

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80) 55
15 June 1980

COPY NO 31

CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC SECTOR PAY: THE MAIN ISSUES
Note by the Central Policy Review Staff

Background

1. Ministers are to resume discussion of public sector pay on 17 June. This Note seeks to set out the main issues. Several of the main questions on which decisions are needed are highlighted in the course of the document and are underlined.
2. The CPRS suggests that the Committee should take as their objectives:
 - (a) to achieve the lowest possible settlements in the coming round which avoid unsuccessful confrontations and do not create substantial 'catching-up' problems for subsequent rounds;
 - (b) thereby to achieve settlements which will not inhibit the private sector from reducing the level of their settlements as strongly as they can.
3. At this stage the questions to be decided are mainly ones of principle. At a later stage it will be necessary also to decide questions of volume, whether for cash limits or External Financing Limits (EFLs). But in a situation where a change of direction in the indices is expected and the timing and rate of change is particularly uncertain, there is much to be said for taking such decisions as late as possible.
4. In considering the issues set out below, Ministers may find it convenient to refer to the parallel note by officials (E(80)56) which sets out some of the salient facts in the situation. They are particularly invited to bear in mind the timing sequence in which the main events of the coming pay round will unfold. This timing will significantly influence some of the decisions which have to be taken.

SECRET

64

68

70

71

74

76

78

80

82

56

84

58

86

60

88

62

5. Ministers will also need to take into account the scope for action, if any, during the remainder of the current round. The most important outstanding groups (apart from nurses and teachers) are the industrial Civil Service, Local authority Administrative, Professional, Technical and Clerical staff, Post Office telecommunications engineers, and the TSRB. The choice, very broadly, is between on the one hand trying with one or more groups to set an example of the future trend, or (if this is unlikely to be successful) to make a virtue of 'wiping the slate clean' by dealing with all catching up problems and declaring a new start from a reasonably equal footing for all.

6. One more general point. There are a number of existing commitments on public service pay which are, to a varying degree, very difficult to break. If some are felt to be immutable, e.g. those to the police or the Armed Forces, it will be necessary to consider whether it is possible to isolate them as 'special cases', thereby reducing the risk of repercussions.

The Main Issues

7. The Government's responsibility for public sector pay is most closely engaged by the four main groups of its own employees - the non-industrial Civil Service, the industrial Civil Service, the Armed Forces and the National Health Service. In these cases the Government is the employer/paymaster and has direct responsibility (shared with the unions) for the size of the settlements reached and for any costs incurred by disruption in the course of reaching those settlements. The Government has also, of course, a continuing interest in the health and morale of the services concerned. It is perhaps fortunate that the settlement dates for three of the four groups - the industrial and non-industrial Civil Services and the Armed Forces - come towards the end of the pay round. The National Health Service, however, contains significant groups - particularly the ancillaries and the ambulancemen - whose settlement dates come early in the round and, given the nature of the Health Service, difficult questions of cash limits will arise at an early stage. The issues of principle which arise in respect of each group are set out below:

(a) The non-industrial Civil Service (settlement date April 1981):

Three possible approaches have been suggested:

(i) The Lord President of the Council advocates in E(80)46 that improvements in the PRU system should be sought in negotiation with the unions that the improved system should be applied to the research operation underlying next year's settlement; and that, within the constraints

of the revised pay agreements so negotiated, cash limits should be set at levels which reflect the hardest bargain the Government could negotiate on pay research evidence. This does not rule out the setting of cash limits below the levels suggested by pay research but the gap would have to be one which the Government thought could be bridged by means such as an additional manpower squeeze. The size of the tolerable gap cannot be estimated now but is unlikely to be significant. Because there is such a wide range of possible pay and price outturns, the required increase in cash limits is highly uncertain, but it might be in the range of 15-20 per cent.

(ii) The Chancellor of the Exchequer advocates in E(80)46 that pay research should be 'dethroned' and primacy given to cash limits. He also envisages that the cash limits concerned would be set below this year's level. It must be doubtful whether a cash limit of, say, 15 per cent could be reconciled with pay research evidence to produce a negotiated settlement. On present forecasts of the future course of pay and prices generally such a reconciliation seems unlikely. The gap could be bridged only by seeking to negotiate a settlement at levels clearly below those indicated by pay research, or believed to be comparable if pay research were abandoned. In either case, arbitration would have to be withheld. In these circumstances there is the strong chance that at least some key sections of the Civil Service might engage in industrial action. The effects could be extremely damaging.

