

CONFIDENTIAL

PRIME MINISTER19 September 1984POLICE PAY

Leon Brittan sought colleagues' agreement to a pay package of 4 elements:

- (1) a general increase of 5.4% this year;
- (2) no increase this year on the 2 lowest points on the Constables' scale;
- (3) a change to the use of the underlying rate of the average earnings index for calculating pay increases in 1985;
- (4) a further review after the 1987 settlement.

The Chancellor objects to elements (3) and (4), and is unwilling to increase the block grant cash limit this year to accommodate a pay settlement costing more than 5%.

We agree with the Chancellor that the fourth element of the package is unacceptable. It commits us to automatic pay increases up to and including 1987, and probably beyond. However, it may be difficult to reject the third element of the package. The police negotiators probably want 1984 and 1985 to be considered together. There is some advantage to

CONFIDENTIAL

the Government in doing this. The May earnings index, to which police pay is linked at the moment, is artificially low this year because most miners - the highly paid group - are on strike. A strict interpretation of the formula would give the police only 5% this year. It is worth offering slightly more (5.4%) this year in order to get away with around 7.5% in 1985, rather than a figure as high as 10% or more, which is likely to occur as this year's distortion in the index unwinds itself. If we don't accept the 1985 arrangement, there is no point in offering more than 5% this year. In any case, it will be difficult now to secure 5% because at their conference last week, the Police Federation publicly "accepted" the 5.4% figure.

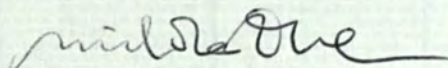
We would recommend that at tomorrow's meeting you should try to secure a compromise position, along the following lines:

- Acceptance of the first 3 elements in the package, and soften the wording of the third element so that it reads "a change to the use of the underlying rate of the average earnings index as a starting point for negotiating pay increases in 1985". The significance of this change is that it would allow the local authority representatives more room for manoeuvre than is allowed by the current automatic indexing arrangements. In particular, they could consider force strengths, recruitment and ability to pay.

CONFIDENTIAL

- The fourth element should either be dropped altogether or amended to bring forward the next review to 1986.

Leon Brittan will argue that any tampering with the package will inevitably lead to arbitration, with its uncertain outcome. But the uncertainty cuts both ways, for the police and the local authorities. The question to consider is whether the arbitrator would feel bound to (or feel able to) pass judgement on the fairness of an automatic indexing arrangement as far ahead as 1987. The Home Office must have a reasonable chance of dissuading him from so doing. In which event, there is an opportunity to secure at least as favourable a deal for 1984 and 1985, without a cast iron commitment beyond that.


NICHOLAS OWEN

CONFIDENTIAL



CONFIDENTIAL

Prime Minister
See also Policy Unit note
which suggests a compromise
AT 19/9

P.01390

PRIME MINISTER

Police Pay Arrangements

BACKGROUND

FLAG A

Since 1979, increases in police pay have been determined by the updating formula recommended by the Edmund-Davies Committee, which links them with the ^{actual} increase in the May figure of the Department of Employment's Average Earnings Index. It was agreed in July last year (E(PSP)(83)4th Meeting) that the Police Negotiating Board (PNB) should review the working of the Edmund-Davies arrangements. It was recognised that the review was unlikely to result in any radical changes, since it was being conducted within the Edmund-Davies framework, but the Government hoped that a more flexible application of the comparability formula would emerge which would enable the Official Side of the PNB to press for more moderate increases in the future.

2. The review coincided with a particularly low figure (initially 4.8 per cent but subsequently revised upwards to 5 per cent) for the Average Earnings Index for May, partly as a result of the miners' strike.

3. In July the Home Secretary proposed that the right way to handle the review and the 1984 settlement was:

i. To base the 1984 settlement on the May Index figure, low though it was.

ii. To deduct 1.1 per cent from the Index figure in 1985 on the grounds that the review had shown that the formula had operated too generously in the past and that an adjustment of

CONFIDENTIAL



CONFIDENTIAL

that order was justified.

(The Home Secretary acknowledged that the 1985 Index figure would probably be about 2.5 per cent higher than the underlying Index to compensate for the statistical quirk this year, so that a downward adjustment next year would be particularly desirable.)

iii. To make no other changes as a result of the review.

FLAG B
4. The Ministerial Sub-Committee on Public Sector Pay (E(PSP)(84)4th Meeting) considered these proposals on 17 July. They agreed that the settlement for 1984 should be based on the May Index figure but they wanted to leave open the possibility of modifying the pay arrangements for 1985 and beyond in the light of the review, and following further work by officials.

FLAG C
5. In his letter of 7 September to the Chancellor of the Exchequer the Home Secretary has explained that there has now been conciliation by the Deputy Chairman of the PNB. Both the Official Side and the Staff Side have been asked to consider a package involving:

i. A general increase of 5.4 per cent in 1984.

ii. No increase in 1984 on the two lowest points on the Constables' scale.

