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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LONGER TERM POLICY ON PUBLIC SERVICE PAY:
THE NON-INDUSTRIAL CIVIL SERVICE

Memorandum by the Lord President of the Council

Introduction

On Thursday I shall be able to report how negotiations with the Civil Service unions for the 1 April 1981 settlement are going. These started with officials on 5 February. A substantial claim is expected which will be parried with 6%. If they demand to see me I shall do so on Monday 9 February when I shall stick on 6% and explain why. I cannot foretell what will happen but I believe that an important factor in the negotiations leading up to 26 February (after which industrial action is planned to start) will be the Government's attitude to the longer term future of Civil Service pay. We thus have an immediate problem but one which I was going to raise anyway in the context of the Chancellor's paper on the longer term - E(81)12.

2. In the summer I put proposals to the Council of Civil Service Unions for improvements we agreed in the pay research arrangements, and the unions have since put in counter proposals. We are deadlocked, perhaps because neither side sees advantage in going on with these discussions at this juncture. But the unions have made it clear that they want an early return to an orderly pay regime.

The Chancellor's paper

3. I agree with a good deal in the Chancellor's analysis. As he says, pay rates in the public and private sectors for similar work - suitably adjusted for different conditions of service - cannot diverge widely for very long and there is value in having agreed data available on the negotiating table. He also points out that the Civil Service Unions are now more ready to take industrial action. He then argues for no formal agreement which could limit the Government's freedom of manoeuvre in deciding the level of settlement each year. I believe that not to be realistic. I would argue that we need a workable, formal agreement.

4. Of course, the Government must unquestionably be able to set aside any agreed pay system when national policy so dictates. But I believe there is very great advantage in having settled arrangements for dealing with Civil Service pay in normal times; indeed, having an agreed system to which we can later return; arguably makes it easier to secure acceptance of harsher treatment when times are exceptional.

The Advantages of an Agreed System

5. In this pay round against a background of serious economic difficulties and high unemployment we plan to impose low increases with virtually no negotiation. But we must not delude ourselves that we can indefinitely settle the pay of our employees by fiat.

6. Is it not better to have an ordered framework to regulate this process than to leave it to the outcome of a free for all? Certainly that is what the moderates want; the militants, on the other hand, prefer confrontation. We have ample evidence that industrial action can be highly disruptive of Government operations. Let us by all means face it out when we must. But an orderly system based on agreements binding both sides to accept an outcome within identifiable limits which arbitration would uphold has maintained industrial peace in the past and is worth pursuing for the future if we can re-establish it on a sound basis.

7. The availability of arbitration is crucial since it provides an important safety valve as an alternative to industrial action. Arbitration in the Civil Service is necessarily quite different from what we know generally in that it is linked to a tightly structured system which limits both the need for it and the risk of unacceptable awards. Indeed in recent years in the Civil Service most awards have been in our favour. Agreements on pay and arbitration could usefully be linked so that they could, when necessary, be suspended together.

8. There is no halfway house. Either we operate on the basis of ordered agreements (which inevitably restrain both sides) or we do not.

Need for Review

9. The present Pay Agreements should be reinstated as they stand. The pay research system has been in operation for 25 years on and off and has gathered too many barnacles. I believe this process now has gone too far to be tinkered with and that we need a fundamental review of the whole system with the aim of getting improved arrangements for the longer term. Hopefully these would be agreed with the unions.

10. The review would consider in the light of experience and changed conditions the extent to which the principles laid down by the Priestley Royal Commission in 1955 now need to be modified or supplemented; the data which should be collected as the basis for negotiations; and the way this should be used. We must have confidence however that the levels of pay to which it points are well founded and the underlying comparisons properly drawn (which is I am sure technically feasible).

11. For these reasons the review should consider, for example, whether recruitment/retention and job security factors cannot play a more direct part than at present; what the field of comparison should be; the way in which "fringe benefits" should be evaluated; whether out of date settlements for analogues should be updated; and the possibilities of the "market value" approach advocated by the Chancellor.

12. I do not think the present Pay Research Unit Board is the right body for this task. It would be better to set up a new ad hoc body to do the specific job under an authoritative chairman with wide industrial experience.

13. The review would be a major task needing probably 18 months of work. This would mean an ad hoc settlement in 1982 and we should need to keep the options open for the following year. I hope we could draw on its findings for 1983 even if the new system was not in place by then.

14. I believe this is the right course to follow. I also see an immediate advantage in that it will demonstrate to the unions that we have a positive approach to the future and would be beneficial in our present negotiations. Clearly we would in no way bind ourselves in advance to the outcome of a review and neither would the unions. But what matters is the attitude we display to it. We must be prepared to make it clear (since otherwise the inquiry would lose its central purpose) that we want to return to an ordered and agreed framework. I hope the review will pave the way for an agreement with the unions. But only the outcome of the review, and the subsequent talks with them about it when the time comes, can determine whether this is possible.

Recommendations

- 15. I therefore recommend:
 - a. that we decide on a review with the aim of establishing a new basis of pay determination, backed by arbitration;
 - b. that we tell the Civil Service Unions that:
 - i. there can be no return to pay research in 1982 in view of the economic outlook and the lack of progress with changes to the present system; but
 - ii. we do want to return to an agreed and ordered system backed by arbitration;
 - iii. we intend to set up a review to advise how this might best be achieved.

CS

Civil Service Department
6 February 1981