(iii) The CPRS has suggested in E(80)49, supplemented by the fuller description in E(80)54, that the problems of the time lag in pay research and the uncertainty of the course of pay settlements generally next year might be overcome by a temporary change in the procedures for setting public service, including Civil Service pay, providing this change could be pushed through (arbitration would again have to be withheld). The suggestion is for interim settlements on the due dates at a level clearly below the then current rate of increase of average earnings coupled with a promise of a back-dated final settlement at the end of the pay round (i.e. in July 1981) which would match, but at most match, the actual increases in earnings achieved by the pay research analogues in the pay year 1980/81 rather than, as under

present arrangements, those achieved in the twelve months or so preceding the actual settlement date. This would give the Government the benefit of any deceleration in earnings which might have occurred by the end of the next pay round, and the outturn would in this case be somewhat below what could be achieved with comparability. The scheme would remove any possibility of the private sector claiming that the Government was elevating the level of settlements, and indeed would tie Civil Service pay increases closely to the success or failure of the private sector in its own negotiations during the round. It implies, therefore, that cash limits for pay would have to be set subject to subsequent adjustment in the light of final settlements. But other aspects of cash limits would be unaffected. It is an important feature of the CPRS scheme that the policy would be announced well before the start of the next pay round so that some reassurance could be given to the private sector. For this reason it would have to be presented to the unions, and agreed in principle, in advance of the normal timetable for individual settlements.

Ministers will need to decide between the alternative approaches to Civil Service pay, and to consider the timing of the announcement of their policy.

(b) The industrial Civil Service (settlement date July 1981):

We assume that the settlement due this July for the industrial Civil Service will be on traditional comparability lines. Since the next settlement will come at the end of the pay round, there is no need to contemplate, under the CPRS system, an interim award. The facts of the round will be well enough known by then to allow for the possibility of a settlement matching private sector achievements in 1980/81. This method of settlement would, of course, need to be discussed with the unions in the normal way. The question facing Ministers, nevertheless, is essentially the same as that for the non-industrial Civil Service.

(c) The Armed Forces (settlement date April 1981):

The pay of the Armed Forces presents a particular problem in that no negotiation is possible, nor is industrial disruption conceivable. The cash limit will set the pay increase, and the only question is whether the limit should be fully adjusted to take account of the award, based on comparability, made by the Armed Forces Review Body, or at some lesser figure. The Government's commitment to maintain Armed Forces' pay at

comparable levels with their civilian counterparts is of course absolute. To set pay at lower levels by means of a tight cash limit would therefore represent a political act of some magnitude. Ministers will be discussing at a later stage whether some savings could be made in other ways than through cash limits, e.g. by changing the Terms of Reference for the Armed Forces Pay Review Body in ways which do not conflict with the pledges which have been given.

Do Ministers agree that the commitment remains binding?

(d) The National Health Service (settlement dates December 1980 and April 1981):

Some National Health Service groups settle early in the round (e.g. ancillaries and ambulancemen). These are key settlements for the Government both for this reason and because they are linked to other public sector settlements (e.g. the local authority manuals). Other NHS groups settle late (e.g. nurses, doctors and dentists). The particular feature of the NHS which will complicate the approach to pay in the Service next year is that, as with the Armed Forces, the level of the cash limit set effectively limits the size of the pay increase which can be given (except to the extent that improvements in productivity, and the associated manpower savings, can be brought about). Except for doctors and dentists there is no formal comparability element to take into account though the staffs concerned will expect to do as well as their counterparts in other employment and will be conscious that, this year, they have accepted settlements at below the going rate so that a sense of grievance and of 'falling behind' is already building up. In essence the choices for the Health Service lie between:

- (i) setting a cash limit sufficiently high to accommodate the levels of pay which might be the realistic outcome of free bargaining (bearing in mind that the cash limit for each separate part of the public sector does not have to be the same - indeed, in a period of decelerating wage settlements, and widely differing settlement dates, it is unrealistic and unnecessary to aim for a single 'norm');
- (ii) to set a cash limit at a lower level designed to force a reduction in the real pay of those concerned (involving a nice calculation of the point at which unacceptably costly disruption might occur); and
- (iii) some variant of the CPRS scheme. It would be necessary to think in terms of a variant of the CPRS scheme for the Health Service because,

SECRET

despite the efforts of Clegg this year, there are no proper comparisons for many of the groups and no possibility of establishing them in the time available. The application of the CPRS suggestion to this area might, therefore, need to be approached rather more crudely than elsewhere, perhaps by use of the movement in average earnings over the relevant period.

The position of the doctors and dentists represents an additional problem. The profession sets great store by its Review Body and can be expected to mount a major campaign against any dilution of its 'purity'. They could threaten to walk out of the NHS rather than negotiate a change in the present arrangements. It is a matter of judgement whether the pay of doctors and dentists would be higher or lower if direct bargaining replaced the present system.

Do Ministers think that tight cash limits for NHS could be held given the level of settlement which would be most likely to be negotiable? By which of the alternative means listed above do they think that NHS pay (including that of doctors and dentists) should be determined?

(e) Prison Officers (settlement date April 1981):

The pay increases of prison officers are determined as an average of all Civil Service increases. Decisions taken for the Civil Service therefore have direct implications for this group. The negotiations with them have in the past been difficult, and the consequences of disruption are serious. Do Ministers feel that special consideration will have to be given to prison officers?