(i. and ii. together produce a 5.13 per cent increase in the pay bill.)

iii. A change to the use of the underlying rate of the Average Earnings Index (as opposed to the actual May figure) for 1985.

(This means that the 1985 settlement is likely to be around 7.5 per cent rather than 10 per cent, because there will be no catching up on account of this year's statistical quirk.)

iv. A further review after the 1987 settlement.

The Home Secretary seeks agreement to this package.



CONFIDENTIAL

It has since been announced publicly that the Police Federation has accepted the conciliator's proposals. The Home Secretary also asks that the local authorities should be given the same assurances about finance as in previous years, ie "the usual 50 per cent police grant, an increase in the 1984/85 total for relevant expenditure and in the block grant cash limit to cover the excess over 5 per cent and a disregard of the excess when calculating the liability to grant abatement".

FLAG D 6. In his reply of 14 September the Chancellor of the Exchequer accepts the proposed level of settlement this year but is unwilling to accept that the Average Earnings Index should determine police pay in 1985, 1986 and 1987 and that any further review of the Edmund-Davies arrangements should be deferred until after the 1987 settlement. He is also unwilling to give the assurances on financing sought by the Home Secretary. *The Home Secretary has responded to the Chancellor's letter.*

FLAG E
MAIN ISSUES

7. There are two main issues:

i. whether the package proposed by the conciliator is adequate to justify forgoing the possibility of changing the Edmund-Davies arrangements until after 1987;

ii. what the arrangements for financing the 1984 settlement should be.

The conciliator's package

8. It is clearly unwelcome to face the prospect of police pay settlements in the three years 1985-87 related to the Average Earnings Index. A review of police pay close to the likely date of the next General Election is also unattractive. The Home Secretary will however probably argue that:

i. If the Official Side do not accept the conciliator's proposals the Police Federation is likely to exercise its unilateral right to take the issue to arbitration. Bearing



CONFIDENTIAL

in mind the inconclusive nature of the material which emerged from the review, there can be no guarantee that the arbitrator's award will be significantly better than the conciliator's proposals.

ii. Realistically there has never been the prospect of getting much out of this year's review; the conciliator's proposals bring some short term advantages - a reasonable settlement this year, no catching up next year, and some action on Constables' starting salaries (one of the major concerns about the working of the existing arrangements).

iii. This year is not a good year for a major row about police pay.

9. The decision is likely to turn very much on the political judgement about iii..

Financial arrangements

10. On the arrangements about financing the 1984 settlement, the issues are mainly ones of principle and presentation. On the assumption that the conciliator's proposal for 1984 is accepted, the amount of money involved is small (the difference between 5 per cent and 5.13 per cent). It will be a matter of principle to the local authorities to keep to the arrangements which they have enjoyed in past years, under which they are largely insulated from the financial effects of the Edmund-Davies arrangements. There is however a major presentational problem over consistency of treatment with the financing of the recent teachers' arbitration award of 5.1 per cent, which is to be found from within local authorities' existing resources. The Chancellor of the Exchequer is also concerned about the implications for this year's local authority white collar negotiations which are still in progress.

CONFIDENTIAL



CONFIDENTIAL

11. There is again a difficult political judgement to be made. The Home Secretary will draw attention to the special problems he has this year over police financing. Although the amount involved is small, a disagreement with the local authorities on this matter is likely to add to friction over financing of the policing costs of the miners' strike.

Timing

12. Although these decisions are difficult, they must be taken quickly. The Official Side has to settle its attitude to the conciliator's offer on Monday, in preparation for the meeting of the Police Negotiating Board on Wednesday 16 September. Now that the Police Federation has publicly accepted the conciliator's offer any delay in making clear the Official Side's response could provoke public controversy about police pay.

HANDLING

13. You will wish to ask the Home Secretary to explain and justify his proposals. The Chief Secretary, Treasury should be asked to speak to the points raised in the Chancellor of the Exchequer's letter of 14 September. The Secretary of State for Employment will have views on the implications for policy on pay generally. The Secretary of State for Education and Science, the Minister for Local Government and the Secretary of State for Social Services should be asked for their views. The Secretary of State for Scotland, as a police Minister, may wish to speak in support of the Home Secretary's proposals.

CONCLUSIONS

14. You will wish to reach conclusions on the following points:

CONFIDENTIAL



CONFIDENTIAL

i. whether to accept the package proposed by the conciliator, and to forgo the possibility of changing the Edmund-Davies arrangements until after 1987;

ii. whether the local authorities should be given the assurances which they are seeking about financing the 1984 settlement.

PLG

P L GREGSON

19 September 1984

CONFIDENTIAL