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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

CIVIL SERVICE PAY ARRANGEMENTS

Note by the Secretaries

The attached report discusses the elements which might form part of a new long term pay agreement with the Civil Service unions and the possible extension of similar arrangements to the National Health Service. It has been prepared by the Official Group on Civil Service Pay Arrangements (MISC 54) under the chairmanship of the Civil Service Department. The main issues discussed are summarised in the Chairman's covering note.

Signed ROBERT ARMSTRONG
P Le CHEMINANT
D J L MOORE

Cabinet Office

28 April 1981

REPORT BY THE OFFICIAL GROUP ON
CIVIL SERVICE PAY ARRANGEMENTSNote by the Chairman

1. Since this report was completed the Government has suggested to the Civil Service unions the possibility of an independent outside inquiry into future Civil Service pay determination. This suggestion, if adopted, will affect the handling of the report and the kind of decisions which need to be taken on it.
2. There is a summary of conclusions at the end of the report (paragraph 93). It may also be helpful to set out in this note the main issues discussed in it.
3. Paragraph 8 sets out the objectives which a new Civil Service pay system should meet. In the main body of the report (paragraphs 12 to 34) we identify the elements of a new system tested against these objectives. We examine first the market factors on which Civil Service pay should be based; and suggest that these should be outside pay rates, recruitment and wastage assessed against forward manpower requirements, and reflecting relative job security. Our conclusions on these factors are summarised in paragraph 93(c)-(j).
4. Paragraphs 35 and 36 consider a number of more detailed aspects of pay structure which are relevant to management efficiency. Our conclusions are summarised in paragraph 93(k)-(n).
5. The important issue of reconciling ultimate Ministerial responsibility for Civil Service pay rates with an "ordered and agreed" pay system is covered in the next section of the report (paragraphs 37 to 66). We consider the case for an "override" power for use in exceptional economic circumstances or, alternatively, for allowing factors of cost and economic circumstances to be deployed in negotiations every year. We review the role which arbitration could play and also the problems caused when pay increases for the Civil Service are, in percentage terms, out of line with the "going rate" elsewhere. The analysis of this set of issues has led us to identify four options for a new pay system. These are set out in paragraph 70 of the report and our comments on them are in paragraphs 72-77.
6. The essential choice lies between a procedure agreement which would, in effect, leave the way open for "free collective bargaining" with arbitration only available by mutual consent or an agreement which limits the room for manoeuvre in negotiations of both the Government and the unions but would help to limit the risk of industrial strife.
7. In paragraphs 80-83 of the report we include some comments on the scope for trading a new pay agreement for the Civil Service for a "no strike" commitment by the unions. If Ministers wish to pursue this possibility further, a more detailed report will be required.

8. We also offer views on the extent to which similar pay arrangements to those for the Civil Service might be applicable in the NHS (paragraphs 85-92). But we think that it would be premature for Ministers to reach decisions on this.

9. On the basis of our report Ministers will want to consider:
- whether they agree with the suggested objectives of a new Civil Service pay system;
 - whether the "market factors" set out in the report and the conclusions reached on the way these should be taken into account provide a sound basis for settling Civil Service pay rates;
 - which of the four options in paragraph 70 would be the right basis for discussions with the unions on a framework for longer term arrangements.

F G BURRETT

Civil Service Department
27 April 1981

REPORT BY THE OFFICIAL GROUP ON CIVIL SERVICE PAY ARRANGEMENTS

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REPORT BY THE OFFICIAL GROUP ON CIVIL SERVICE PAY ARRANGEMENTS

TERMS OF REFERENCE AND MEMBERSHIP

1. The Group was established:-

"to consider, against the background of discussion in the Ministerial Committee on Economic Strategy on 12 February, and the proposals prepared by the CPRS for that discussion, the elements which might form part of a new long term pay agreement with the Civil Service unions; the possible extension of similar arrangements to the NHS; and to report".

2. The Group consisted of representatives of the Treasury, the Department of Employment, the Ministry of Defence, the DHSS, the Inland Revenue, the Prime Minister's Office and the CPRS; and was chaired by the Civil Service Department.

BACKGROUND

3. At the meeting of E Committee on 12 February Ministers concluded that a new long term formal pay agreement with the Civil Service unions was desirable provided that it took account of the factors suggested as relevant by the CPRS as well as of pay comparisons and did not impair the Government's ultimate responsibility for deciding the levels of pay which could be offered.

4. Subsequently, with the agreement of his colleagues, the Lord President told the Civil Service unions that:-

"the Government intends to review the arrangements for determining the pay of non-industrial civil servants with the object of establishing as soon as practicable an ordered and agreed system which takes account of all relevant factors and which will command the widest possible acceptance".

5. The unions have also been told that matters such as pay comparisons and independent fact finding would be among the factors covered by the review and that arbitration has not been ruled out for the future. A more positive formula containing assurances about the actual content of a new system was agreed by the Prime Minister on 3 March but it has not been spelled out in full to the unions. This was to the effect that in introducing a new pay system "it would be the Government's intention that the terms and conditions of service of its employees should not normally fall behind the terms and conditions of service of those employed outside"; and that "providing that we can arrive at a satisfactory and ordered system arbitration would have a part to play in normal times".

* Note The list of factors suggested by the CPRS is at Annex A to this report.

OBJECTIVES

6. The purpose of having an "ordered and agreed system" is presumably to serve the legitimate interests of all parties (Government, taxpayer, civil servants) in a way which removes or at least minimises, industrial strife.
7. The particular need for arrangements of this kind in the Civil Service arises from the special relationship between the Government and its own employees. It is widely regarded as especially undesirable that the business of central Government should be threatened by industrial action. In order to avoid this by preventing disputes before they arise there is a strong case for establishing an agreed system of pay determination in which both parties are committed. Similar arguments underlie the current arrangements for the Armed Forces and (though the central Government is not the employer) for the police. Special pay arrangements for the Civil Service are needed, if at all, only because in the last resort its circumstances are special. But the effect of such arrangements should not be to give civil servants more favourable treatment than other employees.
8. We suggest that a Civil Service pay system should in principle:-
 - a. fix Civil Service pay rates at levels which enable the Government both to recruit and retain staff in the quantity and of the quality that it judges necessary and to defend those levels as reasonable both to public opinion and to civil servants. To do so it needs to be able to show that all relevant factors have been brought to account in framing these pay rates;
 - b. be efficient in the technical sense that in its application it provides maximum value for money from a management point of view;
 - c. enable Civil Service pay to be adjusted periodically to meet objectives (a) and (b) with the minimum risk of industrial strife and without unacceptable damage to wider national policies; and, by extension, allow the Government to suspend or override it in exceptional circumstances when the national interest demands this.
9. By definition an agreed system embodying these objectives would have to be negotiated with, and therefore be acceptable to, the unions. They are not unanimously in favour of a new agreement which would inevitably restrict their own room for manoeuvre to some degree. None of them will want one at any price. It is quite possible that the Government's view of how the three objectives in the previous paragraph should be achieved and on the balance which should be struck between them will prove to be irreconcilable with the views of the unions.
10. The contents of any new pay agreement will depend mainly on the kind of factors which are agreed to be relevant to the determination of Civil Service pay; on the extent to which they

are to be taken into account in a quantified way (ie given a precise value); and on how far it is intended that the agreement as a whole should limit the scope for argument about what pay rates are appropriate. Such a limitation must obviously restrict the Government's freedom of manoeuvre, at least in normal years. But if the Government does not accept for its part some limitation on its freedom, the unions will not accept any on theirs. The result will be that pay is settled by "free collective bargaining".

