORMATION

1 The latest figures are attached. The press notice will be issued at 11.30am on Wednesday 18 July 1984.

2 The underlying increase in average earnings in the year to May was about $7\frac{3}{4}$ per cent, similar to the increase in the year to April.

3 The actual increase in the year to May 1984, 4.8 per cent, was substantially below the underlying trend, mainly because average earnings in May 1984 were depressed by industrial action in the coal industry. Other factors which contributed towards the actual increase in the year to May being below the underlying increase were:

- delays in some public sector settlements this year compared to a year ago, for example, those for some national health service employees, non-industrial civil servants and some teachers.
- the timing of the spring bank holiday, taken on the last Monday in May, was such that the earnings of weekly paid staff in the survey pay period reflected holiday absences in 1984 but not in 1983
- back pay in May 1984 was lower than in May 1983.

4 In production industries, the underlying increase in average earnings in the year to May was about $8\frac{3}{4}$ per cent, similar to the increase in the year to April which has been revised downwards from 9 per cent. Within

this sector, the underlying increase in average earnings in manufacturing industries was about $9\frac{1}{4}$ per cent, similar to the increase in the year to April which has also been revised downwards by $\frac{1}{4}$ per cent. These increases continue to reflect higher overtime and less short-time working in May 1984 than a year ago.

5 The actual increases in the year to May 1984 for production and manufacturing industries, 4.1 per cent and 7.5 percent respectively were below the corresponding underlying increases because of the effects of the industrial action in the coal industry and the spring bank holiday described above.

DEPARTMENT OF EMPLOYMENT
Statistics Division

13 July 1984

TABLE A

SIC 1980

INDEX OF AVERAGE EARNINGS

Month	WHOLE ECONOMY				PRODUCTION INDUSTRIES			MANUFACTURING INDUSTRIES		
	Index Jan 1980 = 100	Seasonally adjusted								
		Index	% increase over previous year		Index	% increase over previous year		Index	% increase over previous year	
			Actual	Under- lying		Actual	Under- lying		Actual	Under- lying
1983 May	148.3	148.6	8.7	7 $\frac{1}{2}$	148.4	8.4	8 $\frac{1}{2}$	148.2	8.6	8 $\frac{1}{2}$
June	149.7	148.2	8.2	7 $\frac{1}{2}$	148.2	7.7	8	147.8	8.1	8 $\frac{1}{2}$
July	151.7	150.3	7.7	7 $\frac{1}{2}$	150.0	8.3	8 $\frac{1}{2}$	149.7	8.6	8 $\frac{3}{4}$
Aug	150.4	150.2	8.4	7 $\frac{3}{4}$	151.3	8.6	8 $\frac{1}{2}$	150.8	9.0	8 $\frac{3}{4}$
Sept	150.5	150.7	8.5	7 $\frac{3}{4}$	153.0	9.1	9	152.4	9.4	9 $\frac{1}{4}$
Oct	151.7	152.0	8.7	7 $\frac{3}{4}$	155.4	10.1	9 $\frac{1}{4}$	154.4	9.6	9 $\frac{1}{2}$
Nov	152.8	152.1	7.3	7 $\frac{3}{4}$	154.7	8.3	9 $\frac{1}{4}$	155.6	9.9	9 $\frac{3}{4}$
Dec	155.1	153.4	8.0	8	155.8	8.3	9 $\frac{1}{4}$	156.6	9.7	9 $\frac{3}{4}$
1984 Jan	152.7	154.7	7.1	7 $\frac{3}{4}$	156.0	7.9	9	157.0	9.0	9 $\frac{1}{2}$
Feb	153.8	155.6	5.7	7 $\frac{3}{4}$	157.8	8.7	9	158.7	9.6	9 $\frac{1}{2}$
Mar	154.2	154.4	5.5	7 $\frac{3}{4}$	153.7	5.8	9	159.2	9.8	9 $\frac{1}{2}$
April	154.7	155.8	6.0	7 $\frac{3}{4}$	154.5	4.0	8 $\frac{3}{4}$	159.5	7.7	9 $\frac{1}{4}$
May*	155.5	155.8	4.8	7 $\frac{3}{4}$	154.5	4.1	8 $\frac{3}{4}$	159.3	7.5	9 $\frac{1}{4}$

*Provisional

INDEX OF AVERAGE EARNINGS (unadjusted)

