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CABINET

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

FUTURE OF THE STANDING COMMISSION ON PAY COMPARABILITY
AND RELATED MATTERS

Note by the Chancellor of the Exchequer

This note covers most of the points left for further consideration from E(79)7th Meeting, Item 1, beginning with the future of the Clegg Commission, and going on to related matters. It does not touch on index-linked pensions, on which the Lord President and I have separately been giving thought and will want to bring forward proposals later.

Long-Term Future of the Clegg Commission

2. I am not satisfied that we should commit ourselves firmly to the principle of comparability outside areas where it has already a long history, or institutionalise it in a permanent role for the Clegg Commission. There are three reasons:

- I think we must give priority to the achievement of effective financial discipline in the public sector; as we succeed in developing a satisfactory cash limit system, I would by no means rule out the possibility that normal employer/employee negotiation (especially when the employer is, like local authorities, at one remove from Government) would be a better regular system than reliance on recommendations from comparability studies.

- For the time being, attitudes of some of the public service unions and employers are sceptical, if not hostile; I think it would be a tactical mistake to force them into a comparability system.

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- Although in its first reports the Clegg Commission has not done a bad job, given the limited time available, we have important reservations about the adequacy of the methods employed: we have drawn attention to these in our evidence (which is likely to be published later this month) and will want to see the effect on future work of the Commission.

3. At the same time, it is clear that we may find a continuing role for the Commission useful in tackling some areas of public service pay; and there are certainly advantages in retaining a single experienced body, rather than resorting to ad hoc enquiries. The Clegg Commission has made a sufficiently good start to offer a better prospect of being developed usefully for this purpose than any alternative we can devise.

4. I therefore conclude that we should, in a pragmatic spirit, keep the Clegg Commission available for appropriate new or repeated references, seek improvements in some aspects of its work, and take stock from time to time of the value of its contribution, both in the context of our developing financial control in the public sector, and in the context of industrial relations among the public services.

5. The next few short sections of this note deal with particular points likely to arise in the coming months.

Membership

6. The present membership of the Commission is given in Annex A. I think we should try to strengthen it, particularly on the private sector management side. We have to bear in mind that any extra industrial manager would probably have to be matched by an extra trade unionist, and that there would be risk of the Commission becoming too cumbersome if more than three names were added. We should, however, look for possible new names on the following lines:

- A new Chairman. Professor Clegg may be prepared to continue as Chairman until about the end of September next year,

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but it is not too early to begin to look for a suitable replacement.

An energetic industrialist with experience should be our target (Sir Derek Rayner is an obvious example), but there will be problems in finding somebody who is both suitable and prepared to take on this full-time job.

- Similar people on a part-time basis, with room for one additional new membership and some reserve in case replacements are needed.
- A further additional member could be welcome, without creating the need for a matching trade union appointment, if we could find somebody independent of the two negotiating sides from, e.g., management consultancy.
- In the event of addition under my second heading, we would need a matching trade union name.

I suggest that further consideration be given by colleagues and departments concerned, with the object of drawing up a list and considering whether there are potentially available people who would be worth bringing in to the Commission.

Candidates for Future References

7. The Commission has a full work load at present, and existing and firm prospective references will occupy it until the summer/autumn of 1980. Further work may well come from particular groups in the normal course of preliminary discussions and negotiations. But there could be more interest in carrying forward what amounts to unfinished business in the cases of the main manual groups in the Health Service and Local Authorities which were the subject of the first two Commission reports. These groups are expecting to negotiate current-year settlements within the next very few months. It is important not to interfere with those negotiations, but I suggest that soundings might be made of the management sides of both services, to see whether they would regard the offer of further Clegg references as helpful,

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and if so to indicate that the Government would be prepared to agree.

8. It should be noted that thorough studies of the Health Service and/or Local Authority groups, covering both the deeper analysis which the Commission would have liked to do itself on the first occasion, had more time been available, and the newer ground urged in Government evidence (efficiency, job security and labour market considerations), must take a good deal of time. The results of further references could hardly be available before spring or summer of 1981 and would be relevant therefore either to a November 1981 settlement, or conceivably to a new settlement date of April, which could have some advantages.

Form of Future References

9. The Commission does not have general terms of reference, each particular case having been put to it ad hoc. As a reminder, I attach at Annex B the terms of reference of the initial reports and a note of the main subsequent variant, the reference on the various groups of teachers.

10. The main issue which arises for the future is whether future cases should be referred with a request for specific and binding awards, or with a request for findings which would then be subject to negotiation between the parties. The former process in principle stops argument. This was why it was chosen by our predecessors, and the unions and employers, in the difficult situation with Local Authority and Health Service manuals early this year; and situations could recur in which this advantage would be attractive. Short of such particularly difficult situations, however, and therefore more generally, I share the preference publicly expressed by the Clegg Commission and endorsed by officials, for the second process. The advantages of this are that it gives an opportunity for negotiation within a fairly clearly established range, in which account can be taken of, for example: elimination of restrictive practices or other examples of inefficiency as a condition of pay increases; trading-off of other non-pay questions; the giving of special weight to any particular points of friction which may be troublesome to either management or unions, but may well not be

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picked up in a general comparability study; and - perhaps most important from our point of view - scope for the management side to reflect financial pressures in its approach to the negotiations.

