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Pt 9: January 1982

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Cabinet / Cabinet Committee Documents

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MISC 66 (82) 1	18.1.82
MISC 66 (82) 2	19.1.82
MISC 66 (82) 3	26.1.82
MISC 66 (82) 4	27.1.82
MISC 66 (82) 5	29.1.82
MISC 66 (82) 6	29.1.82
MISC 66 (82) 6 MISC 66 (82) 3 rd Meeting, Minutes	4.2.82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed OWayland

Date 14 June 2012

PREM Records Team

Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000 8 February 1982 Barnaby Shaw, Esq., Private Secretary to the Secretary of State for Employment Department of Employment Dear Barnaloy, EVIDENCE FOR MEGAW INQUIRY : LOCAL PAY In the memorandum on future pay arrangements dated October 1981 we said it was for consideration whether Civil Service rates for at least some (e.g. the nonmobile), if not all grades, should attempt to match local pay conditions more closely. I attach a paper which examines the case for a change in this direction, which the Chancellor proposes to submit to the Inquiry. I will assume that the way is clear to send the paper if there are no comments by Friday 12 February. In view of the wide interest in this subject in all employing departments, I am copying this letter to the Private Secretaries to members of the Cabinet. Yours er P.S. JENKINS

) LOCAL PAY

Introduction

1. In its initial evidence to the Inquiry (1) the Government said
"It is for consideration whether Civil Service rates for
at least some (eg the non-mobile) grades, if not all
grades, should attempt to match local pay conditions
more closely."

This paper examines the case for a change in the present system of national pay rates and London Weighting; and discusses possible options for introducing greater geographical variation into Civil Service pay.

Background

- 2. At present, pay in the non-industrial Civil Service is set at national rates and these are negotiated at national level. When pay research operated, the Pay Agreements provided for comparisons to be made where possible with national rates outside, discounting any additional payments by the analogue employers such as London Weighting or large town allowances. In reporting on organisations outside London or those which operated different pay rates in different areas, the Pay Research Unit provided information where it could about the distribution of staff receiving the different rates or allowances.
- 3. London Weighting is paid as a supplement in the Civil Service, and is the only significant element of the pay bill which is related to geographical location. The present basis on which it is paid (related to the cost of living in London and not to the pay rates of other employers) was described in the Factual Background Memorandum submitted to the Inquiry. (2)

1

⁽¹⁾ Memorandum on Future Pay Arrangements for the Non-Industrial Civil Service, October 1981, paragraph 11e.

⁽²⁾ Factual Background Memorandum, Chapter 7, Section IV, Paragraphs 7.32 - 7.36.

- 4. The present system of national pay rates supplemented by London Weighting was introduced into the Civil Service in 1958, following the recommendations of the Priestley Royal Commission. (3) Before then pay rates were on a three-tier basis applying in London, large towns and provincial areas. A brief history of "provincial differentiation" as the system was known is at Annex 1 to this paper. The system was based on setting a 'London' rate and making a series of flat-rate deductions from it.
- 5. Annex 2 shows the current distribution of Civil Service staff in the United Kingdom economic planning regions.

The case for a change

The main arguments for introducing greater geographical variation in pay rates than at present are threefold. First, the Civil Service is probably paying more than it needs to do in some areas to recruit and retain staff of adequate quality. As a large employer it may accordingly force up other employers' pay rates in the locality unnecessarily, or alternatively cream off the best available staff. Second, the Civil Service may be paying too little in other areas. Particular difficulties have arisen in recent years in some areas, especially in London, in recruiting enough staff of adequate quality for some grades although in current economic circumstances these difficulties have eased. (Examples of the difficulties which have been encountered in the past have been given in evidence by individual Departments, including Inland Revenue, Customs and Excise and the Department of Health and Social Security.) These considerations would weigh particularly strongly in any pay system which gave direct weight to the Civil Service's ability to recruit and retain staff. Third, if a new pay system were to include comparisons with outside rates these should be as accurate and wide-ranging as possible and should in principle therefore reflect geographical differences where these are significant. All three considerations apply with particular force to the pay of staff who are recruited locally rather than nationally, and who are not in practice required to move outside their home area.

2

⁽³⁾ Report of the Priestley Royal Commission; 1955, paragraphs

- 7. Outside practice varies. A number of other large employers of white collar staff also rely on national rates with variations for London and sometimes for one or two other large cities. The Civil Service practice is not unique. We understand for example that ICI, Shell and a number of the nationalised industries have pay scales whi apply nationally, with an additional London allowance. Some other organisations (eg the Clearing Banks; Marks and Spencer) have London rates, a standard provincial rate and higher rates in some urban areas where recruitment considerations require these. But the Committee may wish to obtain more information on the practices of other employers generally.
 - 8. If a change were to be made to greater geographical differentiation in Civil Service pay rates a practical cost-effective system would be required which would not only be genuinely sensitive to lock market variations (whilst continuing also to provide for differentiation by occupational groups of staff) but which would in practice he rather than hinder the efficient management of the Service. The following sections of this paper examine evidence of regional pay variations, possible ways of determining more localised rates in the Civil Service, and the management implications of these.

Evidence of pay variations

- 9. The case for moving to local pay in the Civil Service rests on the extent to which there are geographical variations both in the parates of comparable employers generally, and in the ease with which staff can be recruited and retained.
- 10. The main difficulty in making an accurate assessment of the cas for change is the lack of detailed and reliable figures. The statistical material which is available is described in the following paragraphs. The Government suggests, however, that the Committee

may wish to commission further work not only on the practice of other employers but also on the evidence of geographical variation in non-manual pay generally in a more disaggregated basis than is available at present.

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- 11. The best source of published information about geographical variations in earnings (rather than pay rates) amongst non-manual employees generally is the Department of Employment's New Earnings Survey (NES). The NES data on the category of clerical and related staff is one of the more closely matched groups to Civil Service work, although it covers a large range of jobs, some of which are undertaken by staff whom the Civil Service would not classify as 'clerical' (including telephonists and data processors). Additionally, within it returns show a marked disparity between the earnings of males and females. However, it can be used for illustrative purposes to give a broad-based indication of geographical variations in pay for this type of work.
- 12. Annex 3 shows variations in clerical earnings for male and female adult workers at regional and county level in 1980, weighted according to their participation rates in the relevant labour markets. It shows that:
 - i. in four of the 10 main regions (East Anglia, East Midlands, Yorkshire and Humberside, and Scotland) average clerical earnings are more than £5.00 a week below the national average, although in no case is the difference more than £7.00 per week. National average earnings are heavily weighted by relatively high earnings in London, so no regional average is higher than the national average. If a comparison is made between average earnings excluding London, the biggest regional difference is only £3.00 a week. Thus, London apart, there is relatively little variation between regions and such variation is in many cases within the confidence limits of the sample.

- ii. There are wider variations at county level.

 Average earnings between individual counties vary significantly, the range from top to bottom of the county data being as much as £20 a week. In many cases county earnings also vary considerably from the average for the region which contains them. It should be noted, however, that because of the small sample sizes the NES data are much less reliable at this level.
- The NES standard regions do not correspond to any pay bargaining level and prima facie the region is a doubtful level of disaggregation to reflect the pay market. The evidence indicates more variation in earnings at county level, but more data are needed to test whether the more significant differences between counties are due mainly to the presence of the larger towns within them or as much to urban/rural differences as to geographical variations.

The existence

of high pay counties in otherwise low pay regions may be due to the influence of individual cities (Bristol in Avon, Cardiff in South Glamorgan, Edinburgh in Lothian and Aberdeen in Grampian). Taking Great Britain as a whole, however, (and leaving London to one side) there is no significant difference between earnings in the "metropolitan" counties and the rest.

14. It is not clear how far geographical variations in pay rates are linked to other factors such as local living costs, local differences in the ease with which staff can be recruited, or the presence within an area of large high-or-low-paying organisations. Nor is it clear how far geographical variations apply in the same way to different groups of staff. The pattern of market rates for specialist staff, for example, may be very different from that for general clerical and administrative staff, and this would need to be taken into account in devising any local pay scheme.

Determination of local rates

15. There would be three main options for fixing the new pattern of rates on the basis of greater geographical differentiation in pay:

a. Distribution of a "national pay kitty"

On a relatively mechanistic basis data from, for example, the New Earnings Survey could be used to establish a "regional index" reflecting relative pay levels in different parts of the country, but weighted to take account of the geographical distribution of Civil Service staff. The total money available for Civil Service pay, however this was to be determined, would be distributed each year in accordance with this index. Annex 4 illustrates how this approach might work in practice for Clerical Officer pay.

This method could in theory have provided a relatively simple, though crude, approach for introducing a degree of geographical variation in the Civil Service rates which were derived from the old pay research system without increasing the overall pay bill in the process. For use in the future it would have three main drawbacks. First, statistics would almost certainly not be available to match all the grades in the Civil Service pay structure and the "index" would therefore be very rough and ready in its effect.

Second, the combination of the "pay kitty" and "geographical index" could lead to modifications in the way pay varied between different areas. Where the geographical distribution of staff in a Civil Service grade was markedly different from the distribution of employees at large covered by the comparable NES category, this would influence the resulting degree of variation in Civil Service pay rates.

Third, a mechanistic index approach of this kind, although relatively simple and economical to operate, would be derived entirely from statistical material on pay variations. It would not necessarily reflect the actual local recruitment and retention position either in the Civil Service or in other organisations.

b. Use of Local Market Evidence

Under this option pay rates would continue to be negotiated centrally, but evidence would be collected about actual pay

rates, together with information on the relative recruitment and retention position in each locality separately.
Any significant variations in living costs might also
need to be assessed. The data would be used to determine
local pay rates for the Civil Service, at whatever level of
disaggregation were chosen.

This approach, if applied fully, would inevitably be complicated and costly, involving in effect several parallel pay determination exercises. The process could however be simplified in a number of ways: for instance if local pay was restricted to a limited number of grades, and if detailed surveys were carried out only at intervals, even though this would mean that the system would be unable to respond to any rapid changes in geographical pay relativities. It might also be possible to restrict the range of pay variations. UK local authorities, for instance, agree national salary scales containing a spread of incremental points, but for some grades individual authorities have discretion to choose which particular group of points within the scale to use. Their rates can accordingly be pitched higher or lower (within the nationally agreed limits) according to local pay and other .. considerations. In the non-industrial market Civil Service it would be possible to use local evidence on pay rates and other market conditions to assign office locations to a number of pay "bands". But this would be a cruder approach, and would give a less accurate reflection of local market conditions.

c. Variations for specific areas (including London)

As an alternative, variations from a national rate might be introduced only in some areas outside London - including some large towns and also other demarcated areas of exceptionally low or high pay. The national rate applying outside London and other designated areas could then perhaps be relatively lower than it is at present. To make special payments for staff in large towns would be in line with the practice of some outside employers. Variations of this kind might be calculated in two ways. First, by local market surveys, as

MANAGEMENT: IN CONFIDENCE Decentralised Pay Bargaining 16. A much more far-reaching change in moving to greater geographical variation in pay rates would be to end the present practice of centralised pay negotiations in the non-industrial Civil Service and to delegate control over pay levels to local (or to regional) managers who would take local market conditions directly into account in negotiating pay rates for their staff. The Government would welcome the Committee's general views on this possibility. 17. The Government believes that it is important that managers in the Civil Service should have greater discretion in controlling their resource allocations perhaps within a framework of local budgets, and departments are being encouraged to delegate resource control down the management chain where this is possible. To decentralise the determination of pay rates for a manager's staff would, in principle, be consistent with this approach. Pay could then be set in a way which took maximum . account of variations in the managerial requirements of different departments and of different functional activities within them. Bargaining at local level would also be the most direct way in which to take account of local employment conditions and other market factors in fixing Civil Service pay rates. 18. Such a change, especially if introduced for the nonindustrial Civil Service as a whole, would have considerable implications for the present financial and management structure. The framework of financial control over the administrative costs of central government rests on departmental cash limits for which the Ministers in charge of Departments are accountable to Parliament. It could be difficult to give local managers sufficient freedom of action, whilst retaining the degree of central financial control on which the present system is based. Also, a high proportion of Civil Service offices in MANAGEMENT: IN CONFIDENCE

MANAGEMENT: IN CONFIDENCE

each locality are individually very small, and are part of national networks (such as the Inland Revenue tax and collection offices, the DHSS social security offices and the local offices of the Department of Employment and Manpower Services Commission). Most local offices are providing a specified (often statutory) service, and local managers would accordingly have only limited scope, if any, to vary the scale of their activities as a means of adjusting the pay levels they could afford from the budgets allocated to them and would also have limited flexibility for changes in the pattern of resources, particularly manpower, which they were using. Greater flexibility could imply a willingness to accept variations in the local operating standards of national services such as those provided by DHSS and the Inland Revenue. But this would be contrary to the policy approach on which these services are based.

- bargaining at the office level. More generally, if decentralisation were on the basis of individual management units, this
 could lead to different Civil Service pay rates for similar
 jobs in the same locality and the risk of "leap-frogging"
 claims. On the other hand, pay bargaining "cross-departmentally
 at regional, or local, level would cut across departmental
 responsibilities and would present problems given the
 different departmental regional boundaries and departmentally
 based structure of financial control.
- 20. Decentralised pay bargaining for non-manual workers does not appear to be a common practice in other large organisations. If it was applied in the Civil Service as a whole it would have implications for the whole framework of financial and managerial control at departmental and sub-departmental level.

MANAGEMENT: IN CONFIDENCE

21. The main scope for considering the introduction of decentralised pay bargaining may be in a limited number of areas where management operations are relatively self-contained and where the existing financial and management structure provides a better basis for delegating more responsibility for setting pay levels. These include establishments such as the Royal Ordnance Factories and the Royal Mint which operate on commercial lines and whose costs are controlled through Trading Funds. The Government would, in any case, wish to examine the possibility of changes in areas such as these in the light of the Inquiry's general recommendations on this issue.

London Weighting or London pay

Since the 1967 Report of the National Board for Prices and Incomes London Weighting has been based on compensation for the higher costs of working and living in London. An approach based on relative living costs has been seen as having the advantage of preventing rates of pay from becoming inflated as a result of competition for staff between employers on the basic of straightforward pay differentials for work in London. The Pay Board made recommendations in 1974 on the calculation of allowances based on this approach and the method they proposed was subsequently widely adopted in both the public and private sectors. During periods of pay policy in recent years increases in London Weighting had to conform to limitations on increases in pay. In 1981 the increase in London Weighting for the Civil Service was restricted to 7% to accommodate the cost within the cash limits fixed for expenditure on Civil Service pay. Full implementation of the increase indicated by the Department of Employment's indices (available in June each year) would have involved an increase of $12\frac{1}{2}\%$. No decision has yet been reached about the basis on which London Weighting should be settled this year for the Civil Service. But the Government will take account of the present

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Inquiry's recommendations if its report is available in time and be on the general question of local differentials in pay for the Civil Service.

- 23. If it were decided to introduce a new pay system for the Civil Service based on geographical variations in pay rates in the country as a whole it would clearly be anomalous to maintain a separate London Weighting allowance calculated on living costs. Instead the new system could be applied in London as in all other parts of the country. Even if local pay variations were not to be introduced generally it would be possible to consider moving London Weighting from a living cost to a pay market basis. There is, however, no reason to suppose that London rates of pay based on evidence of pay market variations would be lower than the present combination of national rates plus London Weighting based on living costs.
- 24. A separate possibility for consideration would be to increase the number of London Weighting zones to reduce the size of the "cliff edge" between them and the national rate. But this would also add to the range of boundary problems.
- 25. Any change in the London Weighting arrangements for the Civil Service could have wider repercussions in view of the widespread use of London Weighting payments in the public sector as a whole.

"Mobile" and "non-mobile" grades

- 26. There is a stronger case on management grounds for local pay for more junior staff, than for those above. Staff below Executive Officer (EO) and equivalent levels may not, under their conditions of service, be moved beyond reasonable travelling distance of the home established in connection with their original job; these are junior "non-mobile" grades. Prospective recruits for jobs at these levels (such as typists, data processors, clerks and messengers) are likely to be influenced more by the current pay rates offered by employers within their home area and less by longer-term career prospects. Rates offered by other employers in "each area are therefore more directly relevant in the case of more junior staff.
- 27. The more senior Civil Service staff are "mobile" that is, they are expected to move their home if necessary to meet the needs of their work. In fact, a number of staff at the more junior management levels (especially Executive Officer and equivalent grades) join the

- Civil Service in the hope of continuing to work in their home area. But other entrants at the same level join for career reasons and readily accept moves to new locations. Departments with regional and local office networks such as Inland Revenue, DHSS, Customs and Excise and the Departments of Employment, Industry and the Environment, do frequently need to move staff between locations at both middle management and the most senior levels.
 - 28. The Civil Service recruits and manages all its "mobile" staff nationally.

 Local differences in pay rates are accordingly less relevant at these levels, especially above the junior management grades at Executive Officer level.

Administrative Considerations

29. Whether local pay were introduced at all levels, or only for the more junior grades, it would inevitably add to the complexity of the pay system, as follows:-

i. Costs

It is likely that any new system would add to the cost of administering the pay system. As was found to be the case with the earlier system of provincial differentiation, the pay negotiating process would itself become more complex and probably more lengthy too. There could also be a considerable extra load on departmental personnel units, pay offices and computer centres where the number of pay scales in use would be multiplied and disputes about the boundaries stemming from pay variation would have to be handled. The costs of administration would increase in proportion to the number of separate pay zones (or large town allowances).

ii. Boundaries

Where departments are organised regionally, their regional boundaries do not necessarily coincide either with each other or with the standard regions; and at both the regional and more local levels it would be difficult to find boundaries which met the management requirements of all departments. Unless agreement could be reached on aligning the various boundaries,

/could occur for departments who needed to move staff within a departmental region but across a pay boundary. Staff would be reluctant to move from a high paying area to a lower paying one, expecially if there were no noticeable difference in living costs between the two. Boundary problems would obviously be greatest if local pay were applied to more senior as well as junior staff. The smaller the unit of variation which was adopted in any scheme, the greater the number of boundaries and therefore the problems stemming from staff crossing boundaries.

iii. "Interface" Problems

If local pay applied to non-mobile staff only, this would give rise to difficulties at the "interface" between grades whose pay was determined regionally and those whose pay was determined nationally. There could be a squeezing of differentials in high pay areas, and wide differentials in low pay areas. Apart from the internal management difficulties this would cause, there could be pressure to increase the national rates in order to ensure reasonable differentials in all areas. If geographical variations were introduced into non-industrial pay it would almost certainly be necessary to make similar changes in the pay of industrial staff, in order to avoid problems at the "interface" between the two groups.

30. The Committee may wish to consider the case for testing the management effects of more varied pay rates by launching a limited experiment covering, for example, selected groups of staff such as the typing grades and messengers who are generally non-mobile and whom the Civil Service recruits locally, often in direct competition with other employers. A decision on whether to introduce variations in pay more generally could be taken in the light of the outcome of this experiment.

Conclusions

- local variations in Civil Service pay. Bringing Civil Service pay rates closer to local market conditions could help with the management task of recruiting and retaining sufficient staff; ensure that pay was no higher than necessary to achieve these ends; and reassure other local employers that the Civil Service was not distorting the market by importing national rates. The main drawbacks to adopting this approach lie in the considerable management problems which its widespread application would cause, and the consequent administrative costs.
 - 32: The Government considers that it would be desirable for more work to be undertaken in order to obtain more refined data, and to gain more information on the practices of other employers.

PROVINCIAL DIFFERENTIATION

- 1. A "three tier" system of provincial differentiation was introduced in 1920 in accordance with a recommendation of the Reorganisation Committee of the National Whitley Council. Only Edinburgh and Dublin were classified as intermediate, the rest of the country being treated as provincial. This system involved different scales for salaried staff employed outside London; not more than 10% less for provincial staff but no more than 5% less for intermediate staff. Not all grades were subject to provincial differentiation and in particular it was agreed that mobile staff would remain on undifferentiated rates.
- 2. The Tomlin Royal Commission of 1929/31 recommended that a system of provincial differentiation should be maintained but that, for administrative convenience, provincial and intermediate rates should be fixed by reducing the London salaries by a series of flat rate reductions. They also recommended that the exemption from differentiation should be continued for the mobile classes. They further recommended that the intermediate classification should be extended to six more large towns. The substance of these recommendations was put into effect in 1935 with a total of ll large towns in the intermediate category.
- 3. After the 1939-45 war the system of provincial differentiation was extended to monthly paid staff generally, including those classified as mobile, and in 1947 the system of calculating rates outside London had become virtually uniform. Thereafter, only one scale for each grade was produced the London scale. The pay for officers elsewhere was calculated by a system of deductions for intermediate and provincial officers, varying according to the London salary band, as shown in the attached table.
- 4. In 1951 the London area was extended to an area within a 12 mile radius from Charing Cross. The intermediate rate was extended to all offices in an area beyond this 12 mile

radius but within ló miles of Charing Cross and offices within the boundaries of the following local authorities:-

Belfast Birminghan Bradford Bristol Cardiff Coventry Edinburgh Glasgow Hull

Leeds
Leicester
Liverpool
Manchester
Newcastle-upon-Tyne
Nottingham
Portsmouth
Sheffield
Stoke

The rough criterion was a population of 250,000 or more.

The Priestley Royal Commission (1953/55) concluded that some form of provincial differentiation was necessary in view of the almost universal practice outside the Civil Service. Outside comparison had revealed that a two-tier system of differentiation based on a national rate with a London allowance addition was the most common practice and it was therefore recommended for the Civil Service. On 1 April 1956 higher rates of differentiation which had been recommended as an interim step by the Priestley Royal Commission were implemented and on 1 January 1958 the present two-tier system of London Weighting was introduced, progress from the old provincial rate to the intermediate (new national) being achieved in stages over four years. The London pay area was redefined on 1 January 1953 as a radius of 16 miles from Charing Cross plus the local authority areas of four intersected towns. Staff in the London area received a London Weighting equal to the previous differentiation between London and intermediate rates.

PROVINCIAL DIFFERENTIATION

Deductions from London Annual Salaries for Intermediate and Provincial Offices: operative from 1947.

		diate Offices	FIOVE	cial Offices	London salary	Interm	ediate Offices	rivort	cial Offices
exclusive of allowances)	Dodn,	Salary	Dedn.	Salary	(exclusive of allowances)	Dedn.	Salary	Dodn.	Salary .
.1	2	3	4	. 5	1	2.	3	4	. 5
£ -275	£	£ -270	£ 10	£ -265	751-754	£ 15	£ /36-739	£ 31	£ 720-723
276-279 280-283 ·	5 6	271-274 274-277	11 12	265-268 268-271	755-758 759-762 763-766	16 16 17	739-742 743-746 746-749	32 33 34	723-726 726-729 729-732
284-287 288-291	6 7	278-281 281-284	13	271-274 274-277	767-770 771-774	17	750-753 753-756	33 34 35 36	732-735 735-738
292-295 296-299 300-303	8 8	285-288 288-291 292-295	15 16 17	277-280 280-283 283-286	775-778 779-782 783-786	18 19 19	757-760 760-763 764-767	37 38 39	738-741 741-744 744-747
304-307 308-311	9	295-298 299-302	18	286-289 289-292	787-1,000	20	. 767-980	40	747-960
312-450	10	302-440	20	292-430	1,001-1,004	20	981-984 984-987	41 42	.960-963 963-966
451-454 455-458	10	441-444	21 .	430-433 433-436	1,009-1,012	21	988-991	43	965-969 969-972
459-462 463-466	11 12	448-451 451-454	22 23 . 24	436-439 439-442	1,017-1,020	20 21 21 22 22 22 23 23	995-998 998-1,001	45	972 975 975-978
467-470	12	455-458 458-461	25 26	442-445 445-448	1,025-1,028	24	1,002-1,005	47	978-981 981-984
475-478 479-482 483-486	13 14	462-465 465-468 469-472	27 28 29	448-451 451-454 454-457	1,03: -1,036 1,037-1,040 1,041-1,044	25	1,009-1.012 1,012-1,015 1,016-1.019	49 50 51	984-987 987 990 990 993
487-750	15	472-735	30	457-720	1,045-1,048	24 25 25 26 26 26	1.019-1.022	52 53 54	993-196 -996-999 999-1,002

ondon salary	Interm	ediate Offices	Provi	ncial Offices	London salary	Interm	ediate Offices	Provi	ncial Offices
(exclusive of allowances)	Dedn.	Salary	Dedn.	Salary	(exclusive of allowances)	Dedn	Salary	Dedn.	Salary
1	2	3	4	5	1	2	3	4	5
£ 1,057-1,060 1,061-1,064	£ 27	f 1,030–1,033	£ 55	£ 1,002-1,005	£ 1,273–1,276	£ 39	1,234-1,237.	£ 79	£ 1,194–1,197
1.065-1.068	28 28 29	1,033-1,036 1,037-1,040 1,040-1,043	56 57 58	1,005-1,008 1,008-1,011 1,011-1,014	1,277-1,500	40	1,237-1,460	80	1,197-1,420
1,073-1,076	29	1,044-1,047	59	1,014-1,017	1,501-1,504	40 41	1,461-1,464	81 82	1,420-1,423
.077-1,200	30	1,047-1,170	60	1,017-1,140	1,509-1,512	41	1,468-1,471	83 . 84 .	1,426-1,429
.201-1,204 .205-1,208	30 31	1,171-1,174	61 62	1,140-1,143	1,517-1,520	42	1,475-1,478	85 86	1,432-1,435
,209-1,212 ,213-1,216	31 32	1,178-1,181	63	1,146-1,149	1,525-1,528	43	1,482-1,485	87 88	1,438-1,441
.217-1,220 .221-1,224	32 33 33	1,185-1,188	65	1,152-1,153	1,533-1,536 1,537-1,540	44 45	1,489-1,492	89	1,444-1,447
1,225-1,228	33	1,192-1,195	67	1,158-1,161	1,541-1,544	45	1,496-1,499	91	1,450-1,453
1,229-1,232	34 34 35	1,195-1,198 1,199-1,202	68	1,161-1,164	1,545-1,548 1,549-1,552	46	1,499-1,502	92 93	1,456-1,459
1,237-1,240 1,241-1,244	35	1,202-1,205	70 71	1,167-1,170 1,170-1,173	1,553-1,556 1,557-1,560	47	1,506-1,509 1,510-1,513	94	1,462-1,46
1,245-1,248 1,249-1,252	36	1,209-1,212	72 73	1,173-1,176 1,176-1,179	1,561-1,564 1,565-1,568	48	1,513-1,516 1,517-1,520	96	1,465-1,46
1,253-1,256 1,257-1,260	37	1,216-1,219	74 75	1,179-1,182	1,569-1,572 1,573-1,576	49	1,520-1,523	98	1,471-1,47
1,261-1,264 1,265-1,268 1,269-1,272	38 38 39	1,223-1,226 1,227-1,230 1,230-1,233	76 77 78	1,185-1,188 1,188-1,191 1,191-1,194	1,577-	50	1,527-	. 100	1,477-

Non-industrial Civil Service by economic planning region: staff in post 1 January 1981 (full-time equivalent)

	Thousands	Percentage
South East of which:	217.0	40.0
Inner London	86.3	15.9
Outer London	45.5	8.4
South West	50.4	9.3
West Midlands	28.6	5.3
North West	54.3	10.0
Northern	35.6	6.6
Yorkshire & Humberside	30.4	5.6
East Midlands	20.8	3.8
East Anglia	12.6	2.3
Wales ·	30.1	5.6
Scotland	50.7	9.3
Northern Ireland	3.4	0.6
Elsewhere	8.7	1.6
Total	542.8	100

⁽¹⁾ Including Diplomatic Service

Average clerical earnings showing variations at regional and county level: 1980 New Earnings Survey Data for "clerical and related" category (i)

	Average weekly earnings	County variation from regional average	Variation from national average (inc. london)	Variation from national average (exc. London)
London	£97.80		+£14.40	+£18.50
Rest of South East	£81.90		+£ 1.50	+£ 2.60
Bedfordshire Berkshire Buckinghamshire East Sussex Essex Hampshire Hertfordshire Isle of Wight Kent	£82.80 £86.50 £79.20 £78.30 £82.70 £82.60 £84.70 £74.50 £78.10	+£0.90 +£4.60 -£2.70 -£3.60 +£0.80 +£0.70 +£2.80 -£7.40 -£3.80	-£ 0.60 +£ 3.10 -£ 4.20 -£ 5.10 -£ 0.70 -£ 0.80 +£ 1.30 -£ 8.90 -£ 5.30	+£ 3.50 +£ 7.20 -£ 0.10 -£ 1.00 +£ 3.40 +£ 3.30 +£ 5.40 -£ 4.80 -£ 1.20
Oxfordshire Surrey West Sussex	£78.10 £84.00 £81.40	-£3.80 +£2.10 -£0.50	-£ 5.30 +£ 0.60 -£ 2.00	-£ 1.20 +£ 4.70 +£ 2.10
East Anglia	£77.90		-£ 5.50	-£ 1.40
Cambridge Norfolk Suffolk	£77.60 £77.90 £78.50	£0.30 £0.00 +£0.60	-£ 5.80 -£ 5.50 -£ 4.90	-£ 1.70 -£ 1.40 -£ 0.80
South West	£79.90	-	-£ 3.50	+£ 0.60
Avon Cornwall Devon Dorset Gloucestershire Somerset Wiltshire	£83.20 £71.50 £76.60 £76.50 £88.30 £74.70 £78.50	+£3.30 -£8.40 -£3.30 -£3.40 +£8.40 -£5.20 -£1.40	-£ 0.20 -£11.90 -£ 6.80 -£ 6.90 +£ 4.90 -£ 8.70 -£ 4.90	+£ 3.90 -£ 7.80 -£ 2.70 -£ 2.80 +£ 9.00 -£ 4.60 -£ 0.80
West Midlands	£79.40		-£ .4.00	+£ 0.10
West Midlands Metropolitan County Hereford & Worcester Salop Staffordshire Warwickshire	£79.80 £76.80 £77.90 £79.00 £72.00	+£0.40 -£2.60. -£1.50 -£0.40 -£7.40	-£ 3.60 -£ 6.60 -£ 5.50 -£ 4.40 -£11.40	+£ 0.50 -£ 2.50 -£ 1.40 -£ 0.30 -£ 7.30
East Midlands	£76.30	-	£ 7.10	£ 3.00
Derbyshire Leicestershire Lincolnshire Northamptonshire Nottinghamshire	£74.70 £76.20 £73.60 £78.40 £77.40	-£1.60 -£0.10 -£2.70 +£2.10 +£1.10	-£ 8.70 -£ 7.20 -£ 9.80 -£ 5.00 -£ 6.00	-£ 4.60 -£ 3.10 -£ 5.70 -£ 0.90 -£ 1.90

⁽¹⁾ Northern Ireland is not covered by the NES data and is therefore excluded from Annexes 3 and 4. However, as Annex 2 shows, there is a small number of non-industrial home civil servants in Northern Ireland.

1 THE GOVERNMENT

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· y c ·	Average weekly earnings	County variation from regional average	Variation from national average	Variation from
		. average	(inc. London)	(exc. London)
or hire & Humberside	£76.80		-£ 6.60	-£ 2.50
South Yorkshire				
Metropolitan County West Yorkshire	£76.70	-£0.10	-£ 6.70	-£ 2.60
Metropolitan County Humberside	£76.60	-£0.20	-£ 6.80	-£ 2.70
North Yorkshire	£74.90	-£1.90	-£ 8.50	-£ 4.40
a deal and a second tell	£79.80	+£3.00	-£ 3.60	+£ 0.50
orth West	£79.90	-	-£ 3.50	+£ 0.60
Greater Manchester Metropolitan County	£79.70	-£0.20	-£ 3.70	+£ 0.40
Merseyside Metropolitan County	£80.70	08.01+	-£ 2.70	+£ 1.40
Cheshire	£80.80	+£0.90	-£ 2.60	+£ 1.50
Lancashire	£79.00	-20.90	£ 4.40	-£ 0.30
orth	£78.70	-	-£ 4.70	-£ 0.60
Tyne & Wear Metropolitan County	£80.40	+£1.70	-£ 3.00	+£ 1.10
Cleveland	£77.10	-£1.60	6 (20	
Cambria	£79.70	+£1.00	-£ 6.30 -£ 3.70.	-£ 2.20
Durham	£76.10	-£2.60	-£ 7.30	#£ 0.40
Northumberland	£68.90	-29.80	-£14.50	-£ 3.20 -£10.40
ales	£79.40		-£ 4.00 ·	+£ 0.10
Clwyd-West	£71.40	-£8.00		
Clwyd-East	£77.10	-£2.30	-£12.00 -£ 6.30	-£ 790
Dyfed	£76.70	-£2.70	-£ 6.70	-£ 2.20
Gwent	£78.20	-£1.20	-£ 5.20	£ 2.60
Gwynedd	£82.40	+£3.00	-£ 1.00	-£ 1.10 +£ 3.10
Mid Glamorgan	£75.60	-£3.80	-£ 7.80	£ 3.70
Powys	£74.50	-£4.90	-£ 8.90	-£ 4.80
South Glamorgan	£83.80	+£4.40	+£ 0.40	+£ 4.50
West Glamorgan	£80.70	+£1.30	-£ 2.70	+£ 1.40
otland	£77.50	-	-£ 5.90	-£ 1.80
Borders	£68.20	-£9.30	-£15.20	-£1i.1
Central	£72.70	-£4.80	-£10.70	-£ 6.60
Dumfries & Galloway	£68.70	08.82-	-£14.70	-£10.60
Fife	£74.20	-£3.30	-£ 9.20	-£ 5.1
Grampian	£81.50	+£4.00	-£ 1.90	+£ 2.20
Highland Lothian	£74.70	-£2.80	-£ 8.70	-£ 4.60
Strathclyde	£80.90	+£3.40	€ 2.50	+£.1.60
Tayside	£78.00 £68.50	+£0.50	-£ 5.40	-£ 1.30
Islands	£78.90	-£9.00 +£1.40	-£14.90	-£10.80
	~10.70	T&1.40	-£ 4.50	-£ 0.40
eat Britain	£83.40	-		+£ 4.10
eat Britain, excluding ndon	£79.30		-£ 4.10	*,

CONTRACTOR OF THE PROPERTY OF

ANNEX 4

ILLUSTRATION OF THE "REGIONAL INDEX"

- 1. This ennex illustrates the results of applying a "regional index" to the 1.4.81 scale maximum for clerical officers. It is based on data on "clerical and related earnings" (males aged 21 years and over and females aged 18 years and over) from the Department of Employment's annual New Earnings Survey (NES) for 1980. This is not entirely satisfactory since the "clerical and related" category aggregates data on jobs which in the Civil Service are carried out by separate and different grades. Moreover, the NES "clerical and related" category includes civil servants, so there is an element of circularity. However it is the best data available at present and the results should give a reasonable indication of regional variations.
- 2. The "regional index" (column 1 of the table) is calculated by dividing the gross weekly earnings of the "clerical and related" category in each region and county by the national average for this category, weighted by the numbers of Civil Service clerical officers in each county or region. It shows in index form the variations from a single national rate which would result from paying salaries in line with the average in each region and county. The index therefore reflects these relative earnings levels. Weighting the national average by the geographical distribution of clerical officers in the Civil Service would ensure that the total wage bill for this grade would be unaffected, since the cost of fixing pay in accordance with this index would then be the same as having a national rate with an index value of one.
- 3. Column II shows the results of applying the "regional index" to the current clerical officer maximum, on the assumption that the amount of money available for distribution is the present pay bill for clerical officers, including London Weighting. Regional rates (and also county rates although these are not shown in detail) have been calculated by multiplying by the index given in column 1 the current clerical officer maximum enhanced by an element for London Weighting equal to the average cost of London Weighting spread throughout the grade. Column III shows the extent to which these local rates exceed or fall short of current rates at the maximum £5102 outside London, £6189 in Inner London and £5556 in Cuter London). The figures in brackets show the range of county rates within each region. The relatively large range of rates within each region reflects the considerable variation at county level in the average earnings of the "clerical and related" category observed in Annex 3.

AND GREENING IN COMPANDAGE

NOTE ON ISSUES ON LOCAL PAY

a. Should there be more varied geographical pay rates?

The idea is attractive in principle. Outside pay rates do vary and the Civil Service (in common with other employers) is probably paying too much in some areas and too little in others. In practice, however, local pay is likely to be an expensive option for us partly because of the large numbers of civil servants in London and the South East generally and in urban centres elsewhere. Annex 3 of the paper indicates (in its final column) the present range of geographical variations in clerical earnings. The London rate is 23% above the national average (excluding London itself): 25% of civil servants work there. Earnings are lowest in the East Midlands (4% below the national average): only 3.8% of civil servants work there.

Local pay would inevitably bring with it administrative complexities for pay centres and personnel divisions and pressures (from management as well as unions) to enlarge boundaries and improve differentials. Presumably it is similar factors that lead other large employers of non-manual staff to make only limited variations in pay on grounds of locality.

In their evidence to Megaw the EEF come down against localised pay on practical grounds while recognising its attractions in principle. The CBI ask for the possibility of making pay levels more responsive to local labour markets to be considered and refer to the possibility of returning to the old system of provincial differentiation (abolished following Priestley). But they point to the risk of "wage-drift" as a result of localised pay bargaining. In theory, the higher the number of areas designated for additional payments the lower the basic national rate would be. But in the Civil Service the number of staff in high paying areas (especially London) might well head to an increase in total pay costs by comparison with the present national rate approach.

b. If local pay were introduced what type of scheme should be adopted?

The Government has already made it clear to the Inquiry that it wants market factors, including the recruitment and retention position, to play a significant part in any future system for determining Civil Service pay. Any local pay scheme would need to take account of these factors. There is therefore little to be said for any mechanistic kind of "distribution index" (on the lines discussed in paragraph 16(a) of the paper), which was an option put forward in the context of the pay research system. The use of local market evidence to fix a large number of different pay rates (paragraph 16(b) would be the most sophisticated but also the most complex approach. Simpler (and cruder) approaches such as geographical "pay bands" (paragraph 16(b)) or large town allowances supplementary to a national rate (paragraph 16(c)) might in practice be the most feasible option for greater geographical variation. Most other

large employers of non-manual staff appear to settle a national rate and make additional payments in specified localities.

We have no quantitative estimate of the administrative cost of operating provincial differentiation up to 1953. But it is frequently mentioned as a concern in assessments at the time. A full list of the geographical differentiation involved at the time of the Priestley Report is attached. The main problems were the complexity of the pay scales themselves (illustrated in Annex 1 to the paper); the time consuming arguments with departments over the boundaries and numbers of staff to be included in the different "intermediate" areas; the growing inability of the unions to curb insistence by their members on tabling leap-frogging claims and claims for boundary adjustments and the creation of "special high cost" areas. At the time the Treasury concluded that the present approach represented an inexpensive way out of provincial differentiation as it existed and was likely to develop.

c. Should a scheme apply to all staff or "non-mobiles" only?

