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E(81) 6th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 12 FEBRUARY 1981 at 9.30 am
and resumed at 11.45 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Items 2 and 3)

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

i

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CONTENTS

Subject

Page

Item No

1	FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES	1
2	NATIONAL HEALTH SERVICE AND CIVIL SERVICE CASH LIMITS	1
3	TEACHERS' PAY: ACCESS TO ARBITRATION 1981	1

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1. FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES
The Committee considered memoranda by the Chancellor of the Exchequer (E(81) 12), the Lord President of the Council (E(81) 16) and the Central Policy Review Staff (E(81) 18).

Their discussion and conclusions reached are recorded separately.

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2. NATIONAL HEALTH SERVICE AND CIVIL SERVICE CASH LIMITS
The Committee discussed letters of 10 and 11 February to the Chancellor of the Exchequer from, respectively, the Secretary of State for Social Services on current pay negotiations with National Health Service groups and from the Lord President of the Council on the Civil Service pay negotiations; and a minute of 11 February, from the Chancellor of the Exchequer to the Prime Minister, commenting on those letters.

Their discussion and conclusions reached are recorded separately.

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3. TEACHERS' PAY: ACCESS TO ARBITRATION 1981
Previous reference: E(81) 1st Meeting, item 4

The Committee considered a Memorandum by the Secretary of State for Education and Science (E(81) 17) reporting the outcome of consultation with the bodies represented in the Burnham Committees with a view to changing the arbitral arrangements relating to teachers' pay, in time for the 1981 pay negotiations.

The SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that, acting on the Committee's decision at its meeting on 14 January 1981, he had consulted the Association of County Councils (ACC), the Association of Metropolitan Authorities (AMA) and the teachers' unions about the proposal to withdraw the unilateral right of access to arbitration before this year's negotiations for teachers' pay in England and Wales got under way. The

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unions, the AMA, and the Welsh Joint Education Committee, were opposed to the change being made this year. The ACC on the other hand still strongly favoured a change. It was unlikely that the withdrawal of unilateral right of access to arbitration would have much practical effect in 1981: if the teachers' unions asked for arbitration, the ACC had a majority of only one on the Management side, and it would therefore only take one ACC member to change his mind to produce joint agreement to go to arbitration. To make the change at once, rather than in the context of the forthcoming review of pay and conditions of service, would be likely further to embitter relations with the teachers' unions and sour the atmosphere for the review. If the change were not to be made, however, the ACC would feel, and say, that they had been let down by the Government. If the change was to be made now, action would have to be taken before the meeting of the Burnham Committee which was due to be held in the following week. Otherwise the opportunity for changing the rules this year would be lost.

In discussion attention was drawn to the strongly-held views of the leaders of the ACC that a failure of the Government to act now would not only weaken their members' resolve to go for a sensible pay settlement with the teachers but would be seen as a signal that the Government were weakening in their resolve to restrain pay increases in the public sector generally.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee agreed that the Secretary of State for Education and Science should now take the necessary steps to withdraw the right of unilateral access to arbitration from teachers in England and Wales before the negotiations for this year's pay settlement began in the following week. The Committee accepted, for the reasons they had discussed in earlier meetings, that it would not be possible to take parallel action in respect of Scottish teachers in 1981.

The Committee -

Invited the Secretary of State for Education and Science to abrogate forthwith the right of unilateral access to arbitration currently enjoyed by teachers in England and Wales.

LIMITED CIRCULATIVE AGREES
(1981) 243 Meeting Minutes - Item 1 (and 2)
MINUTES 23 FEBRUARY 1981 at 9.30 am

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The Committee considered proposals by the Chancellor of the Exchequer (1981) 243, the then President of the Council (1981) 16) and the Central Policy Review Staff (1981) 243) on future arrangements for pay in the public services.

The CHANCELLOR OF THE EXCHEQUER said that it was generally agreed that the existing system of determining Civil Service pay, stemming from the Paymaster General's Report of 1977, no longer commanded general public confidence. This was because in recent years there had been much higher rates of inflation than when the system was first introduced and such control of public expenditure had become increasingly important. The Civil Service unions were now prepared to strike. It was necessary to look for a new system for the Civil Service. A new system for the Civil Service might prove to be capable of adaptation for application to other public services; but the Civil Service was seen as having a lead, and the first priority should be to get the Civil Service system right. Any new system would have to recognise the reality that in the long term the remuneration of public employees could not diverge very widely from that of people doing similar work in the rest of the economy. If the public services were to attract and retain staff of sufficient quality to maintain their standards, a new system should avoid, on the one hand, pay determined by the imposition of arbitrary cash limits and, on the other, uncontrolled pay bargaining. The need was for a workable formal agreement with the unions which would provide stabilised ground rules for the determination of pay. It would, however, be essential for any such

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13 February 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEXES

E(81) 6th Meeting Minutes - Items 1 and 2
THURSDAY 12 FEBRUARY 1981 at 9.30 am

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1. FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES

Previous Reference: E(80) 37th Meeting, Item 4

The Committee considered memoranda by the Chancellor of the Exchequer (E(81) 12), the Lord President of the Council (E(81) 16) and the Central Policy Review Staff (CPRS) (E(81) 18) on future arrangements for pay in the public services.

