

24 April 1981

Policy UnitPRIME MINISTERCIVIL SERVICE PAY

1. If there is to be an independent enquiry into the longer-term arrangements for Civil Service pay, the terms of reference and membership are obviously crucial. The Scott experience makes that abundantly clear.
2. This enquiry provides an opportunity which is unlikely to be repeated during the 1980s to look at the related subjects of Civil Service efficiency and management structure. If questions like regional variations in pay or productivity payments or other forms of incentive are to be addressed, it is clear that they raise issues of management structure. But if the terms of reference refer only to pay, the enquiry team will probably feel unable to consider related management issues. This will in turn ensure a fairly conventional approach to pay, and a missed opportunity to make progress on Civil Service reform.
3. We therefore strongly favour a more wide-ranging enquiry. No doubt there will be CSD resistance to this. One argument will be that such an enquiry could not be ready for 1983. Of course, such a wider-ranging enquiry will be a big job - both to conduct and to implement. But we should not accept, too readily, the idea that it would be impossible to do it in time for 1983. For comparison, one only has to look at the speed with which restrictive practices have been dropped, union rule books laid to one side and management authority reasserted in the private sector - all over a period of months, rather than years - once management and unions realised that "the party was over".
4. If, however, further study suggests that it really is impossible to have a new system in place for 1983, there may be positive advantages in having only interim arrangements (rough justice on the lines suggested in our earlier papers) for 1982 and 1983.
5. Whatever the scope of the enquiry, we have the following observations on the draft circulated by Sir Ian Bancroft:

E.R.

- (a) The preamble does not need to refer to concepts of "fair remuneration" and "employer obligations". Pay is not primarily a matter of fairness but simply a price necessary to ensure recruitment and maintenance of the right staff. It is essentially a market concept, not one of "fairness". Because the normal market processes cannot operate fully in a large career service, we need some kind of pay system to approximate to the market outcome. Our aim is to find the best approximation - in other words the most efficient solution, rather than the fairest.
- (b) We should refer explicitly to the Government's responsibility for maintaining a stable currency (controlling inflation was also stated to be the first economic priority of the previous Government).
- (c) Part of the enquiry's objective should be to find a system which makes industrial disputes unnecessary.
- (d) We see no reason to exclude those grades covered by TSRB.

6. We have incorporated a few drafting changes to reflect these points on the attached redraft of the preamble. However, the terms of reference need much more radical re-casting if the scope of the enquiry is to be widened.

7. I am copying this note to Sir Derek Rayner, in view of the connection with Civil Service reform.



JOHN HOSKYNS

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TERMS OF REFERENCE

✓ Having regard to the public interest in the recruitment and maintenance of an efficient Civil Service; to the need for the Government to reconcile its responsibilities for the control of inflation and public expenditure with its role as an employer; to the need to maintain good industrial relations and to avoid disruption; and to the experience and difficulties of operating the existing arrangements in recent years:

to consider and make recommendations on the principles which should govern the settlement of the rates of pay of the non-industrial Civil Service and the methods by which those principles should be applied, taking account of all relevant terms and conditions of service.

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