STRUCTURE OF REPORT

11. The various considerations which have been described inevitably influence each other and there is no ideal order for considering them. We thought it best to begin by examining against the first objective in paragraph 8 the factors which might be used in establishing appropriate pay rates for the Civil Service. These include the market factors of comparisons with pay rates outside the Service and its relative position in terms of recruitment, voluntary wastage and job security assessed against its forward manpower requirements. Against the second objective we have examined various aspects (including the introduction of more geographically varied pay rates) of the need to ensure that the pay system is applied in a way which meets the management requirements of Ministers. We have reserved to discussion of the third objective such questions as the treatment of the factors of cost and economic circumstances; and the role of arbitration. We then set out a number of options for Ministers to consider drawing on our appraisal of the various components of a new pay system. We end our report by looking briefly at the question of a "no strike" agreement and at the wider relevance of our proposals, particularly the scope for applying them to pay in the NHS.

THE FIRST OBJECTIVE: PAY FACTORS

A. Comparisons with outside pay and related conditions of servicea. General

12. At present, in line with the Report of the Priestley Royal Commission of 1953-55, pay rates in the Civil Service are based mainly on comparisons with those paid for similar work outside, taking account of differences in other conditions of service.
13. If a new system is to meet Ministers' present requirements it must clearly give much greater weight to factors other than direct pay comparison. But Ministers have recognised that comparison in some form will need to play a part. There are three main reasons why it should. First, the level of remuneration offered by other employers for comparable jobs does, to some extent, represent a useful "proxy" for the market. It shows what other employers have decided to pay to get staff of sufficient quality and quantity. Second, civil servants, both present and prospective (and their unions), are bound to make comparisons between their own pay and the pay of people

doing similar work outside in assessing the pay rates offered to them. Third, Civil Service pay levels have to be publicly defensible in relation to pay levels in the rest of the community.

14. Comparisons with outside pay can, in principle, be based either on pay rates or on percentage movements in pay. Of the two, comparisons based on outside rates provide a much more satisfactory starting point for meeting the considerations in paragraph 13 since these reflect directly the real position in the outside market. Moreover, information on them can be collected in much more detail to establish separate and more valid comparisons for different groups of staff.

15. If the use made of pay comparisons in a new system is to be readily defended then it is important that they should be made as precisely and accurately as possible. Also, only through detailed comparisons of rates can proper allowance be made for differences in other conditions of service such as pensions and hours and leave.

16. Under the pay research system the negotiators were left with comparatively little room for manoeuvre once these pay comparisons had been made. Reducing the scope for argument between the negotiating parties has its advantages in terms of industrial relations and of public presentation. But Ministers have been more concerned about the degree of "automaticity" involved in the present system. This can be reduced by bringing other factors into play which provide more room for manoeuvre. But, in our view, a necessary part of an ordered and agreed system and of its public defence is that comparisons should be undertaken in a structured way.

17. We have considered what changes should be made in the way in which information about outside pay rates is collected at present and in the way these are adjusted to take account of other related conditions of service.

18. Our findings are set out in Annex B. In brief we have concluded that under a new system some features of the present methods of comparison should continue:-

a. "whole job" comparisons are preferable to "factor weight" comparisons and can be made satisfactorily for the main Civil Service grades. (But it will be important to keep under review the Civil Service jobs selected as a basis for comparison to make sure that the field is fully representative and properly weighted);

b. the field from which outside comparisons are drawn should exclude other public services under the direct control of central Government but should include both the trading public sector and local government;

c. outside pay rates must be adjusted to take account:-

i. of the relative value of pension benefits and differences in contribution levels (which will enable the appropriate deductions to be made in the light of the decisions which are reached on the Scott Report);

ii. of differences in hours and leave;

iii. of "fringe benefits" received by employees outside the Civil Service (but the way in which these are assessed needs to be reviewed);

d. the "median" of outside rates (the use of which minimises the influence of untypically high or low rates) is an appropriate starting point in assessing these rates for the purpose of negotiation.

19. But two important changes should be made:-

a. the field from which outside comparisons are drawn should be as fully representative as possible. It should therefore include a full range of private sector firms including a wider spread in terms of their size than at present;

b. the present method of uprating should be abolished. This compensates both for "latest rates", ie changes which will have taken place in analogue rates before the Civil Service settlement date but are not known in time; and for "time lag", ie the difference in timing between the settlement dates of the analogues and the Civil Service. It is very difficult to argue against some form of compensation for "latest rates". There is a strong logical case for taking account of "time lag" as well. But we think that any link with price movements (on which the present procedures are based) should be discarded. It might be possible to base an alternative approach on an earlier settlement date with a degree of retrospection so that more up-to-date information would be available. But that possibility turns largely on whether a change in the settlement date is desirable in order to enable cash limits to reflect realistically the likely outcome of the annual pay negotiations; and to take account of any implications for the pattern of the national pay round (see paragraph 79). A final decision cannot be taken on this point yet. But the unions will certainly be looking for some adjustment to take account both of "latest rates" and of "time lag".

B. Market factors of recruitment, retention and job security

20. Like any other employer the Government needs to set rates of pay which are adequate to recruit and retain staff to meet its requirements in terms both of quantity and quality.

21. Rates of pay set by other employers for comparable work cannot be taken as they stand as the rates which the Civil Service needs to pay to meet its management requirements. The relative attractiveness or otherwise of employment in the Civil Service, including the degree of job security which it offers, needs to be taken into account by looking also at market factors such as recruitment rates and voluntary wastage.

22. At present, statistical material is available for all the main Civil Service grades on recruitment and voluntary wastage. There is, however, a shortage of comparable data on the experience of outside organisations. The current work of a Treasury-led working party may shed more light on this subject. But in our view the likelihood is that few outside organisations collect and maintain adequate information. It would take time to improve the position and this could well impose significant additional demands on the organisations concerned.

23. We have considered the scope in these circumstances for introducing a formula to take account of comparative recruitment/voluntary wastage in a prescribed and quantified way. For example, outside pay rates might be adjusted on the basis of an agreed formula to take account of the relative position of the Civil Service in terms of "quit" rates, ie voluntary wastage. We concluded that because of the lack of external data this would not be possible. There would also be difficulty in defining analogue groups for the purpose of measuring voluntary wastage rates in the private sector, in taking quality into account and in deciding how to reflect the fact that many staff join the Civil Service with a long-term career in mind which affects its patterns both of recruitment and of wastage. In the private sector planned career progression is often dependent on moving from employer to employer.

24. Nonetheless, we think that much more use should be made of information on recruitment and voluntary wastage in the Civil Service and elsewhere as a factor in pay negotiations even though in the absence of a formula both sides will have to be free to interpret the data as they see fit. Data on the Civil Service position would be produced by management and such data as are available from outside organisations would be collected alongside the information on their pay rates. In arguing its case management would need to take account of its anticipated forward manpower requirements.

25. A number of unsuccessful attempts have been made in recent years (including the work of the Comparability Commission) to quantify relative job security in the Civil Service and in outside employment separately from the indications to be derived from the available data on recruitment and retention generally. The Scott Inquiry said that the evidence produced to them on this topic had been largely subjective and underlined the difficulty in securing appropriate data to make a proper comparison and ensuring that like was being compared with like. They were unable to resolve the problems of valuing differences in job security and concluded that they could not suggest any assessment of this factor.

26. There are very considerable practical difficulties in producing any precise statistical assessment of relative job security as such. Nonetheless, we think that in a new pay agreement there should be specific provision for job security to be taken into account in the negotiations as a relevant market factor. This would enable, for example, high unemployment levels to be argued as a moderating factor in Civil Service pay settlements.

27. It would also be desirable to see what can be done to refine existing data on redundancy and the Department of Employment are examining this. The redundancy figures which are currently available do not distinguish between the public and private sector or between manual and non-manual employees. There are also problems of definition. Management practices bearing on redundancy will inevitably differ from organisation to organisation: for example, the Civil Service encourages "early retirement" in circumstances which might count as redundancy in other cases.

C. Other factors?

28. We believe that the primary determinants of Civil Service pay rates should be the market factors we have described, ie outside pay rates, recruitment and wastage assessed against forward manpower requirements and reflecting relative job security. We consider in paragraphs 47 to 51 the way in which the factors of cost and economic circumstances should be brought to bear. Before turning to other factors which are relevant to the way in which a new Civil Service pay system should be applied to meet management requirements it would be convenient to consider the organisational arrangements for producing the data required on the market factors we have discussed in the preceding paragraphs.

