

cc A Duguid,

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
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16th May 1980

Prime Minister

A useful article  
(though CSD say  
it is misinformed!)

T.L.

T. Lankester, Esq.,  
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Dr T.L.,

PUBLIC SECTOR PAY POLICY

..... The Chancellor has asked me to circulate the enclosed article from the Spring edition of the Journal of the Royal Institute of Public Administration, as a background paper for the Prime Minister's meeting on Monday at 4 p.m.

I am copying this letter, with enclosure, to the recipients of my letter to you of 15th May.

Yours ever,

M.A. Hall

M.A. HALL

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Paym Minib

PRU Bond report  
in in form 4.

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PAY RESEARCH AND CASH LIMITS

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NOTE BY THE MINISTER OF STATE, CIVIL SERVICE DEPARTMENT

1. The attached note by officials discusses the advantages and disadvantages of a Pay Research system for determining Civil Service pay. It identifies three main options for the future:
  - a. continue as at present, ie committed to a pay research system but setting a cash limit not based on its findings;
  - b. allow an improved system to determine the cash limit;
  - c. abandon pay research (and therefore inevitably also arbitration) and seek to stay within a cash limit by free collective bargaining.
2. I do not consider option a. to be realistic. We got by this year with the help of a significant manpower squeeze and a modest degree of staging. We had to break the Civil Service/<sup>Pay</sup> and Arbitration Agreements to do so. We cannot go on doing that indefinitely and hope to remain credible with either unions or staff. We could never hope to renegotiate the Pay Agreement to allow the Government to set aside comparability at will. That Agreement imposes very real constraints on the unions as well as on Government. They will not agree to us relaxing the constraints on our side, whilst maintaining them on theirs. There is, I fear, a straight choice between option b. and c.
3. In making that choice we need to bear in mind the special position of the Civil Service. The Armed Forces apart, civil servants are uniquely our own employees. We depend directly on them to carry out our policies. To some extent our success as a Government depends on this. Also this is the only area of the public services where Ministers are directly responsible for all the elements determining the manpower bill - the tasks and the standards to which those tasks are performed, efficiency, and pay rates. In all other public service areas we can bring pressure to bear on these matters only indirectly and less effectively through cash limits.

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4. What kind of Civil Service do we want? I would say efficient, well-motivated and loyal, and not in the control of the militants. We are actively pursuing the aim of a smaller and more efficient Service. In this we need the co-operation of the staff. We cannot expect this if we do not treat them fairly over pay. I do not know what else this can mean except to pitch pay rates at about the middle of the rates paid by other employers for comparable work. To do less - to go deliberately for a policy paying below the middle market rate - will undoubtedly make the Service believe that we were not interested in treating them fairly. That would have far-reaching and disastrous effects.

*No*  
5. Pay research produces pay levels for the Civil Service which reflect what has already happened outside. It can never lead. *It can't do.*  
There is a minority Left-wing extremist element in the Civil Service Union movement who would dearly like to get away from the discipline of that system. They would like to substitute an annual free-for-all. There are many vulnerable targets in Government, eg revenue collection, immigration and customs controls. The extremist element will be fighting every inch of the way on the programme of reductions on which we are embarked. Fair treatment on pay is more important to the average civil servant than anything else. Control of the Executive Committee of the largest Civil Service union, the CPSA, has just been captured by a great moderate majority, through a ballot of all members. Do we really want to prejudice that immensely encouraging development by abandoning what the moderates see as a fair pay system by completely cutting the ground from under their feet? If the moderates do unite behind the militants, the situation could very easily get out of control. It would take a long time to recover.

6. Naturally I understand the Chancellor's concern about the levels of public sector pay. But if we were to abandon pay research and go for option c. we could not be certain even of reaching lower settlements. Almost certainly we would have settlements which corresponded less with differential movements in the

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market. (This year, for example, cleaners qualified for less than 13%, secretaries for 23%.) Most would tend to go to those elements of the Service with most muscle. Who knows what the outcome would be after a prolonged all-out strike say by VAT collectors, or by immigration or prison officers?

7. Therefore I am firmly convinced that we should go for option b. We can, if necessary, distinguish the Civil Service from the other public service elements, not only by means of a pay research system but also on the grounds as outlined in paragraph 3 above. We would attempt to negotiate some improvements in the system but it is a jointly agreed system between Government and unions and we would have grave difficulties in imposing changes. We would have to set the cash limit for the Civil Service on the basis of the pay research evidence. As, owing to our manpower policy, the Service is to come down each year, it would be possible to show a "productivity" improvement when we fix the cash limit.

PAUL CHANNON  
16 May 1980

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