SIC 1980

Classes	Weights	Index (January 1980 = 100)						Percentage increase over previous 12 months					
		1983	1984					1983	1984				
		Dec	Jan	Feb	Mar	Apr	May*	Dec	Jan	Feb	Mar	Apr	May*
Metal processing and manufacturing	14	155.8	167.3	159.3	162.6	171.2	161.4	12.8	18.7	13.5	14.7	17.1	9.5
Mineral extraction and manufacturing	14	156.6	151.4	153.8	155.5	154.1	158.8	10.3	7.2	8.4	9.0	6.3	8.4
Chemicals and man-made fibres	20	166.1	155.8	158.1	158.2	157.6	160.3	10.1	8.4	9.0	10.4	7.8	7.3
Mechanical engineering	44	152.8	148.8	151.3	153.7	150.5	153.7	11.9	10.1	11.3	11.3	8.4	8.5
Electrical and electronic engineering	37	158.7	158.3	160.0	163.4	166.9	164.2	8.5	7.7	8.8	8.9	10.8	7.9
Motor vehicles and parts	17	147.2	145.7	147.4	147.0	148.0	149.5	6.8	8.8	9.5	9.1	10.7	7.6
Other transport equipment	17	147.4	148.4	154.5	154.2	151.9	152.7	5.3	7.1	10.8	7.3	6.4	6.0
Metal goods and instruments	27	146.6	145.2	149.0	151.2	147.9	150.8	10.3	8.8	11.1	10.1	8.4	7.0
Food, drink and tobacco	33	159.7	153.9	155.5	155.5	155.7	157.4	11.7	8.2	9.0	7.9	6.2	5.4
Textiles	13	146.1	149.8	151.6	153.4	145.2	154.7	8.5	8.6	9.1	9.1	2.5	7.4
Leather, footwear and clothing	17	148.8	150.4	152.7	157.5	149.3	155.6	5.4	6.5	6.8	9.2	3.9	6.6
Timber and wooden furniture	11	132.8	151.3	146.5	152.2	137.0	145.1	5.4	6.8	1.9	13.7	-0.9	4.8
Paper products, printing and publishing	26	163.1	160.3	161.4	163.6	162.9	169.8	10.7	9.5	9.6	9.3	4.2	8.6
Rubber, plastics and other manufacturing	14	148.2	150.4	152.3	152.4	150.4	156.7	8.9	9.3	9.3	9.2	6.4	7.9
Manufacturing industries	304	157.0	155.9	157.5	159.3	158.0	160.4	9.7	9.0	9.6	9.8	7.7	7.5
Coal and coke	15	123.6	121.5	125.2	54.4	55.7	50.8	-12.0	-14.0	-10.3	-60.9	-59.2	-61.3
Mineral oil and natural gas	1	151.9	158.1	159.9	161.6	164.0	159.4	8.0	8.1	9.4	10.6	11.3	9.0
Electricity, gas, other energy and water supply	19	161.5	162.7	163.0	164.9	167.0	171.1	7.4	11.3	11.7	5.7	5.1	8.2
Production industries †	339	155.9	154.9	156.5	154.3	153.4	155.5	8.3	7.9	8.7	5.8	4.0	4.1
Construction	55	153.7	148.0	152.5	155.3	155.5	155.0	6.2	5.2	7.2	5.0	6.9	6.4
Production and construction industries †	394	155.6	153.9	156.0	154.5	153.7	155.4	8.1	7.5	8.5	5.6	4.5	4.5
Agriculture and forestry †	19	156.7	155.3	158.6	156.6	165.2	∅	12.3	12.5	9.2	7.9	6.5	∅
Distribution and repairs	164	151.3	149.0	148.3	150.6	155.3	151.5	7.2	7.5	6.8	7.6	9.1	2.9
Hotels and catering	49	150.6	142.6	141.2	141.5	147.6	146.4	8.2	8.9	7.3	6.6	10.9	7.1
Transport and communication (except sea transport)	71	151.2	146.8	148.7	149.6	149.5	151.1	10.2	8.6	8.1	6.6	5.1	6.9
Banking, finance and insurance	44	177.8	162.3	160.6	177.3	167.4	167.6	10.6	11.3	7.9	7.9	10.9	5.9
Public administration	90	152.1	153.6	154.8	154.1	156.7	160.2	6.0	6.7	6.8	5.4	6.6	6.3
Education and health services	147	162.8	162.3	162.8	161.3	163.5	164.3	8.5	1.5	-7.3	0.0	4.7	3.9
Other services	22	165.3	164.5	163.2	169.1	163.1	165.7	12.8	9.9	10.0	12.5	8.8	8.9
Whole economy	1,000	155.1	152.7	153.8	154.2	154.7	155.5	8.0	7.1	5.7	5.5	6.0	4.8

*Provisional

†Manufacturing, coal and coke, mineral oil and natural gas, electricity, gas, other energy and water supply

‡England and Wales only

∅Not available.