THE CHANCELLOR OF THE EXCHEQUER said that it was generally agreed that the existing system of determining Civil Service pay, stemming from the Priestley Report of 1955, no longer commanded general public confidence. This was because in recent years there had been much higher rates of inflation than when the system was instituted; cash control of public expenditure had become increasingly important; and the Civil Service unions were now prepared to strike. It was therefore necessary to look for a new system for the Civil Service. A new system for the Civil Service might prove to be capable of adaptation for applications to other public services; but the Civil Service was seen as setting a lead, and the first priority should be to get the Civil Service system right. Any new system would have to recognise the reality that in the long term the remuneration of public employees could not diverge very widely from that of people doing similar work in the rest of the economy, if the public services were to attract and retain staff of sufficient quality in sufficient quantity. A new system should avoid, on the one hand, pay determination by the imposition of arbitrary cash limits and, on the other, unconstrained pay bargaining. The need was for a workable formal agreement with the unions which would provide civilised ground rules for the determination of pay. It would, however, be essential for any such

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system to reserve to Government the crucial decisions on the resources to be made available to finance pay settlements. There could be no question of Government commitment automatically to accept the outcome of any system. I did not believe it would be right to hand over responsibility for devising such a system to an outside body. The Government needed to carry its own thinking forward further, before deciding how best to proceed.

THE LORD PRESIDENT OF THE COUNCIL said that he agreed that over the last 25 years the existing pay research system had gathered too many barnacles and was now in need of a fundamental review with the aim of getting improved arrangements for the longer term. For these arrangements to work however, they had to be based on an agreed and ordered system, which would inevitably constrain both the Government and the unions, backed by arbitration. The unacceptable alternative was for the Government to determine pay unilaterally, and, as had happened in recent years, for public pay to be held down by comparison with private sector pay until the pot boiled over with high catching-up settlements following. An outside review, leading up to an agreed and ordered system, would carry more conviction both with the general public and with the unions. Such a review would probably take up to 18 months, because of the need to establish the new data, it could not provide a basis for settlements before 1985. If he could now tell the Civil Service unions that the Government intended to set up a review to advise on how a return to an agreed and ordered system backed by arbitration might best be achieved, that would substantially reduce the amount of industrial action likely in any case to arise out of the current negotiations on the 1981 pay settlement.

MR IBBS said that the CPRS agreed that the present system was no longer adequate. They inclined to the view of the Lord President. No doubt totally unconstrained pay bargaining would be what the unions would like. That was not acceptable, but the unions would regard "constrained bargaining" as unacceptable if it meant that every year Civil Service pay was held down simply by reference to what would be seen as an arbitrary cash limit. Such a system - or lack of system - would make for regular and increasingly damaging confrontation. Provided that the Civil Service could be offered a system which was both fair and stable, the Civil Service unions would

accept occasional intervention by Government to hold down their pay at times of economic difficulty. A new system would need to take account of wider factors than simple pay comparison, and to give these as much objective status as possible; the Annex to E(81) 18 listed the kind of factors which the CPRS had in mind.

