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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC SERVICES PAY

Note by the Central Policy Review Staff

1. The Chancellor of the Exchequer has put in two papers. The first (E(80)115) is concerned with options for civil service pay, with some discussion of implications for the public services more widely, in next year's 1981/82 pay round and beyond (mainly affecting financial year 1982/83 following). The second (E(80)118) is concerned with public service pay in the coming 1980/81 pay round (mainly affecting financial year 1981/82). Neither paper is concerned with pay in the public trading sector covered by EFLs: this will be for later discussion.

2. The Government's stated intention on longer term arrangements for public service pay (or the absence of any such stated intention) is likely to be a significant factor in setting the climate for the immediate pay round. There are therefore at least important links between the two papers. Ministers may also wish to consider whether there are any lessons to be drawn from the analysis of the longer term options which would contribute to a more successful outcome for the current pay round (as well as a more stable framework for the future).

3. So far as this year's (1980/81) pay round is concerned, the CPRS suggests that the following are among the points which Ministers wish to take into account:

(i) The Lord President has already given notice to the unions that cash limits will be the major determinant of Civil Service pay in 1981, although the collection of pay research data will continue.

(ii) It is important that the pay element of cash limits should be kept within single figures, consistent with recent Ministerial statements.

This proposition applies not only to the Civil Service but, so far as possible, to the rest of the public services.

(iii) The traditional yardsticks for pay negotiations - the rate of inflation; the "going rate" of settlements; the earnings increases of analogues; pay research - will not all be favourable to single figure settlements when most of the relevant settlements are up for negotiation in the new year.

(iv) Some groups may be easier to deal with than others. Ministers may wish to decide now that they will seek to enforce rigid limits on local authorities and the Civil Service - accepting if necessary, disruption of services and interruption of tax collection and social security payments. To set rigid limits and then withdraw from the consequences would be the worst of all worlds: it would put the cash limit system itself in jeopardy.

(v) Other groups in the public services will be more difficult. For example, Ministers need to consider whether single figure settlements can be imposed on the National Health Service (as compared with settlements of over 20 per cent for police and firemen) and, if not, whether industrial action could be endured.

4. So far as the longer term options are concerned, the CPRS suggests that these need to be considered not only in relation to the 1981/82 and subsequent pay rounds, but also in their inter-action with the Chancellor's approach to the immediate pay round:

Option A (pay research only one input) is, in effect, what the Chancellor proposes for the current pay round. It comes nearest to free collective bargaining. In principle cash limits could be "imposed" for the civil and other public services. But it must be doubtful whether these could be consistently held (e.g. in the NHS) as low as the Government might wish, and whether the Government could win outright confrontations. In the case of some public service groups the prospect is not improved by the arbitration arrangements set out in E(80) 113.

Option B (improved comparability) might make it rather easier to hold a single figure allowance in cash limits for the present round against the prospect of a return to some form of comparability for the public services thereafter. But it could risk a major catching-up problem for 1982 - a problem which has proved very damaging to pay restraint in the past. And it would rule out for future years settlements made under cash limits set in advance.

Option E (topping up and periodic pay research) would allow for a provisional cash limit which would be in single figures and have some demonstration effect. By definition, however, it would be subject to adjustment if progress in reducing pay settlements in the private sector fell short of expectation.

5. None of these options is ideal. The Lord President (E(80)114) supports Option B but, to avoid a catching up problem, recommends that the cash limits on the 1980/81 pay round should not be set at an unrealistically low level. However, if Ministers felt that the use of cash limits to provide a clear signal to the private sector was an important objective, Option E is an alternative worth considering. It would ensure that progress in the private sector was fully and demonstrably matched in the Civil Service and (if some variant were negotiable) in other public services as well. By providing some measure of flexibility it would not put the cash limit system as such at risk. Indeed, if there were to be serious doubt - given the points in paragraph 3 - about sustaining tight cash limits for the coming round, one possibility would be to adopt some variant of Option E for the 1980/81 pay round itself. It would be a means of providing clear reassurance, and a lead, to the private sector, without establishing a 'norm' to be broken.

Cabinet Office
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