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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

CIVIL SERVICE PAY: IMPROVEMENTS TO PAY RESEARCH SYSTEM

Note by the Lord President of the Council

In my earlier paper on Civil Service pay (E(80)48) I recommended a number of improvements to the pay research system. I now set them out in more detail.

2. Those proposed changes which will need to be negotiated with the unions are marked *. The others call for consultation. We must give them due notice that the system has to be changed if it is to continue as the means of determining Civil Service pay. It will not be easy to get the unions to come along with these changes but I would see no possibility of their so doing unless we were prepared to make use of ^{it in} this way.

Recommendations

3. I recommend the following action to improve the pay research system:

a. increase the independence of the Pay Research Unit (PRU) by recruiting a strong outsider as the next Director and increasing the proportion of outside survey officers. The Pay Agreement provides for the post of Director to be either a civil servant or an outsider, and that posts in the Unit should be open to outsiders. The present Director who is a civil servant is due to retire next year. At present only 5 out of the 30 or so PRU survey staff are directly recruited from the private sector and we need to increase this proportion substantially;

b. re-inforce the Pay Research Unit Board by the appointment of a strong successor to Sir Derek Rayner as Deputy Chairman. Appointments to the Board are made by the Prime Minister. We have already this year added two

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additional independent members to the Board: Mr Holland (Chief General Manager of Pearl Assurance) and Mr Russell (Managing Director of UK Alcan). We could face pressure from the unions for the addition of a further member who they consider sympathetic to their problems. The terms of reference and the present membership of the Board are at Annex.

c. urge the Board to pursue its examination of the PRU's choice of analogues. Responsibility for the selection of outside analogues rests with the Director of the PRU. The analogues need to be looked at afresh to ensure that they are fully representative of the range of outside employers, including a fair proportion of low payers.

* d. empower the Board to examine and report as a matter of priority on the principles underlying the use made of the PRU data in the subsequent negotiations. This would give the Chairman the powers he asked for following his recent meeting with the Prime Minister. Examples of what he has in mind are the quantification of fringe benefits, uprating, and the value of pensions and job security. The Scott enquiry is currently looking at the last two, and the Board will need to take its recommendations into account. We should ask the Board to pay particular attention to the present uprating arrangements to deal with the time-lag with outside settlements: if Civil Service pay is to reflect a hopefully downward trend in outside settlements next year, we should move to a link with earnings rather than prices. This would depress the level of civil service settlements so long as earnings were rising at a lower rate than prices.

* e. consider the introduction of regional variations to the national rates produced by pay research. Civil Service pay is at present on a national basis, and we need to take greater account of supply and demand in the labour market in different parts of the country. Following E Committee discussion in February, my department has been examining the possibility of introducing regional variations in Civil Service pay rates. The simplest way to do this would be to apply the regional variations in the New Earnings Survey to the national rates produced by pay research. Some would get more, others would get less. Overall there would be no extra cost. Further work is in hand.

* f. seek improvements in the arrangements for encouraging and rewarding individual merit at all levels of the Service. We have asked the PRU to study outside practice on merit pay for the grades covered by their surveys. They are due to report by the end of the year. My officials are in close touch with the Unit about the progress of their enquiry so that I shall be able to make a preliminary report before

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the Summer Recess. For the higher levels in the Civil Service, we have already received the report of the study undertaken by the Office of Manpower Economics on the way merit is rewarded at levels covered by TSRB. As a result of this study, I am now considering the possibility of introducing pay ranges in the higher Civil Service in place of the present flat rates. An individual's position on the range and his progression through it would depend on his performance in the job. I shall also report on this before the Summer Recess.

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ANNEX

THE CIVIL SERVICE PAY RESEARCH UNIT BOARD

Terms of Reference

The Board shall:

- a safeguard the independence and impartiality of the Unit in all its work;
- b receive an Annual Report from the Director about the work of the Unit and the discharge of the responsibilities laid upon the Unit and satisfy themselves that the Unit has exercised its responsibilities properly and efficiently;
- c discuss with the Director from time to time as they judge necessary points arising on the work of the Unit;
- d submit an Annual Report to the Prime Minister which would be published; and give guidance to the Director on the release of such information about the Unit's work and findings as is compatible with the effective operation of the system. In both contexts, the Board shall have a duty to take account of the need for confidentiality specified by co-operating organisations and the views of the National Whitley Council on the effect of disclosure on the subsequent confidential negotiations by the Official and Staff Sides on material provided by the Unit.

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The full list of members (with the two new appointees asterisked) is:

Chairman: Lord Shepherd

Deputy Chairman: Sir Derek Rayner

Voting Members:

Professor R Crossley (Professor of Industrial Relations,
Leeds University)

*Mr E Holland (Pearl Assurance Company Ltd)

Mr L Mills (National Union of Bank Employees)

Baroness Pike

*Mr G Russell (Alcan Aluminium (UK) Ltd)

Non-voting members:

F G Burrett (Official Side)

J E Pestell (Official Side)

W L Kendall (Union Side)

B A Gillman (Union Side)

V T Morgan (Director, Civil Service Pay Research
Unit: Ex-officio member).

Note: Sir Derek Rayner has resigned from the Board because of the pressure of his other commitments.

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