Our view (which we believe accords with outside practice) is that any geographical variations would be more appropriate for staff who were recruited locally and would expect to continue working locally; and not for those who joined the Civil Service for a career and may be required to move home if necessary to meet the needs of the job. Outside at middle and senior levels "national rates" generally apply regardless of location apart from a London allowance.

d. London Weighting.

If pay variations based on local market pay evidence were introduced nationally it would be anomalous to continue with the present two-tier London Weighting allowances, based on differential living costs.

There is also the question whether, even if no other changes were made, the level of London payments should be based on market pay factors. One reason for moving to market pay in London would be the recruitment and retention difficulties experienced there in the past. The experience of Inland Revenue and Customs and Excise of recruitment problems in London (at least until the current high level of unemployment) is not unique but has been shared by departments generally.

A change would, however, have significant repercussions in other public services and beyond because of the wide use which is made in the public sector of the present London Weighting approach. Past assessments have suggested that a move towards "London pay market" rates would add to London pay costs. We have inadequate data on the present position but there is no reason to suppose that when employment picks up again the picture will be different. There are other measures which could be contemplated at less cost such as advances of London Weighting for season tickets (which other employers practice widely). A separate possibility would be to increase the number of zones in order to reduce the size of the "cliff edge" between London rates and those elsewhere although at the cost of

adding to the overall number of boundary problems. Unless Megaw is to be invited to consider the use of London Weighting in the public services generally it might be preferable for the paper to be neutral on this, leaving the main issue for Megaw whether or not local pay should be introduced in the Civil Service countrywide.

e. Decentralised bargaining.

The main options discussed in the paper envisage that pay bargaining would continue to take place at national level under Treasury control. Decentralisation of pay bargaining to local or regional managers would be a much more far-reaching change.

If pay bargaining took place with the unions at local or regional level there would be a risk that negotiations would develop into a contest of prowess between trade unionists in different areas to maximise their relative gains. But more importantly decentralised bargaining would have implications going well beyond purely pay matters to the whole framework of financial and mangerial control If financial control at departmental and sub-departmental level. was to remain effective a close degree of central monitoring would be required and limits would have to be set on the range of discretion for local management. In the absence of a sound basis for output budgeting the cash limit system could not be refined sufficiently to exert the necessary financial disciplines without a need for supplementary controls over pay. While local managers could be restrained by their cash allocation most local offices are producing a service (eg payment of social security or collection of taxes) and have no freedom to reduce the scale of their activities to match the staff resources they can extract from their allocated pay bill. decentralisation was on the basis of management units this could lead to different Civil Service pay rates for the same job in the same locality which Ministers would find difficult to defend. "cross-departmental" bargaining at regional or local level would present problems given the different departmental regional boundaries and the departmentally-based structure of financial control.

There may, however, be particular areas (eg the Royal Mint, the Royal Ordnance Factories) engaged on commercial or quasi-commercial operations where more decentralisation would work linked to an overall budgetary control approach. But the scope is limited if effective control is to be maintained over pay bill costs as a whole.

APPENDIX VIII (see Chapter VI)

PROVINCIAL DIFFERENTIATION

Classification of areas: operative from 1951.

LONDON AREA

Offices within a 12 mile radius of Charing Cross (King Charles Statue).

INTERMEDIATE AREAS

Offices outside a 12 mile radius of Charing Cross out within a 16 mile radius thereof, and also those situated within the boundaries of the following local authorities:-Ralfast

Bolfast Aroa	***		***	Delinse
Birmingham Aroa				Birmingham Dudley Oldbury Smethwick
				Tipton West Bromwich
Bradford Area				Bradford

Bradford Area	 	•••	Bradford

Bristol	Area	 4	***	Briston Filton
				A 44400

Cardin	Area	244	 	Cardiff (municipal	boundary	only)
				Transportation and the second	0.00	

Coventry Area	***			Coventry
---------------	-----	--	--	----------

0 00000 4 4		8		Edinburgh -
Edinburgh Area	•••	***	***	Musselburgh

Glasgow Are	oa	•••	 Glasgow Cambuslang
			Catheart Clydobank
			Eastwood

Cuthergien			
(including	the	Royal	Burgh)

Hull Ar	ca	***				Kingston-upon-Hull
---------	----	-----	--	--	--	--------------------

	William .				Locds
Loogs	Arca	***	***	***	CCCus

Leicester	Area	 ***	 Leicoster
A CHOCKING	2.61.646	 	

Liverpool Area	•••	 	Liverpool Birkenhead
*			Bootle
			Crosby
			Litherland

		Wallasey
Manchester Area	 	Mancheste

Eccles
Prestwich
Salford
Stockport

	2 2	Carried States	4 7720
Newcast	la linon-	una	ATO
TACARCHAI.	10-113-011-	F 22.25	1. 70 00

	"Von Cuatto-nhous. 13
	Felling
	Gateshead
	Hebburn
	Jarrow
	South Shields
	Tynemouth
1/2	Wallsend

Nottingham	Area		 	Nottingham		
			Booston and	Stapleford		

Portsmouth	Area	 	*	Portsmout Gosport

Shoffield	Area		 	Sheffield
Stichhiera	£21.00	***	 	

Stoke Area	 ***	•••	Stoke Newcastle-under-Lyme		
		4	(municipal boundary only)		

PROVINCIAL AREAS All offices elsewhere.





13/3/



bc. Veretes

Carol Service

10 DOWNING STREET

From the Private Secretary

8 February 1982

MEGAW INQUIRY: GOVERNMENT EVIDENCE ON UPRATING

Thank you for your letter of 3 February with which you enclosed a paper on the uprating mechanism used in the Civil Service pay research system.

The Prime Minister is content for the Chancellor to submit this paper to the Inquiry.

I am sending copies of this letter to
Jim Buckley (Chancellor of the Duchy of Lancaster's
Office), David Omand (Ministry of Defence),
David Clarke (Department of Health and Social
Security), Barnaby Shaw (Department of Employment),
Jim Nursaw (Attorney General's Office),
Christine Duncan (Lord Advocate's Department)
and David Wright (Cabinet Office).

M. C. SCHOLAR

P.S. Jenkins, Esq., HM Treasury.



2 88.5.

Treasury Chambers, Parliament Street, SW1P 3AG 01-233 3000

5 February 1982

Prime Minister

Michael Scholar, Esq., Private Secretary, 10, Downing Street No adverse comments hare been made by Ministerial colleagues; and the Policy Unit Minh their a clear and Dispassionate analysis which indicates the governments support in principle for greater botal.

Our Michael,

EVIDENCE FOR MEGAW INQUIRY: LOCAL PAY pay differentiation while identifying the

In the memorandum on future pay arrangements dated
October 1981 we said it was for consideration whether
Civil Service rates for at least some (e.g. the nonmobile), if not all grades, should attempt to match
local pay conditions more closely. I attach a paper
which examines the case for a change in this direction, Aque wits
which the Chancellor proposes to submit to the Inquiry
next week.

I will assume that the way is clear to send the paper Mus hougan?

if there are no comments before Thursday, 11 February.

Musiya

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Defence, Social Services, and Employment, the Lord Advocate, the Attorney General and to Sir Robert Armstrong.

Yours com.

P.S. JENKINS

no



Introduction

1. In its initial evidence to the Inquiry (1) the Government said
"It is for consideration whether Civil Service rates for
at least some (eg the non-mobile) grades, if not all
grades, should attempt to match local pay conditions
more closely."

This paper examines the case for a change in the present system of national pay rates and London Weighting; and discusses possible options for introducing greater geographical variation into Civil Service pay.

Background

- 2. At present, pay in the non-industrial Civil Service is set at national rates and these are negotiated at national level. When pay research operated, the Pay Agreements provided for comparisons to be made where possible with national rates outside, discounting any additional payments by the analogue employers such as London Weighting or large town allowances. In reporting on organisations outside London or those which operated different pay rates in different areas, the Pay Research Unit provided information where it could about the distribution of staff receiving the different rates or allowances.
- 3. London Weighting is paid as a supplement in the Civil Service, and is the only significant element of the pay bill which is related to geographical location. The present basis on which it is paid (related to the cost of living in London and not to the pay rates of other employers) was described in the Factual Background Memorandum submitted to the Inquiry. (2)

1

⁽¹⁾ Memorandum on Future Pay Arrangements for the Non-Industrial Civil Service, October 1981, paragraph 11e.

⁽²⁾ Factual Background Memorandum, Chapter 7, Section IV, Paragraphs 7.32 - 7.36.

- 4. The present system of national pay rates supplemented by London Weighting was introduced into the Civil Service in 1958, following the recommendations of the Priestley Royal Commission. (3) Before then pay rates were on a three-tier basis applying in London, large towns and provincial areas. A brief history of "provincial differentiation" as the system was known is at Annex 1 to this paper. The system was based on setting a 'London' rate and making a series of flat-rate deductions from it.
- 5. Annex 2 shows the current distribution of Civil Service staff in the United Kingdom economic planning regions.

The case for a change

The main arguments for introducing greater geographical variation in pay rates than at present are threefold. First, the Civil Service is probably paying more than it needs to do in some areas to recruit and retain staff of adequate quality. As a large employer it may accordingly force up other employers' pay rates in the locality unnecessarily, or alternatively cream off the best available staff. Second. the Civil Service may be paying too little in other areas. Particular difficulties have arisen in recent years in some areas, especially in London, in recruiting enough staff of adequate quality for some grades although in current economic circumstances these difficulties have eased. (Examples of the difficulties which have been encountered in the past have been given in evidence by individual Departments, including Inland Revenue, Customs and Excise and the Department of Health and Social Security.) These considerations would weigh particularly strongly in any pay system which gave direct weight to the Civil Service's ability to recruit and retain staff. Third, if a new pay system were to include comparisons with outside rates these should be as accurate and wide-ranging as possible and should in principle therefore reflect geographical differences where these are significant. All three considerations apply with particular force to the pay of staff who are recruited locally rather than nationally, and who are not in practice required to move outside their home area.

- 7. Outside practice varies. A number of other large employers of white collar staff also rely on national rates with variations for London and sometimes for one or two other large cities. The Civil Service practice is not unique. We understand for example that ICI, Shell and a number of the nationalised industries have pay scales who apply nationally, with an additional London allowance. Some other organisations (eg the Clearing Banks; Marks and Spencer) have London rates, a standard provincial rate and higher rates in some urban areas where recruitment considerations require these. But the Committee may wish to obtain more information on the practices of other employers generally.
- 8. If a change were to be made to greater geographical differential tion in Civil Service pay rates a practical cost-effective system would be required which would not only be genuinely sensitive to loc market variations (whilst continuing also to provide for differential tion by occupational groups of staff) but which would in practice he rather than hinder the efficient management of the Service. The following sections of this paper examine evidence of regional pay variations, possible ways of determining more localised rates in the Civil Service, and the management implications of these.

Evidence of pay variations

- 9. The case for moving to local pay in the Civil Service rests on the extent to which there are geographical variations both in the parates of comparable employers generally, and in the ease with which staff can be recruited and retained.
- 10. The main difficulty in making an accurate assessment of the car for change is the lack of detailed and reliable figures. The statistical material which is available is described in the following paragraphs. The Government suggests, however, that the Committee

may wish to commission further work not only on the practice of other employers but also on the evidence of geographical variations in non-manual pay generally in a more disaggregated basis than is available at present.

- 11. The best source of published information about geographical variations in earnings (rather than pay rates) amongst non-manual employees generally is the Department of Employment's New Earnings Survey (NES). The NES data on the category of clerical and related staff is one of the more closely matched groups to Civil Service work, although it covers a large range of jobs, some of which are undertaken by staff whom the Civil Service would not classify as 'clerical' (including telephonists and data processors). Additionally, within it returns show a marked disparity between the earnings of males and females. However, it can be used for illustrative purposes to give a broad-based indication of geographical variations in pay for this type of work.
- 12. Annex 3 shows variations in clerical earnings for male and female adult workers at regional and county level in 1980, weighted according to their participation rates in the relevant labour markets.

 It shows that:
 - i. in four of the 10 main regions (East Anglia, East Midlands, Yorkshire and Humberside, and Scotland) average clerical earnings are more than £5.00 a week below the national average, although in no case is the difference more than £7.00 per week. National average earnings are heavily weighted by relatively high earnings in London, so no regional average is higher than the national average. If a comparison is made between average earnings excluding London, the biggest regional difference is only £3.00 a week. Thus, London apart, there is relatively little variation between regions and such variation is in many cases within the confidence limits of the sample.

- ii. There are wider variations at county level.

 Average earnings between individual counties vary significantly, the range from top to bottom of the county data being as much as £20 a week. In many cases county earnings also vary considerably from the average for the region which contains them. It should be noted, however, that because of the small sample sizes the NES data are much less reliable at this level.
- The NES standard regions do not correspond to any pay bargaining level and prima facie the region is a doubtful level of disaggregation to reflect the pay market. The evidence indicates more variation in earnings at county level, but more data are needed to test whether the more significant differences between counties are due mainly to the presence of the larger towns within them or as much to urban/rural differences as to geographical variations.

of high pay counties in otherwise low pay regions may be due to the influence of individual cities (Bristol in Avon, Cardiff in South Glamorgan, Edinburgh in Lothian and Aberdeen in Grampian). Taking Great Britain as a whole; however, (and leaving London to one side) there is no significant difference between earnings in the "metropolitan" counties and the rest.

The existence

14. It is not clear how far geographical variations in pay rates are linked to other factors such as local living costs, local differences in the ease with which staff can be recruited, or the presence within an area of large high-or-low-paying organisations. Nor is it clear how far geographical variations apply in the same way to different groups of staff. The pattern of market rates for specialist staff, for example, may be very different from that for general clerical and administrative staff, and this would need to be taken into account in devising any local pay scheme.

Determination of local rates

15. There would be three main options for fixing the new pattern of rates on the basis of greater geographical differentiation in pay:

a. Distribution of a "national pay kitty"

On a relatively mechanistic basis data from, for example, the New Earnings Survey could be used to establish a "regional index" reflecting relative pay levels in different parts of the country, but weighted to take account of the geographical distribution of Civil Service staff. The total money available for Civil Service pay, however this was to be determined, would be distributed each year in accordance with this index. Annex 4 illustrates how this approach might work in practice for Clerical Officer pay.

This method could in theory have provided a relatively simple, though crude, approach for introducing a degree of geographical variation in the Civil Service rates which were derived from the old pay research system without increasing the overall pay bill in the process. For use in the future it would have three main drawbacks. First, statistics would almost certainly not be available to match all the grades in the Civil Service pay structure and the "index" would therefore be very rough and ready in its effect.

Second, the combination of the "pay kitty" and "geographical index" could lead to modifications in the way pay varied between different areas. Where the geographical distribution of staff in a Civil Service grade was markedly different from the distribution of employees at large covered by the comparable NES category, this would influence the resulting degree of variation in Civil Service pay rates.

Third, a mechanistic index approach of this kind, although relatively simple and economical to operate, would be derived entirely from statistical material on pay variations. It would not necessarily reflect the actual local recruitment and retention position either in the Civil Service or in other organisations.

b. Use of Local Market Evidence

Under this option pay rates would continue to be negotiated centrally, but evidence would be collected about actual pay

PARAGEMENT: IN CONTIDENCE

rates, together with information on the relative recruitment and retention position in each locality separately. Any significant variations in living costs might also need to be assessed. The data would be used to determine local pay rates for the Civil Service, at whatever level of disaggregation were chosen.

This approach, if applied fully, would inevitably be complicated and costly, involving in effect several parallel pay determination exercises. The process could however be simplified in a number of ways: for instance if local pay was restricted to a limited number of grades, and if detailed surveys were carried out only at intervals, even though this would mean that the system would be unable to respond to any rapid changes in geographical pay relativities. might also be possible to restrict the range of pay variations. UK local authorities, for instance, agree national salary scales containing a spread of incremental points, but for some grades individual authorities have discretion to choose which particular group of points within the scale to use. Their rates can accordingly be pitched higher or lower (within the nationally agreed limits) according to local pay and other considerations. In the non-industrial market Civil Service it would be possible to use local evidence on pay rates and other market conditions to assign office locations to a number of pay "bands". But this would be a cruder approach, and would give a less accurate reflection of local market conditions.

c. Variations for specific areas (including London)

As an alternative, variations from a national rate might be introduced only in some areas outside London - including some large towns and also other demarcated areas of exceptionally low or high pay. The national rate applying outside London and other designated areas could then perhaps be relatively lower than it is at present. To make special payments for staff in large towns would be in line with the practice of some outside employers. Variations of this kind might be calculated in two ways.

First by local market surveys, as in option b above. This approach would offer the greatest flexibility, though it would be subject to the same disadvantages as option b. Alternatively, there might be a flat rate allowance, on the lines of the present London Weighting allowance but applying to other listed large towns. This option would be a simpler but cruder form of local differentiation but would be similar to the system of provincial differentiation abandoned over 20 years ago. Either approach would have to be strictly operated, in order to resist pressive to add further communications to the list.

Decentralised Pay Bargaining

- 16. A much more far-reaching change in moving to greater geographical variation in pay rates would be to end the present practice of centralised pay negotiations in the non-industrial Civil Service and to delegate control over pay levels to local (or to regional) managers who would take local market conditions directly into account in negotiating pay rates for their staff. The Government would welcome the Committee's general views on this possibility.
- The Government believes that it is important that managers in the Civil Service should have greater discretion in controlling their resource allocations perhaps within a framework of local budgets, and departments are being encouraged to delegate resource control down the management chain where this is possible. To decentralise the determination of pay rates for a manager's staff would, in principle, be consistent with this approach. Pay could then be set in a way which took maximum account of variations in the managerial requirements of different departments and of different functional activities within them. Bargaining at local level would also be the most direct way in which to take account of local employment conditions and other market factors in fixing Civil Service pay rates.
- 18. Such a change, especially if introduced for the non-industrial Civil Service as a whole, would have considerable implications for the present financial and management structure. The framework of financial control over the administrative costs of central government rests on departmental cash limits for which the Ministers in charge of Departments are accountable to Parliament. It could be difficult to give local managers sufficient freedom of action, whilst retaining the degree of central financial control on which the present system is based. Also, a high proportion of Civil Service offices in

each locality are individually very small, and are part of national networks (such as the Inland Revenue tax and collection offices, the DHSS social security offices and the local offices of the Department of Employment and Manpower Services Commission). Most local offices are providing a specified (often statutory) service, and local managers would accordingly have only limited scope, if any, to vary the scale of their activities as a means of adjusting the pay levels they could afford from the budgets allocated to them and would also have limited flexibility for changes in the pattern of resources, particularly manpower, which they were using. Greater flexibility could imply a willingness to accept variations in the local operating standards of national services such as those provided by DHSS and the Inland Revenue. But this would be contrary to the policy approach on which these services are based.

- bargaining at the office level. More generally, if decentralisation were on the basis of individual management units, this
 could lead to different Civil Service pay rates for similar
 jobs in the same locality and the risk of "leap-frogging"
 claims. On the other hand, pay bargaining "cross-departmentally"
 at regional, or local, level would cut across departmental
 responsibilities and would present problems given the
 different departmental regional boundaries and departmentally
 based structure of financial control.
- Decentralised pay bargaining for non-manual workers does not appear to be a common practice in other large organisations. If it was applied in the Civil Service as a whole it would have implications for the whole framework of financial and managerial control at departmental and sub-departmental level.

21. The main scope for considering the introduction of decentralised pay bargaining may be in a limited number of areas where management operations are relatively self-contained and where the existing financial and management structure provides a better basis for delegating more responsibility for setting pay levels. These include establishments such as the Royal Ordnance Factories and the Royal Mint which operate on commercial lines and whose costs are controlled through Trading Funds. The Government would, in any case, wish to examine the possibility of changes in areas such as these in the light of the Inquiry's general recommendations on this issue.

London Weighting or London pay

Since the 1967 Report of the National Board for Prices and Incomes London Weighting has been based on compensation for the higher costs of working and living in London. An approach based on relative living costs has been seen as having the advantage of preventing rates of pay from becoming inflated as a result of competition for staff between employers on the basic of straightforward pay differentials for work in London. The Pay Board made recommendations in 1974 on the calculation of allowances based on this approach and the method they proposed was subsequently widely adopted in both the public and private sectors. During periods of pay policy in recent years increases in London Weighting had to conform to limitations on increases in pay. In 1981 the increase in London Weighting for the Civil Service was restricted to 7% to accommodate the cost within the cash limits fixed for expenditure on Civil Service pay. Full implementation of the increase indicated by the Department of Employment's indices (available in June each year) would have involved an increase of $12\frac{1}{2}\%$. No decision has yet been reached about the basis on which London Weighting should be settled this year for the Civil Service. But the Government will take account of the present

- Inquiry's recommendations if its report is available in time and bears on the general question of local differentials in pay for the Civil Service.
- 23. If it were decided to introduce a new pay system for the Civil Service based on geographical variations in pay rates in the country as a whole it would clearly be anomalous to maintain a separate London Weighting allowance calculated on living costs. Instead the new system could be applied in London as in all other parts of the country. Even if local pay variations were not to be introduced generally it would be possible to consider moving London Weighting from a living cost to a pay market basis. There is, however, no reason to suppose that London rates of pay based on evidence of pay market variations would be lower than the present combination of national rates plus London Weighting based on living costs.
- 24. A separate possibility for consideration would be to increase the number of London Weighting zones to reduce the size of the "cliff edge" between them and the national rate. But this would also add to the range of boundary problems.
- 25. Any change in the London Weighting arrangements for the Civil Service could have wider repercussions in view of the widespread use of London Weighting payments in the public sector as a whole.

"Mobile" and "non-mobile" grades

- There is a stronger case on management grounds for local pay for more junior staff, than for those above. Staff below Executive Officer (EO) and equivalent levels may not, under their conditions of service, be moved beyond reasonable travelling distance of the home established in connection with their original job; these are junior "non-mobile" grades. Prospective recruits for jobs at these levels (such as typists, data processors, clerks and messengers) are likely to be influenced more by the current pay rates offered by employers within their home area and less by longer-term career prospects. Rates offered by other employers in each area are therefore more directly relevant in the case of more junior staff.
- 27. The more senior Civil Service staff are "mobile" that is, they are expected to move their home if necessary to meet the needs of their work. In fact, a number of staff at the more junior management levels (especially Executive Officer and equivalent grades) join the

MANAGERRAF: IN CONFIDENCE

Civil Service in the hope of continuing to work in their home area. But other entrants at the same level join for career reasons and readily accept moves to new locations. Departments with regional and local office networks such as Inland Revenue, DHSS, Customs and Excise and the Departments of Employment, Industry and the Environment, do frequently need to move staff between locations at both middle management and the most senior levels.

28. The Civil Service recruits and manages all its "mobile" staff nationally.

Docal differences in pay rates are accordingly less relevant at these levels, especially above the junior management grades at Executive Officer level.

Administrative Considerations

29. Whether local pay were introduced at all levels, or only for the more junior grades, it would inevitably add to the complexity of the pay system, as follows:-

i. Costs

It is likely that any new system would add to the cost of administering the pay system. As was found to be the case with the earlier system of provincial differentiation, the pay negotiating process would itself become more complex and probably more lengthy too. There could also be a considerable extra load on departmental personnel units, pay offices and computer centres where the number of pay scales in use would be multiplied and disputes about the boundaries stemming from pay variation would have to be handled. The costs of administration would increase in proportion to the number of separate pay zones (or large town allowances).

ii. Boundaries

Where departments are organised regionally, their regional boundaries do not necessarily coincide either with each other or with the standard regions; and at both the regional and more local levels it would be difficult to find boundaries which met the management requirements of all departments. Unless agreement could be reached on aligning the various boundaries,

/could occur for departments who needed to move staff within a departmental region but across a pay boundary. Staff would be reluctant to move from a high paying area to a lower paying one, expecially if there were no noticeable difference in living costs between the two. Boundary problems would obviously be greatest if local pay were applied to more senior as well as junior staff. The smaller the unit of variation which was adopted in any scheme, the greater the number of boundaries and therefore the problems stemming from staff crossing boundaries.

iii. "Interface" Problems

If local pay applied to non-mobile staff only, this would give rise to difficulties at the "interface" between grades whose pay was determined regionally and those whose pay was determined nationally. There could be a squeezing of differentials in high pay areas, and wide differentials in low pay areas. Apart from the internal management difficulties this would cause, there could be pressure to increase the national rates in order to ensure reasonable differentials in all areas. If geographical variations were introduced into non-industrial pay it would almost certainly be necessary to make similar changes in the pay of industrial staff, in order to avoid problems at the "interface" between the two groups.

30. The Committee may wish to consider the case for testing the management effects of more varied pay rates by launching a limited experiment covering, for example, selected groups of staff such as the typing grades and messengers who are generally non-mobile and whom the Civil Service recruits locally, often in direct competition with other employers. A decision on whether to introduce variations in pay more generally could be taken in the light of the outcome of this experiment.

Conclusions

- 31. There would, in principle, be attraction in moving towards local variations in Civil Service pay. Bringing Civil Service pay rates closer to local market conditions could help with the management task of recruiting and retaining sufficient staff; ensure that pay was no higher than necessary to achieve these ends; and reassure other local employers that the Civil Service was not distorting the market by importing national rates. The main drawbacks to adopting this approach lie in the considerable management problems which its widespread application would cause, and the consequent administrative costs.
- 32: The Government considers that it would be desirable for more work to be undertaken in order to obtain more refined data, and to gain more information on the practices of other employers.

ANNEX 1

PROVINCIAL DIFFERENTIATION

- 1. A "three tier" system of provincial differentiation was introduced in 1920 in accordance with a recommendation of the Reorganisation Committee of the National Whitley Council. Only Edinburgh and Dublin were classified as intermediate, the rest of the country being treated as provincial. This system involved different scales for salaried staff employed outside London; not more than 10% less for provincial staff but no more than 5% less for intermediate staff. Not all grades were subject to provincial differentiation and in particular it was agreed that mobile staff would remain on undifferentiated rates.
- 2. The Tomlin Royal Commission of 1929/31 recommended that a system of provincial differentiation should be maintained but that, for administrative convenience, provincial and intermediate rates should be fixed by reducing the London salaries by a series of flat rate reductions. They also recommended that the exemption from differentiation should be continued for the mobile classes. They further recommended that the intermediate classification should be extended to six more large towns. The substance of these recommendations was put into effect in 1935 with a total of ll large towns in the intermediate category.
- 3. After the 1939-45 war the system of provincial differentiation was extended to monthly paid staff generally, including those classified as mobile, and in 1947 the system of calculating rates outside London had become virtually uniform. Thereafter, only one scale for each grade was produced the London scale. The pay for officers elsewhere was calculated by a system of deductions for intermediate and provincial officers, varying according to the London salary band, as shown in the attached table.
- 4. In 1951 the London area was extended to an area within a 12 mile radius from Charing Cross. The intermediate rate was extended to all offices in an area beyond this 12 mile

radius but within lo miles of Charing Cross and offices within the boundaries of the following local authorities:-

Belfast
Birmingham
Bradford
Bristol
Cardiff
Coventry
Edinburgh
Glasgow
Hull

Leeds
Leicester
Liverpool
Manchester
Newcastle-upon-Tyne
Nottingham
Portsmouth
Sheffield
Stoke

The rough criterion was a population of 250,000 or more.

The Priestley Royal Commission (1953/55) concluded that some form of provincial differentiation was necessary in view of the almost universal practice outside the Civil Service. Outside comparison had revealed that a two-tier system of differentiation based on a national rate with a London allowance addition was the most common practice and it was therefore recommended for the Civil Service. On 1 April 1956 higher rates of differentiation which had been recommended as an interim step by the Priestley Royal Commission were implemented and on 1 January 1953 the present two-tier system of London Weighting was introduced, progress from the old provincial rate to the intermediate (new national) being achieved in stages over four years. The London pay area was redefined on 1 January 1953 as a radius of 16 miles from Charing Cross plus the local authority areas of four intersected towns. Staff in the London area received a London Weighting equal to the previous differentiation between London and intermediate rates.

PROVINCIAL DIFFERENTIATION

Deductions from London Annual Salaries for Intermediate and Provincial Offices: operative from 1947.

ondon salary (exclusive of allowances)	Intermediate Offices		Provincial Offices		London salary	Intermediate Offices		Provincial Offices	
	Dedn.		y Dedn.	Salary 5	(exclusive of allowances)	Dedn.	Salary 3	Dedn.	Salary
									5
£	£	£	£	£	£	£	£	£	1
-275	5	-270	10	-265	751-754	15	/36-739	31	720-723
		The state of the s			755-758	16	739-742	32	723-726
276-279	5	271-274	11	265-268	759-762	16	743-746	33	726-729
280-283	6	274-277	12	268-271	763-766	17	746-749	34	729-732
284-287	6	278-281	13	271-274	767-770	17	750-753	35	732-735
288-291	7	281-284	14	274-277	771-774	18	753-756	36	735-738
292-295	7	285-288	15	277-280	775-778	18	757-760	37	738-741
296-299	8	288-291	16	280-283	779-782	19	760-763	38	741-744
300-303	8	292-295	17	283-286	783-786	19	764-767	39	744-747
304-307	. 9	295-298	18	286-289					
308-311	9	299-302	19	289-292	787-1,000	20	767-980	40	747-960
312-450	10	302-440	20	292-430	1,001-1,004	20 21	981-984	41	.960-963
451-454	10	441-444	21	420 422	1,005-1,008	21	984-987	42	963-956
455-458	11	441-447	21 .	430-433	1,009-1,012	21	988-991	43	965-969
459-462	11	448-451	22 23	433-436	1,013-1,016	22 22	991-994	44	96.9 972
463-466	12	451-454	- 24	436–439 439–442	1,017-1,020	22	995-998	45	972 975
467-470	12	455-458	. 24	442-445	1,021-1,024	23	998-1,001	46	975-978
471-474	13	458-461	25	445-448	1,025-1,028	23	1,002-1,005	47	978-981
475-478	13 1	462-465	26 27		1,029-1,032	23 24 24 25	1,005-1 008	48	981-984
479-482	14	465-468		448-451	1,037 -1,036	24	1,009-1.012	49	984-987
483-486	14	469-472	28	451-454	1,037-1,040	25	1,012-1,015	50 51 52 53	987 990
463-100	14	409-412	29	454-457	1,041-1,044	25 26	1,016-1,019	51	990 993
487-750 .	15	477 775	20	457 730	1,045-1,048	26	1.019-1.022	52	997-196
707-130	12	472-735	30	457-720	1,049-1,052	26	1,023-1.026	53	997-999
					1.053-1,056	1 27	1,026-1,029	54	999-1,002

ondon salary	Intermediate Offices		Provincial Offices		London salary	Intermediate Offices		Provincial Offices	
(exclusive of allowances)	Dedn.	Salary	Dedn.	Salary	(exclusive of allowances)	Dedn.	Salary	Dedn.	Salary
1	2	3	4	5	1	2	3	4	5
£	£	£	£	£	£	£	£	£	£
1,057-1,060 1,061-1,064	£ 27 28 28	1,030-1,033 1,033-1,036	55 56 57	1,002-1,005 1,005-1,008	1,273-1,276	39	1,234-1,237	79	1,194-1,197
1,065-1,068	28	1,037-1,040	57	1,008-1,011	1,277-1,500	40	1,237-1,460	80	1,197-1,420
1,069-1,072	29 29	1,040-1,043	58 59	1,011-1,014	100,000				
1,073-1,076	29	1,044-1,047	59	1,014-1,017	1,501-1,504	40	1,461-1,464	81	1,420-1,423
1.077-1.200	30	10/7 1 170	- (0		1,505-1,508	41	1,464-1,467	82	1,423-1,426
1,077-1,200	30	1,047-1,170	60	1,017-1,140	1,509-1,512	41	1,468-1,471	83 .	1,426-1,429
1,201-1,204	30	1,171-1,174	61	1140 1142	1,513-1,516	42	1,471-1,474	84	1,429-1,432
1,205-1,208	31	1,174-1,177	62	1,140-1,143 1,143-1,146	1,517-1,520	42	1,475-1,478	85	1,432-1,435
1,209-1,212	31	1,178-1,181	63	1,146-1,149	1,521-1,524 1,525-1,528	43	1,478-1,481	86 87	1,435-1,438
1,213-1,216	32	1,181-1,184	64	1,149-1,152	1,529-1,532	44	1,482-1,485	88	1,438-1,441
1,217-1,220	32	1,185-1,188	65	1,152-1,153	1,533-1,536	44	1,489-1,492	89	1,444-1,447
1,221-1,224	33 .	1,188-1,191	66	1,155-1,158	1,537-1,540	45	1,492-1,495	90	1,447-1,450
1,225-1,228	33	1,192-1,195	67	1,158-1,161	1,541-1,544	45	1,496-1,499	91	1,450-1,453
1,229-1,232	34	1,195-1,198	68	1,161-1,164	1,545-1,548	46	1,499-1,502	92	1,453-1,456
1,233-1,236	33 · 33 · 34 · 34 · 35	1,199-1,202	69	1.164-1.167	1,549-1,552	46	1,503-1,506 ·	93	1,456-1,459
1,237-1,240	35	1,202-1,205	70	1,167-1,170	1,553-1,556	47	1,506-1,509	94	1,459-1,462
1,241-1,244	35	1,206-1,209	71	1,170-1,173	1,557-1,560	47.	1,510-1,513	95	1,462-1,465
1,245-1,248	36	1,209-1,212	72	1,173-1,176	1,561-1,564	48	1,513-1,516	96	1,465-1,468
1,249-1,252	36	1,213-1,216	73	1,176-1,179	1,565-1,568	48	1,517-1,520	97	1,468-1,471
1,253-1,256	37	1,216-1,219	74	1,179-1,182	1,569-1,572	49	1,520-1,523	98	1,471-1,474
1,257-1,260	37	1,220-1,223	75	1,182-1,185	1,573-1,576	49	1,523-1,527	99	1,474-1,477
1,261-1,264	38 38	1,223-1,226	76	1,185-1,188		-	1	1	1
1,265-1,268	38	1,227-1,230	77 78	1,188-1,191	1,577-	50	1,527-	. 100	1,477-

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Non-industrial Civil Service by economic planning region: staff in post 1 January 1981 (full-time equivalent)

	Thousands	Percentage
South East of which:	217.0	40.0
Inner London	86.3	15.9
Outer London	45.5	8.4
South West	50.4	9.3
West Midlands	28.6	5.3
North West	54.3	10.0
Northern	35.6	6.6
Yorkshire & Humberside	30.4	5.6
East Midlands	20.8	3.8
East Anglia	12.6	2.3
Wales ·	30.1	5.6
Scotland	50.7	9.3
Northern Ireland	3.4	0.6
Elsewhere	8.7	1.6
Total	542.8	100

⁽¹⁾ Including Diplomatic Service

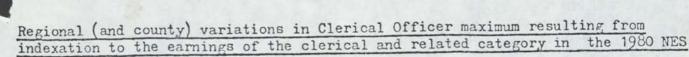
Annex 3

Average clerical earnings showing variations at regional and county level: 1980 New Earnings Survey Data for "clerical and related" category (;)

	Average weekly earnings	County variation from regional average	Variation from national average (inc. London)	Variation from national average (exc. London)
London	£97.80		+£14.40	+£18.50
Rest of South East	£81.90		+£ 1.50	+£ 2.60
Bedfordshire	£82.80	+£0.90	-£ 0.60	+£ 3.50
Berkshire	£86.50	+£4.60	+£ 3.10	+£ 7.20
Buckinghamshire	£79.20	-£2.70	-£ 4.20	-£ 0.10
East Sussex	£78.30	-£3.60	-£ 5.10	-£ 1.00
Essex	£82.70	+£0.80	-£ 0.70	+£ 3.40
Hampshire	£82.60	+£0.70	-£ 0.80	+£ 3.30
Hertfordshire	£84.70	+£2.80	+£ 1.30	+£ 5.40
Isle of Wight	£74.50	-£7.40	-£ 8.90	€ 4.80
Kent	£78.10	-£3.80	-£ 5.30	-£ 1.20
Oxfordshire	£78.10	£3.80	-£ 5.30	-£ 1.20
Surrey	£84.00	+£2.10	+£ 0.60	+£ 4.70
West Sussex	£81.40	-£0.50	-£ 2.00	+£ 2.10
East Anglia	£77.90		-£ 5.50	-£ 1.40
Cambridge	£77.60	-£0.30	£ 5.80	£ 1.70
Norfolk	£77.90	£0.00	-£ 5.50	-£ 1.40
Suffolk	£78.50	+£0.60	£ 4.90	-£ 0.80
South West	£79.90		-£ 3.50	+£ 0.60
Avon	£83.20	+£3.30	-£ 0.20	00 2 21
Cornwall	£71.50	-£8.40	-£11.90	+£ 3.90 -£ 7.80
Devon	£76.60	-£3.30	-£ 6.80	-£ 2.70
Dorset	£76.50	-£3.40	-£ 6.90	-£ 2.80
Cloucestershire	£88.30	+£8.40	+£ 4.90	+£ 9.00
Somerset	£74.70	-£5.20	-£ 8.70	-£ 4.60
Wiltshire	£78.50	-£1.40	-£ 4.90	-2 0.80
West Midlands	£79.40		-£ 4.00	+£ 0.10
West Midlands			2.4.00	₹2 0.10
Metropolitan County	£79.80		6 2 60	0.0.50
Hereford & Worcester	£76.80	+£0.40	-£ 3.60	+£ 0.50
Salop	£77.90	-£2.60 .	€ 6.60	-£ 2.50
Staffordshire	£79.00	-£1.50	-£ 5.50	-£ 1.40
Warwickshire	£72.00	-£0.40 -£7.40	£ 4.40 -£11.40	-£ 0.30 -£ 7.30
Prod W/ 33 3 -				
East Midlands	£76.30		-£ 7.10	-£ 3.00
Derbyshire	£74.70	_£1.60 •	-£ 8.70	£ 4.60
Leicestershire	£76.20	-£0.10	-£ 7.20	-£ 3.10
Lincolnshire	£73.60	-£2.70	-£ 9.80	£ 5.70
Northamptonshire	£78.40	+£2.10	-£ 5.00	-£ 0.90
Nottinghamshire	£77.40	+£1.10	-£ 6.00	-£ 1.90

⁽¹⁾ Northern Ireland is not covered by the NES data and is therefore excluded from Annexes 3 and 4. However, as Annex 2 shows, there is a small number of non-industrial home civil servants in Northern Ireland.

