

**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(81)18

COPY NO 57

10 February 1981

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES

Note by the Central Policy Review Staff

1. The Chancellor's paper, E(81) 12, approaches the problem of future public service pay from the point of view primarily of the Government's economic objectives and its desire for a free hand in setting the wage levels of its employees. The Lord President's paper, E(81)16, emphasises the need for any system to be negotiable, and urges that the offer of an eventual formal system is important to achieve a satisfactory settlement this year. It may be useful to Ministers to set out the main points the two papers have in common, and the fundamental difference. As an aid to discussion, this paper also contains some suggestions on a possible course ahead.

2. We discuss the problem in terms of the non-industrial Civil Service, which has had the most highly developed comparability system and where the negotiating need to give an assurance on future arrangements may become acute. But the circumstances of most of the rest of the public services are different, and may call for different solutions. We return to this in paragraph 11.

Objectives

3. Each of the objectives set out in paragraph 10 of the annex to the Chancellor's paper would we believe be generally accepted. In the light of the Lord President's paper, we suggest a further objective: "(v) to enable the process of wage negotiation to take place with the minimum of disruption

1  
**CONFIDENTIAL**

305

and resentment". The five objectives are however difficult to reconcile. The aim must be to find a workable balance between them, bearing in mind that in the long run the system will have to operate through negotiation.

Areas of agreement

- 4. Among points which the two papers have in common are:
  - (a) the need for early decision to enable planning to begin for the 1981/82 pay round, and to influence the current non-industrial Civil Service negotiations;
  - (b) the impossibility in the long term of the pay rates of public employees diverging very widely from the pay rates of people doing similar work in the rest of the economy, when suitable adjustments are made for differences in conditions;
  - (c) the need to take account in bargaining of wider factors than simple pay comparison, and to give these as much objective status as can be obtained.

Cash limits

5. The Lord President's paper does not discuss cash limits. It is however clear from the annex to the Chancellor's paper (paragraphs 29 to 38) that the determination of pay, in any way which involves negotiation, can be reconciled with cash limits set before the negotiations only on the basis of as accurate as possible a guess of what the negotiations will produce. This precludes using the cash limits as effective weapons in negotiation, and also precludes revealing the figure in advance where pay makes up a large proportion of the cash limit, since otherwise the negotiating hand is revealed. Such a guess would normally be easier to make in a structured framework such as that which the Lord President proposes.

Can 'constrained bargaining' be made to work?

6. If 'constrained bargaining', as suggested by the Treasury could be made to work in practice, it would have obvious advantages.

It will be important for Ministers to decide whether it is in fact practicable. The Lord President thinks not, and the CPRS also doubts whether 'constrained bargaining' would be negotiable or would stand up to the pressures that would be put on it.

Possible types of formal system

7. If 'constrained bargaining' is rejected as unworkable, some type of a formal system will be needed. The Lord President argues that without a workable formal agreement, to which the Government is committed in normal times, there will be increasing militancy and strike action to an extent which will in practice constrain the Government even more unacceptably than a formal system. Further, a well-designed formal system should achieve rough parity between the public services and private sector without periodic damagingly large pay rises to catch up with past short-falls. (It can be argued that the harm done to the economy by last year's large pay rises in the Civil Service outweighed the good done by putting aside comparability in previous years.)

Requirements for a new formal system

- 8. If a new system is to meet Ministers' needs, and in particular incorporate as many of the Chancellor's ideas as possible, it should as far as possible:
  - (a) allow the Government to vary figures suggested by private sector data when these figures conflict with national needs, eg a resurgence of inflation, and with what the Government can afford;
  - (b) take proper account of pension rights, security of employment, and wider labour market forces, such as the existence of outsiders willing to do the same job for less pay, and the needs of recruitment and retention;
  - (c) provide better outside analogues than the current system.

But if the system is to be workable, it is essential that it be accepted by the unions. They will look for fairness as between their members and the private sector, and would oppose a system which would allow the public services sector to be used unfairly as an example to bring down wages in the economy as a whole. But their moderate members, probably still the majority, would see considerable advantage in a stable system which avoided yearly confrontations. Accordingly, they might well be brought to accept a system which included an assurance of stability, even if the contents fell considerably short of the demands of the militants.

9. The practical task is to devise a new system which combines the assurance of stability which the unions seek with an outcome that is much more in line with the Government's needs than the old comparability system. The CPRS suggests that, if Ministers agree that 'constrained bargaining' is impracticable, more work should be done to devise a new formal system. Some suggestions of factors to be taken into account are in the Annex. Three possible ways of proceeding would be:

- (a) a Royal Commission going back to basic principles, ie a new Priestley Commission;
- (b) a less formal, ad hoc outside body asked to accept the main principles of Priestley but devise ways of bringing them up to date to meet current economic needs and take account of criticisms;
- (c) decisions by Ministers on ways in which the current system needs to be changed, with a directive to the Civil Service Department to work out a complete scheme which, after Ministerial approval, would be negotiated with the unions and set up.

10. A Commission or outside body (a or b above) would have the advantage of allowing the Government not to be committed to all its conclusions. However, if these were widely seen as reasonable, it would be easier to bring the unions to accept them. On the other hand, there would be a risk of outsiders

moving in an unhelpful direction, however carefully the terms of reference were drafted, and producing recommendations which would be harmful to the Government, and perhaps strengthen the unions' hand. Keeping the work within the Civil Service Department (c above) would enable the Government to retain control, but would make selling to the unions more difficult. The CPRS suggests that if Ministers see a revised formal system as the way ahead, they will need to weigh arguments such as these in order to determine how it may best be achieved.

Other parts of the public services

11. If a new formal system were developed, it would in the first place be designed to deal with the pay of the non-industrial Civil Service. There would in principle be advantage in applying a similar system to eg the National Health Service, where the Exchequer is the only source of revenue, but there would be greater difficulties of comparison, and more rough-and-ready factors might be needed. There is less need of such a system, (except from the point of view of general uniformity of approach) in areas where the present wage negotiating system approximates to that in the private sector because there is more pressure from market forces (eg Local Authority staff, industrial Civil Servants).

Cabinet Office  
10 February 1981

The following factors might be included in a new formal system for the determination of non-industrial Civil Service pay, group by group:

- (a) link with private sector: eg the earnings and other conditions of service of people with similar qualifications, skills and responsibilities working outside the Civil Service, taking account of pension contributions and the nature of the eventual pension;
- (b) job security: eg the average number of days the people similar to (a) were unemployed in the previous year;
- (c) recruitment needs: eg any shortages in the Civil Service of particular groups of staff, nationally or locally;
- (d) pay above longer-term market rates: eg any glut of unemployed staff of particular groups, nationally or locally;
- (e) future demand: eg any increase or decline in the future demand by Government for particular groups, whether because of demographic movements or because of cuts decided on by the Government for economic reasons - groups affected would have their future pay amended by a percentage factor to take account of the need to attract more or fewer recruits in future years;
- (f) efficiency: eg changes to take account of special gains in efficiency, such as when a better service is achieved by fewer staff as a result of new procedures or equipment;
- (g) keeping in phase: eg special procedures to deal with the case when a rapid change in the rate of inflation makes a comparison going back as far as a year inappropriate: the "going rate" might then be the determining factor, with a procedure for getting back to parity if the estimated "going rate" turns out to be misleading.