Price May '79
Pay

18 JUL 1984



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B/f with
Treasury & PU response
AT 10/7
CGATO



QUEEN ANNE'S GATE LONDON SW1H 9AT

10 July 1984

D Nigel,

POLICE PAY

In my letters of 10 April and 15 May I commented on the joint review of the pay of the federated ranks of the police service. I am now writing with further information about the progress of the review and about this year's negotiations on police pay, which are due to start on 24 July.

Information for the review is being provided by the Office of Manpower Economics (OME) and by the Official and Staff Sides. The information falls broadly into two parts: statistical information, prepared by OME, on such matters as increases in police earnings and those in the economy as a whole between 1979 and 1984, and a technical appraisal of the average earnings index; and papers prepared by the two sides on other changes in conditions since Edmund-Davies reported.

The papers submitted by the Staff Side cover such matters as improvements in annual leave, reductions to the basic working week, increased pension contributions and fringe benefits. The most important papers submitted by the Official Side deal with recruitment and retention and with job security. On some of these issues the advantage will lie with the Staff Side, on others with the Official Side. The Official Side's assessment is that neither side will be able to make much of a case for either an upwards or downwards adjustment on the basis of these factors.

This leaves the statistical papers which are being prepared by the OME. Their technical appraisal of the average earnings index, which was the measure recommended by the Edmund-Davies Committee for use in updating police pay, shows that during the period 1979-83 average gross weekly earnings for full-time employees over the age of 18 in the economy as a whole increased by 65.3 per cent, while gross weekly earnings for the police over the same period increased by 66.4 per cent (including rent allowance).

If one looks at the underlying index over the same four-year period rather than at the actual May figures in the average earnings index which form the basis of the police pay settlement, one finds the same picture. The underlying increase figures are much the same except in 1983, when the actual May figure was affected by back pay from delayed settlements, and any deviations have tended to cancel themselves out over the four-year period as a whole. The use of the underlying, rather than the actual, index would prevent police pay settlements being affected by temporary factors but the period under review provides no argument for changing the implementation of Edmund-Davies in this way: and the temporary factors at the moment seem likely to work substantially in our favour this year, so we would lose from making a change at this time.

The OME are producing a number of tables, comparing the increases in police earnings with increases in the earnings of full-time employees in the economy as a whole on various bases. They have been adding to and revising the figures which have still to be discussed by the Official and Staff Sides, and I have no doubt

The Rt Hon Nigel Lawson, M.P.

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that they will produce much debate between them. I have equally little doubt, however, that the comparison between average gross weekly earnings which I have quoted above is the most legitimate one by which to measure the result of the Edmund-Davies formula and that, on that basis, the Official Side will be able to show that the police have moved ahead, although not by much (1.1 per cent over four years).

There are other comparisons made by the OME, which produce different results, but none of them hold out the prospect of enough gain for us to outweigh the very substantial disadvantages for us of having to announce that we were departing from the agreed basis for updating police pay, especially as it has not unduly favoured the police. For example, looking at increases in basic pay (i.e. earnings excluding overtime pay, performance payments and shift premia), the results are of the same order (70.9 per cent for all full-time employees between 1979 and 1983, compared with 74 per cent for the police). The main difference is that, if a basic pay index had been applied to police pay during this period, rather than the average earnings index, the police would in fact have received rather higher pay increases than they did because basic pay has increased by 5.6 per cent more than average earnings. Using such other comparisons, moreover, to argue that the Edmund-Davies formula should be changed would smack too much of selecting figures to support what would look like a pre-determined conclusion that one was anxious to prove, without as I have said bringing any real advantage to us.

Although discussions on the review will have to continue between the Official and Staff Sides, I think that the likely conclusions are clear enough. Contrary to our expectations, there is no evidence that the use of the average earnings index for updating police pay, as recommended by the Edmund-Davies Committee, has resulted in significantly disproportionate increases in police pay, and there is therefore no justification for radical change to it. But they have gained an advantage of some 1.1 per cent and I am determined that this should be taken fully into account in pay increases in future years. The Official Side have already tackled the rapidly escalating value - and cost - of recent allowances and their proposals for a changed system will be considered by the Police Arbitration Tribunal in August.