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Average weekly earnings	County variation from regional average	Variation from national average (inc. London)	Variation francisco (exc. London)
£76.80		-£ 6.60	-£ 2.50
£76.70	-£0.10	-£ 6.70	−£ 2.60
£76.60	-£0.20	-£ 6.80	-£ 2.70
	-£1.90	-£ 8.50	-£ 4.40
£79.80	+£3.00	-£ 3.60	+£ 0.50
£79.90		-£ 3.50	+£ 0.60
£79.70	-£0.20	-£ 3.70	+£ 0.40
£80.70	+\$0.03+	-£ 2.70	+£ 1.40
£80.80	+£0.90	-£ 2.60	+£ 1.50
£79.00	-£0.90	-£ 4.40	£ 0.30
£78.70		-£ 4.70	-£ 0.60
£80.40	+£1.70	-£ 3.00	+£ 1.10
£77.10	-£1.60	-£ 6.30	-£ 2.20
	+£1.00		÷£ 0.40
	-£2.60	£ 7.30	£ 3.20
£68.90	-£9.80	-£14.50	-£10.40
£79.40		-£ 4.00	+£ 0.10
£71.40	-£8.00	-£12,00	-£ 7.90
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I	II	111	
Index (Total GB=100)	Regionally indexed CO maximum (1.4.81 rate)	Variation from current maximum	

Standard Regions

London and South East of which:			
London	1.173	£6229 (Inne	
*		Coure	1) +2015
Rest of South East	0.983	£5220 (£4742-5506)	+£118 (-£360,+£404)
East Anglia	(0.935-0.941)	£4965 (£4944 –4997)	-£137 (-£158, -£105)
South West	0.969 (0.857-1.059)	£5145 (£4551–5623)	+£ 43 (-£551,+£521)
West Midlands	· (0.863-0.947)	£5002 (£4583-5029)	-£100 (∸£519, -£73)
East Midlands	0.918 (0.883-0.940)	£4875 (£4689–4991)	-£227 (-£413,+£111)
Yorkshire and Humberside	0.923 (0.898-0.957)	£4901 (£4768–5082)	-£201 (-£334, -£20)
North West	0.957	£5082 (£5029-5145)	£ 20 (-£72,+£43)
Northern	(0.826-0.964)	£5039 (£4386-5119)	-£ 63 (-£716,+£17)
Wales	0.960 (0.856-1.005)	£5098 (£4545-5337)	-£ 4 (-£557, +£235)
Scotland	(0.818-0.970)	£4970 (£4344-5151)	-£132 (-£758,+£49)
Great Britain	1.000 (0.818–1.173)	£5310 ² (£4344–£6229)	- C(190 :- T
			Drawn Town

- Notes: 1. The current maximum is £5102 outside London, £6189 in Inner London and £5556 in Outer London
 - 2. National average rate based on current national maximum (£5102), plus a notional element of £208 for London Weighting spread over the whole of Great Britain
 - 3. Figures in brackets denote the range of the county figures within the region.

ILLUSTRATION OF THE "REGIONAL INDEX"

- 1. This annex illustrates the results of applying a "regional index" to the 1.4.81 scale maximum for clerical officers. It is based on data on "clerical and related earnings" (males aged 21 years and over and females aged 18 years and over) from the Department of Employment's annual New Earnings Survey (NES) for 1980. This is not entirely satisfactory since the "clerical and related" category aggregates data on jobs which in the Civil Service are carried out by separate and different grades. Moreover, the NES "clerical and related" category includes civil servants, so there is an element of circularity. However it is the best data available at present and the results should give a reasonable indication of regional variations.
- 2. The "regional index" (column 1 of the table) is calculated by dividing the gross weekly earnings of the "clerical and related" category in each region and county by the national average for this category, weighted by the numbers of Civil Service clerical officers in each county or region. It shows in index form the variations from a single national rate which would result from paying salaries in line with the average in each region and county. The index therefore reflects these relative earnings levels. Weighting the national average by the geographical distribution of clerical officers in the Civil Service would ensure that the total wage bill for this grade would be unaffected, since the cost of fixing pay in accordance with this index would then be the same as having a national rate with an index value of one.
- 3. Column II shows the results of applying the "regional index" to the current clerical officer maximum, on the assumption that the amount of money available for distribution is the present pay bill for clerical officers, including London Weighting. Regional rates (and also county rates although these are not shown in detail) have been calculated by multiplying by the index given in column 1 the current clerical officer maximum enhanced by an element for London Weighting equal to the average cost of London Weighting spread throughout the grade. Column III shows the extent to which these local rates exceed or fall short of current rates at the maximum £5102 outside London, £6189 in Inner London and £5556 in Outer London). The figures in brackets show the range of county rates within each region. The relatively large range of rates within each region reflects the considerable variation at county level in the average earnings of the "clerical and related" category observed in Annex 3.

NOTE ON ISSUES ON LOCAL PAY (not part of en Jence to Megan)

a. Should there be more varied geographical pay rates?

The idea is attractive in principle. Outside pay rates do vary and the Civil Service (in common with other employers) is probably paying too much in some areas and too little in others. In practice, however, local pay is likely to be an expensive option for us partly because of the large numbers of civil servants in London and the South East generally and in urban centres elsewhere. Annex 3 of the paper indicates (in its final column) the present range of geographical variations in clerical earnings. The London rate is 23% above the national average (excluding London itself): 25% of civil servants work there. Earnings are lowest in the East Midlands (4% below the national average): only 3.8% of civil servants work there.

Local pay would inevitably bring with it administrative complexities for pay centres and personnel divisions and pressures (from management as well as unions) to enlarge boundaries and improve differentials. Presumably it is similar factors that lead other large employers of non-manual staff to make only limited variations in pay on grounds of locality.

In their evidence to Megaw the EEF come down against localised pay on practical grounds while recognising its attractions in principle. The CBI ask for the possibility of making pay levels more responsive to local labour markets to be considered and refer to the possibility of returning to the old system of provincial differentiation (abolished following Priestley). But they point to the risk of "wage-drift" as a result of localised pay bargaining. In theory, the higher the number of areas designated for additional payments the lower the basic national rate would be. But in the Civil Service the number of staff in high paying areas (especially London) might well head to an increase in total pay costs by comparison with the present national rate approach.

b. If local pay were introduced what type of scheme should be adopted?

The Government has already made it clear to the Inquiry that it wants market factors, including the recruitment and retention position, to play a significant part in any future system for determining Civil Service pay. Any local pay scheme would need to take account of these factors. There is therefore little to be said for any mechanistic kind of "distribution index" (on the lines discussed in paragraph 16(a) of the paper), which was an option put forward in the context of the pay research system. The use of local market evidence to fix a large number of different pay rates (paragraph 16(b)) would be the most sophisticated but also the most complex approach. Simpler (and cruder) approaches such as geographical "pay bands" (paragraph 16(b)) or large town allowances supplementary to a national rate (paragraph 16(c)) might in practice be the most feasible option for greater geographical variation. Most other

large employers of non-manual staff appear to settle a national rate and make additional payments in specified localities.

We have no quantitative estimate of the administrative cost of operating provincial differentiation up to 1953. But it is frequently mentioned as a concern in assessments at the time. A full list of the geographical differentiation involved at the time of the Priestley Report is attached. The main problems were the complexity of the pay scales themselves (illustrated in Annex 1 to the paper); the time consuming arguments with departments over the boundaries and numbers of staff to be included in the different "intermediate" areas; the growing inability of the unions to curb insistence by their members on tabling leap-frogging claims and claims for boundary adjustments and the creation of "special high cost" areas. At the time the Treasury concluded that the present approach represented an inexpensive way out of provincial differentiation as it existed and was likely to develop.

c. Should a scheme apply to all staff or "non-mobiles" only?

Our view (which we believe accords with outside practice) is that any geographical variations would be more appropriate for staff who were recruited locally and would expect to continue working locally; and not for those who joined the Civil Service for a career and may be required to move home if necessary to meet the needs of the job. Outside at middle and senior levels "national rates" generally apply regardless of location apart from a London allowance.

d. London Weighting.

If pay variations based on local market pay evidence were introduced nationally it would be anomalous to continue with the present two-tier London Weighting allowances, based on differential living costs.

There is also the question whether, even if no other changes were made, the level of London payments should be based on market pay factors. One reason for moving to market pay in London would be the recruitment and retention difficulties experienced there in the past. The experience of Inland Revenue and Customs and Excise of recruitment problems in London (at least until the current high level of unemployment) is not unique but has been shared by departments generally.

A change would, however, have significant repercussions in other public services and beyond because of the wide use which is made in the public sector of the present London Weighting approach. Past assessments have suggested that a move towards "London pay market" rates would add to London pay costs. We have inadequate data on the present position but there is no reason to suppose that when employment picks up again the picture will be different. There are other measures which could be contemplated at less cost such as advances of London Weighting for season tickets (which other employers practice widely). A separate possibility would be to increase the number of zones in order to reduce the size of the "cliff edge" between London rates and those elsewhere although at the cost of

adding to the overall number of boundary problems. Unless Megaw is to be invited to consider the use of London Weighting in the public services generally it might be preferable for the paper to be neutral on this, leaving the main issue for Megaw whether or not local pay should be introduced in the Civil Service countrywide.

e. Decentralised bargaining.

The main options discussed in the paper envisage that pay bargaining would continue to take place at national level under Treasury control. Decentralisation of pay bargaining to local or regional managers would be a much more far-reaching change.

If pay bargaining took place with the unions at local or regional level there would be a risk that negotiations would develop into a contest of prowess between trade unionists in different areas to maximise their relative gains. But more importantly decentralised bargaining would have implications going well beyond purely pay matters to the whole framework of financial and mangerial control If financial control at departmental and sub-departmental level. was to remain effective a close degree of central monitoring would be required and limits would have to be set on the range of discretion for local management. In the absence of a sound basis for output budgeting the cash limit system could not be refined sufficiently to exert the necessary financial disciplines without a need for supplementary controls over pay. While local managers could be restrained by their cash allocation most local offices are producing a service (eg payment of social security or collection of taxes) and have no freedom to reduce the scale of their activities to match the staff resources they can extract from their allocated pay bill. decentralisation was on the basis of management units this could lead to different Civil Service pay rates for the same job in the same locality which Ministers would find difficult to defend. "cross-departmental" bargaining at regional or local level would present problems given the different departmental regional boundaries and the departmentally-based structure of financial control.

There may, however, be particular areas (eg the Royal Mint, the Royal Ordnance Factories) engaged on commercial or quasi-commercial operations where more decentralisation would work linked to an overall budgetary control approach. But the scope is limited if effective control is to be maintained over pay bill costs as a whole.

APPENDIX VIII (see Chapter VI)

PROVINCIAL DIFFERENTIATION

Classification of areas: operative from 1951.

LONDON AREA

Offices within a 12 mile radius of Charing Cross (King Charles Statue).

INTERMEDIATE AREAS

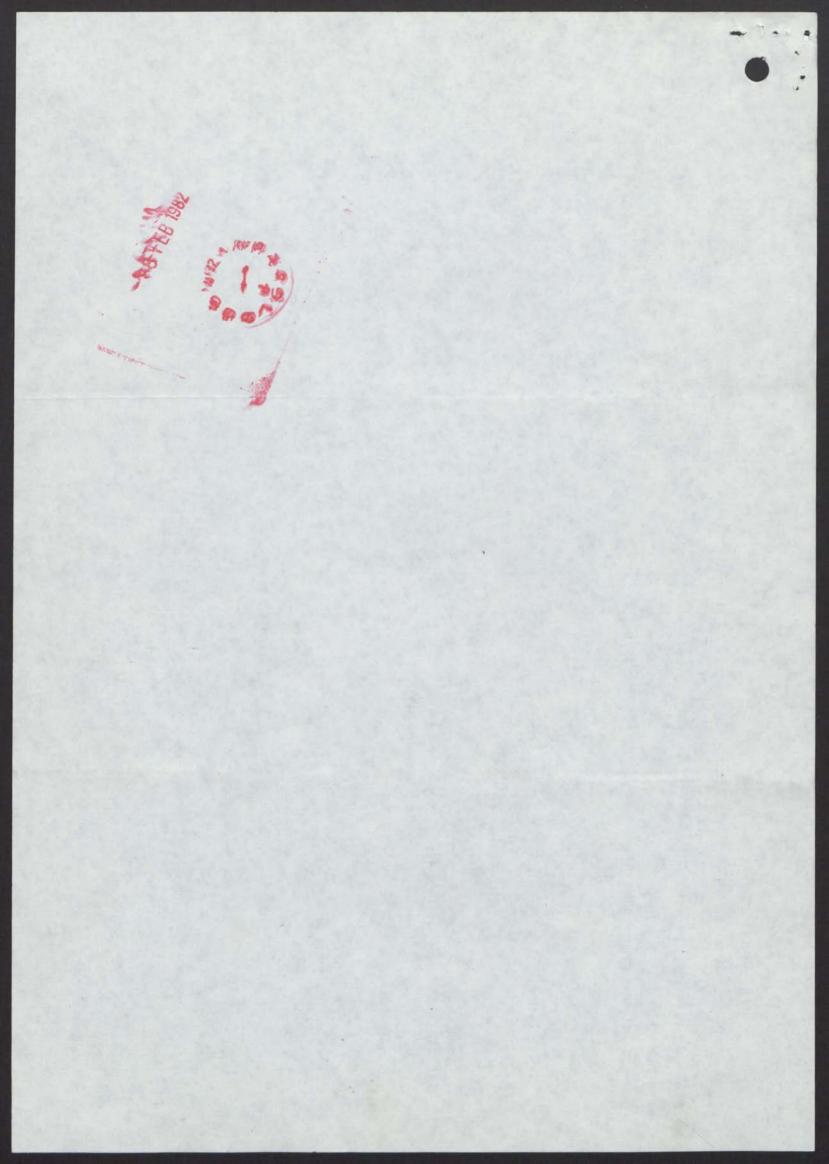
Offices outside a 12 mile radius of Charing Cross out within a 16 mile radius thereof, and also those situated within the boundaries of the following local authorities:-

Bolfast Area				Belfast
Birmingham Area				Birmingham Dudley Oldbury Smethwick Tipton West Bromwich
Bradford Area				Bradford Shipley
Bristol Area		f		Bristol Filton
Cardiff Area	•••			Cardiff (municipal boundary only)
Coventry Area				Coventry
Edinburgh Area		*		Edinburgh Musselburgh
Glasgow Area		•••	•••	Glasgow Cambuslang Cathcart Clydebank Eastwood Rutherglen (including the Royal Burgh)
Hull Area				Kingston-upon-Hull
Leeds Area				Leeds
Leicester Area				Leicoster
Liverpool Area			•••	Liverpool Birkenhead Bootle Crosby Litherland Wallasey
Manchester Area		*		Manchester Eccles Prestwich Salford Stockport

Strettord

Newcastl	o-upon-Tyno	Aron		Nowcastio-upon-Tyne Felling Gateshead Hebburn Jarrow South Shields Tynemouth Wallsend
Nottingh	am Area			Nottingham Beeston and Stapleford
Portsmou	ith Area	***		Portsmouth Gosport
Shoffield	Area			Sheffield
Stoke Ar	oa	***	***	Stoke Newcastle-under-Lyme (municipal boundary only)

PROVINCIAL AREAS All offices elsewhere.





01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE LONDON, WC2A 2LL

CHANCELLOR OF THE EXCHEQUER

MEGAW INQUIRY: PAY OF GOVERNMENT LAWYERS

I am sorry that you have not had an earlier reply to your minute of 20 January.

I do remain strongly of the view that evidence should go to the Inquiry about the pay of Government lawyers. In this I find that I have the support of the Lord Advocate who is much concerned about the position in Scotland. wishes to be associated with this evidence and I have agreed to make it a joint paper. I appreciate your anxiety that the Inquiry should not become concerned with the detailed arrangements for the many different groups of staff in the Civil Service. However, I think that there is the opposite danger, that the Inquiry will not appreciate the great variety of special cases which together constitute the I see that the DOE evidence has something to say about the recruitment of specialist staff and I believe it right that something should be said also about the 1,000 or so lawyers who form an important part of the Whitehall (and Edinburgh) team.

I am grateful to you for the detailed amendments that you have suggested to my draft. I am happy to accept the bulk of these but there are two points which I find difficulty in accepting. I think it essential to ensure that we can continue to recruit a number of the most able lawyers and I have pointed to a feature of the present arrangements which may make this difficult. I think that your version loses

/the



01-405 7641 Extn

ROYAL COURTS OF JUSTICE LONDON, WC2A 2LL

the force of the point I wish to make. On the attached page my original version is at (a), yours at (B) and I offer a compromise at (C). Your version of my second paragraph makes me make a general point about specialists and illustrate it by reference to the position of lawyers. As my experience is limited to lawyers I really think that this will not do. At (D) is yet another version which I hope will satisfy you.

If you can agree these changes, the Lord Advocate and I will submit this evidence to Megaw. You comment that you doubt whether it needs to be published and given to the unions. I do not feel qualified to comment on this but I cannot see why it should be dealt with any differently from other evidence submitted by Departments. (I must confess that I do not know what the general arrangements are.)

I am copying this minute to the Prime Minister and the other members of her group on Megaw.

THE

5 February 1982

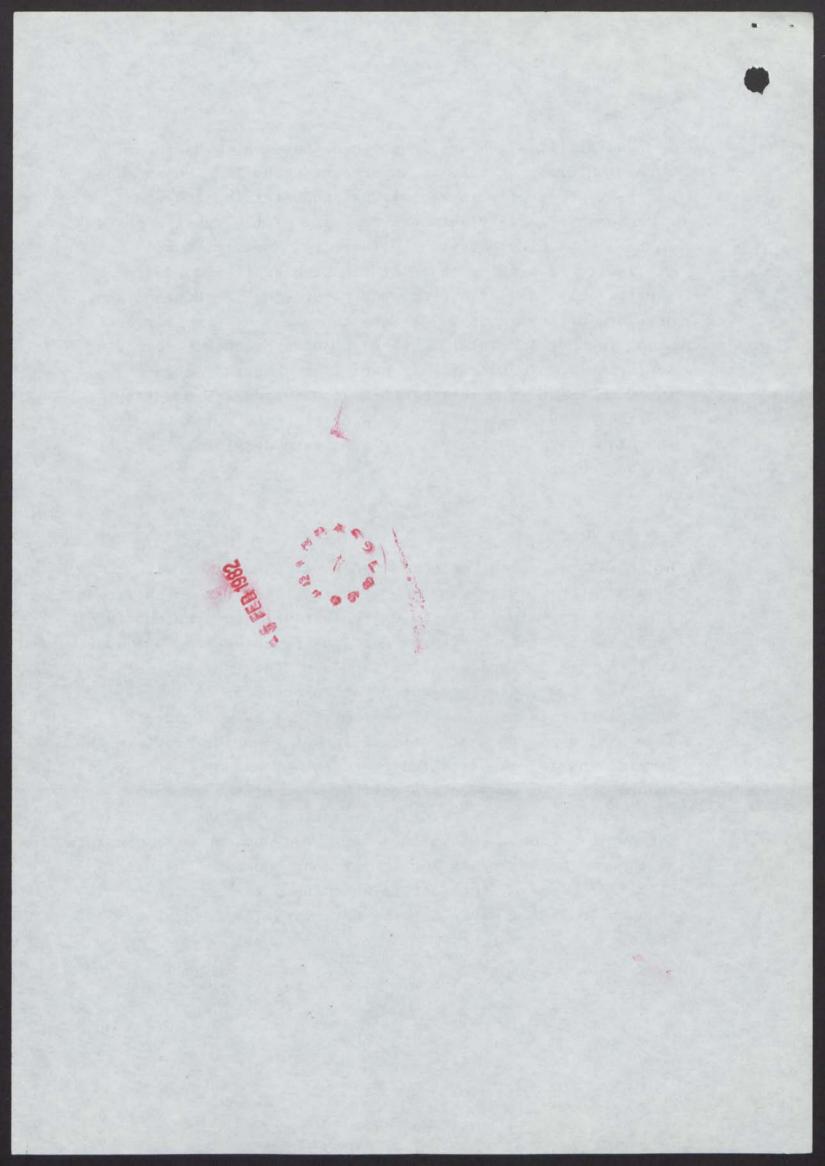


MEGAW COMMITTEE - SALARIES IN THE LEGAL CIVIL SERVICE ALTERNATIVE VERSIONS OF PASSAGE FROM DRAFT EVIDENCE

- A. One consequence of this is that senior lawyers at AS level and above have suffered such a compression in salary differentials that their salaries bear no relation to their increased responsibilities or with those which can be earned outside. There are, furthermore, indications of real dissatisfaction among younger and abler lawyers who have reached a degree of seniority at a comparatively early age and feel with, we think, considerable justification that the rewards both present and prospective are inadequate. These factors can but have a detrimental effect on the service in the long term, and we consider that a greater degree of flexibility is needed to deal with the situation.
- B. There is in present economic circumstances no great difficulty in recruiting and retaining lawyers of a reasonable quality suitable for many of the routine posts in the legal Civil Service. There is, however, more difficulty in finding those of the high quality needed, particularly for advisory posts, to provide the senior legal advisers of the future. The compression of salary differentials generally in the Civil Service has caused some dissatisfaction among younger and abler lawyers who have reached a degree of seniority at a comparatively early age and who feel that the available rewards are more limited than those they might have received outside the Service. It will be important to guard against any detrimental effect on the Service in the long term.
- C. The compression of salary differentials generally in the Civil Service has had the consequence that the salaries of senior lawyers take little account of their increased

responsibilities and are lower than those which can be earned outside. There is in present economic circumstances no great difficulty in recruiting and retaining lawyers of a reasonable quality suitable for many of the routine posts in the legal Civil Service. There is, however, more difficulty in finding those of the high quality needed, particularly for advisory posts, to provide the senior legal advisers of the future. We are conscious of dissatisfaction among younger and abler lawyers who have reached a degree of seniority at a comparatively early age when they compare their powition with that of their contemporaries outside the Service. We see this as a warning sign and think it important to guard against any long term detrimental effect on the Service.

D. It is important that salaries and conditions of service should be such as to continue to attract and retain sufficient able lawyers to provide the Government with the various legal services it requires. From our experience we are well aware that lawyers of inadequate calibre can cause damage, both political and financial, out of all proportion to the cost of employing them. The Inquiry will not have time to examine the position of every different group of staff in the Service and to make detailed recommendations on their pay arrangements. Lawyers are only one group, though an important one, of the specialists employed in the Service but our experience is confined to that group and some comments on the pay arrangements for lawyers may, perhaps, helpfully illustrate some of the factors which need to be taken into account in fixing Civil Service pay rates for specialist groups.



Prime Minister

Agree to the submission

c. Mr. Hoskyns Mr. Ingham

MR. SCHOLAR

of this paper? Yes

mt

MEGAW INQUIRY: GOVERNMENT EVIDENCE ON UPRATING

We must expect that the proposed evidence, sent to us under cover of the letter of 3 February from the Chancellor's office, will attract some media attention, both because newspapers are clearly already attuned to the fact that our evidence to the Inquiry is a good source of stories, and because — in this case — there is an unequivocal statement of position. The proposed evidence says that uprating "would be quite inappropriate as part of a new pay system".

I am sure that this is right, although it will not be welcomed by the unions. The uprating process, under which the evidence on comparable outside rates is adjusted to reflect the movement in prices between the settlement dates of the comparators and the settlement date of the Civil Servants, can only make sense in the context of a system based on pure comparability. Even then, it is open to a number of objections in principle; and the evidence quite rightly concludes that this kind of movement should only be one factor among others influencing the outcome of each year's negotiations.

V.

cc:- Mr Hoskyns

MR SCHOLAR

THE MEGAW INQUIRY: MERIT PAY

Government evidence for the inquiry on merit pay is considerably overdue. Discussions in the official group before Christmas produced an anodyne and essentially neutral draft, which did not go far enough to satisfy Treasury Ministers. The Chancellor's letter to Lady Young, and the revised paper he enclosed, are an attempt to take matters rather further.

We have always encouraged merit pay, and see the Megaw Inquiry as the best vehicle for introducing it. And, as you know, almost all the evidence from the main employing departments has commented favourably on the benefits to management of being able to relate pay and performance. But there are considerable difficulties, which contributed to the decision Ministers took last year not to introduce a trial scheme at Under-Secretary level. These difficulties include keeping a scheme cost-free, which means that any increases for merit must be off-set by reductions (or with-holding increments) for unsatisfactory staff; and finding a set of criteria which will be sufficiently consistent across departments. There seems to be no way round linking merit pay to the present staff reporting system, which is not only subject to considerable variation between departments, but also tends towards over-marking, because staff reported on have a right to know the overall assessment.

I think the Prime Minister will want to see these papers, but you may feel it would be best to wait until comments have been received from Lady Young and other Cabinet Ministers. I believe the MPO looks favourably upon merit pay, but is more attracted to the idea of bonuses. Other Ministers will probably be briefed by senior officials to take a cautious line because of the doubts about whether the present reporting system could sustain the extra responsibility that would be placed upon it. I should be surprised if this paper can be agreed without a meeting of Ministers.

3 February, 1982

Prime Minister Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000 3 February 1982 Michael Scholar Esq. 10 Downing Street LONDON SW1 Dear Michael MEGAW INQUIRY: GOVERNMENT EVIDENCE ON UPRATING I attach a paper on the uprating mechanism used in the Civil Service pay research system, prepared in response to a specific request from the Inquiry. The uprating procedures attracted particular criticism when pay research was in operation. The paper makes it clear that in the Government's view such procedures would be quite inappropriate as part of a new pay system for the Civil Service relying on a much wider range of factors than pay comparisons alone. If the Prime Minister and other colleagues have no objections, the Chancellor would like to submit this paper to the Inquiry next Monday, 8 February. I am sending copies of this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Secretary of State for Defence, the Secretary of State for Health and Social Security, the Secretary of State for Employment, the Attorney General, and the Lord Advocate. A copy also goes to David Wright in the Cabinet Office. Yours ever P.S. JENKINS Private Secretary

Introduction

- 1. The Committee has asked for a detailed description of the mechanism of uprating used in the pay research system. As the Government's introductory evidence pointed out this was an aspect of the pay research arrangements which attracted particular criticism.
- 2. The Government has made clear that it believes that the pay of the non-industrial Civil Service should in future be based on a much wider range of factors, including not only pay comparisons but also the actual recruitment and retention position in the Service and financial and macro-economic considerations. It does not believe that comparison should play the prescriptive role which it had under the pay research system. Even in the context of the pay research system itself the uprating procedures were of doubtful validity. In the Government's view, procedures of this kind would be quite inappropriate as part of a new pay system for the Civil Service which took account of a broader range of factors.

Background

3. To the extent that a pay system employs comparisons of pay levels there is a problem in ensuring that these are up-to-date, particularly in periods when pay rates are changing rapidly. The more weight that is given to comparisons, the more important this factor becomes. When the Priestley Commission recommended "fair comparisons" as the basis for determining Civil Service pay they specifically recognised a need to take account of the fact that changes in Civil Service rates based on their approach would follow on from alterations of outside pay. Paragraph 177 of the Commission's report said:

"Our general recommendation that the primary principle for determining Civil Service pay should be fair comparison with current outside rates, making allowances for differences in conditions of service, leads us to recommend that since changes in Civil Service rates would always follow changes in outside rates, this factor should be taken into account in agreeing the date from which a Civil Service settlement should operate."

- 4. Under the pay research system there were two distinct ways in which the analogue rates came to be regarded as being out-of-date:
 - a. In order to allow time for negotiations, the evidence collected to compare pay levels had to be assembled some time before the actual date of the Civil Service settlement. Some of the outside rates which had been reported would be increased during the intervening period as a result of fresh pay settlements. This may be called the 'latest rates' factor.
 - b. Some of the outside rates could have been fixed up to a year earlier and would be due to be revised in the near future. For example, most outside organisations which were used in the pay research surveys for the 1979 and 1980 pay negotiations had their pay settlement nine months or so before the date of that for the Civil Service. This may be called the 'time lag' factor.

- The uprating procedures introduced in 1975 dealt with both these factors. Before then the 'latest rates' factor had been dealt with by means of retrospection, ie backdating the increase to an earlier date than that on which the negotiations were actually concluded. The 1967 Pay Agreement limited the period of retrospection to six months. Retrospective settlements made it possible to base the settlement on up-to-date information on the rates which had actually been in payment outside at the operative date of the Civil Service settlement. But they also led to large lump-sum payments to civil servants once settlements were reached. The 1975 Pay Agreement ended the use of retrospection. It required the Pay Research Unit to update its reports until early February each year, so that the outside evidence was as recent as possible while providing for a settlement date of 1 April. This did not deal fully with the 'latest rates' factor because it left a gap of almost two months between the date on which outside evidence was finalised and the 1 April Civil Service settlement date, and it was not relevant to the 'time lag' factor. But the Agreement in addition laid down procedures described as 'uprating' which were designed to deal with both factors while avoiding the retrospection which had been a feature of previous Civil Service pay settlements.
- 6. These 'uprating' procedures involved making adjustments to the evidence on outside rates to reflect the movement in prices (in part actual and in part forecast) over the period between the operative dates of the relevant outside settlements and the date of the Civil Service settlement. The effect of uprating on Civil Service pay was complex, particularly in the differing ways in which it could influence the size of the percentage increases in Civil Service pay in successive settlements using uprating procedures. A more detailed note is at Annex A.

The Government's Views On Uprating

- 7. Uprating was introduced into the Civil Service pay system as a corollary to setting pay rates on the basis of outside comparisons. The assumption was that "fair comparisons" meant that, after allowing for differences in other conditions of service, civil servants should receive the same amount of pay over a period of time as did their analogues. In the absence of any adjustment a system based solely on pay comparisons would have brought the pay of civil servants into line with outside rates from a later date. At a time of inflation this factor could have had a significant effect in terms of comparative earnings. In addition, it was felt that, unless some adjustment was made to take account of the lapse of time under a system based solely on comparison, Civil Service pay rates could have been uncompetitive if outside pay rates were changing quickly, causing problems of recruitment and retention for management, at least in times of full employment.
- 8. These arguments may have had some relevance to a system of pay determination which was based solely on external comparisons and did not pay proper regard to the actual position of the Civil Service in the labour market as this was reflected in its recruitment and retention position. But even within the logic of the pay research system (which the Government has rejected) it is arguable whether this kind of attempt at fine tuning was justified given the room for shortcomings in the basic data on pay comparisons. Moreover, uprating involved adjustments based on actual and forecast price movements rather than on pay movements (and the forecast price movements involved could turn out to be inaccurate). The use of a price linkage was unjustified in itself, carrying with it implications of protection against inflation and thereby running the risk of perpetuating the inflationary spiral.

- 9. The use of uprating at all within the pay research system inevitably clouded the direct relationship to actual outside pay rates on which the system was designed to rely. Even a process limited to direct pay comparison should not anticipate future pay increases of other groups. The Standing Commission on Pay Compariability under Professor Clegg rejected suggestions that it should use some form of uprating, criticising such an approach as inflationary on the grounds that "it might encourage other groups to follow a similar mechanical procedure" and "a reference group might itself be used as a comparator by other outside groups".*
- 10. Therefore the Government regards the whole principle underlying the uprating procedures as well as the method by which it was applied as unsatisfactory features of the pay research arrangements to which they were conceptually linked. But procedures of this kind would be even more inappropriate in a pay system which brings in a much wider range of factors than pay comparisons.
- 11. The Government has accepted that comparison has a part to play in new Civil Service pay arrangements and recognises that evidence available to the negotiating parties on current pay rates outside the Civil Service should be up-to-date. However, in the Government's view, the extent to which any account should be taken of trends in pay movements at the time of a Civil Service pay settlement in interpreting information on outside pay should be left as a matter for the negotiating parties to resolve between then on ad hoc basis.

Phasing Of Pay Settlements

- There is a related issue to which the Government drew attention in its initial evidence. This is the extent to which under a new pay system the level of any pay increases for the Civil Service could be kept in percentage terms more in phase with those in the community generally. One of the drawbacks of a system based simply on comparability and which is therefore always "backward looking" is that it is more likely to generate increases which are out of line with the current level of pay increase generally in the economy. This is because the system will reflect the level of increases which were taking place in the past. Under the pay research system civil servants could receive a large "catching up" pay increase to bring their pay into line with rates outside at a time when the rate of pay increase outside was falling. This would naturally give the impression that civil servants were being treated more generously than other wage and salary earners and could add to the pressure for larger increases in the economy as a whole. While the uprating procedures may have mitigated this problem to some extent in periods when price movements bore a reasonably close relation to pay movements they could have accentuated it in other circumstances.
- 13. In any new pay system for the Civil Service it would be desirable in principle to avoid disproportionate variations in the relationship of Civil Service and general pay movements. However, there would appear to be no way of ensuring this short of linking Civil Service pay increases directly to some "going rate" of pay increases generally. But that is itself an unacceptable concept. There will always be a substantial variation in the actual level of different pay settlements outside the Service and changes in the management needs of the Service itself.

^{*} Standing Committee on Pay Comparability: Report No 9: General Report: Cmnd 7995 (August 1980): Paragraph 94.

14. In a new pay system for the Civil Service which no longer depends on the mechanistic application of pay comparisons but takes account of a wider range of labour market factors there may be more rather than less fluctuation in the size of annual pay settlements as these respond to changes in the recruitment and retention position. It would therefore appear to be false to think that any systematic formula could (or should) be evolved to produce a close relationship between the size of pay increases inside and outside the Service. To attempt this would introduce a degree of artificial regulation of the level of Civil Service settlements. This suggests that the relationship of Civil Service pay settlements to those outside the Service at the time should simply be a factor influencing the outcome of each year's negotiations between the parties on an ad hoc basis.

HM TREASURY FEBRUARY 1982

The "Uprating" Process

- 1. Under the "uprating" procedures, each outside pay rate in the pay research evidence was increased by the percentage change in the Retail Price Index (RPI) over the period between the operative date of the outside settlement which produced that particular rate and the date of the Civil Service settlement. At the time the pay research evidence was processed actual RPI figures would be available only up to mid-December. Therefore a forecast was made of movement in the RPI between then and 1 April in accordance with the formula for this incorporated in the Pay Agreements.
- 2. To illustrate this with a notional rate:-

Actual outside rate (from an organisation with a 1 July settlement date)

£11,000

Movement in RPI

i. July to mid-December

6%

ii. Forecast increase mid-December to 1 April

3%

"Uprated" outside rate (ie adjusted to notional 1 April rate)

£12,000

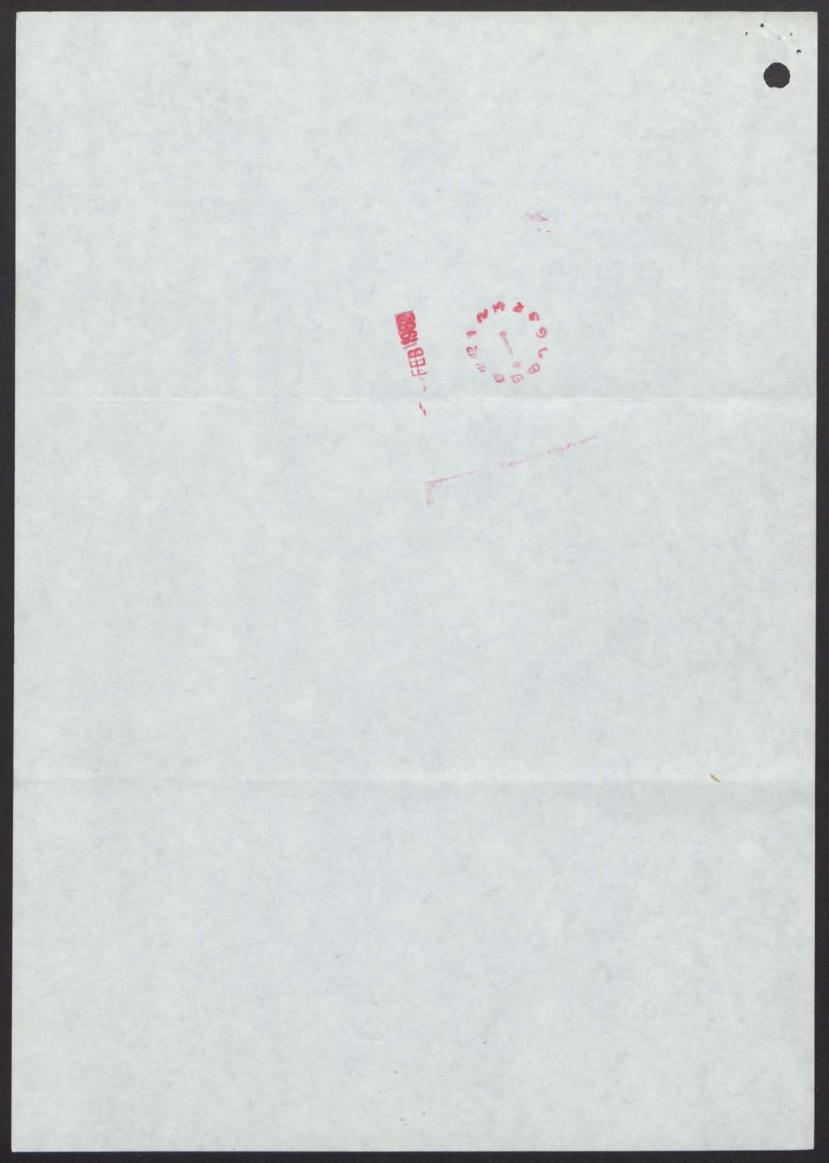
3. In processing the pay research evidence all the outside rates were uprated before being grouped into league tables (ranging from lowest to highest) to identify the analogue which lay at the median (or mid-point) among the different rates. The amount of uprating included in each rate naturally varied according to the settlement date of the outside analogue. The process of uprating all the outside rates was obviously likely to affect which rate actually had the median position in the league table. It certainly meant that the median rate in a survey was higher than it would otherwise have been (regardless of the amount of uprating the median rate itself contained). But the use of uprating in the way which has been described meant that it was not possible to distinguish between adjustments to take account of the absence of "latest rates" on the one hand and "time lag" on the other, since each outside rate was adjusted in a similar way.

The Effect Of Uprating

- 4. Uprating affected actual Civil Service salary levels; the earnings of a civil servant over a period of time compared with those of his outside analogue during the same period; and the percentage increase involved in Civil Service settlements.
- 5. In a pay system based directly on comparisons with outside pay rates the effect of introducing uprating was to increase Civil Service salary levels above those at which they would otherwise have been pitched. (The initial "step up" in salary levels due to uprating would have been matched by a "step down" in salary levels in the event of abandoning it while keeping the rest of the system). While uprating was in operation its most marked effect on salary levels occurred at times when prices were rising rapidly because this produced a large uprating of the outside rates.