D. Institutional arrangements for data collection and processing

29. A new pay agreement would need to provide for data on outside pay rates and on recruitment rates and voluntary wastage outside the Civil Service to be available to the negotiators. We believe that it would be desirable to have a "third party" organisation to assemble this material.

30. At present the collection of data on outside pay is the responsibility of the Civil Service Pay Research Unit. Its work is supervised by the Pay Research Unit Board. The unions will press for any institutional arrangements associated with a new pay system to carry sufficient independent authority to ensure that in future data will not be withheld from them.

31. We have considered whether some entirely new form of organisational arrangements would be desirable. But we have concluded that it would be preferable to build on the experience which the Pay Research Unit has gained and on the role of the Pay Research Unit Board as an independent guarantor of the way the data are produced. If this course is followed it would be important to recruit more staff from outside the Civil Service for the Unit and to ensure that individuals of stature are appointed to its directing Board. We think that in future the Board itself should have executive control of data collection (and any subsequent processing of the material before it is presented to the parties). Apart from meeting the concern of the unions this should encourage greater public confidence in the way in which the processes of comparison are conducted. For the same reason the Board's practice of releasing information about the data which is collected should

be extended if the agreement of outside organisations can be secured to this.

32. We see advantage in the Board's role being extended beyond simple data collection to include the actual processing on an agreed basis of the data on outside pay which is now carried out by the parties. This would involve making the necessary adjustments to reflect differences in other related conditions of service taking account of the different grading patterns and career progression of staff in the Civil Service and in outside organisations. The negotiating parties would need to be fully satisfied about the way in which the data was to be processed and therefore any new pay agreement would need to regulate the way this was to be done by the Board.

33. We do not think that it would be right for the Board to go beyond this and to make an assessment of the weight which should be attached to other market factors of recruitment, wastage and job security since it would then virtually be recommending pay rates to the negotiating parties. This would leave the Government with little room for manoeuvre and it would in any case be unacceptable to the unions. The unions may well not be prepared even to accept that the Board should do any processing of the pay data. This is not, however, an essential point and it could be conceded if this was necessary to secure an agreement with them.

34. It would be helpful to ask the Board to report from time to time on various aspects of the pay system. This would be in line with the role which Ministers envisaged for it at an earlier stage, although in the event no references to it were made because of doubts about the future of the present Pay Agreement. For example, the Board could be invited to make proposals at an early date on how the objective would be met of including in pay surveys a wider spread of private sector firms in terms of size; on the way in which "fringe benefits" should be assessed; and perhaps on some replacement for the "uprating" procedures (see paragraphs 18 and 19 above). The FRUB would also need to keep under review the adequacy of the internal field of Civil Service jobs as a basis for comparison.

SECOND OBJECTIVE: APPLICATION OF PAY SYSTEM

35. If the market factors of comparison with outside pay rates and the position on recruitment, wastage and job security are to be properly applied within a new pay system they should, taken together, ensure that Civil Service management needs are met and that account is taken of the need for the effective use and deployment of staff once they have been recruited. But there is a number of more detailed aspects of pay structure which are relevant to efficiency.

36. We have examined three of these:-

a. Internal relativities

Internal relativities are bound to play an important part in establishing and maintaining any complex pay and grading

structure. Therefore, within any new pay system arrangements for pay links (whereby the pay of one group of staff is settled on the basis of an agreed relativity with that of another) will have to continue, particularly where external comparisons are not feasible. Provision will need to be made for the review of these links at intervals.

In some pay systems pay rates are, so far as possible, determined separately group by group despite the effect which changes in relative pay may have on the cohesion of existing grading structures. In others, maximum importance may be attached to the cohesion of the grading structure with internal relativities accordingly playing a more important role. Present practice in the Civil Service leans, through the pay research system, much more to the former approach. There are some large management groupings (eg the Professional and Technology category) which on this approach could conceivably be broken down into smaller groups for pay purposes if that were desired.

The post-Fulton creation of the Science and P&T groups brought together in each of the two structures a range of professional disciplines with technical supporting staff, including those responsible for supervising industrials. This has led to a number of problems for pay research. The averaging involved inevitably produces a lower rate for some than a strict market comparison would justify, and a higher rate for others. The problems caused by this have particularly affected the recruitment of professional engineers and the interface with industrials.

Moreover, where it might be more favourable to their members the unions will naturally press (as in the past) for internal relativities to be the determinant of pay even where separate outside comparisons can satisfactorily be made. There may be situations where there are also sound management reasons for allowing internal relativities to modify the straight market rates, for example, in dealing with problems of pay differentials between industrials and their direct supervisors and between senior management jobs of comparable responsibility. But in our view it is important that internal relativities should continue to be a secondary rather than a primary factor in fixing Civil Service pay rates. Otherwise this factor could become a costly element in the Civil Service pay system.

b. Regional pa

At present Civil Service pay rates are negotiated at national level. The rates themselves are national ones with London Weighting* paid as a supplement. Many

* Note This is not based directly on comparison or on recruitment/retention factors but on the differences in certain elements in the cost of living in London by comparison with the rest of the country. The pay research process takes account of the value of London Weighting payments in equating the pay bill cost of the Civil Service and its pay research analogues.

(though not all) other large employers with staff scattered across the country also rely on national rates with variations only for London and sometimes for one or two other large cities.

There is, in principle, a strong case for trying to match Civil Service pay rates more closely to local "market" conditions through greater geographical differentiation in pay rates. The main argument in its favour is that it might meet management requirements more effectively and even out the quality of staff recruited in different areas. Uniform national rates can entail paying above the market in some areas to the detriment of local organisations with which the Service competes for staff while in others the Service experiences its own difficulties of recruitment because its rates are not sufficiently competitive. Clearly the case for pay variations is strongest in the case of non-mobile staff who are recruited locally. On the other hand, a system geared more closely to local market rates would not necessarily prove cheaper to operate than a system of national rates: savings in some areas would probably be matched by extra costs in others; and there would be strong pressure from the unions to leapfrog from one locality to another.

We have examined the results of an analysis by the CSD of data on geographical pay variations available in the Department of Employment's New Earnings Survey. Unfortunately, these data do not provide an adequate basis for reaching a firm view on the case for greater geographical variation. They do suggest that different rates at regional level would not be sensible but they do not enable us to judge the relative merits of local rates area by area or national rates with limited variations for a few areas.

We also understand that Departments generally see considerable management difficulties if greater geographical differentiation in pay is introduced. Certainly there is a risk that the resource cost of administering more pay variations would outweigh the advantages to be gained from these.

We have therefore concluded that further work is required to collect more data and to consider the practical implications of introducing greater geographical variations in Civil Service pay before firm conclusions can be reached with confidence. It would be helpful to ask the FRUB to collect more detailed and relevant information on outside practice as a contribution to this.

We think that in negotiations with the unions on a new pay system they should be told the Government wants to explore further the case for introducing greater geographical variation in Civil Service pay rates. But

providing that the agreement leaves the way open for changes in this direction at a later date it is not necessary for negotiations on a new pattern to be carried forward to enable this to be embodied in the new agreement. The unions are strongly opposed to changes of this kind mainly because of the difficulty they foresee in achieving negotiated settlements which meet the conflicting interests of their members in different parts of the country. From a negotiating point of view, therefore, there would be considerable advantages in discussing this with the unions as a later and separate exercise. It would also be desirable to have more time to consider the management implications of any changes. If a more detailed review suggested that a case for change does exist it might be desirable to test this out experimentally with one or two selected grades.

c. Decentralised pay bargaining

We have also looked at the separate question of whether pay negotiations themselves should be decentralised from national level. The Group sees considerable objections to this. The Civil Service is a unitary organisation and to introduce fragmented pay negotiations and rates would be a major and far reaching change with implications going well beyond purely pay matters, to the whole framework of financial and managerial control at departmental and sub-departmental level. Even if authority to undertake pay bargaining was delegated to local management, overall accountability for public expenditure controlled by individual Departments must necessarily remain with the appropriate Minister. A close degree of central monitoring would be required and limits would have to be set on the range of discretion for local management. We do not think that, in the absence of a sound basis for output budgetting, the cash limits system could be refined sufficiently to exert the necessary financial disciplines without a need for further checks. Some members of the Group, however, thought that these difficulties might be overcome and that there would be advantages in decentralising the pay negotiations, at least for non-mobile grades.