Efficiency, Job Security and Labour Market Considerations

11. We have made clear in Government evidence to the Clegg Commission the importance we attach to these factors, with some suggestions as to how the Commission might approach them. It is important that we should follow this up, but for the present we do not have additional specific proposals to put to the Commission, we have to rely on their response to the suggestions we have made, and can therefore do no more except perhaps arrange further discussion with Professor Clegg.

12. In relation to the Civil Service, however, we have the direct employer responsibility, and the question arises how far these same subjects should be pursued in parallel. Any results we obtained in this area should of course then be brought to the attention of Professor Clegg.

13. I have the following suggestions in relation to the non-industrial Civil Service:-

(a) Job security: I am convinced that there is a significant difference between job security in the non-industrial Civil Service and in most outside employments, and that this is highly relevant to the total package of pay and conditions of service and should be taken account in determining them. I understand that studies have been conducted in the context of pay research, concentrating on comparison with apparent job security among outside analogues, but including also some assessment of the available macro-economic data, and yielding no very useful results. I believe that some wider judgment is needed, that the judgment cannot properly be made from within the Civil Service, and that outside representatives (employers, employer organisations, consultants, etc.) should be asked to contribute. The matter cannot be left wholly to outside judgment, and I think a combination of external and internal judgment would be best. The existing Pay Research Unit Board might

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be the right body for this. Its function is to oversee the operations of the Pay Research Unit and its membership includes inside and outside expertise. I recommend that the Board should be asked to consider job security in the Civil Service and - even if they cannot (as is very likely) offer any precise quantification - nevertheless make a judgment of its value in a form which could be translated into an adjustment of pay levels, either across the board, or with some appropriate differential for different types or levels of work. I urge that this work should be tackled with the object of completing it in time for account to be taken of the results in the negotiations in the spring of 1980.

(b) Labour market factors: I think we must recognise that the problem of introducing labour market factors into Civil Service pay determination is altogether more complex. Not only is it subject to the same problems of precise identification and quantification, but there would be argument from the Staff Side that such an innovation would run counter to the principles of the Priestley Commission, which specifically rejected basing pay on what was necessary to recruit and retain. For this reason, I would not advocate a general attempt to bring labour market factors directly into pay negotiations next year, but concentrate instead on job security to which I have already referred. I do suggest, however, that there would be advantage in conducting some pilot studies, which might cover both regional differences and different types of staff thought to be either difficult or easy to recruit, and determine initially on this smaller scale whether there seem to be possibilities of establishing reasonably robust evidence, and whether the results might be significant if spread more widely. In order to avoid provoking arguments with the Staff Side, it might be best for the Civil Service Department to take the lead in arranging studies on these lines, as part of its normal management enquiries.

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(c) Efficiency: turning finally to the question of efficiency, we have a somewhat different position in the Civil Service from that which prevails in, for example, local authority employment. Efficiency is already systematically and extensively pursued in the Civil Service, through staff inspection, O & M studies, comparative work measurement, special studies such as that currently being conducted by Sir Derek Rayner, etc., all of which have been kept quite separate from pay determination. Further improvements are surely possible, but the question whether they could with advantage be pursued in the context of pay research is a balanced one. Pay research is certainly an opportunity to observe relative standards of efficiency within the Civil Service and outside. At the same time, there is advantage in the present arrangements under which, because efficiency and pay are kept separate, management is able always to insist on improving efficiency, where shortcomings are found, without having to pay a price in pay. It would be possible to invite the Pay Research Unit, as the Clegg Commission has been invited, to look out for inefficiency and draw attention to it in any findings, but to the extent that they do not already cover this and would need to be equipped with additional resources to do so, there is some doubt whether this would on balance be beneficial.

Conclusions

14. To summarise, I recommend:-

(a) We should keep the Clegg Commission available for new or repeated references, developing it pragmatically and without committing ourselves to permanent acceptance of the principle of comparability throughout the area covered (paragraph 4);

(b) We should draw up a list of possible candidates for membership (and chairmanship) who would strengthen the Commission (paragraph 6);

(c) Soundings should be made of the managements of Health Service and Local Authorities about their possible interest in repeated references of their manual workers in future (paragraph 7);

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(d) In considering the form of future references, preference should be given to a request for findings which would then be negotiated between the parties, rather than specific and binding awards (paragraph 10);

(e) The Government evidence to the Clegg Commission should be followed up in discussion with Professor Clegg of the main points in it (paragraph 11);

(f) The Pay Research Unit Board should be asked as a matter of urgency to conduct a study of comparative job security in the non-industrial Civil Service, and to carry this into suggestions of any appropriate adjustment of pay levels (paragraph 13(a));

(g) The Civil Service Department should arrange pilot studies of labour market factors in selected areas of the Civil Service (paragraph 13(b)).