- The effect of uprating on comparative earnings over a period of time depended on a number of factors. If pay and prices were moving at the same rate then uprating would have produced an equivalence in real earnings of the civil servant and the median analogue over a pay year. With pay moving more rapidly than prices (as had historically been the case) the civil servant would have earned less in real terms in a pay year than his outside analogue. Coversely if prices moved ahead more rapidly than pay then the civil servant would have had higher earnings in his pay year than the analogue. The effect of uprating on the size of the percentage increase involved in successive settlements was more complex. It depended on changes in the rate of inflation and in the rate at which the pay of outside analogues increased and the relationship between these two factors. The use of a price factor in the uprating procedures meant that in successive settlements with uprating a higher percentage increase resulted when the rate of inflation was increasing than would have been the case with a system which did not use uprating. Similarly, a lower percentage increase than would otherwise have
- in successive settlements was more complex. It depended on changes in the rate of inflation and in the rate at which the pay of outside analogues increased and the relationship between these two factors. The use of a price factor in the uprating procedures meant that in successive settlements with uprating a higher percentage increase resulted when the rate of inflation was increasing than would have been the case with a system which did not use uprating. Similarly, a lower percentage increase than would otherwise have been the case resulted when the rate of inflation was dropping. This meant that in a period when prices and pay moved in a roughly similar way Civil Service pay settlements with uprating would keep more in line with the current rate of pay increases outside the Service, rather than the prevailing rate of increase at the time of the actual settlements reflected in the pay research evidence. But, if the rate of increases in prices and pay diverged, then the use of a price factor in uprating would inevitably have produced more erratic effects on the relationship between the percentage increases in Civil Service pay settlements and settlements at the time outside the Service. Since the uprating procedures were only applied in full to two pay research settlements the evidence of their effects in practice is limited.
- 8. The 1979 settlement following the re-introduction of pay research was the first in which the uprating procedures applied in full. This resulted in an initial "step-up" in salary level. The payment of the increases under the settlement was staged but the average percentage increase in a full year for the Administration Group was 25 per cent. Without the initial "step-up" resulting from the introduction of "uprating" the increase would have been about 17 per cent. So the effect of uprating the rates in the pay research evidence to take account of the lapse of time since the outside settlements was to add about 8 per cent both to Civil Service pay rates and to the size of the settlement.
- 9. In 1980 the average percentage increase in Administration Group pay was 18.75 per cent. The element in the new 1980 pay rates which derived from uprating was about 13 per cent. In other words the effect of uprating the rates reported in the pay research evidence was to produce pay rates 13 per cent higher than they would otherwise have been. But because the 1979 settlement rates already contained an element due to uprating the effect of uprating in 1980 on the percentage increase in pay between 1979 and 1980 was only about 5 per cent. In other words, the uprating of the rates reported in the 1979 pay research evidence resulted in a degree of anticipation of the increases recorded in the rates reported in the 1980 evidence.
- 10. If the pay research arrangements had remained in force for 1981 and 1982 the probably effect of uprating would have been to reduce by a little the size of pay research settlements in those 2 years because of the effect of falling inflation. But no accurate estimate can be made since the effect would have depended on the level of rates actually reported in the pay research surveys and the amount of time which had alapsed since the outside settlements giving rise to them.

Il. As will be seen, the effect of uprating on the level of pay settlements was complex. But the simple point which emerges is that as a result of uprating Civil Service salary levels were not only higher than they would have been if they had simply been based on the available evidence on outside rates at the time when this was collected by the Pay Research Unit; they were also higher than they would have been if this evidence had simply been updated to reflect the outside rates which were actually in payment at the time of the settlement.



CONFIDENTIAL



MBPM MSPM MSY/2

Foreign and Commonwealth Office London SW1

3 February 1982

Dear Coffrey.

CIVIL SERVICE 'SINGLE OUTSIDE ANALOGUE' GRADES

I have seen a copy of your letter of 25 January to Willie Whitelaw.

I am writing, in Peter Carrington's absence, to say that the FCO complex employs only a handful of staff in these grades and that we would be content with the approach described in your letter.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, the Lord Advocate and to Sir Robert Armstrong.

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The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer HM Treasury Parliament Street LONDON SWIP 3AG

I think it is important that on this, as on other issues, we should present the Inquiry with as clear a statement on the Government's views as we can. Where we see a need for change we should point the Committee firmly in the direction in which we want to move.

The draft paper for the Committee enclosed with this letter covers in an analytic way most of the basic ground. It also offers some broad conclusions about the way forward which I hope we can agree to commend to the Committee:

(a) General Approach

closely.

In my view, there is a strong case for relating pay more closely to personal performance despite the opposition of the Civil Service unions to this approach. We are committed to improving incentives in the Civil Service and a merit pay scheme is a widely recognised way of doing this in non-manual employment generally, even though it is more common in the private sector than in the public services. The prospect of promotion at some point in the future is likely to prove an increasingly inadequate motivator for the bulk of our staff.

(b) Type of Scheme

The draft paper suggests that:

Permanent and Deputy Secretaries should probably be excluded from any scheme;



(ii) Range pay might be more appropriate at Under Secretary and Assistant Secretary level;

(iii) For the main grades below this level a more flexible use of incremental scales would appear the most convenient approach with provision for increments to be withdrawn or withheld, for "double increments" for outstanding performance and possibly for some supplementary payments at intervals for staff of good quality at the top of their scales. At present all but a very few staff receive increments as a matter of course so the system has no incentive effect.

(c) Resources

When we were considering a year ago the possibility of work being undertaken on merit pay schemes there was some concern at the possible growth in bureaucratic procedures which they might involve. If we believe that linking pay to performance would help us to improve the quality of management in the Civil Service, then some administrative cost will be worthwhile. But it is obviously important that any new arrangements should take up a minimum of extra resources while containing adequate safeguards against their abuse. The draft paper envisages combining merit pay assessments with the existing staff reporting procedures. If these are not adequate for this purpose then surely they need to be improved in any case. It also suggests that merit pay schemes could be implemented on a "nil cost" basis in terms of the total pay bill and I believe that is the approach we should follow.

I should be grateful to have your views on the draft paper by 12 February.

I am sending copies of this letter and attachment to the Prime Minister, to all members of the Cabinet and to Sir Robert Armstrong. I am also sending a copy to Sir Derek Rayner.

GEOFFREY HOWE

Introduction

In its initial evidence on future pay arrangements for the non-industrial Civil Service the Government has asked the Committee of Inquiry to consider whether there is a place for using merit pay in the Civil Service and if so how it should be applied.

2. In the Government's view, there are strong arguments for moving away from the present framework of fixed incremental scales or flat rates towards a system in which the pay of an individual has a more direct relationship to the quality of his performance. This paper considers possible approaches to changes in this direction. It is not concerned with the possibility of varying the pay of staff in the same grade to distinguish more finely between the rates of pay for different jobs according to their level of difficulty or responsibility. It is concerned only with approaches to merit pay arrangements designed to distinguish between different levels of personal performance in the same kind of work.

The Present Position

3. At present the great majority of staff up and including Assistant Secretary level are on incremental pay scales with virtually automatic progression. There are formal provisions for an increment to be withheld or withdrawn on grounds of discipline or/efficiency but these are rarely used. Staff at Under Secretary level and above are on flat rates. A detailed note on the use of incremental scales in the non-industrial Civil Service is at Annex A.

Scales or Flat Rates

4. The use of an incremental scale or pay range has advantages over a salary system confined to flat rates. Incremental scales reflect the fact that individuals take time to become fully proficient in all the work of their grade and make it possible.

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to recognise increasing experience and provide some incentive for staff to stay in an organisation. The use of a scale or range also provides a degree of flexibility in setting starting pay on recruitment and promotion. Inexperienced or untrained staff can be recruited at a lower cost than the salaries which an organisation needs to pay to more experienced staff. Starting salaries can be set higher up the range or scale for people who are older or who have particular qualifications or experience.

- 5. General practice outside the Civil Service is to use pay ranges, or incremental scales, with staff eligible to move through the range or scale by annual steps. The use of flat rates for all the staff in a particular grade will make pay rates look more attractive to new recruits, but less attractive to those who are more concerned with the rates of pay they could earn after being with an organisation for a number of years. Flat rates are more often found for a limited number of grades at the bottom of the grading structure where the task of the grade can be very rapidly learned so that the individual is almost immediately fully effective in his job.
- 6. Three examples of Civil Service scales and of the equivalent flat rates calculated on a nil-cost basis are in Annex B.

- 7. The Government believes that for the bulk of the non-industrial Civil Service it would be appropriate to retain pay scales or ranges rather than adopting flat rates. The question with which this paper is primarily concerned is whether advancement through a pay scale or range should in future be linked more directly to individual performance.

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3. As has been explained, incremental progression up a pay scale has been regarded in the Civil Service simply as a means of recognising increasing experience and length of service in a grade. The main form of reward for merit in the Civil Service has been promotion to the next grade, as and when vacancies occur, and the prospect of promotion has been the main incentive for individuals to perform well in their current grade. In a few areas there are special arrangements (mainly in the scientific grades) for individual "merit" promotions based on job performance rather than existing vacancies, but there are no arrangements for varying an individual's pay in his current grade to reflect his performance.

Previous Consideration of Merit Pay

9. The Priestley Royal Commission (1955) itself did not favour merit pay (1), mainly on the grounds that it was difficult in the Civil Service to assess the contribution made by individuals to particular projects. But the Fulton Committee (1968) recommended a system of ranges or pay "bands" for the top grades, together with a more flexible use of increments at lower levels (2). The Standing Advisory Committee on Higher Civil Service pay in its Ninth Report (1969) supported the introduction of pay ranges as a means of relating salary to performance. A comprehensive review of the structure of the Higher Civil Service was carried out by a joint team of civil servants and consultants following the Fulton Report (3), and recommended against the introduction of merit pay. The Top Salaries Review Body (successor to the

⁽¹⁾ Report of the Priestley Royal Commission, paragraph 319.

⁽²⁾ Fulton Report Volume I, paragraphs 213-219 and 226-229.

⁽³⁾ Report on the Structure of the Higher Civil Service published by the Civil Service Department in July 1970; Chapter X.

Standing Advisory Committee) considered these recommendations but nevertheless urged in both its Sixth (1974) and Tenth (1978) Reports that the case for merit pay ranges should be further examined (4).

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- 10. The House of Commons Expenditure Committee (1977) recommended that research should be conducted into the possibilities of relating pay and promotion to performance at all levels, and that consideration should be given to provision for speeding up or withholding increments according to performance (5).
- 11. Following the recommendations of the Expenditure Committee two reports were commissioned by the last Administration to examine outside practice in the use of merit pay:
 - i. from the Office of Manpower Economics (OME) into pay systems for senior management;
 - ii. from the Civil Service Pay Research Unit (PRU) into performance related pay systems below the most senior levels.

Copies of both reports have been made available to the Committee. A note on outside practice is at Annex C.

12. The Committee will no doubt have available to it other sources of information on the present practice of organisations other than the Civil Service and will be able to form some assessment of their experience.

⁽⁴⁾ TSRB Sixth Report, 1974, paragraphs 42-44; TSRB Tenth Report, 1978, paragraphs 39-40.

⁽⁵⁾ Eleventh Report from the House of Commons Expenditure Committee, 1977, paragraphs 129-132.

The Dusc for Harit Part 13. The juments in favour of clotting some Corn of merit pay system in order to relate pay to performance in t e Civil Service are as follows:-(a) It would be insirable to have a more effective means of row rling good enformance and englishing noor performance than promotion on the one hand and downgrading and dismissal on the other. For most staff the relevance of these measures is long-term if at all. (b) It is inequitable to reward competent and hard-vorking staff equally in financial terms with those who are less capable and hard-working; and a finencial reward for good parformance would make the Service more attractive to more able staff: (c) As the size of the Civil Service is reduced there will be proportionately fewer promotions. There will therefore be a greater need for other incentives especially for those staff (at present about half but prospectively a greater proportion) who have reached the maximum of their scale or are on fixed salary points. Merit payments could help to maintain their motivation and morale; (d) Outside organisations have successfully introduced merit pay schemes and where possible Civil Service terms and conditions of service should be reasonably consistent with outside practice. Both the pressures and the incentives which apply to private sector employees should apply as far as possible to Civil servants too. 14. There are problems involved in the use of merit pay arrangements in the Civil Service but the Government believes that these could be overcome in practice and as experience of merit pay arrangements is gained by management and staff:-(a) It is argued that the nature of public service work creates a particular need for co-operation and shared objectives. For the most part it does not land itself MANAGEMENT IN CONFIDENCE

to the clear te surement of individual parform se her can performance be judged by quantitative critaria such is a profit and loss secount or coles figures. But it the same time assessments of the performance of individual civil servents do have to be made for other management purposes and a merit pay system could be linked to those. The criteria to be used could be sufficiently wilely framed to cover effort as well as achievement and to enable payments to be based on an all round assessment of performance; (b) There is always a risk that merit pay arrangements may demotivate those who do not benefit more than it improves the motivation of those who do. But this applies inside as well as outside the Civil Service and has not prevented the widespread use of merit pay systems; (c) In a very large organisation like the Civil Service (and working in a public service environment) it would be difficult to ensure complete consistency of standards both between departments and between individual managers within departments particularly where posts are widely spread across the country (and in some cases located abroad). But these are problems which have to be faced already in the staff reporting system and there could be provision for a review of cases where decisions reached by managers at a lower level were contested; (a) Extra staff might be required in personnel areas to ensure that a performance based scheme was being applied fairly and did not become automatic in its operation and and to ensure adequate control over pay costs. These processes would also take up additional management time. But any additional siministrative costs should be outweighed by gains in more effective management and the incentive for better performance by management and staff alike. 15. On balance the Government believes therefore that these difficulties could be overcome in securing the advantages of a merit pay system in promoting the more effective management and motivation of staff. MANAGEMENT IN CONFIDENCE

- (b) more flexible use of <u>incremental scales</u> with provision to withhold and withdraw increments and possibly to accelerate incremental progression;
- (c) bonuses payable for a year at a time, or as a lump sum. Bonuses could also be used to supplement range pay or incremental scale systems.

(a) Range Pay

have points only at the 19. A pay range could either/fixed/minimum and maximum with freedom to pay individuals at any point between them; there could be fixed intervening points as well. In either case the appropriate span of the pay range for each grade would be fixed each year and would take account of any agreed general The actual pay point of individual level of pay increase. members of the grade would vary within the range on the basis of annual reviews of performance. /some systems of range pay separately identified increases are awarded in terms of a general pay increase and of a merit pay increase; in others a combined/undifferentiated increase is awarded. There would be little difficulty in adapting existing incremental scales to pay ranges. There would be a transitional problem in the introduction of pay ranges in place of the present flat rates for Open Structure grades (particularly given the present degree of compression of salaries in the senior grades). In theory the pay levels of individuals could be reduced if their performance was poor but in practice this would more probably take the form of a reduction in relative pay (except in disciplinary cases). A range pay system, particularly if it did not use fixed intervening points between the minimum and maximum, would offer more flexibility than an incremental system.

The main difference would be that there would be no expectation of advancement along the pay range. This would be entirely dependent on performance.

(b) Revible Use of Increments

20. In alternative approach, particularly for those grades where incremental scales are already in operation, would be to edapt the way in which these scales are applied by introducing a greater discretionary element into the award of increments:-

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(i) More frequent withholding or withdrawing increments

It would be possible to introduce separate arrangements to consider whether an individual should receive the next increment on his scale. Or alternatively the arrangements for incremental progression could be linked to the annual staff reporting system. The present position on this is described at Annex D. In future a Box 3 marking in the annual staff report ("good") could be made the minimum condition for incremental progression and a Box 4 ("fair") the minimum for retention of existing increments. This would mean unhindered progression along an incremental scale only for fully satisfactory staff. (Between 5 per cent and 10 per cent of staff receive markings below Box 3 at present though there are departmental differences.) There would perhaps need to be provision for the review of decisions reached in individual cases by lower management where these were contested.

(ii) "Accelerated" increments

There could also be provision for staff receiving very high performance markings, or a series of these, to receive more than one increment within their scales. But the scope for "double increments" on the basis of existing scales is now limited as a result of the trend to shorter incremental scales both inside and outside the Civil Service. In conjunction with a merit pay scheme based on the more

THE RESERVE OF THE PROPERTY OF THE flexible use of increments it might be desirable to consider moving to longer scales with more incremental steps in order to provide sufficient room for more differential treatment of staff of different quality; (iii) "Additional" increments. Partly because 50 per cent of staff on incremental scales are already on their maximum special treatment would be needed for staff, who though of good quality, are not suitable for promotion or for whom there are no vacancies in the next grade. One possiblity would be the introduction of an "additional" increment for staff of good quality after they had been at the maximum of their pay scale for a specified number of years. An alternative approach would be the award of bonuses. 21. A merit pay scheme based on incremental scales might therefore combine more flexible provision than at present for withholding or withdrawing increments with the possibility of "double increments" for exceptionally good performance and (perhaps) additional increments for staff who had reached their maximum. (c) Bonuses 22. Bonuses, payable either as lump sums or for one year only as an addition to monthly or weekly pay, would be an alternative form of financial incentive. They could be introduced alone in combination with the present flat rates and incremental scales; or as a supplement to range pay or the flexible use of incremental scales (including for example, payments to staff who had reached the maximum of their scale). Bonus payments would provide a clear recognition of meritorious performance or special effort; and they would have the advantage of flexibility since (unlike accelerated or additional increments) they would be only a temporary addition to pay. But they may be more appropriate as a supplement to a more general linking of pay rates to performance. Different Systems at Different Levels? 23. Broadly, range pay is the type of merit pay which both the Fulton Committee and the TSRB recommended for senior grades of MANAGEMENT IN CONFIDENCE

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the Divil Service. It is the most common form of may system for senior members outside and is used by some large public's sector organisations. To extend incremental scales into the Open Structure (as the basis for withholding or speeding up rogress along a scale) would not provide as much flexibility and might lead to a greater "empectation" of advancement along the scale. Range pay might therefore be more appropriate for a merit scheme covering a relatively small number of senior staff, perhaps at Under Scoreter; and Assistant Scoretery level. There would be difficulties in any case in introducing merit pay for the most senior grades of Permanent Secretary and Deputy Secretary. The Government considers it important to avoid involvement of Ministers in decisions about the pay of individual career civil servants and these two grades might therefore need to be excluded from any scheme.

24. At the lower grading levels much larger numbers of staff are involved and it might be administratively preferable to retain the use of incremental scales while introducing a greater degree of discretion so that there is some additional financial reward for staff who perform particularly well and financial penalties for those whose performance fall below the required

General Considerations

standard.

wary?

25. Naturally the details of any mierit pay system for the Civil Service would need to be worked out and refined in the light of experience. There are a number of general considerations which would have to be borne in mind:-

11.

(a) Legal Constraints

series pay errangements could be introduced at once as part of their conditions of service for new recruits or for staff promoted to a new grade. But if a scheme could be held to involve any worsening in the existing terms and conditions of service of staff at present in the Divil Service this could present legal problems.

Existing staff might have to be offered the alternative of retaining their present pay and conditions (eg their existing incremental rules and scales) as an alternative to accepting the new scheme. But since a refusal to accept the new scheme would be treated as rendering staff incligible for any subsequent annual increases in pay (as opposed to incremental increases on their existing scale) there would be an obvious incentive for staff to accept the new arrangements at the outset.

(b) Dosts

An important factor in considering any merit pay arrengements would be their cost. The ain would be to meet the cost of "merit" payments from within a fixed total pay bill (however that was determined under a new pay system). There could be two possible approaches:

- (i) to aim at a rough balance between extre cost of payments above an "average" level and savings from payments below that level;
- (ii) to set general pay rates at a level which took account of the estimated additional cost of merit pay supplements.

The method to be adopted would depend partly on the nature of the merit pay scheme and partly on the extent to which Departments were given discretion in the operation of merit pay arrangements. A department could be given authority to vary payments to its staff within an overall pay bill figure. But if a scheme covered only the more senior grades there might need to be some arrangement for re-distributing the cost of merit payments between Departments to take account of the small number of senior staff in some Departments and departmental variations in overall quality.

(c) Confidentiality

There is in general no restriction on the publication of information at present about Civil Service salaries. If a merit pay scheme were introduced with more flexibility in determining individual salary levels, it would be necessary to consider what, if any, degree of confidentiality would be needed. Information could be made evailable freely on the spans of the incremental scales or pay ranges or on the size of bonuses available and on variations

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Conclusions

- 26. The Government will welcome the views of the Committee on the principle of introducing performence-based pay systems into the non-industrial Civil Service and on the basis on wich they might be applied in practice.
- 27. The present paper has suggested that:
 - (a) there are in principle strong arguments for moving away from the present framework of fixed incremental scales or flat rates towards a system in which the pay of an individual has a more direct relationship to the quality of his performance;
 - (b) morit payments might be based on range pay, the more flexible use of increments or bonuses:
 - (c) the use of range pay might be appropriate at more senior levels (perhaps for the Under Secretary and Assistant Secretary grades) and the more flexible use of incremental pay scales at lower levels. It might be appropriate to exclude the most senior grades of Permenent Secretary and Deputy Secretary from any menit pay arrangements;

(1) it would be necessary to exercise proper cost control over the operation of any marit pay system and to decide how far condidentiality should be operated over the rates of pay a real by individual civil servants.

recorded to INCREMENTAL SCALES IN THE NOW-INDUSTRIAL CIVIL SERVICE Introduction 1. This note describes the present use of fixed incremental pay scales in the non industrial Home Civil Service. 2. As the Factual Background Memorandum described*, Civil Service posts and the staff who occupy them are grouped into grades. The posts in a grade are of emparable job weight and responsibility level, and all members of a grade have common pay rates. Over 98% of permanent staff work in grades whose pay takes the form of fixed incremental scales: ie a designed series of points between a minimum and a maximum through which the individual progresses according to pre-determined rules. 3. Almost all other civil servants are paid on flat rates. include all those in the Open Structure at Under Secretary level and above. Flat rates are also paid to some staff at lower levels where a post is at the top of a hierarchy (such as Prison Governors (Class I)) and to some staff on short-term engagements. 4. The pay scales for each grade are reviewed annually and the revised rates are promulgated as part of the annual pay settlement. (A copy of the 1981 'Code Memorandum' listing each of the main scales below the Open Structure has been made available to the Committee). The attached Table gives examples of some current incremental scales, calculated on a nil-cost basis. The Present System 5. The system of regular progression along pay scales is of long standing in the Civil Service. At one time increments depended on the provision of a certificate of satisfactory service by a superior officer. Since in practice these were rarely withheld, the requirement of certification was removed during the Second World War * Factual Background Memorandum on the Mon-Industrial Home Civil Service, submitted to the Inquiry on 7 September: Chapter 2, paragraphs 2.2 - 2.4

on grounds of administrative economy. The normal practice is that staff move automatically each year to the next incremental point (until they reach the maximum) unless their annual staff report is an adverse one. Even then other sanctions (including premature retirement procedures) may be regarded as more appropriate, and in practice increments are withheld or withdrawn extremely rarely.

- 6. The philosophy underlying incremental scales is that the rate of pay for the grade is the scale taken as a whole together with . the rules for progression through it. The basic assumption is that all competent staff will benefit from the full range of the scale. Under the pay research system the aim was accordingly to produce incremental scales which would reflect what equivalent staff in the outside analogue organisations would get as a result of normal pay and career progress. Information was collected by the Pay Research Unit about the maxima and minima of the pay scales in analogue organisations (where scales or ranges existed) and about the number of intervening steps and the rules about progression through these. The evidence did not provide comparisons of the actual distribution of staff at different points across a scale or range at any one time; but where it indicated that a proportion of outside staff did not reach the maximum of their scale (eg where merit pay arrangements or an 'efficiency bar' operated) the analogue rates were adjusted downwards in the pay research process to reflect the level normally attainable. Therefore the maximum of the Civil Service scale would not be based on pay rates which only a limited number of staff on outside scales or ranges could expect to receive but instead was intended to match the attainable maximum on the basis of the normal career progression of an individual of average competence. scales had been agreed which reflected rates of progression outside on this basis, any subsequent changes were made on a 'no extra cost' basis.
- 7. A strict application of the pay research system would have produced somewhat higher Civil Service scales if these had been associated with a merit pay system which altered the "normal" progression up these scales with the cost of a higher maximum offset by savings.

- 8. Apart from the limited use of the provisions to withhold or withdraw increments there are two main exceptions to the present automaticity of incremental progression. First, there is provision for special increases* for staff in certain grades for acquiring prescribed qualifications or on satisfactory completion of a period of service. Second, for some grades there is an efficiency bar at a certain point on the scale, beyond which the individual cannot proceed until he has shown (eg by passing an examination) that he is competent to perform the highest duties of the grade. In practice, however, the great majority of civil servants, unless they resign or achieve promotion beforehand, reach the maximum of their scale. The proportions vary but about 35% of staff at clerical levels are on their maximum and 70-75% of staff at Senior Executive Officer, Senior Principal and Assistant Secretary levels. For the Service as a whole the average is some 50%.
- 9. The length of scales is not determined by any precise formula. The present scales have evolved over time under the influence of changing management requirements, taking account of evidence provided through pay research on the practice of organisations outside the Civil Service. An important factor is the relationship of scales to career progression. Some of the longer scales cater for several differing streams. The Clerical Officer scale, for example, contains 11 points in all, comprising five age-related points for entrants between 16 and 20 and a "main scale" with the further six points which entrants aged 21 and over enter directly. In general, however, there has been a trend both outside and inside the Civil Service towards shorter scales.
- 10. "Age pointed" scales, such as the Clerical Officer scale mentioned above, are widely used both in the Civil Service and outside, particularly where there is external recruitment to a grade. (An age-pointed scale may be defined as a pay scale on which some or all of the points are linked to a particular age, and the staff on these

^{*} An example of a special increase is the increase of £336 payable to Cadet Valuers on passing the Part 2 examinations of the Royal Institute of Chartered Surveyors.

An example of a scale with an efficiency bar is that for draughtsmen, who can progress only to the final four points of their scale after successfully completing a course run for the Civil Service by Kingston Polytechnic.

scales usually receive an increment on their birthday.) Such a scale ensures that an entrant to a grade who is above the minimum age does not receive more pay than an individual of the same age who entered the grade at the minimum and has progressed up the scale by annual increments. In the Civil Service such scales usually start at the minimum age at which it is normally possible to have obtained the entry requirement of the grade; and age points continue to the age by which most, if not all, external recruits will have entered the grade.

Costs

- 11. The average value of an increment for those who receive one is currently 4.6% of salary, but as half the staff are on their maximum the total gross cost of additional incremental payments each year is 2.3%.
- 12. In conditions of stability a fixed incremental system does not in itself add to the pay bill from year to year. If the flow of staff into, through and out of each grade is uniform, then the pattern of distribution of staff across the various points of the scale will not change from year to year. The effect is that the cost of increments paid to those moving up the scale is counter-balanced by the lower rates paid to new entrants to the grade. However, if the rates of recruitment, and wastage and retention alter from year to year there can be some additional cost or saving in the overall pay bill. If an organisation is expanding, a fixed incremental system will marginally reduce the pay bill by comparison with a system of flat rates because the proportion of staff at the lower points of the incremental scales will increase. Conversely when an organisation is contracting there will be a marginal increase because proportionately fewer staff will be entering the scales at their lower points. The effect of this was to add 0.5% (or £15 million) to the Civil Service pay bill in 1931-32.

DISTRIBUTION OF THE POPULATION WITHIN TYPICAL ADMINISTRATION GROUP GRADES

SENIOR EXECUTIVE CFFICER		EXECUTIVE OFFICER			CLERICAL OFFICER		
£	92	AGE	£	7º	AGE	£	50
9232	0 (ie 0.1)	18	4069	0 (ie 0.06)	16	2594	0 (ie 0.07)
9553	1	19	4578	0.5	17	2895	1
9928	2	20	5273	7	18	3301	2
10302	10		5744	10	19	3464	3
10730	15		6225	14	20	3627	3
11265	72		6696	16.5			
	400		7247	52		3976	10.5
100				100		4111	8
				100		4251	8.5
						4392	13
						4701	13
						5102	38
Para and		-					100
Market Street		1					

Note Flat rates calculated at "nil extra cost" and based on staff numbers and incremental distributions at 1 October 1980 would be £11,047 for the SEO grade; £6,717 for EO; and £4,542 for CO.

OUTSIDE PRACTICE

- 1. The 1973 report on incremental payment systems by the Office of Manpower Economics remains the most comprehensive source of information prepared within government on the types of pay systems used outside the Civil Service. More up to date information on outside practice is available in the reports on merit pay by the PRU and the OME.
- 2. In 1973 OME found that over 90 per cent of non-manual employees in the public sector were on fixed incremental scales with automatic progression. In organisations using this method of payment a relatively small number of white collar employees were paid on flat rates, mostly in catering and other ancillary services or at the most senior level in the organisation.
- J. In the private sector the OME found a much smaller percentage of non-manual employees on fixed scales or, (even less commonly) flat rates. Some 80 per cent to 90 per cent of management and other senior staff were paid under variable systems: mainly pay ranges with considerable flexibility in the allocation of salary points. But most people on variable systems, apart from those at the top of their range, received some annual addition to their salary in recognition of continued service and greater experience. Fixed incremental systems were used more for clerical and technical staff. One survey quoted by OME found that 40 per cent to 50 per cent of firms used age scales for male clerical and office staff over 18 although 25 per cent or less at age pointed scales above 20 years. Another survey reported fixed scales with limited flexibility for 25 per cent of technical staff and 35 per cent of clerical staff. Reward for long service was recognised by the payment of an annual bonus in 8 per cent of the firms.
- 4. The later reports by the OME and the PRU were carried out in 1979. These indicated a widespread use of performance-related pay especially at senior levels. 93 per cent of the private sector organisations surveyed by OME had discretionary pay systems for staff at executive, board member and senior management levels. These enabled pay adjustments to be used not only for recognising merit but also for other incentive purposes such as encouraging staff to accept job moves or to discourage them from leaving. In some organisations merit systems operated for senior but not for junior managers, particularly if there was collective bargaining on salaries at lower levels. There was a wide variety of forms of merit pay systems in use including range pay, bonuses, profit sharing and share incentive/option schemes. The PRU study found that peformance-related pay systems were widely used, especially in the private sector where they applied to more than three-quarters of the occupational groups covered by the survey. In

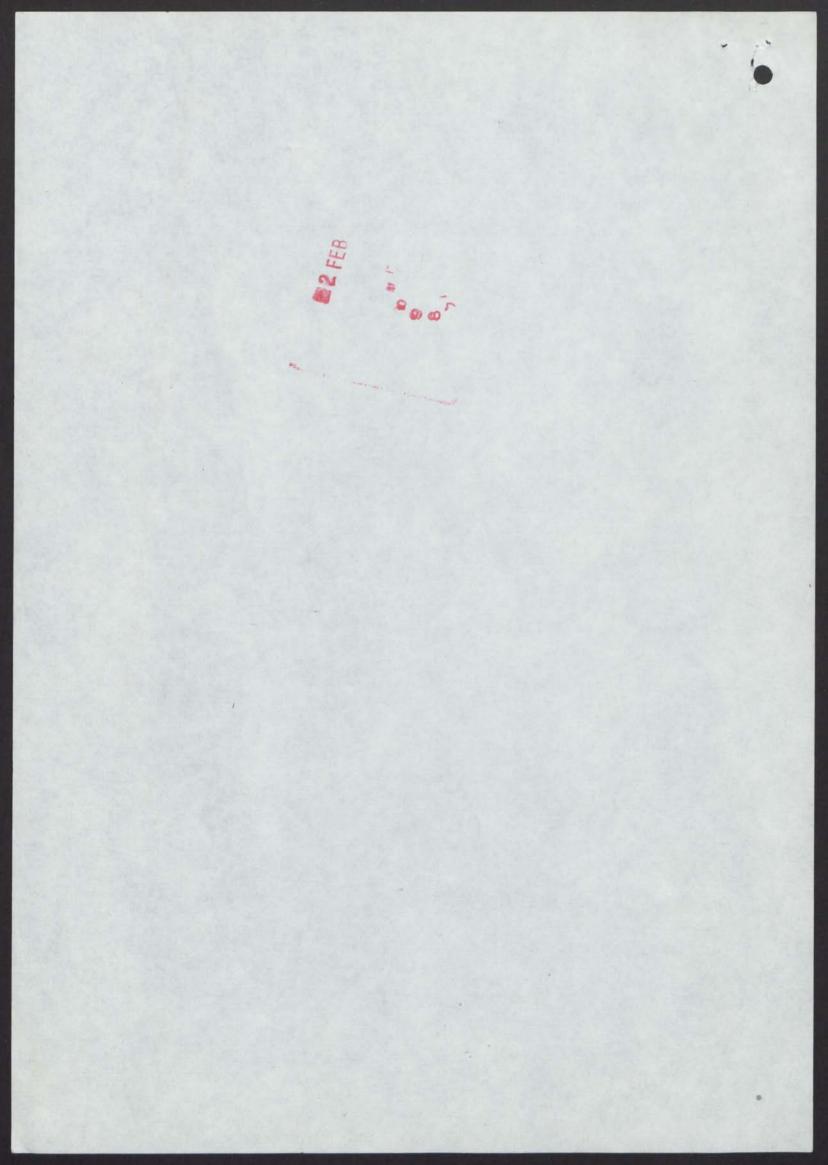
the public sector and in non-manufacturing organisations, however, automatic incremental scales predominated. The survey found an increasing incidence of performance-related pay as responsibility levels increased and this pattern was consistent in both the private and public sectors. Over half of organisations in the public sector paid their senior and middle managers on a performance-related system and nearly all organisations in the private sector did so. Again a wide variety of pay systems was reported. These included flexible incremental scales with provision for varying the rate of progression and pay ranges. Most performance-related pay systems were linked to more general procedures for staff appraisal.

Withholding and WithGrawal of Increments

- 1. As is explained in Annex A, grades at Assistant Secretary level and below are paid on incremental scales with fixed minima and maxima and annual progression through the intervening points. Departments have discretion to withhold or withdraw increments on disciplinary or inefficiency grounds but these provisions are rarely used. The criteria for "unsatisfactory performace" are markings in the bottom two boxes (5 and 6) in the annual report form. Two Box 6 markings can lead to compulsory retirement. Legal advice is that on the basis of present rules an increment could be withdrawn for a Box 6 marking and withheld for a Box 5 or 6 marking.
- 2. A very small proportion of staff receive Box 5 or Box 6 markings, and persistent poor performance may lead to the institution of compulsory retirement procedures, rather than the application of financial sanctions. Cases of unsatisfactory performance are, however, frequently found to be due to serious personal or domestic problems which make pay or other sanctions inappropriate.
- 3. A full list of the "boxes" and rough proportions of staff awarded them is as follows:

<u>Bo</u>	x No	<u>Definition</u>	*Rough Proportion of Staff with this Marking
1	Outstanding	Exceptionally effective)	
2	Very Good	More than generally () effective but not () positively outstanding ()	40% - 75%
3	Good	Generally effective	20% - 50%
4	Fair	Performs duties moderately well	5% - 10%
5	Not Quite Adequate	Definite weaknesses) make him/her not quite) good enough to 'get by'	1%
6	Unsatisfactory	Definitely not up to the duties	

*Note These figures are from a sample of Departments. They show the range within which the figures from individual Departments vary.





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1 February 1982

MISC 66(82)4

The Prime Minister saw a copy of the above paper over the weekend, and commented against the second and third sentences of paragraph 8 that the tax thresholds (£8,500 a year and £200 a year) could be raised. She has not, however, expressed any general view about the desirability of the proposed season ticket arrangement.

MCS

Peter Jenkins, Esq., H.M. Treasury.





DEPARTMENT OF EDUCATION AND SCIENCE

NBPM HUS 2/2

ELIZABETH HOUSE, YORK ROAD, LONDON SEI 7PH TELEPHONE 01-928 9222

CONFIDENTIAL

FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer HM Treasury Parliament Street London SW1P 3AG

2 February 1982

Den GoerThey,

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

I have seen a copy of your letter of 25 January to the Home Secretary, and agree that we should maintain the links between Civil Service SOA grades and their outside comparators, and that the additional costs involved should be met within existing Departmental cash limits.

Related problems may arise for Research Council and university and voluntary college staff who are not civil servants. You may know that last Autumn I pressed and Leon accepted the case for additional cash to be provided for the universities and the Medical Research Council for clinical staff paid on the same rates as doctors in the NHS, should the latter receive more than a 4% increase. I see from the E(PSP) (82) 1st Meeting minutes, Item 2, that this point may now arise again. There are also other staff employed by the Medical Research Council paid on NHS rates and agricultural workers and marine grade staff employed by the Agricultural Research Council and Natural Environment Research Council respectively. The majority of Research Council staff are of course paid on Civil Service rates. Most staff in the voluntary colleges are paid on rates determined by the local authorities. I record these now because they raise greater potential difficulty for my cash limits and while I shall, of course, aim to keep within these we shall need to keep an eye on the wider impact of particular pay settlements.

Copies of this letter go to the Prime Minister, members of the Cabinet, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

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QUEEN ANNE'S GATE LONDON SWIH 9AT

February 1982

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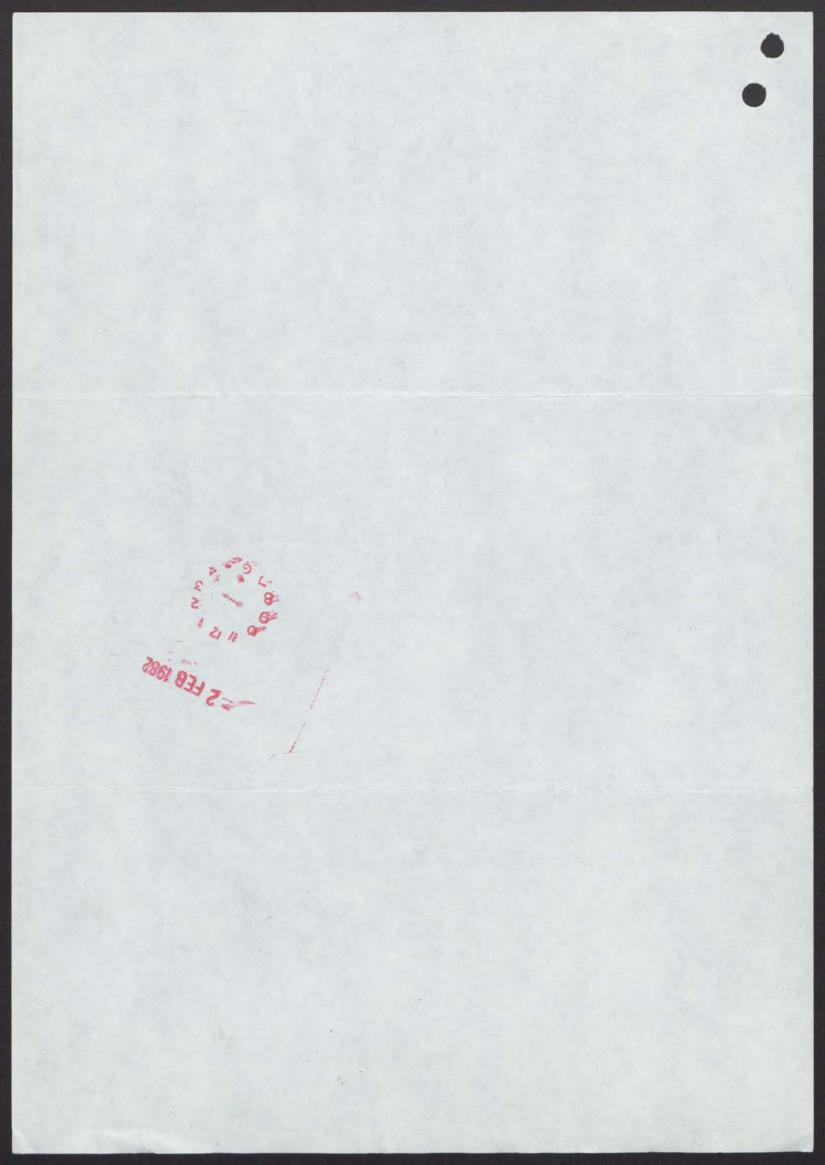
CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for your letter of 25 January about the treatment in this round of the pay of "single outside analogue" grades in the civil service.