In discussion the following points were made -

- a. It was essential for the new system to take account of other factors as well as pay comparisons, and those listed by the CPRS in the Annex to E(81) 18 provided a good basis for further work on this. It would be important, particularly while inflation was falling, to break with the present practice of basing public sector pay settlements on private sector increases over the previous year rather than on current developments.
- b. It would be important not to lose sight of the fact that, in seeking an ordered and agreed system of pay determination, Ministers did not have in mind a system which in effect suspended the responsibility of Government for decisions on public sector pay. The new system should be aimed at an ordered and agreed exposition of the factors to be taken into account in determining Civil Service pay and ordered and agreed arrangements for assembling and assessing information relating to those factors, not at generating conclusions binding on the Government.
- c. Until fuller work had been done on the objectives of the new system, and the factors which Ministers would wish to be taken into account, the question of whether there should be an outside review should be left open. While an independent review might be held to command more confidence, it could lead to delays in the introduction of the new system and, if its recommendations were contentious, increase the difficulties of implementing it. If there were to be such an independent review, its terms of reference and membership would require careful consideration.
- d. Pay settlements in the rest of the public services were strongly influenced by those in the Civil Service. The introduction of a better system for the Civil Service could therefore have helpful repercussions elsewhere. Further consideration should be given to whether the proposed review should be confined to the Civil Service or extended, say, to the National Health Service. An attempt to deal with the whole of public services in one review would be both unwieldy and unnecessary.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the present arrangements for determining Civil Service pay needed to be changed and that change would necessitate a prior review to provide a basis for discussion with the unions. They were also agreed that a new long-term formal pay agreement with the Civil Service unions was desirable, provided that it took account of the sort of factors set out in Annex A to E(81) 18 as well as of pay comparisons and that it did not impair the Government's ultimate responsibility for deciding the levels of pay which could be afforded. As a first step more work was needed in Government so that Ministers could be clear on the elements they wished to see in the new system and on the nature of the agreement they might hope to reach with the Civil Service unions. Only when this had been done could Ministers properly decide the best way of reaching their objective including the possibility of some form of independent review. She would consider further how best this preliminary work should be organised. Meanwhile the Committee recognised that a statement of the Government's intentions, and in particular of the preference for reaching agreement with the unions on a new long-term framework for pay negotiation, would be of considerable help to the Lord President in his current negotiations for a pay settlement to take effect from 1 April 1981. Such a statement might be to the effect that Government wished and intended to establish ~~an~~ an ordered and if possible agreed system for determining Civil Service pay under which all relevant factors would be taken into account, was considering how such a system could best be worked out and established so as to command the confidence of the Government, the Civil Service and the public, and would be making proposals to this end in due course. The precise wording of the assurance which could be given to the unions would be of cardinal importance. The Lord President should agree the wording of his statement with her and with the Chancellor of the Exchequer and the Secretary of State for Employment.

The Committee -

1. Agreed upon the need to establish a new and satisfactory system for determining Civil Service pay which could replace the system set up after the report of the Priestley Royal Commission.
2. Agreed that further consideration ^{needed} need to be given to the factors to be incorporated in a new system for pay determination and to the means by which such a system could be worked out and established so as to command the confidence which the existing system had lost.

3. Took note that the Prime Minister would consider further how best the preliminary work referred to in her summing up should be organised.

4. Invited the Lord President of the Council to agree with the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Employment the terms of his statement informing the Civil Service unions of the Government's intention to review the system of determining Civil Service pay.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that, following further discussions with representatives of the NSE management and unions, he judged that there was a reasonable prospect of pay settlements of 7 per cent. Given that the local authority councils, with whom the NSE auxiliary staff were traditionally linked for pay purposes, had settled at 7 1/2 per cent, there was no prospect of securing settlements of 6 per cent in the NSE. To persist in trying for a 6 per cent settlement would lead to considerable unrest and possibly disruption in health services, in which public sympathy was likely to be on the side of the NSE, and the unions in particular, rather than the Government. If, on the other hand, agreement could be reached on a 7 per cent settlement, this would be seen by the public, and by private sector firms, as a considerable achievement. A 7 per cent pay settlement could not, however, be accommodated within a cost limit allowing for only 6 per cent without cuts in the volume of services which would be contrary to the Government's public commitments. It would also put at risk the co-operation of the unions in the current restructuring of the NSE. At the same time he recommended that the management side should be authorised to negotiate a change in the annual settlement date from December to April for ancillary, maintenance and maintenance staff with a lump sum payment not exceeding the value of a 6 per cent increase from December 1981 to April 1982.

THE LORD PRESIDENT OF THE COUNCIL said that representatives of the Civil Service non-industrial unions had confirmed to him on 9 February their rejection of the offer of a 6 per cent settlement. He judged that non-industrial action in the Civil Service was inevitable, but that an offer of 7 per cent for pay, coupled with an assurance that the Government wished to return to an ordered system and that the longer-term arrangements for settling pay were to be examined would substantially reduce that action and strengthen the hand of moderate

NATIONAL HEALTH SERVICE AND CIVIL SERVICE CASH LIMITS

Previous Reference: E(81) 1st Meeting Minutes, Item 2

The Committee discussed letters of 10 and 11 February to the Chancellor of the Exchequer from, respectively, the Secretary of State for Social Services on current pay negotiations with National Health Service (NHS) groups and from the Lord President of the Council on the Civil Service pay negotiations; and a minute of 11 February, from the Chancellor of the Exchequer to the Prime Minister, commenting on those letters.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that, following further discussions with representatives of the NHS management and unions, he judged that there was a reasonable prospect of pay settlements of 7 per cent. Given that the local authority manuals, with whom the NHS ancillary staff were traditionally linked for pay purposes, had settled at $7\frac{1}{2}$ per cent, there was no prospect of securing settlements of 6 per cent in the NHS. To persist in trying for a 6 per cent settlement would lead to considerable unrest and costly disruption to health services, in which public sympathy was likely to be on the side of the NHS, and the nurses in particular, rather than the Government. If, on the other hand, agreement could be reached on a 7 per cent settlement, this would be seen by the public, and by private sector firms, as a considerable achievement. A 7 per cent pay settlement could not, however, be accommodated within a cash limit allowing for only 6 per cent without cuts on the volume of services which would be contrary to the Government's public commitments. It would also put at risk the co-operation of the unions in the current restructuring of the NHS. At the same time he recommended that the management side should be authorised to negotiate a change in the annual settlement date from December to April for ancillary, ambulance and maintenance staff with a lump sum payment not exceeding the value of a 6 per cent increase from December 1981 to April 1982.