Mr. Peter D. GILSON, Director of Personnel and Administration at BP Oil Limited until 30 December, 1978. Age 58. A former member of the Petroleum Industry Training Board.

Sir William HYLAND, O.B.E., Comp. J.E.S., F.R.I.M., Hon. D.C.L.A., formerly Chairman of the Post Office Corporation. Age 65. Retired in October 1977 after 43 years' service to the Post Office.

Professor Joan E. MITCHELL, Professor of Political Economy at the University of Nottingham. Age 59. Formerly an economist at the Board of Trade, 1947-1950, and a Research Officer for the Labour Party, 1950-1952. A member of the Committee to Review the Functioning of Financial Institutions (Sir Harold Wilson's Committee) and of the East Midlands Economic Planning Council. Member of National Board for Prices and Incomes 1965-1968.

HM Treasury
26 October 1979

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MEMBERS OF STANDING COMMISSION ON COMPARABILITY

The Chairman and members of the Standing Commission on Comparability are as follows:-

CHAIRMAN

Professor Hugh A. CLEGG, M.A., Professor of Industrial Relations at Warwick University, since October 1967. Age 58. Former member of the Council of the Advisory, Conciliation and Arbitration Service. (Resigned to make time for this new appointment.) An acknowledged authority on industrial relations who has had considerable practical experience as an arbitrator.

MEMBERS

Mr. C.H. ('Harry') URWIN, Deputy General Secretary of the TGWU since 1969. Age 64. Resigned from the Manpower Services Commission; the Council of the Advisory, Conciliation and Arbitration Service; and the National Enterprise Board in order to take up his new appointment. A member of the TUC General Council.

Sir Leslie WILLIAMS, C.B.E., former General Secretary of the Society of Civil and Public Servants, until 1966. Former Secretary-General of the Staff Side of the Civil Service Whitley Council from 1966-1973. Age 65. Former Chairman of the Civil Service Appeal Board and a former member of the Royal Commission on Standards of Conduct in Public Life. Member Armed Forces Pay Review Body.

Mr. Peter D. GIBSON, Director of Personnel and Administration at BP Oil Limited until 30 December, 1978. Age 58. A former member of the Petroleum Industry Training Board.

Sir William RYLAND, C.B., Comp. I.E.E., F.B.I.M., Hon. C.G.I.A., formerly Chairman of the Post Office Corporation. Age 65. Retired in October 1977 after 43 years' service to the Post Office.

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TERMS OF REFERENCE TO THE STANDING COMMISSION
OF LOCAL AUTHORITY MANUALS

ANNEX B

(Those for other groups referred before the Election
were similar)

The Government wishes to encourage negotiators to consider comparability exercises in the public services and the Government will be initiating further talks to this end. The Government will now establish an independent investigation, a Standing Commission, to examine the terms and conditions of workers in the public services and to report on the possibility of establishing acceptable bases of comparison, including comparison with terms and conditions for other comparable work, and of maintaining appropriate internal relativities. The first groups to be investigated will be local authority manual workers, NHS ancillaries, ambulancemen and university manual workers.

In particular the investigation should:

- (i) assess the appropriate form of comparisons with terms and conditions in other sections of the economy, and identify relevant comparators.
- (ii) make suggestions on how such comparisons should be carried out and on the resources required for carrying them out.
- (iii) make suggestions as to how the comparisons should be made available to the relevant negotiators within the local authorities/NHS/ universities.
- (iv) consult the parties to the agreement on how the results of the comparisons of terms and conditions can be embodied in the relevant collective agreements.
- (v) following (i) to (iv) make recommendations which the Government and the trade unions have undertaken to accept. In the case of the local authorities the Government undertakes to provide its share of the Rate Support Grant to enable them to implement the recommendation.

TERMS OF REFERENCE TO THE STANDING COMMISSION: TEACHERS

The Government, at the request of both sides of the Burnham Primary and Secondary Committee, invite the Standing Commission on Pay Comparability to undertake, in the light of their terms and conditions of employment, a comparability study of the pay of teachers in maintained primary and secondary schools in England and Wales.

The Standing Commission is asked to have regard to all relevant principles and considerations relating to the assessment of the value and role of the teaching profession in society including all matters referred to in the Houghton Report and the Joint Working Party Report received by the Burnham Primary and Secondary Committee on 7 March 1979 and to the movement of inflation and salary levels since April 1978.

The conclusions of the Standing Commission should be conveyed to the Burnham Primary and Secondary Committee.