I agree that the links between the "single outside analogue" grades and their outside comparators should be maintained in this round, with the additional costs being met within existing departmental cash limits.

I am copying this letter to the Prime Minister, members of the Cabinet, the Lord Advocate, the Attorney General and to Sir Robert Armstrong.

The Rt. Hon. Sir Geoffrey Howe, QC. MP.



PRIME MINISTER

Tactics and communications (MISC 66(82)5)

In MISC 66(82)5 the chairman of the Office Group (MISC 67) sets out the proposed tactics for the 1982 pay negotiations in the non-industrial civil service. In paragraph 2 the paper stresses the objective that the Government should be seen to have fulfilled its assurance that there would be "room for genuine negotiations". To this end the following timetable is suggested:

- i. an exploratory meeting on Thursday 4 February at which the Official Side will listen while the unions argue their case;
- ii. a second meeting around the middle of February at which the Government's offer would be tabled;
- iii. unless the unions break off discussions, a third meeting at which some advance would be negotiated on the Government's initial offer;
- iv. arbitration beginning in late February/early March with a view to an award around end-March/early April.
- 2. It is proposed that the meeting on 4 February should be held in a low key at official level but that the statement at Annex A to MISC 66(82)5 should be issued; no decisions are sought about the handling of the second meeting at this stage.
- 3. In his minute of 1 February the Chancellor of the Exchequer has drawn attention to the link between the announcement of any improved pay offer above 4 per cent to the nurses and other NHS groups and the handling of the civil service pay negotiations. If the public expenditure issues can be resolved, the proposal is that about half those employed in the NHS (some 600,000) should receive increases of $6-6\frac{1}{2}$ per cent while the remainder should get no less than

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4 per cent. The Secretary of State for Social Services wants to be in a position to make this offer as soon as possible.

MAIN ISSUES

- 4. The most immediate issue concerns the handling of the meeting on 4 February. There appears to be no difficulty about the proposal that this should be a low key exploratory meeting at official level. The Government would not be ready to deploy an initial offer on Thursday, and there is a clear need for the Government to make some move. The statement at Annex A is designed to lessen the risk that the unions will make all the running in publicity after the meeting, and to get across both publicly and to the staff some key points that the assurances about genuine negotiation and access to arbitration still stand, that the union claim is unrealistically high; and that the Government will soon be making an offer which takes account both of its duty to the public and its managerial obligations, and reflects the recruitment and retention position.
- 5. The crucial stage is however the second meeting. If this meeting is to succeed the Government's offer has to appear both credible and reasonable, so that the unions do not have the excuse of claiming that the Government is not entering into genuine negotiations. In part this depends on the decisions which Ministers take about the nature of the offer. The perception of that offer will however be strongly influenced by expectations about the general level of public service pay. The timing of the announcement of the NHS pay offer is therefore a major tactical issue.
- 6. The Government's present position on public service pay generally was set out in the announcement about public expenditure cash factors on 15 September 1981:

"The pay factor does not imply that all public service pay increases will or should be 4 per cent. Some may be less, and some may be more. There is no automatic entitlement to any particular pay increase: each must be justified on its merits. The pay factor is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public service wage bill has to be met."

- 7. Although that statement was drafted so as not to rule out the possibility of a higher offer for some NHS staff, as well as a possible civil service arbitration award in excess of 4 per cent, the kind of offer now envisaged for the NHS may well seem a substantial relaxation of the Government's stance. There are three main options:
 - i. to announce the NHS offer before the civil service offer;
 - ii. to announce both offers simultaneously (which E(PSP) seemed to favour);
 - iii. to delay the NHS offer until after the civil service offer.
- 8. If either option i. or ii. is chosen there seems to be considerable danger that the civil service unions would reject the Government's initial offer out of hand. This argues for option iii. and for delaying the NHS offer until the civil service unions have had/to react to the civil service offer on its merits. There are however two considerations which argue in a contrary direction: first that the Government's later disclosure of the NHS offer could seem like sharp practice, and secondly that delaying the NHS offer could make the nurses more difficult to handle and could lead to an even higher NHS settlement in the long run.

HANDLING

9. Unless you wish to give the chairman of the Official Group an opportunity to introduce his paper, you will wish to invite comments first from the Chancellor of the Exchequer, and then from the Secretary of State for Social Services on the relationship with the NHS pay offer. The Chancellor of the Duchy of Lancaster may wish to comment on the implications for civil servants' morale and efficiency.

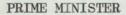
CONCLUSIONS

10. You will wish to reach conclusions on the following:

- i. the broad tactical plan set out in MISC 66(82)5;
- ii. the detailed proposals for handling the meeting on 4 February and in particular the draft statement at Annex A in MISC 66(82)5;
- iii. the timing of the NHS offer in relation to the timing of the initial offer to the non-industrial civil service.

RA

ROBERT ARMSTRONG



The Government's offer (MISC 66(82)6)

BACKGROUND

At your meeting on 7 January about civil service pay it was agreed that officials should start work on designing an offer that would appear as fair and reasonable as possible to an arbitrator. The offer should not be an across the board percentage increase but a series of revised pay scales which reflected the supply and demand for different kinds of labour. Officials should investigate how far it would be possible to reflect in these revised scales different pay levels in different geographical regions, as well as the scope for granting small or nil increases where there were large numbers of applicants for posts.

2. On 25 January the Chancellor of the Exchequer minuted you reporting the conclusions of the first meeting of the Ministerial Group on Civil Service Pay Negotiations (MISC 66). He explained that it had not proved practicable to introduce geographical variations, although something might be done about London Weighting. Part of the offer was to be set aside to provide extra awards in certain areas, eg data processing, and there was to be separate provision, outside the main pay negotiations, for dealing with small groups of specialist staff, such as nuclear inspectors, where recruitment and retention problems were acute. The main feature of the proposed offer was however a difference in treatment between those staff who were on fixed point scales or at the top of incremental scales, and those staff who still received annual increments - about half the non-industrial civil service. The offer to this latter group would be either nothing or perhaps 1 per cent, if there was a general "under-pinning" offer; the offer to the former category would be either $4\frac{1}{2}$ per cent or $5\frac{1}{2}$ per cent depending on whether there was a general "under-pinning" offer. The Chancellor acknowledged the bitterness which this approach might provoke and the issues of principle which might arise over the Government's view of increments. He said that officials had been asked to do further work.

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3. The paper by the chairman of the Official Group (MISC 66(82)6) is the product of this further work. Apart from some more detailed issues which are covered in paragraphs 11-15 of the paper, Ministers are invited to consider the following options:

Option A Nothing at the bottom of scales, 1 per cent for those receiving increments, and $5\frac{1}{2}$ per cent for those with at least one year's service at the top of the scale and those on fixed points.

(This is broadly the proposal set out in the Chancellor's minute of 25 January.)

Option B As Option A except that those receiving the top two increments on existing scales receive $2\frac{1}{2}$ per cent rather than 1 per cent, and those with one year's service at the top of the scale or on fixed points get $4\frac{1}{2}$ per cent rather than $5\frac{1}{2}$ per cent.

 $\underline{\text{Option C}}$ Full tapering from nil at the bottom to 4.3 per cent at the top.

There are also two variants of Options B and C, described as B+ and C+, under which those at the top get $5\frac{1}{2}$ per cent, as they would under Option A. It is thought that all the options could be accommodated within a 4 per cent cash limit, except for Option C+.

MAIN ISSUES

- 4. The various options will need to be tested against the principles on which Ministers have so far been agreed:
 - a. that the initial offer should be contained within the 4 per cent cash limit but there should be room for genuine negotiation;
 - b. that the offer should be designed to seem as fair and reasonable as possible to an arbitrator;
 - c. that the offer should reflect the Government's concern with recruitment and retention factors.

- 5. The meeting will first need to confirm that it accepts the judgement that it would not be practicable in this pay round to design a complex offer reflecting geographical variations and the detailed recruitment and retention position for each grade of staff, and that the proposals for particular groups (eg data processing staff and "shortage grades") are all that would be feasible this year. If this is accepted, the main choice is between a flat rate offer and some offer which discriminates on a "broad brush" basis, such as Options A, B and C and their variants.
- 6. Judged against the principles set out in para 4 above, Option A has some serious disadvantages. It would seem difficult to persuade an arbitrator that there are sound managerial reasons for paying more to all those who happen to be at the top of their scales or on fixed point salaries than those who happen to be receiving increments. (An example of the difficulty is the fact that all Government cleaners happen to be on flat rates rather than incremental scales, and it would be hard to explain why they should get much more generous treatment.) There is also the danger/unions will see this option as an attack on the concept of incremental scales and will walk out of the negotiations.
- 7. Options B and C are considerably easier to justify in terms of the basic principles. In either of these two options there is no arbitrary discrimination against all those who happen to be receiving increments, and it is easier to deploy the argument that the Government, for sound managerial reasons, is seeking to reward experience proportionately at all levels. Of these two options, Option C would be easier to justify to the arbitrator, simply on the grounds that the tapering is more gradual; the cost of full tapering is to reduce the increase of those at the top from 4.5 per cent to 4.3 per cent but this is only marginal.
- 8. In considering the two variants of Options B and C, Options B+ and C+, Ministers will need to consider how much weight to give to the advantage of offering $5\frac{1}{2}$ per cent at the top of the scale. Presentationally it may make the offer as a whole seem more generous, and there may also be sound managerial reasons for giving particularly generous treatment to those who have reached the top of their scales at a time when promotion prospects are likely to be unusually poor. Against this it should be noted that Option C+ cannot be accommodated within the 4 per cent cash limit. Ministers may feel that if

either of the "+" options are to be adopted, the extra sum available should be deployed at the second stage of the negotiations rather than in the initial offer. It may also be possible to design some variant of C+ which combines both the concept of continuous tapering and a more generous offer at the top but can still be contained within the cash limit.

- 9. Ministers may wish to compare this basic approach of options providing some "broad brush" variation with two other possible approaches a flat rate offer, and an offer with alternatives for discussion.
- 10. The main objections to a flat rate offer are that it would appear to pay insufficient regard to recruitment and retention considerations and would also give the Government a less satisfactory basis on which to argue before the arbitrator, since more attention would inevitably be paid to issues of comparability and the general level of pay settlements. Against this, a flat rate offer would have the benefit of simplicity, would lessen the dangers of a complex arbitration award (which could cause problems if Parliamentary override had to be invoked) and might provide a more straightforward basis on which to recast the civil service pay system following Megaw.
- 11. The main advantage of an offer containing alternatives is that it would provide room for more genuine negotiation with the unions at a time when there is little leeway over the overall value of the offer. The main disadvantage is that it may seem to weaken the position of Government as management. It would be more difficult for the Government to argue on managerial grounds for a particular option before the arbitrator if it had previously given the impression that it was prepared to drop the same option in deference to union preferences. This objection would be stronger if the alternatives were very different for example the choice between a flat rate offer and Option A; it would be less strong if the choice was more at the margin, for example between Options B and C.

Skilled, experienced and shortage grades

12. Ministers are asked to consider whether they approve the proposals in paragraph 11 under which:

- a. £5 million is set aside as a kitty for shortage grades such as nuclear inspectors;
- b. £1.2 million is provided to increase allowances for automatic data processing (ADP) staff;
- c. £0.75 million is provided to permit a 5 per cent increase in typing, proficiency, data processing and similar allowances.

Other conditions of service

13. Ministers are not asked to take any decisions at this meeting about the other improvements in conditions of service as discussed in paragraph 12.

Other matters

14. Of the issues discussed in paragraphs 13-15 the only matter on which a decision is sought is that cleaners, like other grades on flat rates of pay, should receive the same increase as that awarded to those on the top of their incremental scales under whatever option Ministers finally approve.

HANDLING

15. You will no doubt wish to give the chairman of the Official Group the opportunity to introduce MISC 66(82)6. You will then wish to invite comments in particular from the <u>Chancellor of the Exchequer</u>, the <u>Chancellor of the Duchy of Lancaster</u> and the <u>Secretary of State for Employment</u>.

CONCLUSIONS

16. You will wish to reach conclusions on the matters listed in paragraphs 18(a)-(f) in MISC 66(82)6.

RA

ROBERT ARMSTRONG





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10 DOWNING STREET

Prime Minister

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Civil Service My: MISC 66)

May Mr Blaker attend instead

of Mr Nott (in Italy)?

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Prime Minister 4

PRIME MINISTER



cc: Mr. Hoskyns

CIVIL SERVICE PAY

The meeting of MISC 66 on Tuesday morning, which you have decided to Chair, will concentrate on two papers: one on the shape of the offer, and one on tactics and communications. There will be a subsequent meeting of the group under the Chancellor's Chairmanship to consider less important issues, such as London Weighting. Because we thought that you would want to consider the papers over the weekend, Peter le Cheminant, who has been Chairing the official group, will be circulating two papers later this evening before the Chancellor has seen them; and although I have of course been involved in their preparation, I have not yet seen the final versions myself. Nonetheless the main issues for your meeting on Tuesday are I think clear.

There are two fundamental decisions about the shape of the offer:

- (i) Whether to stick with the decision you and your colleagues took earlier to make a disaggregated offer of different amounts to different groups, or whether to reconsider the possibility of a flat rate increase. There are undoubtedly difficulties about the disaggregated offer, which is bound to mean that large numbers of civil servants will get little or nothing. But I am sure it is right to go down this road, both because it is what is indicated by our general approach to pay, whereby we take account of the need to recruit, retain and motivate, and because it is much easier to find good management grounds for defending it before the arbitrator than if we pick a flat rate figure out of the air.
 - (ii) Whether to formulate the disaggregated offer around the incremental system. As I said in my earlier note, I am concerned that the Treasury's original proposal, under which there would be an extra increment at the top of each scale but nothing else, would look too much like a move towards the abolition of the incremental system at the very time that the Megaw

SECRET.

/Inquiry was

Inquiry was supposed to be considering its merits. I have therefore gently encouraged the official group to think about ways of formulating the offer in such a way that does not rest entirely on that basis, and the papers will show a number of possible approaches. The most promising of these, in my view, is to provide not only for an extra increment at the top of each scale, but also for some increase in pay at the upper end of existing incremental scales. would be readily defensible to the arbitrator on the grounds that it is not just at the top of each scale that we face particular difficulties in retention as a result of the worsened promotion prospects. Such a refinement, combined with the other elements already suggested for the package and reasonably clear presentation ought to enable us to avoid the charge of striking a blow on increments.

There are some quite important tactical points which ought also to be decided at your meeting. Briefly:

- (i) Should we hold back part of the package for a second round of negotiations? On balance I think this would be right, to keep the negotiating process going, (because we are committed to genuine negotiations), and the best thing to keep back would be the 1 per cent across the board increase. I very much doubt if a package containing a zero across the board increase is in fact more provocative than one containing 1 per cent.
- (ii) Should the opening stages of the negotiations, up to and including the point at which the offer is made, be led by officials rather than Ministers? I think they should, because we want to keep the temperature as low as possible, and to provide the unions with the escape valve of demanding to see Ministers if necessary.
- (iii) Should we contemplate presenting the unions with alternative proposals? I think not, because I do not see how we could subsequently say to the arbitrator management requirements. SECRET that our position was determined by the genuine

/Finally,

Finally, it is essential that, given the extended strike last year and the generally unpalatable nature of the offer we will be making, to create the best possible back-drop to the negotiations: obviously, anything the Chancellor can do in the Budget will help. But points you may wish to cover at your meeting include:

> The timing of any offer to the NHS groups. Chancellor will be minuting you separately about this, probably on Monday. The Ministerial Committee on Pay, which he Chairs, has agreed that Mr. Fowler may offer more than 4 per cent to some NHS groups, including the nurses. Clearly, we ought to try and get our offer to the civil servants on the table first, and to keep any drift above 4 per cent in the NHS to

I have townen mar you ! must be constitled before The devision is made. MUS an absolute minimum.

- (ii) The effect of the Government's decisions on the follow up to the Scott report. Officials are working, as directed by Cabinet, on action to increase contributions. An announcement at the appropriate time that Ministers have decided not to restrict benefits, and to recognise that the civil servants already pay more than other public service groups for their pensions, could be of considerable help.
- (iii) Manpower issues. We must try and avoid any announcements, such as on the introduction of new technology, which might have the effect of providing the unions with a new grievance about civil service manpower.

J.V.

29 January 1982



Ciro Service

29 January 1982

DOE Evidence to the Inquiry into Civil Service Pay

Thank you for your letter of 27 January.

Your revised paragraph 5 is entirely acceptable here.

MCS

D.A. Edmonds, Esq., Department of the Environment.

CONFIDENTIAL TELEPHONE 01-218 9000 DIRECT DIALLING 01-218 2111/3

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 20/17/6

28th January 1982

Dear Gelbrey

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for your letter of 25th January 1982.

I am content with the approach set out in your letter. MCD is, of course, the largest employing department of people in the "Single Outside Analogue" (SOA) grades. The link is particularly important in the current year's pay settlements in respect of the Royal Fleet Auxiliary Officers (who are a special case) and seamen, Fire Service Officers and industrial Firemen. The settlements for RFA officers and for firemen are some three months overdue.

I am sending a copy of this letter to the recipients of vours.

John Nott

The Rt Hon Sir Geoffrey Howe QC MP

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SWIA 2HH

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Howe QC MP



From the Minister

The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer HM Treasury Parliament Street London SW1P 3AG

28 January 1982

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

You will have gathered from my letter of 13 January to you about the pay of farm workers employed by my department that I endorse the general proposals for "single outside analogue" grades in your letter of 25 January to Willie Whitelaw. As you say, it would be difficult to argue that, for example, nurses, policemen and agricultural workers in the Civil Service should be paid on a different basis than those outside. There is also the point that to do otherwise than you propose would suggest that we have a pay policy from which those responsible - in some cases under statute - for settling the pay of certain groups have dissented.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, the Lord Advocate and to Sir Robert Armstrong.

PETER WALKER

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MANAGEMENT IN CONFIDENCE

Je JV



2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref: 27 January 1982

DeanNihael

DOE EVIDENCE TO THE INQUIRY INTO CIVIL SERVICE PAY

Thank you for your letter of 25 January. We entirely take the Prime Minister's point about paragraph 5 and suggest that we omit the first half of it.

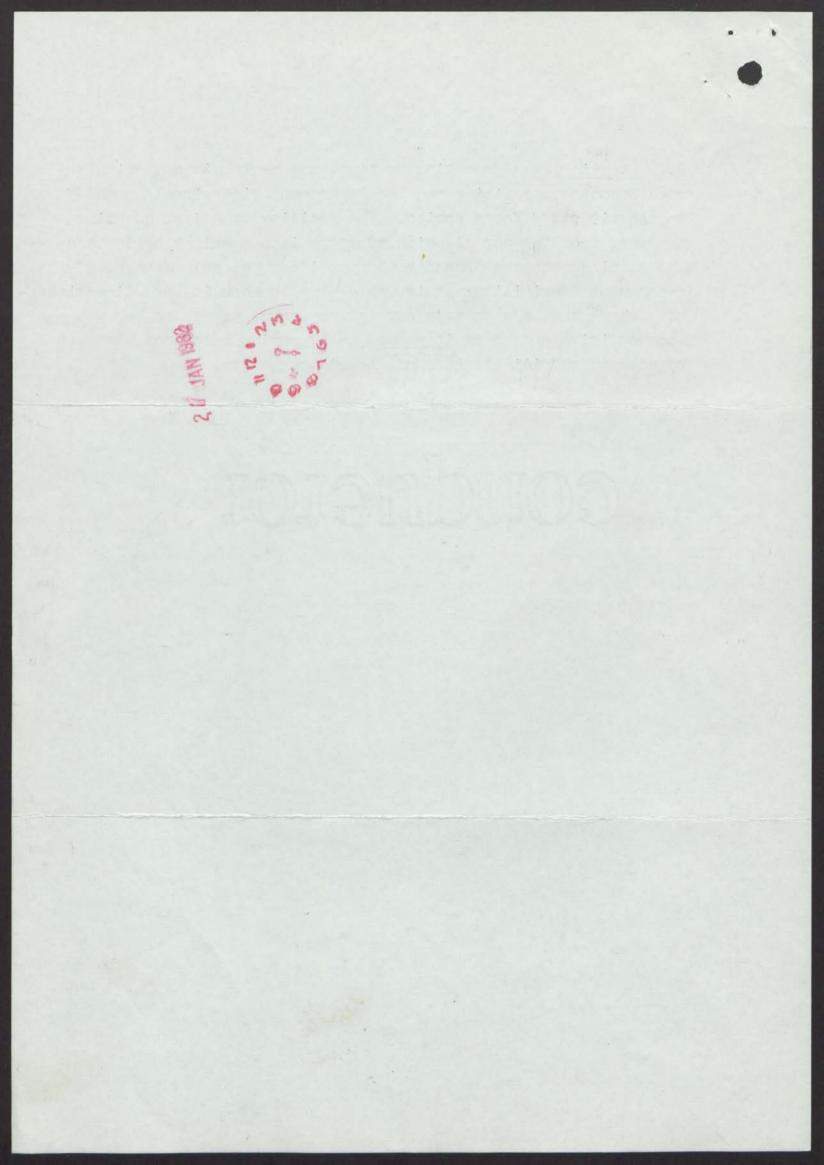
However, the second half of paragraph 5 makes a rather different point. We should prefer to retain this and paragraph 5 would then appear as in the attached version. I would be grateful for your clearance.

I am sending copies of this to Peter Jenkins (Treasury), Jim Buckley (Chancellor of the Duchy of Lancaster's office), David Omand (Defence), David Clark (DHSS), Barnaby Shaw (Employment), Jim Nursaw (Law Officers' Department), Christine Duncan (Lord Advocate's Department), and to David Wright (Cabinet Office).

D A EDMONDS

Private Secretary

5. Starting Pay From time to time, the market in a particular area becomes competitive and the Department finds itself unable to recruit staff for a period. The facility to adjust starting pay away from the normal point of entry into a salary scale when market circumstances demand would provide a valuable measure of management flexibility; this would have to work in both directions - both where the Department's current pay rates seemed to be uncompetitive and where it seemed to be paying more than was needed to attract sufficient staff of the right quality.



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Ref. A07240

PRIME MINISTER

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Prime Minister

Please see , two, John Verchers

note , attached. Do you wish to chair

The next meeting of MISC 66?

Ms 26/1

1982 Pay Offer to the Non-industrial Civil Service

I have seen the Chancellor of the Exchequer's minute to you of 25th January reporting the conclusions of his Ministerial Group, MISC 66, on the 1982 pay offer to the non-industrial Civil Service.

- 2. The Chancellor explains that the main feature of the proposed offer is a difference in treatment between those staff who are on fixed point scales or at the top of incremental scales, and those staff who still receive annual increments about half the non-industrial Civil Service. The offer to the former group will be perhaps $4\frac{1}{2}$ per cent, but the offer to the rest will be either nothing or perhaps 1 per cent.
- At your meeting on 7th January you stressed the need to devise an offer which would appear fair and reasonable at arbitration. You will wish to consider whether this proposal meets that requirement. I am not convinced that it The original intention at the meeting on 7th January was to devise a varied offer based primarily on recruitment and retention considerations with the increases for particular groups reflecting managerial needs. In the event it has not proved practicable to introduce geographical variations, although something may be done about London Weighting. Part of the offer is to be set aside to provide extra rewards in certain areas e.g. data processing, and there is to be separate provision, outside the main pay negotiations, for dealing with small groups of specialist staff, such as nuclear inspectors, where recruitment and retention problems are acute. These appear to be useful variations, but they are very limited in scope. Officials have concluded that it would not be practicable, and would create problems for the arbitration, to have a much more fragmented offer.
- 4. We are therefore left with an offer whose main characteristics will be seen as penalising those receiving annual increments. This discrimination could not be justified on managerial grounds. We cannot for example argue that

SECRET AND PERSONAL

we have a greater need to retain the services of those who happen to be on fixed point salaries or at the top of their scales rather than those who happen to be working their way up the scales. The only argument available is that those who are working their way up incremental scales will in any case have their pay increased by (on average) $4\frac{1}{2}$ per cent when they get their annual increments, and that, since there is very little money to go round, those who are due to receive increments should go without any further increase (or make do with a very small increase) in the interests of giving a more generous increase to those who do not benefit from annual increments. The unions and the staff are likely to argue that discrimination on this basis is irrational and unfair. They will argue that, where a grade is paid on an incremental scale as opposed to a fixed salary, the annual increments are seen as part of the basic salary structure; the appropriate salary for the grade is the salary scale as a whole, progression up which is supposed to reflect increased experience and therefore greater value in the grade, and the increments should not be brought into account in the annual process of salary adjustment. The unions, knowing that the Government has asked the Megaw Inquiry to consider merit pay increases as an alternative to fixed increments, may indeed see this part of the offer as a deliberate device for killing off increments through the back door. Following the suspension of the Pay Agreement last year it may look like another stage in the destruction of the traditional Civil Service pay arrangements.

5. With a view to reducing the risk precipitating a major row at this early stage in the pay negotiations, with all that that would imply for the arbitration and possible Parliamentary override which lie ahead, it is perhaps worth considering whether we should combine this offer with an alternative - or more than one alternative - for discussion with the unions. I see that this idea appealed to some of the Ministers at the MISC 66 meeting on 21st January. Since one of our concerns this year is to fulfil the assurance that there will be genuine negotiations, and since there is little room for manoeuvre over the size of the offer prior to arbitration, there would be tactical advantage in putting forward two or more alternative schemes for distributing the sum available, as a basis for discussions

SECRET AND PERSONAL

with the unions about the shape and distribution of the offer; and in that way the Government would be less likely to seem to be making such a frontal attack on increments. One possible alternative could be a flat-rate offer of, say, $2\frac{1}{2}$ per cent with variations for the groups of staff (data processors, nuclear inspectors, etc.) where there were special recruitment and retention problems; other alternatives could be added.

6. The shaping of the Government's initial offer is potentially the most critical stage in this year's Civil Service pay negotiations. The proposal contained in the Chancellor's minute of 25th January needs to be more fully thought through and weighed against other possible options before it goes ahead. You might like to call another meeting of MISC 66, with yourself in the chair; or else have a smaller meeting with the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Secretary of State for Employment.

KH

ROBERT ARMSTRONG

26th January, 1982

as Jerelor Cabinel LOO 10 DOWNING STREET LAD 00 . 26 January 1982 From the Private Secretary Civil Service "Single Outside Analogue" Grades The Prime Minister has seen a copy of the Chancellor's letter to the Home Secretary dated 25 January. The Prime Minister agrees with the Chancellor's proposal to maintain the links between the Civil Service "single outside analogue" grades, both industrial and non-industrial, and their outside comparators; she agrees, too, that the additional cost involved should be met within existing departmental limits. I am copying this letter to the Private Secretaries to members of the Cabinet, the Attorney General, the Lord Advocate and to Sir Robert Armstrong. MLD SCHOLAS John Kerr Esq HM Treasury





Prime Minister

Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000

25 January 1982 Mus 25/1

The Rt. Hon. William Whitelaw, CH MC MP Secretary of State for the Home Department

In willie

CIVIL SERVICE "SINGLE DUTSIDE ANALOGUE" GRADES

We need to decide how we intend to treat in this round the pay of "single outside analogue" (SDA) grades in the Civil Service. There are about 20,000 civil servants in these grades whose pay has in the past been directly linked to specific outside pay rates. The most important groups are the police, nurses, teachers, firemen, agricultural workers, printers and marine grades.

Given that we have set aside the notion of pay comparisons for the Civil Service generally, it could be argued that we should break the pay links of the SDAs in this pay round. But the balance of argument seems to me to point in the opposite direction. In some cases the pay links are legally binding; even where they are not, it would be difficult to argue that the pay of, say, nurses and policemen employed in the Civil Service should be set on a different basis from those employed by the Government in the NHS, or sanctioned by Government for policemen generally. Moreover, the industrial trouble that might arise if we were to interfere with these pay links, and the resulting damage, would be quite disproportionate to the costs involved. This year's pay negotiations for the Civil Service as a whole are likely to be difficult enough without this added complication.

I have spoken to those colleagues who are the major employers of civil servants, and they favour following past practice in this year's settlement. I therefore propose that we should, as we did last year, maintain the links between the Civil Service SDA grades, both industrial and non industrial, and their outside comparators and that the additional costs involved should be met within existing departmental cash limits.

I should be grateful to know whether you and our other colleagues would be content with this approach.

/I am

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I am sending a copy of this letter to the Prime Minister, to our other Cabinet colleagues, to the Attorney General and the Lord Advocate and to Sir Robert Armstrong.

GEOFFREY HOWE

PRIME MINISTER

Prime Minister (1)

This is a progress report. Do

you mish simply to note at has

stage, pending the Chancellors

Mext report after his

CIVIL SERVICE PAY

The Chancellor's note reflects the work so far of the mext mix 66 Ministerial Group, MISC 66, and of the Official Group, MISC 67, mehica in which I have been participating. I think it raises three questions:

- (i) First, whether we are right still to be trying to hold the line at 4% in the Civil Service and the NHS. On any realistic assessment, we must expect that the effect of arbitration for the civil servants, and the special circumstances of the nurses, will be some erosion of the 4% - but not necessarily by more than a couple of percentage points. Nonetheless, to keep this erosion as small as possible, we must hold to 4% for as long as possible. So I am sure the first assumption of the Chancellor's note, that the initial offer must be containable within the 4% cash limit, is right.
- (ii) Second, what kind of offer within 4% can be made most convincing to the arbitrator. A dis-aggregated offer of the kind discussed at your meeting on 7 January ought to be easier to justify on management grounds than a flat rate increase, provided we choose elements that have genuine management justifications. A flat rate increase must rest its justification on the cash limit, and we have agreed not to let the cash limit pre-determine the negotiations. So I am sure that a dis-aggregated offer is right, as long as we choose the right elements.

/ (iii) Third,

(iii) Third, how can we construct elements in the offer which combine the best possible justification with the greatest acceptability to the unions. Chancellor records the concern of the Ministerial Group that the approach suggested will be "bitterly resented by the unions", and I know that some senior officials fear that it will look as if either the Government is abandoning the incremental system (because everyone will get the same regardless of whether they are on an incremental scale), or the Government is imposing a pay freeze on half the Civil Service. These are indeed dangers, and good arguments for incorporating in the offer as much of an underpinning flat rate increase as can be afforded within the cash limit - preferably nearer 2% than 1%; and perhaps also going for some tapered increases near the top of incremental scales. These points can be looked at further by officials when they do the arithmetic on the offer. I think it is also essential to see what the management arguments in favour of the elements in a package look like, before going firm on them: at present, we are working more on the basis of what we would like to see than on the basis of what market considerations actually require.

We need to consider carefully whether an offer of the kind proposed will lead to early industrial action. As I said at your meeting, in so far as the offer is probably least attractive to those who are most prone to take such action, it does carry that risk: but the CSD negotiators think that they should be able to hold the line until arbitration. To a considerable extent, that may depend on how the civil servants see the NHS being treated, and how the Budget affects pay packets.

I think it would be right to wait for the Chancellor's report of the outcome of the next meeting of MISC 66, which is

now partnered

this Thursday afternoon, before committing yourself to the outline pay offer; and you may want to discuss it with your colleagues then. In the meantime, you may feel it would be right to tell the Chancellor that although it seems that work is proceeding on broadly the correct lines, we need to be sure that there are good management grounds, which can be deployed convincingly before the arbitrator, for the elements in it.

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SECRET AND PERSONAL



Prime Minister 1/A
Mus 26/1

Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000

PRIME MINISTER

1982 PAY OFFER TO THE NON INDUSTRIAL CIVIL SERVICE

At your meeting on 7 January we agreed that the Civil Service unions should be told quickly that their 1982 claim for the non industrial civil servants was unrealistically high and that the Government would put forward its own proposals in due course; this was done on 13 January. We also agreed that officials should prepare proposals on the assumption that the offer should not take the form of an across the board percentage increase but should reflect the supply and demand for different kinds of labour, with small and nil increases where there were large numbers of applicants for posts. We recognised that the claim would almost certainly go to arbitration and that it was important to shape the offer so as to appear fair and reasonable at arbitration. We agreed that officials should consider how far it was possible to reflect in the revised pay scale different pay levels in different regions.

- 2. My Ministerial Group, MISC 66, discussed on 21 January the proposals which officials have not put forward on this basis. We agreed that, subject to your views, further work should proceed on the basis described in this minute.
- 3. Officials have assumed that it is axiomatic that the Government's initial offer must be containable within the 4 per cent cash limit. This poses the problem that, within this limited sum, an offer which varies significantly



between different groups must involve offering very small or possibly no increases to considerable numbers of staff. Officials have proposed an approach based on drawing a distinction between those who will receive annual increments (worth on average about $4\frac{1}{2}$ per cent of pay) in the year, and the remainder – about half the non industrial Civil Service – who are at the maximum of incremental pay scales or otherwise on flat rates of pay. On this approach the Government would offer:-

- (i) no increase to juvenile age-related scales or to the "entry points" of other scales;
- (ii) an additional increment, worth perhaps 4½ per cent, on the top of each scale;
- (iii) an increase in fixed, flat rate salaries, also of about 4½ per cent;
 - (iv) subject to further calculations, an additional percentage, perhaps 1 per cent, common to all salaries including those on incremental scales but not those in (i) above. (This might either be in the initial offer or be offered later.)
- 4. The Ministerial Group agreed that this approach, together with the other possible elements in the offer discussed below, should be the basis for further work by officials on the details and presentation of the offer. We recognised, however, that it is an approach which will be bitterly resented by the unions and by that half of the non-industrial Civil Service receiving incremental increases. They will argue that annual increments are part of their conditions of service and should be regarded as quite separate from the pay negotiations. They will say that there is no case for giving them a markedly smaller pay increase in 1982 than their colleagues on flat rates.



In rebutting these arguments, our negotiators will need to take care to avoid any impression that, contrary to the undertakings we have given, the Government's offer has effectively been shaped by a pre-determined cash limit. The aim will be to argue that the present greatly increased rate of applications to join the Civil Service, and the much reduced rate of staff wastage, means that there is little case for pay increases in 1982 other than those necessary to accommodate certain management requirements. The ability to deploy at a suitable stage the possibility of a further modest increase - paragraph 3(iv) above - for those staff already receiving an annual increment will be an extremely important point in the negotiations.

- 5. We also agreed that officials' further work should assume that there will be increases in allowances rewarding skill and responsibility e.g. for ADP and data processing; that a sume of money should be earmarked within the total to deal outside the main negotiations with staff shortages of particular difficulty; and that there should be further work on the possibility of making additional offers on fringe benefits such as season tickets, luncheon vouchers and medical insurance. We agreed that the initial offer should not apply to the pay of Assistant Secretaries and Senior Principals whose pay cannot be sensibly considered until we take decisions in the Spring on the forthcoming recommendations of the Top Salaries Review Body.
- 6. We agreed that it was not practicable to introduce any new elements of regional variation in pay into the present negotiations. There would be formidable managerial problems in any early change and, more important, this is a question which Megaw is expressly considering. Subject to further proposals from officials, it might be possible to take some action by adding to London weighting. We see this,



rather than special allowances applying nationally, as the best way of dealing with problems of recruitment and retention of clerical and secretarial staff in London.

- 7. In our further consideration of the details of the offer we shall of course need to consider carefully the implications for negotiations in other public sector groups, notably the National Health Service.
- 8. I am sending copies of this minute to the Secretaries of State for Defence, Social Services and Employment, to the Chancellor of the Duchy of Lancaster, to Mr. Ibbs and to Sir Robert Armstrong. (As you know, other Ministers are not aware of the work of MISC 66 whose members are seeing papers on a personal basis.)

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G.H.

25 January 1982

MANAGEMENT IN CONFIDENCE

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From the Private Secretary

10 DOWNING STREET

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25 January 1982

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bc: Mr. Verelles

DOE Evidence to the Inquiry into Civil Service Pay

Thank you for your letter of 22 January with which you enclosed a copy of the evidence which the Department of the Environment proposes to submit to the Megaw Inquiry.

The Prime Minister is generally content with this evidence. She, however, is concerned about the implication in paragraph 5 that there are acute and persistent recruitment problems especially in London. The Prime Minister would much prefer this paragraph to be omitted from your Department's evidence.

I am sending copies of this letter to Peter Jenkins (HM Treasury), Jim Buckley (Chancellor of the Duchy of Lancaster's office), David Omand (Ministry of Defence), David Clark (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Jim Nursaw (Law Officers' Department), Christine Duncan (Lord Advocate's Department) and to David Wright (Cabinet Office).

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David Edmonds Esq Department of the Environment.

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ce: Colo 10 DOWNING STREET 25 January 1982 From the Private Secretary bc: Mr. Verelles Megaw Inquiry: Evidence by the Government Actuary Thank you for your letter of 21 January, with which you enclosed two memoranda prepared by the Government Actuary for submission to the Megaw Inquiry. The Prime Minister is content for these memoranda to be submitted to the inquiry. I am sending copies of this letter to Jim Buckley (Chancellor of the Duchy of Lancaster's Office), David Omand (Ministry of Defence), David Clark (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Jim Nursaw (Law Officers' Department), Christine Duncan (Lord Advocate's Department) and David Wright (Cabinet Office). Peter Jenkins Esq HM Treasury.