THE LORD PRESIDENT OF THE COUNCIL said that representatives of the Civil Service non-industrial unions had confirmed to him on 9 February their rejection of the offer of a 6 per cent settlement. He judged that some industrial action in the Civil Service was inevitable, but that an offer of 7 per cent for pay, coupled with an assurance that the Government wished to return to an ordered system and that the longer-term arrangements for settling pay were to be examined would substantially reduce that action and strengthen the hand of moderate

opinion in the unions. He accordingly sought authority to offer 7 per cent, but no more, and a statement on the longer-term arrangements, as and when he judged that this would be helpful in the course of the negotiations.

THE CHANCELLOR OF THE EXCHEQUER said that he strongly recommended that the cash limits for both the NHS and the Civil Service should be based on 6 per cent for pay and 11 per cent for prices. In the light of the cash limits already announced for the Rate Support Grant (RSG) and for university grants, public undoubtedly expected the 6 per cent pay factor to apply in the remaining cash limits. An increase to 7 per cent, at a time when the financial markets were highly critical of increases in the Public Sector Borrowing Requirement and both inflation and private sector pay settlements were falling would be indefensible. Cash limits on the basis he proposed would not prevent pay settlements of higher percentage rates which could be financed by economies and from the additional head-room given by retaining a prices factor of 11 per cent rather than the 10 per cent which could be justified on the basis of more recent estimates. In the case of the NHS, an additional 1 per cent on pay would cost £70 million which, when offset by £30 million for a 1 per cent reduction in prices, would leave £40 million savings to be found; this was equivalent to only $\frac{1}{3}$ of one per cent off the total NHS budget. In the case of the Civil Service, either a higher settlement should be financed by a greater reduction in staff numbers than already planned or, to the extent that this was not acceptable, a lower settlement would have to be negotiated.

In discussion the following points were made -

a. If the pay factor were now to be set at 7 per cent for the NHS and Civil Service cash limits, this would be seen as a major retreat by the Government. Local authority employers, in particular, would claim that the Government had let them down, and there could well be pressure to re-open the cash limits already announced for the RSG and for the universities. The prospects for negotiating satisfactory settlements for the teachers, and other public sector groups, would be damaged.

b. The most likely outcome of announcing a factor of 7 per cent now would be to encourage the unions to raise their sights and to seek a pay settlement of more than 7 per cent. Once they had seen that the Government

was not prepared to stand its ground, they would be encouraged to assume a willingness on the Government's part to respond to pressure for concessions.

c. The fact that there were now 25,000 more staff in the NHS than when the Government took office was highly disturbing. The increase could be explained as necessary to maintain standards of services for the growing number of patients. On the other hand it would be severely criticised at a time when both the local authorities and central Government were substantially reducing staff numbers. The increase in NHS numbers reinforced the view that there was scope for finding further savings by improvements in efficiency.

d. If there were to be settlements of 7 rather than 6 per cent for the Civil Service, a 6 per cent pay factor for cash limits was ^{assumed} returned, and supplementary estimates were ruled out, the increased costs would have to be offset by savings elsewhere, and in "pay only" votes by further manpower cuts on top of those already planned. It could prove difficult to achieve such further cuts in some Departments. The possibility of supplementary estimates being required in some cases should not therefore be completely excluded.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed, by a clear majority, that the 1981-82 cash limits for the NHS and for the Civil Service should be based on a pay factor of 6 per cent and a prices factor of 11 per cent. The Lord President of the Council and the Secretary of State for Social Services each had authority to negotiate pay settlements of up to 7 per cent for the Civil Service and for the NHS on the clear understanding that the additional costs would have to be found from within the cash limits now set. It should not be assumed that extra provision could be taken in supplementary estimates later in the year.

The Committee -

1. Agreed that the 1981-82 cash limits for the Civil Service and for the National Health Service should be based on a pay factor of 6 per cent and a prices factor of 11 per cent.
2. Invited the Lord President of the Council and the Secretary of State for Social Services to be guided, in their further negotiations on Civil Service and National Health Service pay, by the Prime Minister's summing up of their discussion.
3. Noted that, in the event of settlements at 7 per cent, the Lord President of the Council and the Secretary of State for Social Services would need to consider how the settlements could be accommodated within the agreed cash limits, and might need to bring further proposals before their colleagues.

Cabinet Office
16 February 1981