The Group agreed that much more detailed work would need to be done before decisions could be reached on this issue. Fortunately, it does not in itself affect the factors on which a new pay system should be based. Moreover, since the unions are known to oppose decentralised pay bargaining strongly, there would be a negotiating advantage in not raising the subject as part of any early discussions with them on a new agreement. If Ministers so wished this idea could be pursued separately.

d. Pay and performance

In the interests of efficiency, pay levels must be adequate to motivate staff to give of their best. This is in itself an argument in favour of an ordered and agreed system which

gives staff an assurance that their pay will be regularly reviewed and settled on a fair and reasonable basis. But the structure of the pay system is also relevant to this.

Merit pay schemes to relate pay and performance for more senior grades were ruled out by Cabinet at its meeting on 15 February in favour of other approaches to the encouragement of better performance. But the scope for reducing the present automaticity of increments is being separately reviewed.

We have, however, considered whether a new pay system should introduce productivity bargaining to the non-industrial Civil Service where so far staff and unions have traditionally co-operated in efficiency measures without special payment. The difficulties in devising measures of efficiency or output which are sufficiently precise could make this hazardous. To the extent that it was necessary to confine productivity bargaining to groups where adequate measurement was possible the effect on staff could be divisive. In particular there would be major problems if schemes were introduced covering employees carrying out simple routine repetitive tasks while colleagues in the same grade carrying out lesser routine tasks could not be included. We have concluded that there is a strong risk that productivity bargaining in the non-industrial Civil Service would make it more difficult and expensive to secure "efficiency" savings rather than the reverse. We believe that it should, however, be made clear to the unions that the establishment of any new pay system is based on the premise that they are expected to co-operate fully in the implementation of efficiency measures.

THIRD OBJECTIVE: MINISTERIAL CONTROL

General considerations

37. Not surprisingly, we have found the reconciliation of an "ordered and agreed" pay system with Ministers' ultimate responsibility for deciding the pay levels which can be afforded to be the most difficult problem of all. Clearly ultimate responsibility cannot in practice mean that every year the Government can enforce pay increases below the amounts indicated by market and management factors to whatever degree it judges necessary for reasons of cost or to reflect wider national policies. Whether there is an ordered and agreed system of some kind or "free collective bargaining", pay will have to be adjusted periodically to be levels which are considered necessary for management purposes or which have to be conceded under union pressure. There is no way in which such increases can be made invariably to match the Government's ideal objectives for expenditure or for pay nationally.

38. There will therefore be occasions when the Government will want on strong management grounds to concede Civil Service pay increases of a size which will clash, or will appear to clash, with these wider considerations. When this happens such increases will either have to be denied, wholly or in part, and the consequences for Civil Service management and industrial relations accepted; or else allowed and the consequences for other policies (whether expressed as a particular level of cash limit or otherwise) equally accepted. If the former happens too often, any system will collapse and it will become impossible to pay the Service adequately or to avoid confrontation with the unions.

39. There are two fundamentally different approaches to reconciling the system of pay determination with Ministers' ultimate responsibility for deciding Civil Service pay levels:-

a. the first is for both the Government and the unions to accept that the system will impose significant limitations on their freedom of argument by generating a range of pay rates indicated by specific "market" factors; but for the Government to have the right, in exceptional circumstances, to override this limitation and impose a settlement outside that range;

b. the second is for the system to allow the Government always to take such factors as general economic circumstances and its judgement of acceptable cost into account. There would then be no need for the Government to have a power to "override" the agreement since it would not agree to a settlement which was more than it wished to afford. However, the unions would then insist on having the right to advance an equally wide range of factors; and the result would be, in essentials, "free collective bargaining".

40. These issues are discussed in more detail in paragraphs 44-51 below.

41. The choice between the two approaches also has an important bearing on the role of arbitration. This is discussed fully in paragraphs 52-61.

42. It is worth noting here that negotiations under the approach in paragraph 39(b) would frequently involve explicit reference to the state of the economy at large, or to the Government's judgment of public expenditure and taxation. These are matters on which it is less appropriate to submit disputes to an outside body; it follows that arbitration could be only by agreement. Under the first approach negotiations would by contrast centre on specific "market" factors, with wider economic considerations being brought in only in the case of "override". Except in such cases, access to arbitration could be less restricted.

43. We also examine in paragraphs 62-66 the separate but related problem of pay increases for the Civil Service which, in percentage terms, are out of line with the "going rate" for pay increases for the rest of the community.

A. "Override"

44. No Government can commit itself absolutely to implementing any pay agreement regardless of circumstances. Inevitably there will be years when economic circumstances are so severe that the Government must deny the increases in Civil Service pay required by "market factors" and management needs. The Government must then be free to curtail the level of pay increase which the Civil Service receives. We believe that the unions are likely to acknowledge the need for this. They might therefore be prepared to accept an "override" clause (or some separate understanding about this) enabling the Government to set aside the main provisions of an agreement when exceptional economic circumstances require this.

45. There would no doubt be disagreement about whether the "override" should operate in a particular year and the unions would argue that this should only occur when a "national pay policy" was operating. There would be difficult negotiations about the precise wording to be adopted. But an "override" of this kind would preserve a means by which the Government could, when necessary, assert its right to fix Civil Service pay levels independently of the market evidence while accepting this as a basis for settling pay in normal times.

46. To have any prospect of negotiating an "override" provision with the unions it would be necessary to assure them that it would indeed only operate in exceptional circumstances and not as a regular event. They would also want to be the more satisfied that when the agreement was operating it would provide a fair and reasonable basis for assessing their pay and that the Government would stick to its provisions. They would also need some assurance that they would be able to "catch up" again if pay had been artificially depressed as a result of a period of "override". These points link with the role of arbitration under any new system.

B. Cost and economic circumstances

47. If a new agreement left the Government free each year to subordinate the evidence of the market to considerations of cost and economic circumstances, the Government could claim every year that it was applying the new system regardless of the level of pay offer which it made. But a pay system of this kind would be little different from "free collective bargaining" (even if there was a procedure agreement) and the unions would want to be as free as the Government to argue any factor as they saw fit.

48. So far as cost is concerned we believe that under an "ordered and agreed" system the Government would have to be ready to defend the payment of the rates which emerged from negotiations under it as being reasonable both from the point of view of the taxpayer and of civil servants. The aim of the system should be to ensure that this claim can be made with confidence. On this basis, the Government would be effectively discharging its ultimate responsibility for Civil Service pay levels by entering into a sound and workable agreement on pay with the right to withdraw from it if it failed to provide a satisfactory basis for pay negotiations. Arguably, it would then be reasonable for the Government to accept that the pay rates emerging from the system constituted the "price" which it had to pay for its staff and that it should therefore provide the funds with which to do so, subject to any volume squeeze which it then decided to apply to reduce the cost of the pay bill. If, however, the Government wished additionally to have full freedom under a new system to impose a "cost ceiling" on the outcome of negotiations there would be no prospect of the unions agreeing to this.

49. Economic circumstances more generally should reflect themselves both in outside pay rates and in the recruitment and voluntary wastage position experienced in the Civil Service. High levels of unemployment could be deployed as an argument in assessing the job security factor. But if economic circumstances were to be introduced explicitly as a factor in any new pay agreement the unionside would regard themselves as being free to introduce similar arguments from their side. They would argue that price movements should be taken into account, whether through direct index linking by reference to the Retail Price Index or in some other way. There are obvious advantages in excluding price movements as a factor in settling Civil Service pay but it would be difficult to argue this (in negotiations with the unions or at arbitration) if economic circumstances generally were to be a negotiating issue.