10 DOWNING STREET 25 January 1982 From the Private Secretary bc: M. Verekes Inquiry into Civil Service Pay: Evidence to the NHS Pay System Thank you for your letter of 21 January, enclosing copies of the NHS memorandum for submission to the Megaw Inquiry. The Prime Minister is content that you should send this evidence to the committee. I am copying this letter to David Omand (Ministry of Defence), Barnaby Shaw (Department of Employment), Jim Buckley (Chancellor of the Duchy of Lancaster's office), Jim Nursaw (Law Officers' Department), Christine Duncan (Lord Advocate's Department) and to David Wright (Cabinet Office). David Clark Esq Department of Health and Social Security CONFIDENTIAL

MR SCHOLAR

CONFIDENTIAL

Agree to the publication submission of the DOE cc Mr Hoskyns

Prime Minister

and DHSS evidence, subject

Evidence to the Megaw Inquiry

ox?

M Cs 22/1

I do not think the Prime Minister need read very far into the various pieces of evidence for the Megaw inquiry which have been submitted for her approval this weekend. It may be helpful if I record these comments, only the first of which raises any doubt about the actual text:-

i) The evidence from the Department of the Environment very clearly implies in paragraph 5 that there are acute and persistent recruitment problems, especially in London. Not only is this not demonstrated - it certainly does not follow from the previous paragraph - but as the Prime Minister will know it would, when published, be prejudicial to the approach we are currently considering on this year's Civil Service pay offer. It would be better, I think, if this paragraph were deleted.

The remainder of this evidence is quite useful especially on merit pay and on the need for flexibility in paying specialists. There is nowso much departmental evidence favouring some form of relationship between pay and performance that Megaw cannot but take some account of it.

ii) The evidence from the DHSS on the NHS pay system makes it clear (paragraph 17) that market factors at present play no part in pay determination in the NHS; and implies, in paragraph 20, that the DHSS will be looking to Megaw for some ideas as to how to reconcile market factors with the present formalised comparability system. That is indeed one of the major problems for next year.

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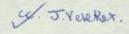
iii) The two pieces of evidence from the Government Actuary are of rather specialised interest: the memorandum arguing for some form of outside assessment, so as to ensure and demonstrate the professional independence of the Government Actuary, and the attached technical notes on how to assess pension values are uncontroversial; the memorandum on the Government Actuary's Department's experience in recruiting and retaining staff is a helpful addition to the case for more flexibility and market orientated pay.

J.

22 January 1982

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE





2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

22 January 1982

Dea Michael

DOE EVIDENCE TO THE INQUIRY INTO CIVIL SERVICE PAY

I enclose a copy of the evidence which the Department proposes to submit to the Megaw Inquiry. Although it has been seen by our Secretary of State, it is essentially a reflection of the views of his officials, and he is content for it to be submitted.

We understand that the Inquiry is now pressing for our evidence and, subject to clearance by the Prime Minister, we would hope to be able to pass the evidence on to them by 29 January. It has already been cleared at official level through the Interdepartmental Working Group.

I am copying this to Peter Jenkins(PS/Chancellor of the Exchequer), Jim Buckley(PS/Chancellor of the Duchy of Lancaster), David Omand(PS/Secretary of State for Defence), David Clark(PS/Secretary of State for Health and Social Security), Richard Dykes(PS/Secretary of State for Employment), Jim Nursaw(PS/Attorney General), Mrs C M Duncan(PS/Lord Advocate) and to David Wright(PS/Sir R Armstrong).

Je Cs

D A EDMONDS Private Secretary

Michael Scholar Esq No 10 DOE EVIDENCE TO THE INQUIRY INTO CIVIL SERVICE PAY

Introduction

1. The Committee has already received a substantial amount of general evidence on Civil Service pay, and this paper does not intend to cover the full range of that evidence but rather to draw attention to various problems encountered by the Department of the Environment (including the Property Services Agency) and to suggest possible modifications to the present pay system which the Committee might like to explore. A factual note on the Department is given in the Annex. (Although the Department shares certain common services - including personnel - with the Department of Transport, this paper restricts itself to DOE experience, except where it is impossible to disentangle the shared experience of both Departments. In particular, it does not cover the Department of Transport's experience of managing the large clerical and computer organisation at the Driver and Vehicle Licensing Centre at Swansea).

General

2. The main needs of the Department - as of the Civil Service as a whole - are to carry out its functions with maximum efficiency and to maintain the motivation of its staff. Any new pay system needs to contain sufficient flexibility to enable. the Department to deploy its staff resources in the most effective way; it must be in a position to retain and recruit competent staff, to encourage mobility where required and to reward efficiency. The system also needs to command the confidence of staff and of the general public: its rationale must be clearly intelligible and accepted as fair and reasonable.

Aspects of Pay and Related Issues which merit particular attention

3. The present pay system imposes certain inhibitions on the Department's ability to make the best use of its staff resources and, in the following paragraphs, a number of areas has been identified in which a more flexible approach would be helpful. On a realistic view it must be recognised that some of the measures proposed for study (such as the introduction of merit pay) could require additional financial resources, although this might to some extent be offset by savings in other directions; the overall effect would have to be considered in the light of the limit of total resources available for Civil Service pay.

Recruitment and Retention of Staff

- 4. The Civil Service salary structure is still very much geared to the idea of recruitment into a career service, in which the incentive to join is one of public service, and in which pay is not necessarily the main consideration. But this may no longer be valid, given general changes in the social and employment situation and in the public perception of the Service. In order to recruit, the Department has to compete with other employers in the local employment market. The present Civil Service pay structure inevitably limits the Department's ability to respond to short term changes in the labour market. Failure to respond, even over relatively short periods, can have significant consequences in terms of the overall quality of staff in the recruitment grades. In those years when Civil Service pay has fallen behind, the number and quality of people responding to recruitment campaigns has fallen dramatically - in 1974, for example, the response to a campaign to recruit Clerical Assistants fell 40% short of the total number of vacancies and the quality of the applicants was so poor that the Department was forced to accept people without the minimum educational qualifications and to lower the standard pass mark on the test paper which candidates are allowed to take as an alternative means of entry. The Department is still suffering from the low quality of this intake.
- 5. Starting Pay Recruitment problems are most acute and persistent in London where other office employers have the flexibility quickly to adjust starting pay and conditions (either up or down) to a level which is competitive in the light of the current state of the market. This problem is less apparent in the provinces where Civil Service pay would, at most times, appear to be generally at least as attractive as that offered by other provincial employers. But even there, from time to time, the market in a particular area becomes more competitive and the Department finds itself unable to recruit staff for a period. The facility to adjust starting pay away from the normal point of entry into a salary scale when market circumstances demand would provide a valuable measure of management flexibility; this would have to work in both directions both where the Department's current pay rates seemed to be uncompetitive and where it seemed to be paying more than was needed to attract sufficient staff of the right quality.
- 6. <u>Mid-Career Recruitment</u> An extended facility to recruit people as civil servants in mid-career might enable the Department to find staff of high calibre for key positions which might otherwise be difficult to fill. At the same time it would be important to deal equitably in terms of career prospects and pay with staff of

comparable quality who had joined the Civil Service earlier in their careers. But it will always be difficult to attract people with scarce specialist qualifications unless there is a meaningful equivalence between what the Civil Service offer and what is available elsewhere.

- 7. Recruitment of Specialist Staff DOE employs a wide range of specialist staff, as can be seen from the Annex. It is here that particular problems have been brought about by the characteristics of the present pay structure. The application of common salary scales to pay groups, each of which may encompass a range of different specialisms, makes it very difficult to adjust salaries to compete with the varied rates which individual specialists can command on the open market. Specific examples of the kind of problems which have arisen in this area are:
 - a. in the P&T group, staff in a wide variety of disciplines, such as Civil Engineers, Mechanical and Electrical Engineers, Estate Surveyors, Quantity Surveyors and Architects, are grouped together for pay purposes. Moreover the group tends to be dominated by those professionals employed by the Ministry of Defence and their pay has in the past been determined by reference to analogues in production jobs similar to those done in MoD. As a result the Department has, for example, found extreme difficulty in attracting competent Chartered Surveyors (particularly in London) and a recent exercise to find up to 6 Estate Surveyors to assist with, among other things, the disposal of buildings surplus to the London estate succeeded in finding no more than 3 recruits;
 - b. there is also difficulty in attracting scientists in HQ jobs. It needs to be recognised that there is a wide difference between the policy work carried out by many scientists in HQ Divisions and the work of their colleagues in the research stations. It may no longer be equitable to pay both groups at the same rates. Furthermore many of the senior scientists seem to have suffered from unrealistic comparisons with the private sector. Although many at this level in the Civil Service are engaged on management or policy work, the analogues chosen for them in pay research surveys have been those actually labelled as "scientists", whereas, in the private sector, people usually lose that label as soon as their jobs take on a managerial or administrative content;

- c. in some specialist areas where the Department offers salaried periods of training, there is little difficulty in recruiting people, but great difficulty in retaining them once their period of training has been completed. The wastage rates are particularly high in London where staff are able to change jobs easily without moving their homes. In 1979, for example, over 25% of the Department's London EOs trained in ADP work resigned, most of them for higher salaries and fringe benefits available from other employers. Within the past few months evidence has emerged that EOs in this field have resigned to take up outside posts which offered, in addition to fringe benefits, actual salary increases of over £1000 pa.
- 8. There is no doubt that, in shortage specialisms, the flexibility to pay the market rate for the job, rather than the rate for the grade as at present, would ease both the recruitment and the retention of staff. This implies two things: for scarce specialisms external comparabilities should be given more weight than internal comparabilities; second, if the averaging process of pay research has resulted in some groups being underpaid, other groups are likely to be correspondingly overpaid.
- 9. Perks At all levels of recruitment the Civil Service tends to appear somewhat unattractive to new recruits in comparison with other employers in the matter of fringe benefits. These have in the past been taken into account in the pay research process, but the non-availability of perks (particularly of concessions on season tickets) has often been given as a reason for potential recruits declining job offers and for the resignation of existing staff after one or two years' service. Indeed the lack of any detailed information about the figures which underpin negotiations under the present system leaves staff in some doubt about the relative weight that has been given on the one hand to such benefits as index-linked pensions and the job security which most Civil Servants enjoy, and on the other hand to elements such as the fringe benefits which are widely available in other areas of employment, particularly in London, and which cushion the additional costs of living and working in London.

Merit Pay/Paying the Rate for the Job

10. In a Department like DOE a single grade can embrace a wide variety of job types. A Principal, for instance, could be providing sensitive policy advice to Ministers and senior official, negotiating with outside organisations, managing a large executive organisation or large sums of money, or providing a specialised service such as management services, contracts or ADP. Officers from different occupational groups,

- on different salary scales, can be doing essentially similar jobs in multidisciplinary areas. And the performance of individual officers within a particular grade can vary from poor to excellent. The present pay system makes little allowance for such factors, and the following paragraphs suggest various approaches to the problem that seem deserving of study - while not suggesting any particular blueprint for a solution.
- 11. Merit Pay Incremental pay scales, up which officers progress more or less automatically, are widespread in the Civil Service; generally speaking, promotion, rather than a salary increase, is seen as the reward for particular merit. When promotion prospects were buoyant this did not work badly; but reduced opportunities over the next few years could seriously reduce the value of promotion as an incentive. There may, therefore, be a case for relating progress up a salary scale more to merit than to length of service in the grade. A similar, but alternative, approach might be the payment of bonuses to reward special merit or to motivate individuals in difficulareas of work; such payments would not rank as formal additions to pay and would not therefore affect substantive pay in subsequent years. In a large organisation like DOE there would, of course, be considerable problems in making comparisons between all the individuals in a grade, and there would need to be improvements in the quality of the staff reporting system to support arrangements of this nature; nevertheless the idea of merit pay seems worth exploring further.
- 12. Skill or commitment allowances In some areas there might be scope for attaching special allowances to jobs which require particular skill or commitment. An example where this could be useful would be some long-term ADP projects which currently suffer a good deal of staff turbulence. (The Department is especially vulnerable in its employment of ADP staff, whose skills can often command higher salaries in the private sector and who are often presented with opportunities for early promotion through transfers to other government departments). Arrangements would have to be carefully framed to avoid the risk of competitive bidding between departments. Such a system would help to reduce staff turbulence on essential projects, although there would probably be some loss of management flexibility and other problems over moving staff out of allowance posts when the need arose.
- 13. Relating pay to the actual job A convincing case might be made for relating pay more to the nature and demands of the particular job than to the range of work in each grade as a whole as at present. By the natural process of ensuring that the best people (in terms of past performance) were posted to the best quality jobs, this could

be one way of rewarding merit. It would help management to cope with jobs which are difficult to fill by adjusting the rate for the job to a more attractive level. And it could deal with the problem in multi-disciplinary areas where an officer (eg a PPTO) occupying an open post may perform substantially the same job as a colleague (eg an Administration Group Principal) in another open post, but for substantially less pay. (Currently there is a difference of £856 pa between the salary maximum of the PPTO scale and that of a Principal.)

- 14. Implications The adoption of new arrangements involving more flexibility in pay rates according to merit and job weight would imply much greater involvement of local management in fixing individual pay rates. A new approach of this kind would require the acceptance by civil servants of a pay framework which is very different from what they have been used to; they would need to accept in particular that movement from a highly rated job to a lower rated job could mean a drop in pay. The system would not, however, need to supersede the present grading structure of the Civil Service. Officers would still be in a particular grade which had a range of pay associated with it. But precisely where they stood in that range would depend on the particular job that they occupied and/or their own merit. The rating of individual jobs could be expected to change over time, as their importance and demands changed; there would have to be a regular process of review and management would have to be firm in carrying out proposals both to downgrade jobs and to move staff into lower grade jobs. Determining the relative rating of jobs would not be an easy or simple task for senior management; but the ability to reward performance and to deal with posts which, for one reason or another, would otherwise be difficult to fill would give management some worthwhile flexibility.
- 15. There might be a number of ways of administering such a system. A department's annual financial and manpower budgeting process (such as DOE's "MINIS" system) might incorporate a provision under which Directors in charge of suitable areas of work were allocated a special budget for this purpose. A limit would need to be imposed on the amount above the basic rate payable to any one officer or post and it would have to be recognised that such payments could only apply to a limited number of people or jobs. Merit-based systems would be easier to operate in areas where output is measurable (eg casework) than in areas where the standard of attainment is more subjective (eg policy advice.)

16. The extent to which any of these more flexible approaches to pay might impinge upon the principles of central pay negotiations would depend upon how widely they were used. Variations in pay on the basis of merit and job weight could be self balancing. The cost of proposals to bring more flexibility to the recruitment process would depend on the recruitment and employment position both in the Civil Service and in the market generally. There could be additional cost at times when particular specialisms were in short supply. The cost might be lower at times of relatively easy recruitment and retention.

Mobility

17. The need to reduce staff numbers, while at the same time maintaining a broad geographical presence, means that it is more than ever important to be able to move staff to where the work has to be done, even though the numbers of staff moved within DOE has in total been declining recently. All civil servants of EO rank and above have a mobility obligation, but it is not always easy in present circumstances to enforce this. There are many factors which can offset an officer's willingness to move - family circumstances (eg the tie of a spouse's employment) as well as financial considerations. The latter are often very significant, particularly (although by no means exclusively) in relation to moves into London. Even with the removal allowances payable, the London Weighting differential is often insufficient to persuade staff to accept the additional cost of living and working in London. In other areas there is no salary differential, yet accommodation and living costs can vary substantially. A way is needed to make moves more acceptable to a greater number of staff. It might be helpful if the allowances paid on transfer could recognise and make some compensation for the disturbance of moving (perhaps applying a principle similar to that used to determine "home loss" payments to members of the public whose homes are taken for public developments or road schemes).

Flexible London Weighting Bands

18. More efficient and economical use could be made of the London estate if the London Weighting bands could be revised. The present simple division between the Inner and Outer London bands results in a differential of £533 pa. This gives rise to several anomalies. For example, it is difficult to attract staff to work in Bromyard Avenue, Acton because that is 200 yards outside the Inner London area. Another rather different example is Croydon, where PSA has a large block of its HQ organisation. An officer living, say, in Guildford who was transferred from London to Croydon would not be reimbursed for moving his home and could therefore expect

to continue to incur broadly similar travelling expenses, yet he would lose £533 pa London Weighting. Were he to transfer in the opposite direction he would gain that amount without having incurred any significant increase in his expenses.

19. This is a complex problem which might demand a fairly sophisticated solution. One possibility might be to divide the London Weighting area into a series of concentric bands, which would shelve more gently the financial implications of moving from one area to another.

CONCLUSIONS

- 20. In the light of the Department's experience of managing a complex, multidisciplinary organisation and of the detailed comments on the present pay system made above, three broad suggestions can perhaps be made:
 - a. there is much to be said for attaching a range of pay to the particular job to be done, rather than to the individual who happens to be doing it; but the merits of the individual might determine where precisely in that range of pay he is placed;
 - b. staff need to understand clearly how the system of pay determination operates and how far by improved performance they can influence their own rewards;
 - c. increased flexibility in the pay arrangements on these lines would entail a greater measure of departmental discretion to determine pay; but this would not be to give departments an open-ended entitlement since pay settlements of all kinds would need to be kept within the overall cash limits laid down for civil service pay in any particular year.

RESPONSIBILITIES AND ORGANISATION OF DOE

- 1. The Secretary of State for the Environment is responsible for a wide range of functions affecting the physical environment, including housing, conservation, town and country planning and pollution control, and ranging from inner cities to the countryside. He is responsible for sport and recreation, and has general responsibility, within government, for the structure and finance of local government, for sponsoring the construction industry. For most of these activities, his remit is for England only, but he has a wider interest in some areas and in some cases he has Great Britain responsibilities. He is also responsible for the Property Services Agency (PSA), which meets the needs of government departments, the armed forces and certain other public sector clients for accommodation, and associated services throughout the United Kingdom and abroad.
- 2. Apart from the PSA and some of the Ancient Monuments and Historic Buildings Directorate, DOE is not an executive agency. The services and policies for which it is responsible are carried out by other bodies, subject to varying degrees of influence or control by the Department. Many of the Department's programmes and policies concern services provided by local government.
- 3. The main regional bases of DOE(Central) are shared with the Department of Transport and are located in Newcastle, Manchester, Leeds, Nottingham, Birmingham and Bristol. PSA's main regional bases are in Edinburgh, Cardiff, Manchester, Leeds, Birmingham, Reading, Cambridge, Bristol and Hastings. Both, however, have staff outstationed elsewhere in the United Kingdom and PSA has staff serving in military establishments, High Commissions, Embassies etc overseas.

The appendices attached to this annex give: at A, the basic figures for the Department's manpower and its cost, and at B, a breakdown of the component parts of the specialist staff identified in section 3 of Appendix A.

DOE MANPOWER NUMBERS AND COSTS

NUMBERS

1. Both central DOE and PSA are committed to substantial manpower reductions. The permitted staff totals for the Department during 1981/82 are (on the basis of averages):

DOE(C)	PSA	PSA Supplies	TOTAL
10007	29672	2900	42579

2. Of these, non-industrial staff are:

DOE(C)	PSA	PSA Supplies	TOTAL
8389	15795	1598	25782

3. The numbers of generalist* staff and specialist staff among the non-industrial element are as follows:

	DOE(C)	PSA	PSA Supplies	TOTAL
generalist	4080	4508	758	9346
specialist	4309	11287	840	16436
	8389	15795	1598	25782

COSTS

4. The financial provision for the non-industrial element of DOE's staff in 1981/82 is as follows:

DOE(C)	PSA	PSA Supplies	TOTAL
£76M	£134M	£12M ·	 £222M

*The 'AEC' group and open structure.

BREAKDOWN OF SFECIALIST STAFF AT ITEM 3 OF ANNEX A

		DOE(C)	
		30	
	Economists	40	
	Statisticians	670	
	Scientists Information Officers	40	
	Research Officers	125	
		115	
	Planning Officers Planning Inspectors	190	
	Auditors	270	
P&TO	Architects	160	
11	Civil Engineers	70	
11	Mechanical & Electrical Engineers	90	
11	Electrical Engineers	5	
- 11	Building & Civil Engineers	45	
11	Quantity Surveyors	50	
11	Estate Surveyors	15	
	Lawyers	30	
	Librarians	30	
	Cartographic Draughtsmen	105	
	Graphic Officers	25	
	Secretaries	275	
	Typists	430	
	Data Processors	250	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
	Photoprinters	85	
	Paperkeepers	130	
	Messengers	275	
ANCI	ENT MCNUMENTS & HISTORIC BUILDINGS		
	Inspectors	45	
	Custodians	120	
	Royal Parks Constabulary	145	
	Warders/Wardens (Royal Palaces)	170	
	Publication Sales Staff	30	
	Curator/Conservation Officers	40	
	Miscellaneous	209	
		4309	
		PSA	PSA SUPPLIES
		Mindeline	***************************************
	Architecture	1418	
	Land Surveying	52 188	
	Building Surveying	3217	
	Building & Civil Engineering Mechanical & Electrical Engineering	3059	48
		919	
	Quantity Surveying Ground Maintenance Staff	104	
	Fire Officers	88	
	Estate Surveyor Staff	555	
	Cartographic Draughtsmen	92	
	Typists	779	42
	Librarians	21 .	
	Cleaners	21	
	Office Service Grades	442	27
	Data Processors	69	
	Photoprinters	119	
	Photographers Telephonists	340	
	Design & Furnishing Staff	-	566
	Vehicle Maintenance Staff	-	33
	Stores Supervisors	80	33 50 74
	Miscellaneous		
		11287	840

10 DOWNING STREET 22 January 1982 From the Private Secretary Evidence to Megaw on Cash Limits Thank you for your letter of 19 January with which you enclosed a draft paper for Megaw on the cash limit system. The Prime Minister is content for you to submit this to the Inquiry. I am copying this letter to Jim Buckley (Chancellor of the Duchy of Lancaster's Office), David Omand (Ministry of Defence), David Clark (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Jim Nursaw (Attorney General's Office), Christine Duncan (Lord Advocate's Department) and David Wright (Cabinet Office). STA SCHOULS Peter Jenkins, Esq., HM Treasury



Prime Minister

Mus 22/

Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000

21 January 1982

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J. Buckley, Esq., Private Secretary to the Chancellor of the Duchy of Lancaster

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FVIDENCE FOR MEGAW INQUIRY

will request of required

Thank you for your letter of 14 December about the paper on "Discipline and Dismissals in the Non-Industrial Civil Service" for the Megaw Inquiry. As you say, this is a fairly straightforward statement of the existing rules and how they are applied, and the Chancellor of the Exchequer agrees that it should go forward to the Committee.

He felt that a paper of this sort would be much more helpful if it could include figures or other facts to give a "feel" of how these procedures work out in practice and what they, therefore, mean in terms of comparative job security with other occupations. He realises that comparable statistics for other occupations do not exist, and that individual cases vary considerably. From this point of view, however, he has two suggestions which Lady Young might consider. The first would be to add some statistics at the end about appeals and successful appeals, on the lines of the note attached. The second would be to take a sample in one Department, over whatever recent period was most convenient, so as to be able to say how long these procedures are on average taking to carry out, or what is the shortest and longest time they take and whereabouts between these two could be regarded as the normal experience. A sample of this sort would take time, and the evidence to Megaw need not be delayed for it. But it would seem to be something well worth knowing anyway.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Defence, Social Services and Employment, the Attorney General, the Lord Advocate and the Secretary to the Cabinet.

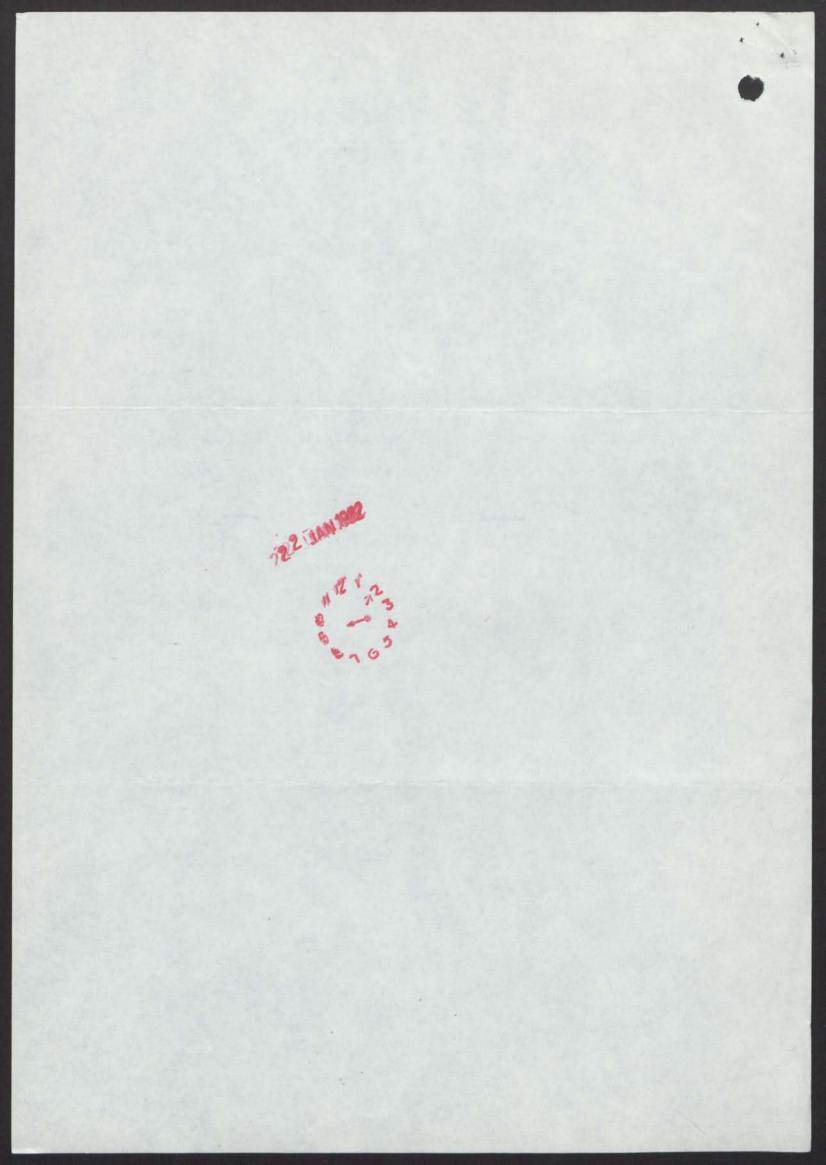
Yours ever

P.S. JENKINS

DRAFT

Add at the end of the paper:

It may help to give some 'feel' of the practical use and effect of these procedures to add that in 8 large departments with approximately 450,000 non-industrial staff (84% of the whole non- industrial civil service) at 1 October 1981 the number of appealable dismissals since October 1977 was of the order of 5,500; of these, $304\ (5\frac{1}{2}\%)$ in fact appealed, 213 to the CSAB only, 77 to an industrial tribunal only, and 14 to both; the CSAB found in favour of some 27% of those who appealed to it; and industrial tribunals also found in favour of some 27% of those who appealed to them from all fields of employment.



C JV.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE
LONDON S.E.1

TELEPHONE: 01-407 5522

Michael Scholar Esq Private Secretary 10 Downing Street London SWl

21 January 1982

Dear Michael

INQUIRY INTO CIVIL SERVICE PAY: EVIDENCE ON THE NHS PAY SYSTEM

In my letter of 14 January about DHSS evidence I said that the evidence on the NHS pay system would be referred to Ministers before it was submitted to the Committee.

I enclose copies of the NHS memorandum which has been cleared interdepartmentally at official level.

I should be glad to know whether the Prime Minister has any points to raise before it is submitted to the Committee: and if other recipients of this letter would let me know whether their Ministers are content.

In the absence of comments by 29 January I will take it that the way is clear for the evidence to go to the Committee. I am copying this letter to the Private Secretaries of State for Defence and Employment, the Chancellor of the Duchy of Lancaster, the Attorney General and the Lord Advocate, and to the Cabinet Office Secretariat.

your war,

DAVID J CLARK

THE NHS PAY SYSTEM

Memorandum by the Department of Health and Social Security

There are some common features about the systems of pay determination for the Civil Service and for the National Health Service. Moreover the pay of some major groups of NHS staff is directly linked with similar grades of civil service staff. The Department welcomes the opportunity to outline these matters for the information of the Inquiry into Civil Service pay.

Outline of the NHS system

- Within a total of about one million NHS staff in Great Britain the main groups are nursing (0.4m), ancillary (0.2m), administrative and clerical (0.1m), medical (60,000), professional and technical (60,000). Most operational staff are employed by the 90 area health authorities (AHAs) in England and 8 in Wales and by 15 Health Boards in Scotland. Certain planning functions, common or specialised services are provided by 14 regional health authorities (RHAs) in England and by a Common Services Agency (Scotland), and the Welsh Health Technical Services Organisation. In general individual health authorities are free as employers to fix staffing levels within cash limits. Exceptions are the creation of senior hospital medical posts and the most senior nonmedical scientific posts that require central approval. In addition the Health Departments set a limit on the proportion of budget which may be spent on management. The recruitment of staff is a matter for individual health authorities. Vacancies for senior posts are normally advertised and filled by competition. The normal pattern is for staff to move from one authority to another in the course of their career and on the occasion of securing promotion. There is no central or regional control of promotion arrangements as there is in the civil service. However on the occasion of major change in the administrative structure of the NHS - in 1974 and in 1982 - national ground rules for the filling of senior posts had been laid down.
- 3. Staff hold contracts with individual health authorities and enter into fresh contracts as and when they move from one authority to another. For all practical purposes eg superannuation, entitlement to annual leave, increments, NHS service is aggregated.

- Terms of remuneration and conditions of service are fixed by central agreements negotiated, in the main, by the Whitley Councils for the Health Services (Great Britain). Doctors and Dentists are outside the Whitley system: their terms and conditions of service are negotiated centrally with the Health Departments, but their pay is set on the recommendations of an independent Doctors and Dentists Review Body. Successive Governments have undertaken to accept the recommendations of the Review Body unless there are clear and compelling reasons to the contrary. In total there are over 20 separate negotiating bodies. 5. The present Whitley system is voluntary; it was established in 1948 and is firmly rooted. For some groups eg ancillary staff, national negotiations were established earlier. Whitley and other national agreements take effect only when they have 6. been approved by Health Ministers under Regulations, which require
- 6. Whitley and other national agreements take effect only when they have been approved by Health Ministers under Regulations, which require health authorities to pay neither more nor less than the approved terms. These are detailed and definitive and, with the exception of incentive bonus schemes for manual workers, make no provision for local bargaining.
- 7. The Management Sides of the Whitley Councils are made up of representatives of NHS management in Great Britain and the Health Departments, the former being in a majority. Because the cost of pay agreements is wholly met from the Exchequer and implementation requires Ministerial approval the convention has been established that Management Sides seek approval before making offers. Under a more recent convention, Management Sides have been advised that the Government interest in negotiations would be limited primarily to the cost of offers, and to other terms only when the implications were judged to be of fairly major significance to Government.
- 8. There is no national agreement on arbitration. Arbitration was commonly used to settle pay claims in the 1950s and 1960s. Thereafter it has fallen into disuse as an ordinary process of pay determination. This is because most disputes in recent years have involved a conflict between the trade unions' claim and Government policies on incomes. The general understanding of the position by management and unions is that in the event of a disagreement over pay it is open to them by agreement to refer the matter to arbitration through the good offices of ACAS. Management Sides would not agree to

arbitration without some assurance from Health Ministers that funds would be available to meet the eventual award. Such assurances have been given on a few occasions when Government has set up special inquiries eg Clegg with an arbitral role.

Pay principles

- 9. Negotiations have of course been constrained by the terms of any prevailing national incomes policies. And in more recent years negotiations have been constrained by the pay factor in the NHS cash limit. This is mainly because the entire cost of pay offers is met from Exchequer funds there is no recourse to rates as in local government. Nor is there much scope for supplementing pay offers by reductions in staffing since it is the Government's policy to maintain and to modestly expand the volume of expenditure on the NHS.
- 10. Subject to the overall level of resources provided by Government each negotiating group seeks to apply pay principles that have been developed over the years. These have tended to look to a greater or lesser degree to external analogues and may be summarised as follows:-
 - (i) The pay of about 150,000 administrative and clerical staff and medical laboratory scientific officers (MLSOs) (details in Appendix 1) has in the past followed that of analogous groups in the civil service; but the decision on cash limits in 1979/80 was followed by negotiations in which Management Sides of the relevant Whitley Councils concluded that they could not match the civil service settlements. The same happened in 1980/81. The traditional links are therefore now in abeyance.
 - (ii) About 230,000 staff have pay links with groups other than the civil service ie the ancillary staff (with local government manual workers) and the electricians and other maintenance craftsmen (with the Electrical Contracting Industry) further details in Appendix 2. These links have not so far been broken; but it is uncertain how much longer they can continue to hold good.

(iii) About 460,000 staff, mainly nursing staff and professions supplementary to medicine, have had their pay determined largely by occasional ad hoc enquiries. An improved mechanism for pay determination is currently being sought (further details in Appendix 3). (iv) About 90,000 doctors and dentists whose pay is covered by the recommendations of the Doctors and Dentists Review Body (DDRB). The DDRB looks at movements of earnings in other professions and at a number of other relevant factors. But in more general terms, over and above any formal links, Civil Service pay settlements have played a very important part in setting the general tone for pay settlements in the NHS, as in the public service generally. 11. It seems unnecessary to go into very much extra detail about the systems that have been briefly outlined. In the case of (i) above, the parallels between NHS administrative and clerical grades and the related civil service grades were of long standing, although never based on formal job evaluation techniques; and the most recent comparison of MLSO and civil service analogues was a survey in 1970 by both Sides of the Whitley Council. In the case of (ii), the validity of the link rests on broadly similar levels of skill and function, not a formal assessment. In the case of (iii) and (iv) the NHS is the predominant employer and comparisons can only be made with different professions, mainly those outside the NHS, but with regard paid to the requirements of training, responsibility and so on.

12. In summary, external links and comparisons have traditionally played

to the scientific civil service and the pay of hospital pharmacists and

13. In general external linkages are confined to certain key grades in the grading structures that have been developed to meet the needs of the

clerical staff is linked at five points with the Civil Service, pay for

4

NHS. Thus, for example, although the pay of NHS administrative and

opticians is linked to that of NHS physicists and biochemists.

an important part in determining NHS pay. They are supplemented by internal linkages. For example, the pay of NHS physicists and biochemists is linked

these categories varies in some cases according to a scale related to the population served by the health authority. This results in rather more gradations in salary than are judged suitable in the Civil Service. But these are all consistent with and interpolated around the key points of linkage between the two services.

14. The system that has been described is very much concerned with pay, meaning basic salaries or wages. Principles for determining conditions of service have not been developed to the same extent or in such precise ways. This is partly because the NHS is more concerned with providing 24 hour, seven days a week services than is the Civil Service or local government. In practice the terms negotiated in the three services do not differ very much.

Comments on the system

- 15. Following an independent Inquiry into the Whitley system Lord McCarthy reported in 1976 that although there are many criticisms of the system, some conflicting, there was widespread support for national agreements in a National Health Service. This reflected the belief of a good number of management and staff that the same job should attract the same rate of pay whatever the location of the workplace. For medical and many professional staff the NHS is a near monopoly employer. Movement between authorities is a feature of their careers. This obviously limits the extent to which local market considerations can sensibly be taken into account in setting pay - this has been regarded as one of the chief arguments for the existence of the Review Body. National terms and conditions are generally judged to be appropriate to this national market. For secretarial and clerical staff and manual workers, recruitment and retention rests on local labour markets. The national system is less satisfactory for these groups. As in the Civil Service, national rates for secretarial staff are often too low in London and unnecessarily high in some places elsewhere; similar considerations apply to ancillary staff.
- 16. Formally the system is very rigid and makes no concession to geographical variations (apart from London and a "remoteness" allowance in Shetland, Orkney and Western Isles). In practice, however, it has enabled the NHS to recruit and retain an expanding workforce and to adapt to considerable developments in technology. The system is therefore

more flexible than it appears in adapting to differences in local labour markets. These are reflected to some extent in the variations in the quality of staff who can be recruited and retained at national rates at different locations. Secondly, agreements often give authorities discretion to appoint staff in a range of grades, which can be used to take account of local labour markets, eg medical secretaries in London tend to be graded higher than those employed elsewhere; hard to fill consultant posts may be readvertised at the top of the incremental scale. Third, is the case of manual workers, where earnings have been brought up to local market rates by overtime, incentive bonuses or other enhanced payments.

- 17. The arrangements as they stand contain no explicit provision for the introduction into central negotiations of market factors, in particular recruitment and retention of staff, job security (plus index-linked pensions) and efficiency. If this were to be done, it is clear that an improved information base would be required, including consistent information on the recruitment, retention and wastage by staff groups and by geographical area, as well as comparisons between pay in alternative jobs outside the NHS.
- 18. In general, the pay principles which have been formalised in links have in the past provided a good deal of stability in NHS industrial relations, minimising the issues for negotiation and for potential dispute. Although it has not been possible to maintain some of these links in the last year or so, and others are at risk of being abandoned, NHS management, like the Whitley Council Staff Sides, remain convinced of the value of relating NHS pay in varying degrees to that of analogous groups, and would hope to return as soon as possible to a system having broadly the same operational effect. One of the central problems is whether and, if so, how it is possible to reconcile this objective with pay determination arrangements which enable market factors to be appropriately reflected and at the same time respect the principle that pay increases must be in line with what can be afforded, as currently reflected in cash limits.

Future developments

19. It is the policy to seek greater flexibility in the Whitley agreements, which will give health authorities rather more opportunity to match gradings to their particular needs. It is also desired to simplify the range of

different salary scales that have been generated by the 20 or so negotiating groups by moving towards a smaller number of common scales or "spines".

Of major importance is the commitment by Ministers to develop machinery for determining nurses' pay which will avoid the need for occasional ad hoc inquiries such as those undertaken by the Halsbury and Clegg Committees.

The inquiry into Civil Service pay

- 20. The recommendations of the inquiry are likely to have important implications for the NHS, since the principles thought appropriate for determining the pay of the Civil Service can be expected to be relevant to the NHS. Any help the committee can give with the basic dilemma referred to in paragraph 18 above, which affects equally the Civil Service and the NHS, will be of particular significance.
- 21. More specifically, there will be implications for those NHS negotiations that are based on pay links between NHS and Civil Service grades. Hitherto the rationale of pay determination in both the Civil Service and the NHS has been comparison of responsibilities with no specific account taken of market factors. If in the future Civil Service pay took account of market factors specific to the Civil Service it would not on the face of it be justifiable to link NHS staff to those salaries unless it was possible to adjust these to take account of the relevant NHS market factors. Whether or not this was feasible would depend on the mechanism adopted for pay determination in the Civil Service. The secretariat to the Management Sides of the NHS Whitley Councils has hitherto had no need to provide a datagathering service such as that previously provided by the Civil Service Pay Research Unit, nor has it had need for access to the wide range of data collected by that unit. It has sufficed for the examination of jobs by the NHS secretariat to be limited to jobs in the NHS and in the Civil Service; the pricing of NHS jobs has awaited the conclusion of the linked Civil Service negotiations. Thus the NHS process has been relatively simple and economical and has avoided any duplication of the work of the Civil Service Pay Research Unit. The advantages of such an arrangement are clear.
- 22. In short, the kind of solution which would be valuable to the NHS might be an improved system of pay determination for the Civil Service which was based on principles capable of being applied to the NHS and which

provided a rational system of pay determination capable of both allowing an appropriate role to pay comparisons and recognising the relevance of market factors and "affordability" as reflected in cash limits. Within that, it would be helpful from a purely practical point of view if, as has been the case in the past, the Civil Service arrangements allowed a substantial degree of "read across" into the NHS, with the minimum amount of modification and additional in-put.