8. In addition to their direct employees, there are two groups for which the Government have accepted special responsibility and whose settlements come up in the pay round. These are:

(f) Police (settlement date September 1980):

Police pay is now firmly linked to the movement of earnings in the economy as a whole. It is not cash limited. The issue for Government is a simple one. Does it accept an obligation to continue the present arrangements or does it wish to change them? If the latter, the search for an alternative system will need to begin soon. Given that the police cannot strike, variants of collective bargaining are not possible.

6

SECRET

SECRET

Do Ministers wish to change the present arrangements? If there is to be no change, do Ministers think that the police can be presented as a special case?

(g) Firemen (settlement date November 1980):

The firemen too have a commitment to indexation. Their pay has to be contained within the general local authority cash limit but is not constrained by that limit. Firemen can strike and did so only 18 months ago. They were not very successful.

Would the Government wish to seek to influence the local authorities to change the present arrangements?

9. The groups discussed so far comprise about one-third of the total employees in the public sector. The remainder are the employees of local authorities, and the employees of the nationalised industries. The main issues arising here are:

(h) The local authorities (settlement date November 1980 (Manuals) and July 1981 (APT and C)):

The critical decision for Government is the size of the allowance for increased pay to be made in this year's RSG settlement. In itself this decision will not determine the level of pay settlements reached by local authorities with their employees because local authorities can have recourse to increased rates to provide additional funds and, by common consent, have substantial possibilities for reducing staff numbers. A decision here needs to be made by November at the latest. It would in principle be possible to encourage the local authority employees to adopt a variant of the CPRS scheme, but in practice this is probably not acceptable since it would mean that the Government would in effect be responsible for setting pay in the local authority field.

(i) Within the totality of local authority employees the teachers (settlement date April 1981) pose an additional problem because of their right to arbitration where the awards can only be overthrown by resolutions in both Houses of Parliament. The teachers' current pay claim is already going to arbitration. When the arbitration awards are available, Ministers may wish to consider whether to try to overturn them. They might subsequently want to consider whether to legislate to withdraw the right to arbitration.

7

SECRET

100

SECRET

(j) The nationalised industries (various settlement dates of which that of the miners on 1 January 1981 is perhaps the most important coming, as it does, early in the round):

The issue here is the size of the allowance to be made for pay in settling the industries' EFLs. If Ministers want to follow this year's pattern they will need to set these EFLs by November 1981. Except to influence the pay round itself there is no compelling reason why they should be settled before the Spring. As with local authorities the nationalised industries have alternative sources of finance (notably through their pricing decisions) and EFLs influence but do not determine the level of settlements. Ministers will need to decide later in the year on the timing and content of EFL decisions (bearing in mind that there is no reason why the pay component used in the calculation of EFLs for each industry should be the same). The Chancellor has already pointed out that the Government will want to make it clear to Chairmen that they are expected to hold settlements down to those pay assumptions.

10. In addition to the decisions affecting the particular groups described above, there are three issues of broader principle to which Ministers' attention should be drawn. These are:

(k) The future of the Clegg Commission:

The Commission's membership is declining and its workload is running out. The Chancellor of the Exchequer, on the other hand, sees merit in retaining a fact-finding body as an aid for the settlement of particularly difficult disputes (though the fact-finding activities of the Office of Manpower Economics could continue even if the small Comparability Commission was scrapped). A decision whether or not to continue with the Comparability Commission could be taken and announced now.

(l) The timing of Government decisions:

Questions of timing run through much of the above analysis. The timing of some decisions is imposed by operational requirements. But for others, e.g. most cash limits and EFLs, there is a good deal of flexibility. It would normally be good practice in a situation of considerable uncertainty to delay decisions until they are operationally required. Last year the tendency was to take most of these decisions early in an attempt to

8

SECRET

SECRET

influence the outcome of pay bargaining. Ministers will, we suggest, need to give a good deal of thought this year in each case to the most advantageous timing of these decisions.

(m) The size of cash limits:

The precise form of cash limits will depend on the decisions taken in each case. Last year the tendency was towards uniformity in the pay assumptions built into cash limits (though less so in the case of EFLs). This year it seems to us that a wider spread of pay assumptions will be needed - both to accommodate particular cases such as the NHS and to reflect the realities of pay bargaining against a background of decelerating inflation and pay increases. It would also avoid any suggestion of a public sector 'norm'.

11. Ministers have already discussed the need to mount a publicity campaign so that the next pay round starts at levels very substantially below the rates of last year. E Committee has already decided that a campaign should be mounted. In arranging it Ministers will want to take account of the decisions made on the above issues. To the extent that some penalty is being imposed on the public services compared with arrangements hitherto, those planning the campaign will want to put pressure on the private sector to respond in similar vein.

Cabinet Office
15 June 1980

9

SECRET

101