50. A further disadvantage of including these factors in an agreement is that in the event of arbitration it might be thought inappropriate for the tribunal to have to pass judgment on the weight to be given to them.

51. Ministers will wish to consider whether their position would be sufficiently safeguarded if factors of public expenditure and economic circumstances were excluded as negotiating factors in a new "ordered and agreed" system if, as we have suggested, they had the power of "override" in exceptional circumstances.

C. Arbitration

52. Some understanding about access to arbitration will certainly be a condition of agreement by the Civil Service unions to any new arrangements for settling the pay of their members.

53. At present access to the Civil Service Arbitration Tribunal is available (for most grades) at the request of either party to the negotiations. Governments have consistently (and publicly) reserved the right to refuse arbitration "on grounds of policy because the Government is responsible to Parliament for the administration of the public service and cannot relieve itself of that responsibility or share it with any other persons or organisations". But the Treasury Circular of 1925 which announced the arbitration agreement also contained the pledge that "subject to the overriding authority of Parliament the Government will give effect to the awards of the Court". The qualification was inserted to preserve the constitutional supremacy of Parliament and the possibility of the Government's defeat there. But the pledge has always been interpreted to mean that the Government will not itself propose to Parliament the rejection of an award once this has been made.

54. We believe that it would undermine the utility of arbitration in any new Civil Service pay system designed for the longer term if the Government did not maintain the present position that subject to overriding authority of Parliament it would implement arbitration awards when these are made.

55. Also, in introducing a new pay system it would be desirable to link any provision for arbitration directly to the agreement on pay so that if the new pay agreement was not in operation, as a result, for example of "override", the normal arrangements for access to arbitration was also automatically suspended. This would formalise the right to withhold arbitration on policy grounds which the Government has reserved to itself in the past.

56. The crucial question is what provision should be made for access to arbitration in normal times.

57. In earlier Ministerial discussion on arbitration in the public services it was agreed that future arrangements for arbitration in the non-industrial Civil Service should be considered as part of the wider review of its pay arrangements. If in the future Civil Service pay was negotiated on the basis of "free collective bargaining" and pay disputes could be explicitly about the weight to be attached to public expenditure constraints and to the management of the economy, there would be a strong argument for arbitration to be available only by mutual consent. The position would be different, however, with a pay system which included a specific "override" provision to protect the Government's right to suspend both the operation of the pay agreement and the availability of arbitration, when economic circumstances required this.

58. A system under which both parties were committed to determining Civil Service pay by market factors in an ordered way in the light of the available data would be likely to collapse if the unions were denied arbitration, when an agreed settlement could not be reached, outside periods of "override". Nor would the unions enter into an agreement on this basis unless they had a credible assurance that arbitration would

"normally" be available to them. It is true that with the introduction of a wider range of market factors the range within which an arbitration award might lie would be wider than under the present pay research system. But there would still be occasions when arbitration would be to the advantage of the Government in enabling it to expose the weakness of the unions' negotiating position if they pressed this to the point of breakdown in the negotiations.

59. Indeed it is difficult to see the grounds on which (outside an "override" situation) arbitration could logically be denied within a system of this kind designed with the aim of avoiding industrial strife. If the Government was not prepared when necessary to let a third party assess the validity of its interpretation of the evidence this would undermine in advance the confidence of the unions and their members in the way in which the Government intended to operate the system.

60. We therefore believe that it would be necessary for the Government to be ready to offer the unions an assurance that as part of such a system arbitration would be available except when "override" was in operation.

61. There is, however, an option involving a departure from the normal arbitration procedure which Ministers may wish to consider. This would be to divide the process of pay determination into two parts. First, an independent assessment would be made of what Civil Service pay rates would be if these were determined solely on the basis of quantifiable comparisons with outside pay rates. Second, there would be subsequent adjustments to these "notional" rates to take account of recruitment, wastage, and job security in the light of forward manpower requirements. These adjustments might be subject to a stated limitation on the size of the adjustment which the system permitted. The unadjusted pay rates based on outside comparisons would be subject to negotiation and, in the event of disagreement, to arbitration which could be sought by either side. But arbitration would be permitted only by mutual agreement (if at all) on the adjustment to be made in the light of other market factors. This approach is elaborated in paragraph 70 below in discussion of possible options.

D. Phasing of pay increases

62. In the past difficulties have arisen when the size of percentage increases for the Civil Service has been out of line with the "going rate" of pay increases in the economy generally. We have considered whether procedures could be introduced in any new pay system which would minimise this problem. But we can see no way of ensuring that every year the increase necessary to maintain an appropriate level of Civil Service pay is consistent with the "going rate" outside in percentage terms. However low the "correct" pay relativity of the Civil Service to pay outside there will be presentationally awkward percentage increases from time to time. No amount of smoothing out of the "peaks and troughs" can avoid these entirely.

63. If for any reason Civil Service pay rates are artificially depressed for a period then a "catching up" problem is inevitably created: in comparing pay levels past increases cannot be ignored as these will have determined the rates which are actually being paid outside. If severe management problems (and industrial unrest) are to be avoided then, as already argued, Civil Service pay cannot be progressively depressed year after year to secure a succession of conveniently low percentage increases. Indeed, if a new pay system placed more weight than in the past on factors other than strict pay comparison there are likely to be greater fluctuations from year to year in Civil Service pay increases than under a system specifically designed to keep pay in line with outside rates without varying adjustments. If Civil Service pay is kept down when unemployment is high and recruitment is easy then it will have to rise more sharply when the recession is over and recruitment is more difficult.

64. In any system involving pay comparison there is a "time lag" problem as was pointed out in paragraph 19(b) and in paragraphs 8-15 of Annex B. Unadjusted to allow for this the system will throw up "out of step" settlements which reflect the "going rate" in pay settlements outside as this was running some months earlier rather than reflecting the current trend. The practical effect of the present "uprating" procedures is to bring Civil Service increases more into line with the "going rate" and therefore to mitigate this problem but not to remove it. In any case, as we have pointed out, the current procedures for this are open to objection.

65. We have considered whether there would be advantage in providing for full scale reviews of Civil Service pay rates at intervals with simple ad hoc adjustments in the intervening years. But the realism of the increase awarded in the intervening years would inevitably determine how much of a "catching up" problem would be stored up in consequence for the next full scale review and this approach only redistributes the problem and does not solve it.

66. We have come to the conclusion that the only satisfactory approach is to ensure that Civil Service pay rates are brought up to date as far as possible year by year to avoid storing up an increasingly embarrassing "catching up" problem. As we pointed out in paragraph 19(b) this means that some way will need to be found of ensuring that pay increases reflect the market position at the time of the operative date of a Civil Service pay settlement even if a period of retrospection has to be allowed to achieve this. Essentially, the system itself must be sufficiently soundly based to provide its own justification for the increases which are thrown up by it.

OPTIONS

67. On the basis of our analysis of the possible elements of a new Civil Service pay system, we now set out some options for Ministers to consider.

68. It would be possible to proceed to fix Civil Service pay rates on the basis of wholly untrammelled "free collective bargaining". There would be no agreement with the unions about the basis on which pay should be determined and no procedure agreement governing the conduct of negotiations. But this would not be consistent with what Ministers have already said about the system which they wish to see.

69. Each of the options we set out below assume that the market factors which we have described would form the basis of any new system. The differences between the options lie in their treatment of the factors of cost and economic circumstances and in the provision which they make for arbitration when negotiated settlements are not possible.