LIST OF ABBREVIATIONS USED IN THE APPENDICES

ACB Association of Chemical Biochemists

AHRCO Association of Hospital and Residential Care Officers

ANA Association of Nurse Administrators

ASM Association of Supervisors of Midwives

ASTMS Association of Supervisory, Technical and Managerial Staff

COHSE Confederation of Health Service Employees

CSEU Confederation of Shipbuilding and Engineering Unions

EETPU Electrical, Electronic, Telecommunication and Plumbing Union

FTATU Furniture, Timber and Allied Trades Union

GMWU General and Municipal Workers Union

HPA Hospital Physicists Association

HVA Health Visitors Association

MATSA Managerial, Administrative, Technical and Supervisory Association

NALGO National Association of Local Government Officers

NUPE National Union of Public Employees

RCM Royal College of Midwives
RCN Royal College of Nursing

SANA Scottish Association of Nurse Administrators

SHVA Scottish Health Visitors Association

STAMP Supervisory, Technical, Administrative, Managerial and

Professional Section of UCATT

TGWU Transport and General Workers Union

UCATT Union of Construction, Allied Trades and Technicians

NEGOTIATING GROUP	NORMAL DATE OF SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED	GENERAL BACKGROUND INFORMATION
NHS Administrative, Clerical and Secretarial Grades, including Top Designated Grades (provisional figure) (121,000)	1 April (1 July (former LA Staff on protected scales)	Link with Civil Service) clerical and executive) grades at 4 key points) with further links at) the top with AS/US	Administrative and Clerical Staffs Whit- ley Council NALGO, COHSE, NUPE, TGWU, MATSA, GMWU	Includes staff transferred from Local Authorities 1 April 1974
Notes. (a) The 5 key points are	4) 60 7			

- (a) The 5 key points are the CS Under-Secretary, Principal, SEO, HEO and CO maxima. All links were adjusted to allow for the superannuation contributions paid by NHS staff.
- (b) The above and the following links with the civil service could not be maintained in 1980 and the gap widened in 1981. This was because the NHS could not match the CS increases since there was no room for staff savings within cash limits such as the CS had been able to find to offer increases over the percentage of the cash limit. The Whitley Council consider that this does not affect the validity of the link which they wish to restore as or when funds allow.

	1		
Regional Health Author- ity Works Staff - Chief Officers (70)	1 April	Reference to Administra- tive and Clerical RHA Treasurers (A relationship with other Chief Officers in RHAs)	Committee F of PTB. STAMP, NALGO, NUPE, COHSE, ASTMS
Biochemist, Physicists and Clinical Psychologists (3,000)	1 April	Tight links with Scien- tific Civil Service	Committee A of PTA, caly bodies involved in negotiations are ACB, ASTMS, NALGO, HPA
		1	

				•	
NEGOTIATING GROUP	NORMAL DATE SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED	GENERAL BACKGROUN	
Hospital Pharmacists (3,200)	1 April	Firm links with Hospital Physicists, Biochemists and Clinical Psychologists	Committee A Pharma- ceutical Whitley Council, ASTMS, COHSE		
Hospital Opticians (140)	1 May	Links with Hospital Physicists, Biochemists and Clinical Psycholo- gists	Committee A and B of Optical Whitley Council, Optical Professional Bodies, ASTMS		
The "tight links" are with the SPSO, PSO, SSO and SO grades.					
Hospital Pharmacists and to the NHS Scientists	Hospital Opticia	ans do not have a direct link	with the CS scales but	are linked	
Medical Laboratory Scientific Officers (16,000)	1 April	Tight links with Scienti- fic Civil Service General influence on other technician groups.	Committee A of PTB, ASTMS, COHSE, NALGO, NUPE		

MLSO negotiations affect a further 14,000 staff in other technician groups.

Area and District Works Staff (3,900)	1 April except for Building Sup- ervisors and Works assis- tants (1 July)	Reference to Civil Service Professional and Technol- ogy category	Committee D of PTB, STAMP, ASTMS, NALGO COHSE, NUPE
		2	

			,	
NEGOTIATING GROUP	NORMAL DATE OF SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED	GENERAL BACKGROUN. INFORMATION
Regional Health Author- ity Works Staff - Officers (2,430)	1 July	Reference to Civil Service Professional & Technology Group The Area Works Officer has a link with the Area Trea-	Committee F of PTB, STAMP, NALGO, NUPE, COHSE, ASTMS	
		surer . For the other Works staff, in 1979 existing relativities with CS PPTO and PTO 1-1V grades were confirmed, subject to job evaluation. This has now taken place but implementation has been impeded by cash limits.		
		3		

NEGOTIATING GROUP	NORMAL DATE OF SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED	GENERAL BACKGROU INFORMATION
NHS Ancillary Workers (211,000) - wholetime equivalents	13 December	Link with Local Authority Manual workers Repercussions on Dark Room and Post-Mortem Room Technicians	Ancillary Staffs Whit- ley Council, NUPE, GMWU, TGWU, COHSE	

The link has been traditional since 1948: it is not with actual pay but with the increases in the basic rates. The group, together with LA Manuals, was referred to the Clegg Commission in 1979; the Commission recommended the same basic rates for the three lowest-paid grades in both groups. This was maintained in 1980 and again 1981, in the latter year by extending the settlement period to some 15½ months.

AND THE RESERVE OF THE PARTY OF			75 monono.		
NHS Maintenance Workers Electricians, Engin- eering Craftsmen and Plumbers (15,000)	1 January	Links with Electrical Contracting Industry	No formal Whitley neg- oting body. Negotia- tions direct between craft unions and Department + NHS management EETPU, CSEU, NUPE*	Negotiate for semi-skilled engineering grades only.	
NHS Maintenance Workers Building Operatives (9,600)	1 January	Repercussions from Building Craftsmen Trade Unions and with other Maintenance Workers	COHSE*, TGWU*, GMWU* No formal Whitley negotiations. Direct negotiations between Health Departments, + NHS management. UCATT, TGWU, GMWU, FTATU		

These links which were confirmed by an independent inquiry in 1973 have been maintained up to and including the 1981 settlement.

	NEGOTIATING GROUP	NORMAL DATE OF SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED GENERAL BACKGROUNI INFORMATION			
	Nurses and Midwives (NHS) (492,000) F/T equivalent (420,000)	(All staff incl	Repercussions on Professions Supplementary to Medicine (DHSS 7) and on nursing staff in the Civil Service, the Special Hospitals (DHSS 4) and the private sector	Nurses and Midwives Whit- let Council; NALGO, NUPE, RCN, RCM, ANA, AHRCO, ASM, COHSE, HVA, AMATSA, SANA, SHVA			
	NOTES: The largest staff group of the NHS, accounting for about 42% of the total staff bill.						
	There are no single analogues for nurses; the question of their pay was referred in 1974 to the Halsbury Committee and in 1979 to the Clegg Commission.						
	In August 1980, in a letter to both Sides of the Whitley Council the Minister of State, Health proposed that discussions be started to try to find an improved method of determining nurses' pay, but with no commitment to a date for implementation. A recent Staff Side response is under consideration in the Whitley Council.						
	cluding Medical Laboratory Scientific Officers, Speech Therapists and		Repercussions on Dental Auxiliaries (DHSS 20). Link with nurses auxil- iary grade and PSM helper grade. (DHSS 4)	PTA Full Council			

NOTE: PSMs are in a similar position to Nurses and, like them, were referred to the Clegg Commission in 1979.

TITLEDIA 9 (Continued) .							
NEGOTIATING GROUP	NORMAL DATE OF SETTLEMENT	LINKS/REPERCUSSIONS	NEGOTIATING BODY AND TRADE UNION INVOLVED	GENERAL BACKGROUND INFORMATION			
Ambulancemen (as from 1 April 1974) (17,000)	1 January	Previously part of Local Authority Manual Workers group Influence Ambulance Officers	Ambulancemen's Whitley Council, NUPE, TGWU, GMWU, COHSE				
		Ambulancemen (and of- ficers) were referred to the Clegg Commission in 1979. There are no links. The Whitley Councils con- cerned have now agreed to a further review of their pay and conditions of service.					
O		2					

196 JV Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000 21 January 1982 Michael Scholar Esq. 10 Downing Street LONDON SWI Dear Michael, MEGAW INQUIRY: EVIDENCE BY THE GOVERNMENT ACTUARY I enclose two memoranda prepared by the Government Actuary for submission to the Megaw Inquiry. The first responds to a specific request from the Inquiry. The second volunteers information about the recruitment and retention experience of the Government Actuary's Department in a specialised labour market. The Chancellor is content for the memoranda to be submitted on the understanding that the Government Actuary makes clear that they represent his own professional views and not necessarily those of the Government. Unless the Prime Minister or other colleagues have any objections we will advise the Government Actuary to proceed on that basis. Copies of this letter go to Jim Buckley, David Omand, Don Brereton, Richard Dykes, Jim Nursaw, Mrs C M Duncan and David Wright. Yours en. P.S. JENKINS Private Secretary

Memorandum to the Megaw Inquiry COMMITTEE OF INQUIRY INTO PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE. ASSESSMENT OF COMPARATIVE PENSION VALUES Evidence by the Government Actuary's Department. The annexes attached to this note cover points upon which the Inquiry requested evidence from GAD, about the way in which pensions were dealt with under the old pay research procedures. The relevance of these matters for the future will depend on the nature of any new pay arrangements, in which pensions must presumably be allowed for in some manner or other, and also on what action is taken following government consideration on the Scott Report. The annexes are as follows: Role of the Government Actuary Annex A Annex B Developments since the Scott Report Deductions from pensions to take account of state scheme Annex C benefits Adjustments to pay in respect of pension benefits for Annex D different levels of the Civil Service Transferability Annex E E A Johnston Government Actuary's Department 4 January 1982 Encs

ROLE OF THE GOVERNMENT ACTUARY

Note by the Government Actuary

- If prospective pension rights are to be taken into account in fixing pay levels, or if it needs to be demonstrated that they have been, the value of those rights must be actuarially assessed. This note considers what arrangements might be made for doing this, on the premise that comparisons of some sort are being made between the Civil Service and other employments.
- 2 The Scott Committee's view was:

We believe that the Government Actuary goes about his tasks in an entirely proper way we see no reason to take the task of assessing differences in pension benefits away from the care of the Government Actuary; indeed the calculations require specialised knowledge which is not available to other actuaries. It is however important that there should be some suitable means of independent scrutiny.

.... we suggest that the scrutiny of comparability exercises should include pension aspects.

Junder the Priestley system, the pension adjustments were, in principle, a matter for negotiation, but in practice they were put "into commission". The 1974 Pay Agreement gave the Government Actuary a joint remit from the Official and Staff Sides to establish a figure which both Sides bound themselves to accept. The need to negotiate a highly technical matter was thus avoided, but by the same token neither side could impose their/views on eg the actuarial assumptions, as it would have been professionally improper for me to accept directions from one only of the two parties who jointly instructed me. Because the remit was joint, and because of the highly charged political atmosphere surrounding the subject, I had to be careful to use bases and methods generally accepted in the profession but nevertheless which I thought proper, and to take

account only of those factors appropriate to an actuarial assessment. The arrangement cannot offer scope for the Government to give effect to any views it might hold going beyond this.

- If the comparisons of which the pension assessment is part are to be as closely integrated with negotiations in future as they were in the past, it is hard to see any alternative to this arrangement. It would be troublesome to bring such a technical matter into the negotiations, which might then have to involve actuaries on both sides.
- The former arrangement placed much responsibility on the actuary and will only work if both Sides and the public have confidence in his assessments. Nowadays, professionals do not automatically command public respect; disclosure is required, and it is not unreasonable for the public to expect independent scrutiny, which will be discussed later in this note. This is in line with Scott's conclusions (para 134) with which I agree.
- If comparisons are to continue, even if less central to pay negotiations than before, the arrangements for assessing pension values must obviously fit into whatever arrangements are set up for making the comparisons. These however would have to include some arrangement for disclosure of the actuarial work, and probably for some form of independent scrutiny or oversight.
- 7 The following points need to be taken into account in considering what arrangements should be set up:
 - (i) Although the actuarial methods used are highly technical and involve long-term assumptions, the basic issues involved both in the interpretation of the terms of reference and in the choice of assumptions are in no way beyond the grasp of laymen. Indeed it is quite usual for actuaries to report to lay boards or committees on matters of considerable professional complexity.

(ii) The terms of reference, which determine just which considerations are to be taken into account by the actuary, arise from the pay comparisons and should be considered together with them.
(iii) We have to face the fact that there could be imponderables which should be acknowledged in some way in the comparisons.

(iii) We have to face the fact that there could be imponderables which should be acknowledged in some way in the comparisons.

I suggest, though, that these can only be considered in relation to the terms of service as a whole, because the individual cannot choose his pension scheme, he can only choose a job which will carry a pension scheme as one of its conditions. Motives for entering or leaving jobs are rarely simple, and cannot safely be fragmented into those related to pensions and those which are not.

- (iv) There are other points where consistency in all the elements of a comparison, pay and pensions, is important, as has been mentioned in other evidence from GAD. Under the old system there was no independent oversight of this consistency with regard to the Civil Service, although it exists automatically in comparisons conducted by the Review Bodies and those made by the former Clegg Commission. Scott (para 136) favoured unified scrutiny.
- 8 It seems inevitable that any future assessments should be made by the Government Actuary's Department, as we have the necessary knowledge of the public service schemes, and experience of doing the work for a variety of clients. The questions are what terms of reference are given to the actuary, how his results are used, and what forms disclosure and oversight take. This leads me to suggest the following conclusions.
- 9 If some independent body is established to make comparisons, I should report directly to that body and I would expect to have to satisfy it as to our approach to the question, as well as on the assumptions and methods.

5

his case there would appear to be no further need for oversight of the two iel work, but there should be disclosure by publication of actuarial reports as at present, hopefully leading to professional discussion as is now getting under way.

If, however, anything like the old system is to be recreated, which 10 requires me to report directly to negotiators, there must be some independent oversight. It is hard to see, though, how this could be carried out other than by a body which oversaw the whole breadth of the comparison process, including the actuarial work, and could look at the use made of our figures. It does not appear practicable for the two Sides to the negotiations to perform any independent supervisory function. Under the old system, there existed a Board, the Pay Research Unit Board, which scrutinised the collection of data for the Civil Service comparability exercise, and the reporting of it to the negotiators. However, PRUB's remit did not extend to the calculation of True Money Rates from this data, which was regarded as interpretation and performed by the negotiating parties. The pension assessments were also considered to be interpretation and as such excluded from PRUB's purview. Unless these various elements are brought together under one roof, I do not think there can be effective supervision of the pension assessment. But unless the public can be brought to have some reasonable confidence in these procedures the conditions under which professional work can be done properly would not exist; which implies that a professional should not do it.

Any Board or scrutiny body would be a lay body, not composed of actuaries, but it could usefully include someone with an actuarial background (as PRUB did recently). Such a person, who might be the chief executive of a major insurance company, would also bring other knowledge and skills relevant to the comparison exercise as a whole.

12 Whatever role the Government Actuary is to play in the future, it will obviously be limited in some way, and it is essential that the public should understand this. In the past, apart from the PRUB Report and mine, little was published about the Civil Service pay system, and there seemed to be no active publicity. The public clearly found it obscure and did not understand the limited extent of my role. In any future system, fuller and better publicity about the pay arrangements in general is essential if professional work of any sort is to be done. It is not professionally proper for me to make an assessment in circumstances such that the public are bound to misunderstand its scope. But the steps needed to ensure a better understanding cannot be taken by me because the assessments are so deeply embedded in the comparability arrangements. If professional assessments are needed in future, the arrangements must be more satisfactory than before, and better presented to the public.

25 November 1981

AMENT OF COMPARATIVE PENSION VALUES
DEVELOPMENTS SINCE THE SCOTT REPORT
Note by the Government Actuary

The Scott Report reached three conclusions concerning the assessment of the Deduction incorporated in Civil Service pay scales to allow for the comparison between Civil Service pensions and those attaching to analogue employments.

Role of the Government Actuary

- 2 They concluded:
 - We believe that the Government Actuary goes about his tasks in an entirely proper way we see no reason to take the task of assessing differences in pension benefits away from the care of the Government Actuary; indeed the calculations require specialised knowledge which is not available to other actuaries. It is however important that there should be some suitable means of independent scrutiny.
 - we suggest that the scrutiny of comparability exercises should include pension aspects.
- These aspects are discussed in a separate note, entitled "Role of the Government Actuary".

Assumptions

The Committee suggested a range of deductions which "we regard as reasonably consistent with the nature of the public sector guarantee and the more likely prospects for the economy". The optimistic end of the range assumed a real return (which they regarded as the key assumption) of 3 per cent per annum, coupled with inflation rather lower and a degree of protection against inflation for the analogue schemes somewhat higher than I assumed early in 1980. The

pessimistic end assumed a real return of zero, with the two other assumptions somewhat less favourable than I used in 1980. It appears that the other assumptions incorporated in my calculations, some of which are of considerable importance, were not varied.

At the time Scott reported, it was not known how the market viewed the prospects for real returns. Since then, this has been put to the test by the Government issue of indexed gilts. It turned out that the market was unwilling to buy them at a guaranteed real return below 2 per cent, and they are now standing nearer 3 per cent. This is not a sure indication as the market in them is rather narrow but it can be said to indicate that in the view of pension fund investment managers we should look at the optimistic rather than the pessimistic end of the Scott spectrum. One could not now justify using assumptions at the pessimistic end.

Professional discussions

- The Scott Committee supported my suggestion that greater use should be made of the actuarial bodies as a forum for discussion of the problems involved. They added that economic and commercial opinion should be involved also.
- I have always felt that the actuarial institutions provide the correct fora for discussing these questions, but the heated political controversy made it impossible to use them. Now that the Scott Report has put the profession where it should have started from several years ago, it has been possible to commence these discussions, and a Sessional Meeting was held at the Institute of Actuaries on Monday 26 October 1981. The papers before the meeting were the Scott Report, and a memorandum by myself incorporating some of the evidence which we had given that Committee. The following paragraphs deal with the points that were raised in the discussion.

- A most important question was whether the pension deduction from salary should relate to the cost to an employer of providing the pension, or to the value to the individual of the pension provided. The GAD assessments have always been on a cost basis, as we have understood that this basis would fit into the way that the overall comparisons are made. It seems reasonable to use cost not value because the individual cannot choose his pension scheme; he has to take the job with all its terms of service together, or not at all. If an employer decides to instal a less good scheme, it is the saving in cost not in value which is released, and which could if desired be used to pay additional salaries. No conclusion was reached on this question; the concept of value is clearly considered important, especially in the context of the index link, but the argument for cost survived the evening.
- The point given most time in discussion was uncertainty. The Scott Committee had commissioned work from Professor Brealey and Dr Hodges of the London Graduate School of Business Studies. On the whole, the B & H paper was not found acceptable, both because of criticism of the technical methods underlying it, and because it did not identify and seek to measure the uncertainty which actually exists. The GAD assessments allowed for uncertainty, but in a rather different way. We will have to give further consideration to this point, but I do not envisage wholesale adoption of the B & H method.
- 10 There was also some discussion about technical methods, which did not give any clear indication of the direction we should move in. I suspect that there will be further discussion of these.
- 11 There was enough mention of the assumptions to show that there will never be unanimity on them, but mine was generally thought not unreasonable.

One of the most difficult points raised was retrospection. However right the assumptions underlying an assessment may appear at the time, it is all too likely that events will turn out differently. A case may be made for some retrospective revision of the pay adjustments, but any attempt to do so raises very complex problems. It would raise problems of equity, too, because the system taken as a whole has the effect of charging civil servants with amounts which in the private sector would normally be charged to employers, not to employees.

The discussion was hampered by lack of information about the general basis of the pay comparisons and the principles underlying the TMRs.

This particularly affected the question of transferability and the treatment of early leavers.

14 This subject will never be free from controversy, but we do seem to have got professional discussions under way at last. I am seeking to stimulate further meetings or discussions, which can only improve our methods, and should lead to greater acceptance of them.

25 November 1981

Deductions from pensions to take account of State Scheme benefits

This note summarises the extent to which employers outside the Civil Service make deductions from pensions to take account of State Scheme benefits. It makes clear that full account was taken of these deductions in the pension comparisons carried out for Civil Service Pay Research.

The Generality of Pension Schemes

The Sixth Survey by the Government Actuary of Occupational Pension Schemes 1979 shows that nearly half of members of private sector superannuation schemes had adjustments to pension for National Insurance benefits. A copy of Table 8.6 of that survey giving more detailed information is appended. Such reductions in the public sector are usually fairly small.

Analogue Pension Schemes

- 3. For the 1980 Civil Service Pay Research exercise the superannuation arrangements of 600 analogue employments were examined. Of these employments, 569 had superannuation schemes giving pension benefits related to salary at, or shortly before, retirement. Of these 569 'final-salary' schemes, nearly one-half offset benefits by an amount linked to National Insurance basic pensions. About two-thirds of these offsets were by way of a disregard of part of the salary and the rest by a direct reduction from pension. About one-eighth of the 'final-salary' schemes were not contracted-out of the upper tier State pension. Rather less than half of these had benefits modified to allow for this pension.
- A copy of paragraph 5 of Appendix 4 to the Report by the Government Actuary on 'The 1980 Review of the Adjustment for Differences in Superannuation Benefits' is appended. This summarises the information on reductions in analogue pension benefits in respect of State pensions.

Allowance made in Pay Comparison

5. For pay comparison purposes it is correct to consider the schemes attaching to whatever jobs are chosen as analogues rather than the generality of schemes. On the actuarial assumptions adopted for the 1980 Review the average value of analogue superannuation benefits was reduced by 1 per cent of salary in respect of deductions from pensions to take account of State Scheme benefits. This was fully allowed for in the calculations for the adjustment to pay.

Government Actuary's Department 25 November 1981

Table 8.6 Numbers of private sector members according to adjustment to the pension for national insurance

					thousand
Adjustment	Contracted-out	Not contrac	ted-out	Total	
None	2,320	800	i	3,120	
Related to basic state pension Related to earnings-related	2,080	200	1	2,280	
state pension	_	180		180	
Flat sum	- 400	100		500	*
Totals	4,800	1,280		6,080	

5. Modification on account of National Insurance benefit and contracting-out

5.1 Basic State pension

TABLE 5

Type of modification	Percentage of schemes				
		1980	1979		
None		45.7	36.4		
Reduction of salary for pension purposes:					
(i) by flat amount	***	6.2	4.8		
(ii) by amount linked to level of State pension State lower earnings limit	n or				
	***	33.0	-27.3		
Reduction of pension directly:					
(iii) by flat amount per year of service		1.4	13.6		
(iv) by amount linked to level of State pension		13.7	17.9		
Average amounts of modifications:					
(i) flat reduction of salary	=£44	5 (£442	in 1979)		
(ii) salary reduction linked to State pension	=115 pers	per ce son's St	nt of single ate pension ent in 1979)		
(iii) flat pension reduction per year of service	=£1.70 per annum (£2·12 in 1979)				
(iv) pension reduction linked to State scheme	=1.96 per cent of single person's State pension per year of service (1.90 per cent in 1979)				
Upper-tier State pension					

5.2

TABLE 6

					T	ercentage (or schemes	
0						1980	1979	
Contracted-out	***	•••	***	***	***	88.0	90-9	
Not contracted-out		***		***	***	12-0	9.1	
of which:								
modified by	State	scheme	Addi	ional C	om-			
ponent				'		12%	421%	
modified in		er way	***		***	26%	377%	
not modified		***	***			62%	20%	

ANNEX D ASSESSMENT OF COMPARATIVE PENSION VALUES Adjustments to pay in respect of pension benefits for different levels of the Civil Service In recent Civil Service Pay Research exercises the Government Actuary's Department (GAD) have assessed a single adjustment to pay for differences in superannuation benefits (called the Deduction). This note explains the difficulties involved in assessing the extent to which a single Deduction leads to larger or smaller adjustments than would be justified by comparisons covering separate groups of staff in the Civil Service. 2. Variations in the Deduction would arise from two sources. First the average quality of the analogue pension schemes would vary from group to group. Secondly the actuarial assumptions used for each comparison would, in general, be different from those adopted for the assessment of the single Beduction. Pay Groups 3. For pay comparisons the Non-Industrial Civil Service was divided into several Pay Groups, for example Scientists, Messengers. The calculations by GAD for the assessment of the Deduction were carried out separately for each Bay Group as a first stage. The results were then averaged. However these preliminary calculations used the same actuarial assumptions, considered appropriate for the Non-Industrial Civil Service as a whole, for each Pay Group. 4. If the required assessment had as its aim a separate Deduction for each Bay Group, actuarial assumptions appropriate to each Pay Group would have been needed. The significant assumptions which would need to vary between Pay Groups would be starting salaries, career increases in salary, and rates of withdrawal. Statistics upon which to base such assumptions are not readily available at present. Even if such statistics were available the work required to calculate separate Deductions for each Pay Group would be considerable.

5. Prior to 1974, however, assessments were made for individual Bay Grour

It was intended that these assessments were to be made triennially in rotation
but periods of Government pay controls almost invariably interrupted each cycle.

Grades

- 6. To assess Deductions for each grade, new methods would be needed, because the existing method looks at the value of benefits over a whole career. Any method, however, must look at the career subsequent to the assessment, because pensions are based on final pay. The rationale of using Bay Groups rather than grades would be that the groups bring together careers which are not too heterogeneous. The work necessary to make assessments for each grade would be enormous.
- 7. The full Pay Research Unit report on each analogue employment stated which grades were covered in the comparison. Only the paragraph on the pension arrangements was provided to GAD. It is thus not possible for GAD to make a correlation between the value of analogue pension schemes, on the actuarial basis of assessment used, and the grades covered in the comparisons.
- 8. The different salaries, future prospects, and rates of withdrawal for members of each grade would greatly influence the amount of the Deduction for each grade. It is not possible to estimate the variability of Deductions by grade introduced by these considerations.

Conclusion

9. GAD can assess the variation in the Deductions between Bay Groups introduced by the differing quality of the average analogue pension benefits for each Pay Group. This could also be done for grades if information on the grades covered by each comparison were made available. However there are severe practical difficulties in making assessments which allow properly for variables such as salaries, career salary increases and rates of withdrawal of the staff in each Pay Group or grade.

Government Actuary's Department 25 November 1981

that, for consistency, the net cost to the PCSPS of receiving transfer payments should be allowed for. For each case this is the value of the benefits credited on the actuarial assumptions referred to above less the amount of the transfer payment. This could be significant where the transfer is from another Club scheme and the transferee is gaining a salary increase by moving. However as only 1 per cent of entrants to the Civil Service bring transfer payments and not all of these would be from Club schemes the effect on the average value of PCSPS benefits would be negligible.

Analogue Schemes

- 6. The withdrawal rates adopted for the evaluation of pension schemes attaching to analogue employments ('analogue schemes') were those used for the PCSPS. This is in accordance with the general approach used for Civil Service Pay Research exercises by the Government Actuary's Department. This is that the value to a civil servant of the benefits of his pension scheme is compared with the value of the benefits of an analogue scheme to that same civil servant, assuming that he retains the Civil Service career profile etc. We understand that this corresponds with the way pay and other fringe benefits are valued when the True Money Rate is calculated. This contrasts with an alternative assessment which would set the value of the analogue scheme benefits against the value of the PCSPS benefits to a person in the analogue job, with the career profile etc. appropriate to that job. It may be added that, in practice, the alternative comparison could not be made without collecting data about career profiles, rates of termination etc. in the analogue employments. It is most unlikely that such data could be made available, and there would be severe practical problems in processing it, if it were.
- 7. In the private sector most schemes provide for payment and receipt of transfer values. However in the majority of cases the amount of the transfer payment is the value of the alternative withdrawal benefits as assessed by the scheme's actuary.

ANNEX E ASSESSMENT OF COMPARATIVE PENSION VALUES Transferability This note compares the arrangements for transfer of pension rights available to civil servants with those available to others. It explains how the differences in the arrangements were allowed for in the 1980 Civil Service Pay Research exercise. Civil Service Scheme 2. Civil servants who move to another pension scheme have the option of transferring the value of their pension rights from the Principal Civil Service Pension Scheme (PCSPS) to the new scheme if the latter is prepared to accept the whole liability. The PCSPS belongs to the Public Sector Transfer Club (the 'Club'). In general, a civil servant who transfers to another Club scheme will receive the same number of years service in the new scheme if the benefits are similar. In the year ending 31 March 1979, the latest for which statistics are available, about 8 per cent of males and 42 per cent of females who left the Civil Service other than by death or retirement took transfer payments to other schemes. Information is not available on what proportion of the receiving schemes were members of the Club. For valuing PCSPS benefits as a percentage of salary over an average career in the 1980 review, separate rates of withdrawal (a) with transfer payments and (b) with alternative benefits were assumed. Both sets of rates were chosen to be close to those experienced by the scheme. For those assumed to take transfer payments the benefit valued was the amount of the payment. 5. The amount of a transfer payment from the PCSPS to another scheme is not necessarily the same as the value of the benefits credited in the new scheme

In the 1980 review transfer payments from private sector schemes were therefore assumed to be equal in value to the alternative benefits, except in the case of public service analogues where the treatment was the same as for the PCSPS.

Summary

8. In general the transfer arrangements for civil servants are superior to those in the private sector. However, this superiority was allowed for in the 1980 Civil Service Pay Research exercise.

Government Actuary's Department 25 November 1981 OMENT !

COMMITTEE OF INQUIRY INTO PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE.

- Evidence by the Government Actuary's Department on the actuary class.

 1. The Committee's attention has been drawn by other departments to the difficulties experienced in recruiting and retaining staff in certain specialist disciplines.

 The object of this memorandum is to inform the Committee that similar difficulties are experienced in the Government Actuary's Department.
- 2. The Factual Memorandum on the Main Groups and Classes showed that at 1 April 1981 there were 33 members of the Actuaries Class in grades ranging from Principal Actuary to Actuarial Officer. Of these, 32 were employed in the Government Actuary's Department and one in the Board of Inland Revenue.
- 3. For many years, there have been serious shortages of professional staff because of resignations and the difficulty experienced in recruiting qualified actuaries. In order to maintain the work of the Department it has been necessary to fill permanent posts with casual staff and period appointees. Normally we lose a certain proportion of younger actuaries, but in the last $2\frac{1}{2}$ years this has worsened and we have lost 8 people, approximately one-quarter of our professional staff, and are now almost denuded of young professionals. Although the numbers have been nearly made up with new trainees it will be some years before these can replace the leavers in any meaningful way. It is not apparent from the Factual Material on the Main Groups and Classes how serious the situation is. For example, the table in the paragraph on the Recruitment Position suggests that in the last two years all vacancies have been filled. In 1980 only one Assistant Actuary was sought, not because there was only one vacancy but because experience suggested that it would not be possible to recruit more. After the table was compiled the Assistant Actuary shown as Appointed declined appointment as did all the other successful candidates. In the 1981 Actuarial Officer competition one of the two "Appointed" candidates has recently changed his mind and turned down the offer of appointment. Despite the use of period appointments and part-time staff there are currently 4 vacancies among the professional staff.
- 4. No pay research exercise specifically for actuarial grades has been carried out since 1961 and rates of pay have been linked to those of grades in the Administration group. This is a convenient way of dealing with the pay of a small number of staff but it is unlikely to produce pay scales which reflect market rates for professional staff. Those leaving do not appear to get large immediate pay rises, although better prospects are usually in view. The speed of getting the prospects is often a consideration. The index linked pension appears to have

little or no holding power for the under 35's. Other fringe benefits
fiables can be crucial. Staff mortgages (common in our field) can be .
especially at a time of mortgage scarcity. A step up the car market, can be tempting
Location is an important factor to which our competitors pay great attention - the
London Weighting is quite inadequate to retain someone who doesn't want to bring up
a family in Greater London. Morale and other attitudes are also important factors
with long-lasting effects. As actuaries differ from other civil servants only in
having an easily marketable skill, these suggestions may apply generally.

It is perhaps inevitable in a large organisation such as the Civil Service that there should be rigid rules about recruitment and pay but these can cause difficulties in managing small groups of professional staff. There have been occasions when the Department has found itself at a disadvantage compared with outside employers because of the lack of flexibility. Potential recruits have been lost because we cannot offer them a post quickly - instead they have had to wait until a competition can be mounted. Most of those who were declared successful in competitions but who declined appointment did so because they were offered an increase in pay by their employers. It is not possible for GAD to do this when staff indicate that they are considering resigning, even when there is a serious shortage in the grade. The impression is given that firms taking on leavers have pitched their offer at the level needed to attract someone they want. We would be more successful if we were able to manage recruitment and selection as our competitors are free to. The combined effect of manpower limits and these rigid procedures is that more often than not we have fewer staff than budgeted for, yet the limits do not incorporate a margin. Pay rates for actuaries have not been discussed in this note because the problems are similar to those met by other professional groups, about which the Inquiry has been informed.

- 6. Two conclusions may be drawn. One is that greater flexibility in the rules about recruitment, pay etc. is needed; the system does not stand up to a competitive labour market, nor does it cope easily with a variety of groups whose market circumstances differ.
 - 7. The other conclusion is that fringe benefits need to be looked at dispassionately in any pay comparison studies. The relative importance in the market place of the various benefits, as experienced in GAD, is quite different from the politically inspired comments which have been heard. Other benefits seem to carry as much or greater market weight as index linked pensions.

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Government Actuary's Department 25 November 1981 22 JAN 1982







Phime Minister

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Treasury Chambers, Parliament Street, SWIP 3AG 01-233 3000

ATTORNEY GENERAL

MEGAW INQUIRY: PAY OF GOVERNMENT LAWYERS

Thank you for your minute of 5 January commenting on mine of 2 December.

- It was certainly not my intention to suggest that the Megaw Inquiry should not consider what kind of pay arrangements for the non-industrial Civil Service would meet our requirements for specialist as well as generalist staff. Clearly we need new arrangements which will deal adequately with our staffing problems as a whole, and will enable us to respond to the particular problems in different areas as the recruitment and retention position changes. But we cannot expect the Inquiry to produce detailed recommendations on the pay arrangements of all the many different groups of staff in the Civil Service. Its report is needed too quickly for that. Nor do we want to mislead the Inquiry by submitting evidence to it on particular groups of staff into thinking that these groups require a special approach to their pay different from the one we are recommending generally. Since this is based firmly on an assessment of our recruitment and retention requirements, this should cater for the position of lawyers as of other staff.
- 3. As I said in my earlier minute, I quite accept that in assessing pay for lawyers we need to take into account the realities of the labour market and that this might mean putting less weight in future on internal relativities. But we must take care not to convey to the Inquiry too pessimistic a view about the adequacy of our existing pay rates.

CONFIDENTIAL



- 4. If you remain strongly of the view that evidence should go to the Inquiry about the pay of Government lawyers, I do not wish to stand in the way of this. But I enclose a note suggesting some amendments to meet my points of concern.
- 5. Unless you see any need to do so I doubt if we need treat your letter to Sir John Megaw as formal evidence which we need to publish and give to the unions.
- 6. I am copying this minute to the recipients of yours.

Sy.

(G.H.)

20 January 1982

NOTE OF AMENDMENTS TO SUBMISSION TO MEGAW INQUIRY ON PAY OF GOVERNMENT LAWYERS

Paragraphs 2 and 3

Amend to read: -

"It is important that salaries and conditions of service in the Civil Service should be such as to continue to attract and retain sufficient specialists of the various kinds which it needs. It would be a false economy to employ staff of inadequate calibre in areas where specialist knowledge and skills are required. Lawyers are one of the groups of specialists to whom these considerations apply. The Inquiry will not have time to examine the position of every different group of staff in the Service and to make detailed recommendations on their pay arrangements — but some comments on the pay arrangements for lawyers may, perhaps, helpfully illustrate some of the factors which need to be taken into account in fixing Civil Service pay rates for specialist groups.

3. As an employer of lawyers, the Civil Service"

Paragraph 4

Insert an additional sentence at the end:-

"Applying the test of recruitment and retention will show how far the Service is offering adequate terms and conditions of service to meet its requirements."

Paragraphs 5 and 6

Taking account of the points made by the Chancellor of the Duchy this might read:-

"At present, salaries in the legal Civil Service are, to the grade of Assistant Solicitor, governed by a direct linkage with the Administrative grades. In the case of senior posts in the Open Structure they are members of the senior grade in cuestion (with the exception of the Parliamentary Counsel grades). There is in present economic circumstances no great difficulty in recruiting and retaining lawyers of a reasonable quality suitable for many of the routine posts in the legal Civil Service. There is, however, more difficulty in finding those of the high quality needed, particularly for advisory posts, to provide the senior legal advisers of the future. compression of salary differentials generally in the Civil Service has caused some dissatisfaction among younger and abler lawyers who have reached a degree of seniority at a comparatively early age and who feel that the available rewards are more limited than those they might have received outside the Service. It will be important to guard against any detrimental effect on the Service in the long term. The need for vigilance in this applies with particular force in the Parliamentary Counsel's Office where all the work is exacting and requires lawyers of the highest qualities."

Paragraph 8

Amend the middle of the paragraph to read:-

"... I suggest that the appropriate salaries of lawyers need to be kept under review in the light of the recruitment and retention position, and when this is done ..."

Card Som

MR SCHOLAR

EVIDENCE TO MEGAW ON CASH LIMITS

The Treasury paper on the operation of the cash limits system is clear and uncontroversial. In particular, paragraph 23 - which explains that the setting of cash limits in advance creates administrative difficulties rather than policy problems - is helpful.

But the Inquiry's own record of their discussion with the Chancellor shows (paragraph 25(f)) that the Chancellor told them that the pre-determined cash limit "was intended to be a real constraint". So the Inquiry may not be totally convinced by the written evidence.

I do not normally suggest that the Prime Minister troubles herself with the Megaw evidence. But these papers are of more interest than most, and she may wish to glance at them.

J. VEREKER

20 January 1982



SH

This is a clear and uncontroversial

Treasury Chambers, Parliament Street, SW1P 3AG 01-233 3000 drupt paper.