I propose to see the Chairman of the Official Side of the Police Negotiating Board before negotiations start and tell him that we see no case for changing the Edmund-Davies formula for updating police pay, but that we shall expect future settlements to be adjusted by some 1.1 per cent to take fully into account this lead which the police have established over the past few years. I would propose to leave it to the Board to determine how this adjustment should be distributed between ranks. In view of the comparatively high starting salaries for police constables, for example, there is much to be said for seeking to apply a substantial proportion of the financial adjustment to the salaries at the bottom end of the constables' scale.

As to this year's settlement, I assume that the May figure for the average earnings index will be fairly close to the April figure of 5.8 per cent. The Police Federation are well aware that the May figure this year will be considerably below the underlying rate of increase (7 3/4 per cent) and they might argue that the higher figure is the true basis for implementing Edmund-Davies this year. I think it possible, however, that the Federation would be prepared to settle this year at the May index figure, if only to demonstrate their adherence to the letter of the Edmund-Davies updating recommendation. What is certain is that they would not be prepared to accept the lower figure as the basis of negotiation if any attempt were made to reduce it (e.g. by the 1.1 per cent). Their immediate reaction to any attempt at adjustment would be to break off negotiations with the Official Side and exercise their right of access to arbitration, as they have already done on the proposals to adjust the rent allowance system. They would no

doubt accompany that by public statements at the end of July that the Government have torn up the Edmund-Davies agreement and were no longer prepared to back the police in their difficult job, with references to morale in policing the NUM dispute, etc. Such an outcome seems most undesirable in current circumstances. To provide a major public row for the sake of 1.1 per cent on what is an artificially low figure anyway would be the wrong dispute at the wrong time, risking maximum loss for minimum advantage.

I consider that by far the better course is for the Official Side to seek a quick settlement on the May index figure, which should be public on 18 July, while making it clear to the Staff Side that the advantage which the review indicates that the police have gained from the Edmund-Davies formula will have to be taken fully into account from next year.

No need to
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The only outstanding point which that would leave would be the arrangements for financing the cost of a settlement this year above the 5 per cent factor already built into the RSG, which you raised in your letter of 18 April. I am sure to be pressed by the Chairman of the Official Side to give them the same set of assurances as last year (viz the usual 50 per cent police grant on the additional expenditure, an increase in the 1984/85 total for relevant expenditure and in the block grant cash limit to cover the cost of the excess over 5 per cent and a disregard of the excess when calculating liability to grant abatement).

I said in my letter of 15 May that we would have to consider this in the light of the review. Although that review is not completed, we know enough to be clear about our strategy for pay, as I have indicated above. If the Official Side are not given the same assurances as last year, the AMA and ACC may decline to enter negotiations with the Staff Side, as they did in 1982, when the negotiations had to be postponed for a week until satisfactory assurances were forthcoming. Alternatively, they may enter the negotiations with 5 per cent as their upper limit and tell the Staff Side that the Government will not allow them to go above that or they may settle at over 5 per cent, making it clear that the savings necessary to finance the settlement could be found only by reductions in police manpower.

Given the substantial cuts in police budgets which are already having to be made by police authorities because of the costs of the NUM dispute, any of these outcomes would be most unwelcome for us politically and with the police. They would also rule out any prospect of getting the Staff Side to settle quickly on the May index figure. It would in fact lock us from the outset into a confrontation with both Sides. I see no advantage at all in that. If we are to secure a reasonable and quick settlement on the May figure, I must be able to give the Official Side the assurances they seek before 24 July.

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Finally, the parallel review of the pay of chief police officers and Superintendents will be based primarily on job evaluation. This exercise has almost been completed and we expect to have the results before the negotiations over this year's settlement begin. Hitherto, the pay of Superintendents, like the pay of the federated ranks, has been updated in line with the average earnings index. We shall not be able to take a view on whether this remains appropriate until we have the results of the job evaluation exercise.

I should be grateful for my colleagues' agreement to these proposals.

I am sending a copy of this letter to the Prime Minister as well as to other members of E(PSP), George Younger, Jim Prior and Robert Armstrong.

Y
Lons ur,

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Police Pay May 79



NEW YORK