70. The four options we have identified are as follows:-

Option A

A procedure agreement which would set out the market factors to be taken into account in settling Civil Service pay rates but leave the way open for both parties to introduce any other relevant factor into the negotiations as they saw fit. This would enable considerations of public expenditure and general economic circumstances to be argued directly in the negotiations and the unions could argue, for example, movements in prices. The agreement would also deal with the arrangements for collecting data on outside pay and on other market factors. Arbitration would be available only by mutual consent and no advance assurances would be given about this;

Option B

An agreement under which the primary determinant of Civil Service pay rates would be the market factors of outside pay comparisons, and the position on recruitment and wastage assessed against the forward manpower requirements of the Service and reflecting its relative job security. There would be provision for "override" (either in the agreement itself or in a separate understanding) for use in exceptional economic circumstances. The unions would be given a firm assurance that, except in periods when "override" was in operation, access to arbitration would not be denied to them if a negotiated settlement could not be reached;

Option C

An agreement under which the negotiating process would be divided into two parts:-

- a. first, "notional" pay rates based on outside comparisons would be established. These would be subject to negotiation and in the event of disagreement there would be free access to arbitration;

CASH LIMITS

78. We have not considered in detail the problem of reconciling cash limits with the operation of a new Civil Service pay system. Even under Option A some changes in procedures would be desirable in order to give the Government more room for manoeuvre in its handling of pay negotiations. But clearly if Options B, C or D were to operate successfully, the way in which cash limits were fixed would have to be sufficiently realistic and flexible to accommodate the results of applying the agreement. The cash limit could not be set in advance and used to control the outcome in terms of pay rates. It could be used, however, in the light of increases in these to secure consequential adjustments to the planned volume of spending. There is a number of ways in which cash limit procedures could be adjusted to provide more flexibility. The scope for this in relation to the 1982 Civil Service pay settlement was considered by Cabinet on 14 April and its conclusions are relevant to longer term arrangements.

OPERATIVE DATE

79. To ease this cash limit problem there might also be advantage in some change from the present operative date of 1 April for the Civil Service pay settlement. An earlier date would make it easier for the cash limit to be fixed realistically in the knowledge of the outcome of the negotiations or at least on the basis of a more accurate estimate. But a date which did not synchronise with the start of the financial year would have some countervailing drawbacks. In assessing the case for a change it would also be necessary to consider possible changes to the present "uprating" procedures (see paragraph 19(b)); and the impact of any change on the pattern of the national pay round. (Ministers will shortly be considering the case for and against greater uniformity in the date of public service pay settlements.) We have not had sufficient time since Cabinet's discussion on 14 April to reach a firm conclusion on the question of the operative date. But it can be further examined in the light of Ministers' views on the other proposals in this present report.

"NO STRIKE" AGREEMENT?

80. We have considered whether a new pay agreement for the Civil Service could be traded for a "no strike" commitment by the unions.

81. In principle the idea has considerable attractions but there are difficulties in it. The only basis on which the unions could be expected to consider surrendering their strike weapon would be an absolute assurance that the Government could not impose pay settlements on a "cash limits basis" and without recourse to arbitration. This would mean a pay agreement on lines which the Government may not be prepared to concede. It would have to meet the criteria of the unions for a fair and reasonable basis for assessing Civil Service pay coupled with a firm commitment by the Government to accept unilateral access to

arbitration. The unions would regard themselves as free to call strikes if the Government failed to implement the increases flowing from the agreement or from arbitration or if arbitration was denied to them. Some of the unions might be tempted to demand extra pay in compensation for the limitation on their freedom of action. Furthermore they might not be prepared to contemplate a "no strike" agreement which did not run wider than pay, since other issues could be the occasion for industrial action. The unions might therefore insist on bringing into any discussion of a "no strike" agreement issues connected with, for example, pensions or grading.

82. There would also be practical difficulties in ensuring that the unions could deliver their side of a "no strike" agreement. In the last resort they are not in a position to control the actions of their members. Any agreement would therefore have to rest on an undertaking by them not to call for official industrial action, to use their best endeavours to avert or to halt unofficial action and not to impede management in using sanctions against any staff who did take unofficial action.

83. When Ministers considered the introduction of a "no strike" agreement in the Civil Service some 18 months ago they decided not to pursue the question of any general agreement of this kind. But circumstances have changed with the collapse of the present Pay Agreements and if Ministers wished to re-examine this possibility in the context of a move to a new pay system a further and more detailed report on this could be prepared for them.

INDUSTRIAL CIVIL SERVICE

84. We have concentrated in our study on a pay system to suit the non-industrial Civil Service. But we believe that the kind of arrangements which we have put forward could, with advantage, be adapted to suit the industrial Civil Service as well. A revamped PRUB might have a similar role in the provision of data for the negotiators which would need to take account of the recruitment, wastage and job security position of industrials.

NATIONAL HEALTH SERVICE

85. We were asked to consider whether the arrangements which we put forward for the non-industrial Civil Service might be extended to the NHS.

86. Any arrangements covering the Civil Service will reflect its own circumstances including the special importance of avoiding industrial disputes within the area of central Government. NHS staff are fundamentally different from non-industrial civil servants in not being directly employed by the Government. The NHS is, however, distinguished from most other public services in that virtually the whole of the cost is met by the Exchequer; and this must be the main reason for extending Civil Service arrangements to it. It is, of course, true that there would be great practical and political advantage in establishing arrangements for handling NHS pay

in a way which would minimise the risk of industrial action. This, however, is true of many other parts of the public sector, though it perhaps applies to the NHS with particular force, all the more so because of the public sympathy commanded by some of the staff groups concerned (eg nurses). It is also the case that there have been long standing links between the pay of some NHS staff groups and that of the Civil Service, so that formalising the connection would not involve establishing a new principle.

87. There are four main groups of NHS staff:-

- a. about 150,000 who have in the past had pay links with the Civil Service, eg administrative, clerical and scientific staff;
- b. about 230,000 staff who have links with other groups (eg ancillary staff who follow local authority pay; electricians who follow trade rates);
- c. about 460,000 staff who have no pay links, eg nurses, professions supplementary to medicine and ambulance men;
- d. about 83,000 doctors and dentists whose pay is covered by their Review Body.

88. It is primarily staff at (a) and (b) where the kind of arrangements discussed in this report might be relevant. They might prove also to have limited relevance to some of the staff at (c).

89. In principle those at (a) could have their pay determined by a similar system in a number of ways. First, the same approach might be adapted to the role of "market" factors but separate data be collected for the Civil Service and NHS negotiations. This would be a costly arrangement. Second, both sets of negotiations could make use of a common data base of information collected from outside. But this would be processed independently in each set of negotiations. This might be an unnecessarily cumbersome procedure. Third, the NHS negotiations might be based on the results of processing the outside data in the Civil Service negotiations but taking account separately of differences in the recruitment, retention and job security position of the two Services. For common pay data to be usable in either the second or third option it would be necessary to establish and test comparisons between the Civil Service and NHS grading structures to enable it to be applied in the right way.

90. There would be similar possibilities if data was to be collected for the industrial Civil Service in making use of this to help in settling the pay of the staff in group (b) provided that the staff concerned would agree the replacement of their existing pay links.

91. The most difficult problem is presented by group (c) and in particular by nurses who are a very large group (well over 400,000) whose pay has hitherto not rested on any established basis. E Committee agreed last summer that the Nurses and Midwives Whitley Council should be invited to consider possible mechanisms for determining nurses' pay, and their response is awaited. Nurses' pay has substantial repercussions on pay in the NHS as a whole, and the establishment of agreed arrangements for settling their pay, if one could be found, would be of particular value. It might be necessary to seek for a number of possible broad comparators, though straightforward job-for-job comparison is unlikely to be practicable; and it is possible that some of the data collected under the Civil Service arrangements might be relevant.

92. However, we think it would be premature for Ministers to consider the arrangements for settling NHS pay until further progress has been made in considering the approach Ministers want to adopt in the Civil Service.

SUMMARY

93. In our report we have reached the following conclusions:-
- a. a Civil Service pay system should have three objectives (paragraph 8):
 - i. to establish pay rates which enable the Government both to recruit and staff in the quantity and of the quality required and which can be defended as reasonable to public opinion and to civil servants;
 - ii. to meet management needs as effectively as possible;
 - iii. to reconcile the ultimate responsibility of Ministers for deciding pay levels with the need to minimise industrial strife;
 - b. the primary determinants of Civil Service pay rates should be the market factors of outside pay rates taken with other conditions of service, and recruitment and wastage assessed against forward manpower requirements and reflecting relative job security; (paragraphs 12-28)
 - c. comparisons should be based on outside pay rates on the basis of "whole job" comparisons. These rates must be adjusted for the relative value of pension benefits and differences in contribution levels (taking account of decisions on Scott); differences in hours and leave; and "fringe benefits". The procedures for assessing fringe benefits should be reviewed. The field of outside comparisons should exclude other public services under central Government's direct control but should include the trading public sector and local government; (paragraph 16)
 - d. the "median" of outside rates remains the appropriate starting point in assessing these rates for the purposes of negotiation; (paragraph 18)
 - e. two important changes are necessary in the way comparisons are made (paragraph 19):
 - i. the field of outside comparisons should be as fully representative as possible, including a full range of private sector firms, with a wider spread in terms of size;
 - ii. the present method of uprating should be abolished. Some alternative arrangements will be required but a final decision cannot yet be reached on these.

f. much more use should be made of information on recruitment and voluntary wastage in the Civil Service (and elsewhere to the extent that data are available) as a factor in pay negotiations. Forward manpower requirements and relative job security should also be taken into account. It is not possible to devise a formula which would indicate in an objectively quantified way what allowance should be made for these factors in determining pay rates (although it might still be possible to put a figure on the allowance that had been made for them in negotiations); (paragraphs 12-27)

g. a "third party" organisation should be used to assemble data on outside pay rates and on recruitment rates and voluntary wastage outside the Civil Service; (paragraph 29)

h. it would be desirable to use the Pay Research Unit for this purpose with the Pay Research Unit Board as independent guarantors of the way the data are produced. There should be more staff from outside the Civil Service in the Unit and individuals of the necessary stature should be appointed to its directing Board; (paragraph 31)

i. in future the Board itself should have executive control over the Pay Research Unit's work and the data collection process. Its role could, with advantage, be extended to include the processing of outside pay data in accordance with the provisions in a new pay agreement; (paragraphs 32-33)

j. internal relativities are important but they should continue to be a secondary rather than a primary factor in fixing Civil Service pay rates; (paragraph 36(a))

k. the question of introducing more geographical variations in Civil Service pay rates should be discussed with the unions as a later and separate exercise; (paragraph 36(b))

l. there are considerable difficulties in decentralisation of pay negotiations from national level: but this could be pursued as a separate matter if desired; (paragraph 36(c))

m. productivity bargaining should not be introduced into the non-industrial Civil Service but it should be made clear to the unions that any new pay system is dependent on their readiness to co-operate fully in the implementation of efficiency measures; (paragraph 36(d))

n. there are two fundamentally different approaches to a new system. Under the first both the Government and the unions would accept limitations on their freedom of argument by specifying the "market" factors which would determine Civil Service pay rates. Under the second there would be in essence "free collective bargaining"; (paragraph 39)

o. no Government can commit itself absolutely to implementing any pay agreement regardless of circumstances. So there will be a need for an "override" provision unless a new agreement leaves the Government free each year to argue factors of cost and economic circumstances; (paragraphs 44-51)

p. some understanding about access to arbitration will be a condition of agreement by the unions to any new pay arrangements; (paragraph 52)

q. it would undermine the utility of arbitration in any new pay system designed for the longer term if the Government was not prepared to implement arbitration awards when made; (paragraph 54)

r. there is no way of ensuring that Civil Service increases will always match the "going rate". The best approach is to ensure that Civil Service pay rates are brought up to date as far as possible year by year to avoid storing up an increasingly embarrassing "catching up" problem; (paragraphs 62-66)

s. the four main options for a new pay agreement are (paragraphs 67-77) :-

i. Option A

A procedure agreement setting out market factors but leaving the way open for any other relevant factor to be introduced in the negotiations. Arbitration would be available only by mutual consent;

ii. Option B

An agreement under which market factors would be the primary determinant of Civil Service pay rates with provision for "override" for use in exceptional economic circumstances. A firm assurance that except during "override" access to arbitration would not be denied;

iii. Option C

An agreement dividing the negotiating process into two parts. "Notional pay rates" based on outside comparison would be subject to negotiation with free access to arbitration. Adjustments to take account of other market factors would, with the agreement of the unions, be made by management after discussion with them but would be subject to a stated limitation in terms of size. There would be provision for "override" in exceptional economic circumstances;

iv. Option D

A variant of the "two part" procedure of Option C under which there would be no prescribed limit on the adjustment which could be made to the "notional" rates based on comparisons; and the unions would not be committed in advance to accept the adjustment. Arbitration available to settle the final pay rates only by mutual consent;

t. the Cabinet's discussion on 14 April of adjustments to secure greater flexibility in the cash limits procedure is relevant to longer term arrangements. The case for a change in the operative date of Civil Service settlements can be further examined in the light of that discussion and Ministers' views on this report; (paragraphs 78-79)

u. the idea of trading a new pay agreement for a "no strike" agreement is attractive in principle but it has practical difficulties and the price asked would almost certainly be beyond what the Government would be willing to pay. A more detailed report could be made if Ministers so wish; (paragraphs 80-83)

v. the arrangements described in the report could with advantage be extended to the industrial Civil Service; (paragraph 84)

w. it would be premature to reach decisions on the scope for extending these arrangements to the NHS although they could be applicable to certain groups; (paragraphs 85-92)

LIST OF PAY FACTORS SUGGESTED TO E COMMITTEE BY CPRS

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 demands: 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.

PAY COMPARISONS

Basis for comparison

1. In a system using comparisons with outside pay rates it is necessary to consider how these can best be made. The method that has been used by the present Pay Research Unit is based on "whole job comparison": ie looking for jobs in the external organisations whose functions and responsibilities taken in the round are closely similar to Civil Service jobs. We believe that this approach is right. While there may be problems at more senior levels (most of which are covered by the TSRB) and in the case of some of the smaller and more specialist Civil Service grades it has not been difficult to identify with some confidence suitable analogue jobs for the main Civil Service grades.
2. The alternative method of comparison by "factor weight" on the lines employed by some management consultants builds up "job scores" by assessing the various component parts of different jobs and drawing an equivalence between those with similar scores even though the work content and mix of factors in the various jobs may be quite different. We believe that this is a more subjective basis for pay comparisons between different pay structures (as opposed to the fixing of internal relativities within one overall structure).
3. In addition, in making comparisons of pay rates the necessary adjustments need to be made to reflect differences in other related conditions of service taking account of the different grading patterns and career progression of staff in the Civil Service and in outside organisations.

Adjustments to pay rates

4. Any system for comparing the position of groups of staff in terms of remuneration must look wider than pay rates alone. We believe that under any new system (as under pay research) comparisons must be made on this basis. There are several aspects to this:-

a. Pensions

There is a need to take account both of the relative value of pension benefits and of differences in contribution levels. The appropriate deduction for the benefit of index linked Civil Service pensions is being considered as part of the follow-up to the Scott Report. But it would be more difficult to ensure an appropriate deduction if there were no formalised basis for quantifying pay comparisons within the new system.

b. Hours and leave

The Civil Service unions have always argued that hours and leave should be negotiated separately and disregarded for purposes of pay comparison. There is no justification for this approach and any new system must continue to take account of differences in hours and leave as the present one does.

c. Fringe benefits

The present Pay Agreements provide for the quantification of the value to external analogues of company cars, free travel and discounts, free or cheap meals and luncheon vouchers. Other benefits such as cheap loans and mortgages, BUPA subscriptions and help with children's education are not precisely quantified but are admissible as factors in the final stages of negotiation. Fringe benefits are used much more widely now even than when the 1975 Pay Agreement was prepared: they are a familiar method of circumventing in the private sector the effects of incomes policy. The benefits are only of significance in comparisons drawn at SEO/Principal level and above (ie less than 20% of the Service) but it would not be possible to argue that they should be disregarded in any pay comparisons which are made. There are both advantages and disadvantages in quantifying fringe benefits as precisely as possible. It will be necessary to consider in detail how they should be handled in any new pay agreement and the way in which the benefits should be assessed.

Fields for comparison

5. It is important that there should be a consistent approach to the field from which outside comparisons are drawn. Variations in the coverage from year to year would be difficult to defend either to the public or to the unions.

6. The aim of the present pay research arrangements is to obtain adequate evidence of rates paid for comparable work which is representative both in its geographical spread (where this is appropriate) and in the distribution of analogues between different industrial groupings. While this approach seems to us to be broadly right we have examined three aspects of the selection of external analogues which have attracted criticism:-

a. Public sector

The Scott Report recommended that the public sector should be excluded from the field of comparison for both pay and pensions purposes. It suggested that otherwise there was a risk of making "circular comparisons". Some public sector organisations do indeed follow Civil Service rates very closely. But bodies with direct pay links to the Civil Service are already specifically excluded from the field of comparison in pay research as are also the NHS.

We think that it is right that the other central Government public services should be excluded from the outside field. A number of other public sector employers take account of Civil Service rates to some extent in their negotiations. But as one of the country's largest employers the Civil Service pay rates, however these are determined, are bound to interest large employers in all sectors, public and private alike. In its turn the Civil Service needs to take account of the rates of pay offered by its major competitors in the recruitment market. These necessarily include public sector organisations and to exclude them entirely would arguably provide an unbalanced basis of comparison. Indeed there is every likelihood that over a period of time including the public sector would not push up Civil Service rates but would rather have the reverse effect. We think that the right course would be to exclude from the field of comparison other public services under the direct control of central Government but to include both the trading public sector and local government.

b. Private sector comparisons

The pay research process has been criticised on the grounds that it gives undue weight to the banking and insurance sector (which tends to be high paying). But these employers are in the market for the same type of staff as the Civil Service and some account of this has to be taken if a valid assessment of the market is to be made. A complementary argument is that the Civil Service does not at present take sufficient account of sectors where pay rates are lower, especially the private manufacturing sector in its present difficulties. We believe that it is difficult to argue that any important areas of employment should be deliberately excluded from the basis on which the initial pay comparison is made whether this may push up or push down the basis of the comparison in any particular year. Clearly there would be no possibility of any agreement with the unions on an approach which deliberately regulated the external field to produce a biased sample. We believe that to be defensible comparison must be based on as fully representative a sample of outside employers as can be achieved.

c. Size/type of firm

This links with (b). The Priestley Report recommended that pay comparisons should be made with "good employers" with well structured personnel and pay systems and of a reasonable size. It made it clear that it did not define the "good employer" as one offering higher rates of pay. Indeed work commissioned by the Pay Research Unit Board has found no correlation between the size of organisations and their pay levels within the present pay research field. Nonetheless we think that if comparisons are to be based on a fully representative sample of outside employers then some way should be found of including a wider spread of organisations in terms of their size. We recognise

that there may be difficulties both in deciding on the structure of a more extended sample and in finding smaller firms with suitable analogues. The smaller the firm the greater the likelihood that a person is employed on the range of tasks spanning several job levels in Civil Service terms. But some widening of the field should be possible.

7. It will also be important to ensure under any new system that the basis on which Civil Service jobs are selected for use in the comparison process produces a fully representative and properly weighted internal field.

Problems of timing

8. Any pay system which includes comparisons of pay levels (whatever role these comparisons are to play) involves the problem of ensuring that the comparisons are as up-to-date as possible. This is particularly acute in periods when pay rates are changing rapidly. The Priestley Report recognised the need to find some way of dealing with this problem in deciding on the operative date of Civil Service pay settlements.

9. There are two distinct ways in which the analogue rates may be out-of-date. The first arises because the evidence collected as the basis for comparison of pay levels has to be assembled some time before the actual date of the Civil Service settlements to allow time for negotiation. Within that period some of the outside rates will be due for adjustment and the comparisons should take these increases into account. This may be called the "latest rates" problem. The second problem arises because some of the outside rates, although in payment at the time of the Civil Service settlement, will have been fixed up to a year earlier and will be due for revision in the near future. To that extent any Civil Service settlements based on such rates are likely to be generally out-of-date from the start. This may be called the "time lag" problem. As it happens, most outside organisations used in the present pay research survey at present have their pay settlements nine months or more before the date of that of the Civil Service.

10. Before 1975 the first problem was covered by retrospection (ie backdating the increase to an earlier date than that on which the negotiations were actually concluded). This made it possible to base the settlement on information on the rates which were actually in payment outside at the operative date of the Civil Service settlements. Retrospection did not however, make any adjustment to deal with the "time lag" problem.

11. The present "uprating" procedures introduced in 1975 were designed to meet both problems in a way which avoided backdating over a period of months. The method adopted is to increase each actual outside rate derived from pay research by the percentage change in the Retail Price Index over the period between the operative date of the outside settlement which produced it and the date of the Civil Service settlement.

12. There would be general agreement that any reliable system of comparison of pay levels must deal with the "latest rates" problem by basing itself on evidence of the rates actually in payment at the time of the Civil Service settlement.

13. It is more arguable whether it is right to make any allowance for the "time lag" problem. Any adjustment involves, in effect, a degree of anticipation of the next pay increase due to the analogue; and making an assumption about the level of that increase. It has been criticised as inflationary. But if no adjustment is made then rates based on outside pay information could quickly become uncompetitive again in terms of the outside market. In addition, civil servants would receive less pay over a period of time than did their outside analogues since they would always be "in arrears". Over a period of some years the differences in earnings could be considerable. However, even if the argument for some adjustment for this factor is accepted the present "uprating" procedures are open to objection because of their reliance on adjustments based on actual forecast movements in the retail prices index rather than on pay movements. If any "uprating" procedure was retained this would in our view have to avoid this feature.

14. We have examined four possible approaches:-

a. to refuse to take account of either the "latest rates" or the "time lag" problem;

b. to take account of both problems by retaining an "uprating" procedure but in some revised form which avoids reliance on price movements;

c. to take account of the "latest rates" problem by allowing a period of retrospection in the operative date of the Civil Service settlement to enable up-to-date evidence to be used (ie in line with the pre-1975 practice). In addition the operative date might be altered to bring it as close as possible to the date of settlements for the majority of other employers in order to reduce the "time lag" problem;

d. to avoid any formula to deal with these factors in a prescribed way and instead leave them for negotiation between the parties on an ad hoc basis.

15. We regard (a) as an unrealistic objective for any system agreed with the unions (and it could certainly not be pursued with success in the event of arbitration). Both (b) or (c) have their difficulties. (b) would be open to objection from those who believe that no adjustment should be made to take account of the "time lag" problem and would probably involve some form of linkage to a pay index. No entirely satisfactory index for this purpose is at present available. (c) would involve the reintroduction of retrospection which is now less frequent in major pay settlements outside; and the scope for any change in the pay timetable also depends on the relationship between fixing pay and cash limits and on other

wider considerations of the impact on the pattern of the pay round. (d) only has attractions if the aim is to find ways of introducing more room for manoeuvre in the negotiations but might have to be adopted if no satisfactory formula can be found.

Point of comparison

16. It is necessary to decide the point in the range of outside pay rates which should be used as a reference point in Civil Service pay negotiations. The point taken now (in line with the Priestley Report) is the "median" rather than the average. Where large differences exist between the highest and lowest payers and where the distribution of rates is asymmetrical the use of the median prevents a relatively few, and therefore untypical, rates (whether these are very high or very low) from having an undue influence on the comparison process. Put another way, it ensures that the comparison is drawn in terms of "the middle ground". Under any new system pay comparisons will have to be adjusted for a range of other factors. In these circumstances providing that the outside field is made truly representative in the way in which we have suggested we think it would be preferable to accept that the "median" is a reasonable starting point in assessing outside pay rates for the purpose of the negotiations, including the impact of other factors. As now, both parties could advance arguments about the validity of the "median" on particular occasions if the pattern of outside rates proved to be an unusually erratic one.