19 January 1982

Agree mar he

Michael Scholar Esq. 10 Downing Street LONDON SW1 Treasury submit it

(John Vercher 50

recommends)?

Lew Porhuel.

Yes mo

Mcs 20/1

EVIDENCE TO MEGAW ON CASH LIMITS

The Megaw Inquiry have asked for a factual paper "describing the philosophy and mechanics of the cash limit system, and the current arrangements for reconciling it with pay negotiating systems".

The attached draft seeks to meet this remit. It is intended to be low-key and uncontroversial. It touches briefly on the 1982-83 settlement in the final paragraph because the Committee have explicitly asked about this.

Subject to any comments the Prime Minister or other colleagues may have, the Chancellor would like to send the paper to the Inquiry within the next few days.

I also attach for your personal information the Inquiry's own record of the Chancellor's oral evidence on 16 December. This will not be published.

I am copying this letter to Jim Buckley (Chancellor of the Duchy of Lancaster, David Omand (Defence), Don Brereton (Social Services), Richard Dykes (Employment), Jim Nursaw (Attorney General), Mrs Duncan (Lord Advocate) and David Wright (PS/Sir Robert Armstrong).

Junsem

PP.S. JENKINS

Private Secretary

CASH LIMITS, PAY AND THE PUBLIC EXPENDITURE PROCESS

NOTE BY HM TREASURY

This paper responds to the Committee's request for information about the cash limits system. It begins with a factual summary of the system and its history and then discusses its relationship with civil service pay negotiations.

Background

- 2. Cash limits were first introduced in 1974-75 and greatly extended in 1976-77. They are intended to provide greater control in the short term over the public sector's cash expenditure and an incentive to efficient management and cost control. They provide programme managers with a clear indication at the start of the year of the cash available to them so that they can plan accordingly. Each department knows that it will not be allowed additions to its limits in the normal course of events. The presumption is that cash limits, once set, will not be changed, even if there are unexpected fluctuations in costs or in other determinants of expenditure. Managers are normally expected to rearrange their activities so that the cash limit is observed.
- 3. Cash limits now cover virtually all central government services with the exception of those, such as the family practitioner service, which are largely demand-determined and cannot easily be controlled in this way. Originally they were operated as an administrative control. The majority have now been assimilated with the Supply Estimates voted by Parliament and are therefore subject to Parliament's approval. There are about 120 separate cash limits on Supply expenditure in 1981-82 and a further 13 covering non-voted central government expenditure, the external financing requirements of certain other bodies and the capital expenditure of local authorities and other bodies. A full list was given on pages 15-20 of the last public expenditure white paper (Cmnd 8175 of March 1981). The external financing limits of nationalised industries are also treated as a form of cash limit. The current expenditure of local authorities is not directly subject to a cash limit, but there is a limit on the rate support grant (RSG) paid to them by government.
- 4. Cash limits vary greatly in size, depending on the way in which the relevant programmes are administered and controlled. The largest is that covering defence

- fill is billion, formally divided into four separate limits but by agreement with the Treasury managed as one). The smallest are of less than fil million.
 - 5. The cash limits are derived from the public expenditure plans in the public expenditure white paper published in recent years at the time of the Budget. A preliminary announcement about some of the plans for the forthcoming financial year is commonly made towards the end of the previous calendar year, as soon as they are decided by the Government.

The change to cash planning

- 6. In past years, ministerial decisions about public expenditure and the plans published in the white papers have been expressed in "constant" prices of a past period, and were then converted at a later stage into cash limits by a complex series of revaluations.
- 7. Following an announcement by the Chancellor of the Exchequer in his Budget statement on 10 March 1981, the 1981 public expenditure survey was, for the first time, conducted in terms of prospective cash expenditure, rather than in "constant" prices. The decisions announced on 2 December 1981 about programmes for 1982-83 were accordingly in terms of cash provision. The expenditure plans in the next white paper, to be published on Budget day 1982, will similarly be expressed in terms of cash. From 1982-83 onwards, cash limits and the white paper spending plans will be on the same price basis.
- 8. 1981 was a transitional year. At the beginning of the annual ministerial consideration of public expenditure it was necessary to convert the existing plans in the last public expenditure white paper from "constant" prices into cash. The conversion was nitially performed in the spring on a provisional basis, which allowed for a general screase in costs of 7 per cent between 1981-82 and 1982-83, and increases of 6 per cent and 5 per cent respectively in the following two years. Subsequently, as announced on 15 September, the provisional factor for 1982-83 was reviewed and replaced by separate factors of 4 per cent for increases in earnings from due settlement dates and 9 per cent for increases in other costs compared with the 1981-82 average.
- 9. The figures so calculated provided the starting point for the ministerial decisions in the autumn about the final cash provisions for individual programmes. These decisions included, among other things, such allowances as ministers decided to make for movements in pay and prices affecting individual programmes expected to differ from the general factors.
- 10. It is not possible to be precise at this stage about the way in which the system will operate in future years. The starting point to the annual round of public expenditure

reductions to these plans when subsequent decisions are taken will also be in cash. The need to formulate revaluation factors (as this year) will not therefore arise. But some view about the trend of pay and other costs will be implicit within any decisions taken; and it will be open to ministers at any stage to review pay and price movements since previous plans were formulated and to make adjustments to programmes, upwards or downwards, should they so decide.

Changes in cash limits

- 11. Despite the presumption against them, changes to cash limits are sometimes made, both upwards and downwards, usually after policy decisions to change the level of expenditure on a particular service. Minor policy changes are generally accommodated within existing limits. Exceptionally, substantial changes in pay or other costs have also resulted in changes in cash limits; and adjustments may sometimes be necessary to reflect switches in expenditure from one cash limit to another. Changes involving increases in cash limits on voted expenditure require the approval of Parliament through the normal procedure for voting Supply.
- 12. All increases in cash limits in 1981-82, for whatever reason they arise, are being charged to the Contingency Reserve. The Reserve is an allowance within the public expenditure planning total which is not allocated to particular services at the beginning of the year. Provided that claims on it are kept within the total amount available which is the Government's firm policy they do not add to the total of planned expenditure. The Reserve has not been breached in any year since it was first established in 1976 as a control total on decisions.

Breaches in cash limits

- 13. Breaches in cash limits have been infrequent. Quarterly profiles of expenditure for each limit are established at the beginning of the year and expenditure monitored against them so that corrective action can be taken if necessary. There were two breaches of cash limits in 1976-77, two in 1977-78, four in 1978-79 and 13 in 1979-80. In 1980-81, six cash limits out of a total of 147 were exceeded. In absolute terms the amounts involved were marginal, save in the defence programme. In 1979-80, when the greatest number of breaches occurred, the total excess was one quarter of one per cent of the total expenditure subject to cash limits.
- 14. If a cash limit is overspent, an investigation is made which usually includes examination of the financial procedures of the department concerned. In addition to any corrective action resulting from this examination, policy is that any overspending will be

educted from the cash limit for the following year. This ensures that expenditure on the service in question is in accord with ministers' decisions taken over the two years as a whole.

Timing of public expenditure decisions

- 15. In general, it is desirable that decisions about expenditure in the coming financial year should be settled by early December, for two main reasons.
- 16. First, decisions are needed by various spending authorities in order to frame their own budgets. This applies in particular to capital projects, which may have long lead-times, and to the rate support grant, which should be settled as early as possible if it is to have maximum influence on local authority budgeting.
- 17. Second, while much of the work of preparing the Supply Estimates in central government departments can be, and is, done in parallel with ministerial discussions, decisions on the main programmes are needed some three to four months before publication of the detailed Estimates at the time of the Budget. Once ministers collectively have determined programme totals, individual ministers and their departments have to decide on the distribution of their allocations between individual votes and between the different detailed subheads of each vote. The results have to be scrutinised and agreed by the Treasury. Finally, the Supply Estimates have to be printed. It is possible to leave a few areas of expenditure in doubt until later. But the scope for adjustment rapidly narrows as the Budget approaches.
- 18. The introduction of cash planning has eased the process of translating the programme decisions into figures for the Supply Estimates and cash limits. But it has not affected the time required very much.

Cash limits and pay

- 19. Cash limits do not in themselves constitute a public services pay policy. They are a mechanism of public expenditure control which can be used to give effect to whatever policy the Government of the day may decide is appropriate for the pay of each public service group.
- 20. Under the Labour Government, cash limits were used in a way which was consistent with the successive requirements of its incomes policy. Under the present Government the policy has been to set limits to reflect the scale of increases in public expenditure which it is judged the country can afford. That objective is related to the Government's objectives of controlling the public sector borrowing requirement and money supply, taking account of the burden on the private sector of taxes and interest rates.

1. In deciding what provision to make to meet increases in the public service pay bill, ministers have regard to a number of macroeconomic, financial and management considerations, including the prospects for inflation, the trend of pay movements within the economy as a whole and the general public expenditure outlook and competing claims within it.

Potential operational difficulties

- 22. As explained earlier it is a central principle of the system that, once cash limits are set, there should be a strong presumption against changing them. For the practical reasons described in paragraphs 15-18, the generality of voted cash limits, many of which include provision for civil service pay, have to be set by the December preceding the financial year to which they relate. This is some time before the outcome of civil service pay negotiations is customarily known. There is therefore a potential difficulty in reconciling the operational requirements of the cash limits and Parliamentary Estimates systems with the desire for meaningful pay negotiations.
- 23. In practice, what appears as an administrative problem is fundamentally a policy problem of the relationship between meaningful pay negotiations and judgement by the Government of what can be afforded. Once the policy issue is resolved, the residual administrative problem is a secondary one, which could be solved in various ways.
- 24. Now that public expenditure is planned in cash, it is essential that the material considered by Ministers in the course of the annual public expenditure survey, and the provision decided at the end of the survey for each programme, should incorporate some view about changes in pay bills for each of the years covered by the survey. For the year next ahead it may be desirable to use a specific assumption about pay increases. This planning assumption has to be published. It is not feasible to leave it implicit and unidentified in the totals.
- 25. The Estimates and hence the cash limits would normally make the same provision for pay as did the programme figures determined in the survey from which they are derived. Depending on other elements in programmes, this should usually present relatively little difficulty in cases where the pay settlements involve smaller increases than the allowance for pay increases in the planning figures. Again, if there are minor divergences in the other direction, with pay increases exceeding the assumption, it may in some cases be possible to accommodate them by adjusting other elements in the programme, such as staff numbers or non-pay costs.
- 26. There are two qualifications, however. First, some small blocks are almost exclusively devoted to staff costs. There, the scope for finding off-setting savings in non-

- pay costs is small. Second, the smaller the provision for manpower in the original plans, and the larger the size of any planned reduction in the numbers already assumed in calculating the limits, the smaller the scope for making further cuts.
 - 27. The planning total of public expenditure also includes the cash Contingency Reserve, not allocated to particular programmes at the beginning of the year. Provided that there is sufficient room within the Reserve, it is consistent with the system to charge to the Reserve any increases in pay which cannot be accommodated within the provision already determined for particular programmes. Parliamentary authority can be sought through Supplementary Estimates:

History of civil service pay settlements and cash limits

- 28. In each of the first three years of the cash limit system 1976-77, 1977-78 and 1978-79 it was assumed in calculating the cash limits that the policies set out in the relevant incomes policy white papers (1) would apply to public service groups, including the civil service. These policies involved increases of £6 a week for those earning less than £8,500 a year in 1976-77, a guide-line of 5 per cent with a minimum increase of £2.50 a week and a maximum of £4 a week in 1977-78 and a guide-line of 10 per cent with some flexibility within individual negotiating groups in 1978-79. In all three years the settlements in the civil service were within the policy and were accommodated within the cash limits without any difficulty.
- 29. The pay policy set out in the July 1978 white paper "Winning the Battle Against Inflation" (Cmnd 7923) was in operation in 1979-80. The suggested ceiling on settlements of 5 per cent, or £3.50 a week if this was greater, was the assumption used when the cash limits were first set. Following negotiations the Labour Government agreed a much higher settlement for the non-industrial civil service. Pay rates were increased on average by 25 per cent, but in three stages in order to limit the cost in the first year. The present Government honoured this settlement, but in issuing a revised set of cash limits decided on a 2½-3 per cent reduction in numbers to help further with meeting the cost.
- 30. In 1980-81, an increase for civil service pay of 14 per cent was assumed from due settlement dates. The whole of the increase was initially provided in a single central cash-limited vote, rather than in individual cash limits. This arrangement reflected the fact that the Government had specified the total increase in the pay bill which it was prepared to see in the year, while leaving the distribution open until the non-industrial negotiations had been completed. The provision in the central vote was allocated to individual votes by means of a Revised Estimate when the detailed settlement was known.

^{(1) &}quot;The Attack on Inflation" (Cmnd 6151), "The Attack on Inflation: the Second Year" (Cmnd 6507) and "The Attack on Inflation after 31 July 1977" (Cmnd 6882).

The total full year increase in the non-industrial civil service pay bill as a result of the settlement would have been 18.75 per cent. But the settlement was contained within the existing totals by savings in manpower and other administrative costs of nearly 2½ per cent and by deferring implementation of the settlement from 1 April to 7 May. There was no increase in the total provision which the Government had made for civil service pay.

- 31. The use of a central vote was criticised by the Select Committee on the Treasury and Civil Service Department (2) on the grounds that it did not provide a sufficiently effective means of Parliamentary control and that the Government were left with too much scope for making adjustments in the cash limits between individual departments after the results of the central pay negotiations were known. In their reply to the first report, (3) the Treasury and Civil Service Department did not accept that the procedure weakened Parliamentary control, but indicated that they nevertheless shared the Committee's preference for making provision for the full expected cost of pay for each department, if this was practical, in the Main Estimates.
- 32. The Government have also accepted the view of the same Select Committee that it is desirable for the future to avoid the delay or staging of awards, which in their opinion erode the effectiveness of the cash limit system and confuse the comparison of the growth of earnings.
- 33. In 1981-82 a cash limit pay factor of 6 per cent was used for all votes. The pay settlement increased civil service pay rates by 7 per cent plus a flat rate payment of £30. It is being financed from within departments' cash limits by making offsetting savings in staff and administrative costs.

Pay and cash limits in 1982-83

- 34. The Government have given certain assurances to the civil service unions about next year's pay settlement and its relationship to cash limits. In particular:
 - (a) in a letter dated 6 May 1981 to the Secretary General of the Council of Civil Service Unions the then Lord President of the Council said "naturally the costs of the settlement will be a factor in next year's negotiations. But I repeat my assurance that the Government will be prepared to enter the negotiations without a pre-determined cash limit. There will be room for genuine negotiations".

⁽²⁾ First and fifth reports, Session 1979-80

⁽³⁾ Cmnd 7883

- (b) in a letter dated 17 July 1981 to the secretary general of the Council of Civil Service Unions it was stated, with the authority of ministers, that "in the event of disagreement the Government will accept recourse to the civil service arbitration tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve setting aside the tribunal's award on grounds of overriding national policy". Confirmation was subsequently given that both these pledges are unaffected by the September announcement about the choice of a 4 per cent pay factor for 1982-83.
- 36. Final decisions on departmental budgets will not therefore be taken until the outcome of the civil service pay negotiations is known. There would be more than one way of dealing with the hypothetical situation of a settlement in excess of the existing provisions. As in the past, it may be possible to accomodate most, if not all, of any excess by making further savings in manpower and other costs. Insofar as it may prove to be impossible to accommodate the whole of an excess in this way, the relevant cash limits n be increased by Supplementary Estimates presented to Parliament after the beginning the financial year. The presumption would be that any such increases in cash limits would be charged to the Contingency Reserve, and would not therefore add to the planned total of public expenditure for the year.

HM Treasury January 1982

Discussion with the Chancellor of the Exchequer

- 18 The <u>Chairman</u> welcomed the Chancellor of the Exchequer and his colleagues and thanked them for giving some of their time to meet the Committee. He invited the Chancellor to make some introductory remarks.
- The Chancellor of the Exchequer said that he wanted to stress at the outset that contrary to some recent reports he had read, the Government had no doubt about the importance of an efficient, well paid, high morale Civil Service; it was not in the business of demolishing morale. It therefore had a strong interest in a framework which would resolve the problem of Civil Service pay without industrial warfare and which would secure the recruitment, retention and motivation of the numbers and quality of civil servants it needed. It was looking for an ordered and agreed arrangement, but the system would have to be "affordable", and should be as smooth as possible, avoiding the violent fluctuations in Civil Service pay increases in the recent past.
- There was, however, widespread concern at the manner in which current expenditure, particularly on pay, had for some time had priority over investment and capital expenditure despite best intentions. This had reduced profitability and investment in the private sector and had led to a marked decline in our international competitiveness. Since 1975 unit labour costs in the UK had doubled; the increase in competitor countries had been far less. In the US the increase had been 3, in Germany 6, and in Japan nil over the same period. In parallel there had been pressure for the public sector to grow. The public sector had formed 38% of GNP in 1970, 46% in 1976, 41% in 1978-9 and now 45%. This growth had been accompanied by a long and not always successful battle by successive Governments against inflation; a battle to which the present Government was firmly committed. No Government could win the battle by itself. But it had a key leadership role. It employed a fifth of the labour force; pay formed one-third of its total expenditure. Although the system of control of expenditure by cost rather than volume helped to curb spending, many items of current expenditure apart from pay, were indexed to inflation. Therefore the Government wanted to secure a pay system which would withstand the many factors leading to inflation, but which was based on agreement and acceptability.
- A fair system was desirable, but fairness applied also to those who paid the bill, who might be in unfavourable circumstances. "Comparability" should embrace not just pay levels but the state of the trading sector, where the labour force had been reduced by 15% compared with a reduction of 7% in the Civil Service. This was what the Government had had in mind when it had said in its Memorandum to the Inquiry, that fairness was not always attainable in the short run. A fair system would be based on a framework of agreement which would be sustainable in the system's operation (Priestley's "capable of operation in practice"). The Government did not like the term "override", but could not agree to operate a system which yielded unaffordable results. Therefore "affordability" must be inherent in the system. Its absence had been a drawback in the Priestley system and the main cause of the frequency with which settlements based on pay research had been set aside. Relevant factors which ought to be considered within the system might include rises in oil prices, a long period of no growth, the fight against inflation, and shifts in the relative labour market positions of groups of employees.
- As a result of the 1979 and 1980 settlements, non-industrial Civil Service pay rates had risen by 48% while national average earnings had risen by only 38%. Equally significantly since 1979 the public service pay bill had increased by 45%; while that in the private sector had risen by 23%. This did not necessarily mean that civil servants were overpaid, since it reflected past imbalances; but an important point was that public service numbers had not fallen as they had done in the private sector with a consequent effect on the relative pay bill.

The power of the parties in Civil Service pay bargaining was not equal. Bargainers for and members of Civil Service unions were relatively immune to personal hardship over a period of selective but damaging industrial action. Management was, however, exposed to severe political and public opinion pressures as such action took effect. In the trading sector industrial action might jeopardise an organisation's existence, and this would be realised by sensible bargainers. The functions of Government departments could not simply be terminated; it was the public which suffered from Civil Service strikes. So a process had to be designed which would avoid warfare and recognise the imbalance in bargaining power, or encourage the bargainer to use restraint.

- 24 A system with a high degree of automaticity might look tempting but its results might frequently prove unacceptable. The TUC had rightly stressed that a system for determining pay should not usurp the role of negotiation.
- 25 In discussion the <u>Chancellor of the Exchequer</u> made the following points in reply to the Committee's questions:-

(a) the role of comparisons

Any pay system had to have room for manoeuvre, since automaticity would raise expectations which would often not be realisable. However, the alternative was not the liberated recklessness of "free" collective bargaining. As ACAS had suggested, comparisons had an important role, as they did for all responsible employers, but much of the evidence submitted to the Inquiry had helpfully described comparability in terms like "a useful tool". The system should provide bricks for The Committee would wish to consider responsible bargaining. whether there should be a single independent fact-finding agency or, as the CBI rather interestingly proposed, separate arrangements for each party. An independent body should confine itself to fact-finding and should not stray into an adjudicating role. The pay research system, with its search for medians and so forth, had become too prescriptive. The concept of affordability and matters connected with cash limits and economic policy were matters of judgement and did not fall within the scope of fact-finding. Under the Priestley system, conceived in different times, factors such as job security and differential unemployment risks had received less than their due attention.

(b) avoidance of industrial action and no strike agreements

A system which compensated civil servants for not taking industrial action would in most years go beyond what the country could afford. The Government hoped, however, that the Committee would consider ways of diminishing the risk of industrial action. It was difficult to produce a watertight list of "sensitive areas" where no strike agreements could be considered; for example, the degree of sensitiveness of sectors varied over time. If legal restrictions or curbs on rights were to be accepted they would have to be accompanied by a demonstrably fair and automatic system. That designed for police pay had worked well so far, but it was "affordable" for only a small group. It would be helpful if the Committee could investigate the "no strike agreement" area, because it had attractions to the public, but he himself saw serious disadvantages in attempting to secure extentions of no strike agreements, because of the price that would inevitably have to be paid for them.

(c) problems of time-lag

Problems with timing of Civil Service pay settlements had been caused mainly by incomes policies and the consequent tensions. Within any one year it should not be impossible to arrive at a settlement which was not out of line with settlements outside. This happened in some foreign countries, where admittedly the annual pay round was a tidier process than in the UK. The planning factor for annual pay increases was announced in the autumn for pay settlements next April; this timetable permitted the input of appropriate information to produce a suitable settlement at the right time. The time-lag problem in 1981 had not been typical following a large comparability-based settlement in 1980, and the over-riding need to reduce the level of inflation. The level of pay increases had halved within a short period, and the Government had been bound to take account of this in its offer to civil servants.

(d) arbitration and mediation

In pay bargaining the monopoly power of the Civil Service unions and the impossibility of the Government's going bankrupt was balanced by the Government's inescapable duty to control expenditure in the national interest. Thus in the event of disagreement in negotiations an irresistible battering-ram encountered an immovable wall. In such circumstances compulsory arbitration as the only means of reaching a settlement would not help; it constrained full bargaining and might produce results unsustainable by the public purse. Arbitration should not be entirely excluded; it had traditionally been available with the agreement of both sides, and frequently been useful particularly for relatively peripheral matters and matters of rights, but unilateral arbitration of major questions of interest would land the Government in difficulty. As for the possibility of a role for Parliament in arbitration, if arbitration were to be unilateral and binding the Government would have to reserve its constitutional right to ask Parliament to override an arbitration ruling. It would however be inappropriate for anyone to seek to put forward the idea of an appeal to Parliament on a free vote as a way out of an impasse. The Government could not abdicate its responsibility in this way, nor could Parliament easily behave like a "Quaker meeting" in such circumstances. Mediation, or conciliation as suggested by ACAS, might not be sensibly built into the structure of the pay system, since it would then be difficult to rule out in inappropriate cases. It might be useful to consider such possibilities on occasions. ACAS would not necessarily be the right agency since it was a "creature of Government".

(e) following pay trends and setting examples

The Civil Service could not be asked to accept lower-than-average pay increases over a number of years. This would build up an inverse pay differential which might 'explode' and might reduce the Service's capacity to recruit and retain adequate staff. Civil servents' pay settlements should therefore be broadly consistent with what was happening outside, and the Government did not want to impose exemplary settlements year after year. If the Government were to insist on Civil Service pay settlements year after year which were lower than outside market retes this would build up immense difficulties and make recruitment and retention impossible. He was not arguing that Civil Service pay should be used to give a lead as such; and it was desirable to avoid accumulating lags and sudden leaps caused by catching up. It was more a question of the Civil Service moving with the rest of the covoy rather than giving the wrong signals; and an out of phase or retrospective settlement could affect the expections of everyone else in the next round. When expections were moving downwards, as they had been last autumn, a Civil Service settlement reflecting the settlement levels some months previously could have a disastrous effect.

The Government had to announce its intentions on pay in announcing cash limits for the coming year; this had to be based on its best forecast for the year, which in turn was based on a judgement of what could and should be afforded in the public sector. In this context, it might be helpful if there was some national view agreed in an economic forum about the amount in terms of overall pay increases the country could

—ford, but this kind of development seemed at present very unlikely to take place. It would be an insecure basis for Committee recommendations.

(f) cash limits and affordability

Cash limits and their relationship with Civil Service pay were a key factor for the Committee to consider, and the Government wanted to find a way of fulfilling its manifesto commitment to find a way of reconciling cash limits with public service pay arrangements. A paper on cash limits as requested by the Committee, would be provided shortly. It was by no means unusual for pay negotiations in the private sector to be conducted within the framework of a given budget. But the Government as employer was currently in the somewhat strange position that cash limits had to be publicly announced before negotiations. It was an interesting question whether this should be so. In this way, however, cash limits brought in the key concept of 'affordability': they could not themselves be negotiable. Their use in practice could be illustrated by the provisions made for the current year. The 4% planning factor for public sector pay announced for the coming year referred to the total average cash bill, leaving room for negotiation on numbers, spread of settlements, and variation between groups. 4% was not the last word for every group covered by the aggregate figure. This arrangement lay behind the assurance which had been given to the unions that there would be genuine negotiations with no pre-determined cash limit in 1982. It reflected the Government's perception that it was difficult to bargain on totally fixed cash limits. So there was some room for manoeuvre, though the announced figure was intended to be a real constraint. It was the Government's best judgement of the affordable outturn. Excessive settlements would have to be funded by manpower reductions. To the extent that this was impossible resources would have to be found in the contingency reserve for employees for whom the Government are the sole paymasters. (Local Government increases would have to be met from increases in rates.)

(g) productivity bargaining

It was difficult to introduce any substantial element of productivity bargaining in the Civil Service. Measurement of output was very difficult, and although no doubt more could be done in some areas, a central measure would be meangingless. The monolithic structure of pay bargaining was another obstacle; as was the fear that local bargains would simply increase costs. Reductions in numbers of staff were sometimes due to reductions in functions rather than to increased productivity. Improvements in efficiency in the Civil Service had always been regarded as being outside the realm of pay bargaining, given its basis of "fair comparison", so separate productivity bargains nad not been sought. Failure to achieve greater efficiency and reduction in numbers was usually attributable to both management and staff. It was not possible to finance productivity increases from total reductions in manpower, even if this could be justified, because the cash limit applied to Civil Service pay took account of the Government's target for reductions. But there had been some marginal room for manoeuvre in the past two years because the target reductions had been achieved slightly faster than expected.

(h) decentralisation of pay bargaining

The Government by no means ruled out some move towards decentralisation of pay bargaining but did not expect the Inquiry to look in great detail at the scope for this. Probably civil service management should have done more thinking on this in the past. Ministers were conscious that they did not have the same relationship with their employees as managers in industry. There might be areas where differences in productivity could be measured and reflected in local pay arrangements, as could regional differences in the market for labour. This need not lead to a rise in costs if there was a good system of cash control. While he did not expect this aspect to be central to the Committee's report, therefore, its reflections on possible further work to be done in the longer term could be helpful.

(i) pensions and the Scott Report

The Government was not yet in a position to comment on the Scott Report, but would be in touch with the Committee about possible developments when this was appropriate. Changes in index-linked pension arrangements would need legislation and would take time. A very wide range of organisations outside the Civil Service was affected, not all susceptible to direct Government influence. The Committee should not feel impelled to go over the ground already covered by Scott, and if it wished to look at this area at all, he would not be surprised or disappointed if it chose to confine its comments to ways in which Civil Service pay might reflect the Scott Report recommendations and Government decisions on it.

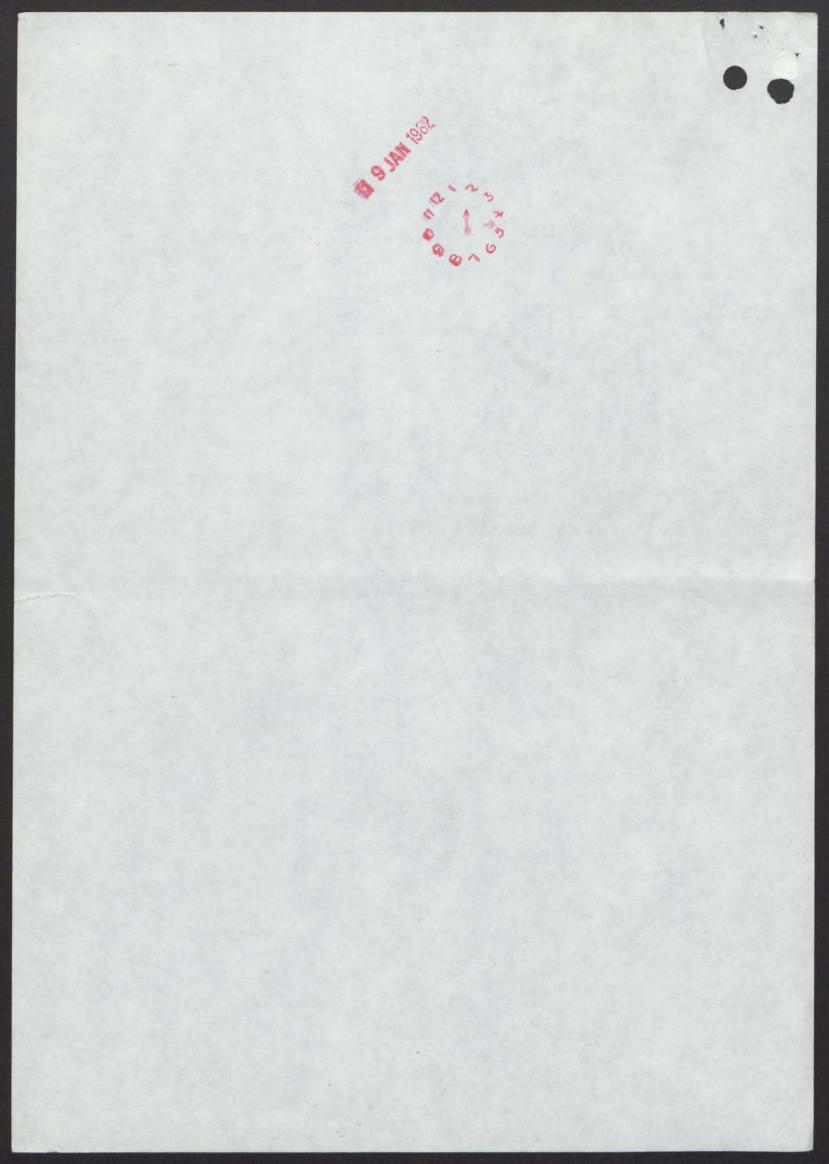
(j) the Government's commitment to the Inquiry

There was no question of the Government ignoring the Inquiry's report when it appeared. The Inquiry had been set up because the Government was anxious to have its advice.

The Chairman referred to the main evidence of the Council of Civil Service Unions, which the Committee would be discussing internally in January and thereafter with the unions. If the Government wished to put forward any comments, particularly on facts, it would be helpful for the Committee to have them as soon as possible so that the areas of factual agreement and disagreement were established. The Chancellor of the Exchequer apologised that the flow of further evidence to the Committee had been interrupted by changes in the machinery of Government. Every effort would be made to provide the Committee speedily with the information requested. The Government might also submit further general observations when it had appraised the main evidence which the Committee had received from other witnesses.

27 The Chairman thanked the Chancellor for his helpful and patient responses to the Committee's questions, and said that the Committee might suggest another meeting at a later stage with either Ministers or officials.

Inquiry into Civil Service Pay 22 Kingsway LONDON WC2B 6JY 22 December 1981



CONFIDENTIAL



FILE JR

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10 DOWNING STREET

From the Private Secretary

19 January 1982

INQUIRY INTO CIVIL SERVICE PAY: DHSS EVIDENCE

Thank you for your letter of 14 January with your Department's draft evidence to the McGaw Committee. The Prime Minister is content for you to send this evidence to the Committee.

I am copying this letter to John Kerr (hM Treasury), David Omand (Ministry of Defence), Barnaby Shaw (Department of Employment), Jan Buckley (Chancellor of the Duchy of Lacaster's Office), Jim Nursaw (Law Officers' Department), Christine Duncan (Lord Advocate's Department) and to David Wright (Cabinet Office).

M. C. SCHOLAR

David Clark, Esq.

Prime Minister

Good national on performance -

DEPARTMENT OF HEALTH AND SOCIAL SECURITY FULLED ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SEI 6BY PM (PANS

TELEPHONE 01-407 5522 EXT

12-19). Agree to

subject to submission? (John

14 Fancay 1982

Vercher

Mrs 18/1

SCORETARY OF STATE

Michael Scholar Esq Private Secretary 10 Downing Street London SW1

Dear Michael

INQUIRY INTO CIVIL SERVICE PAY : DHSS EVIDENCE

As you know, the Megaw Committee asked for evidence from a number of Departments including DHSS.

I enclose copies of the draft of this Department's evidence. It has been cleared interdepartmentally at official level and the Secretary of State is content with its terms.

I should be glad to know whether the Prime Minister has any points to raise on it before it is submitted to the Committee; and if other recipients of this letter would let me know whether their Ministers are content.

In the absence of comments by 20 January I will take it that the way is clear for our evidence to go to the Committee.

The Department has also prepared evidence on the <u>NHS pay system</u> in connection with the Committee's request for evidence from departments responsible for the pay regimes of other public service workers. This is still under consideration at official level. When this is completed the evidence on the NHS pay system will be referred to Ministers before it is submitted to the Committee.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Defence and Employment, the Chancellor of the Duchy of Lancaster, the Attorney General and the Lord Advocate, and to the Cabinet Office Secretariat.

your ever,

DAVID CLARK Private Secretary

Enc.

MEMORANDUM BY DHSS ON CIVIL SERVICE PAY

Contents	Paragraphs
Background information about the Department	1-2
The staff of the Department	3-5
Needs of the DHSS within the Civil Service	6-9
Advantages and disadvantages of the present pay structure	10-11
A pay system geared to performance	12-19
Difficulties in recruiting and retaining staff	20-28
Productivity bargaining	29
Geographical Pay	30-32
The London problem	33-36
LO I and LO II grades	37-42
Specialised groups	43
ADP staff	44-45
The use of new technology	46
Pay relativities and differentials	47-48
Professional technical and scientific groups	49-59

Annexes

- 1. Departmental age structure at 1.1.1981, HEO to Under Secretary
- 2. Wastage rates, CA, CO/LO II and EO/ LO I
- 3. Recruitment in 5 offices in London West Region, August 1980 July 1981
- 4. Vacancies and wastage in year ending 31 July 1981 in offices in London West Region

MEMORANDUM BY DHSS ON CIVIL SERVICE PAY ISSUES

Background information about the Department

- 1. The attached "Handbook of Key Facts" gives background information on the five different "businesses" with which this Department of 97,000 staff is concerned: social security, hospital and community health services, family practitioner services, centrally-financed health services (including control of medicines and environmental pollution) and personal social services.
- 2. There are especial differences between the social security operation, which concerns the vast bulk of the Department's staff and which is directly administered by DHSS, and the provision of health services, which is largely devolved to health authorities within a framework of national policies and guidelines. Particularly in the public and preventive health field, the Secretary of State has a statutory responsibility for promoting good health and protecting the public from potential hazards, which involves the Department in a wide range of work with outside public and private bodies.

The staff of the Department

3. On 1 April 1981 the Department of Health and Social Security employed 97,412 civil servants, distributed as follows:-

Headquarters, comprising		6,007	
Health and Personal Social Services. Social Security. Specialist Staff (Personnel, legal,	2,665 790		
statistics, computers etc). Services (secreterial, ancillary inc.	1,304		
messengers, security, registry, etc). HQ staff deployed in Regions (mainly social security	1,104		
doctors, and their immediate staff) Social Security Regional Organisation	144		
(including local offices) Newcastle Central Office		70,800	(GB figure)
North Fylde Central Office SS Health	3,079 832	3,911	
Health Units: Special Hospitals Artificial Limb and Appliance Centres Youth Treatment Centres Artificial Eye Unit Medical Practices Committee	2,653 1,055 214 24 15	3,961	
TOTAL		97,412	

Note: National Health Service employees are not civil servants and are not employed by the Department.

- Thus the great majority of the Department's staff are engaged on social security work in Local, Regional and Central Offices. The relatively small Headquarters staff - about 6% of the total is engaged under the direction of Ministers on policy formulation, development or review of Health, Social Security and Personal Social Services matters. This involves support and advice to Ministers in relation to Parliamentary, Government and public business. HQ staff are also responsible for work on the provision and maintenance of a comprehensive Health Service, on public and preventive health measures and on ensuring the provision of personal social services through local authorities, together with responsibilities for the related planning, financial, organisational, professional and monitoring functions. In relation to the various social security schemes, involving more than 30 different benefits, HQ staff are responsible not only for the same range of services, but also for the direct management of the delivery of these benefits to the public through the network of Local, Regional and Central Offices. Other Headquarters staff are of course responsible for the management of the Department itself. The net total expenditure for which the Department is responsible is of the order of £37,670m a year.
 - 5. Four significant features of the Department's staff are:-
 - 5.1 The great majority over 90% work outside the Department's HQ and most of these work outside London.
 - 5.2 The great majority again over 90% are in relatively junior grades, that is, Executive Officer and equivalent grades and below.
 - 5.3 Nearly 60% are women.
 - 5.4 60% are aged 34 or under.

Needs of the DHSS within the Civil Service

6. The Civil Service is less of a 40-year career service than it used to be, but it is still a Crown Service, in which integrity, competence and a commitment to serve the Government of the day ought to be - and generally can be - taken for granted. The pay system for such a service still needs to attract and retain skilled, experienced and versatile staff, able to provide continuity whatever the political colour of the Administration. DHSS requires a strong cadre of career officers for policy development work, for the management of large-scale operations, and for the management of individual units. They depend on staff being geographically mobile and able and willing to switch effectively to new work to meet operational and other needs. So although there is a great deal of turnover of staff among the junior grades, the pay system should be geared to retaining and developing such a cadre of career-staff. Career officers accept that they are part of a team, that they will play any part in it which management requires them



to do, and that they will not always be looking for better opportunities elsewhere. In return they have understood their employers to accept that they would be given fair pay which compares with the average outside and that merit will be rewarded by promotion to a higher rank rather than by discriminatory individual rewards. The longer an officer stays in a service of this nature the more locked into its career system he becomes, and the less bearing market forces have on him.

- 7. The DHSS is the second largest employer of non-industrial civil servants, after the Ministry of Defence, and is larger than most employers in the private sector, with nearly 100,000 staff predominantly white-collar workers, (about one-fifth of the total non-industrial Civil Service) over 500 outlets, a budget of over £1,000 million for its running costs and a conglomeration of different businesses.
- 8. Outside the civil service, the management of an enterprise of this size would normally negotiate and settle the pay rates and other conditions of service of its staff to suit its own operations and circumstances. It might be thought that the logic of the cash limit system for the Administration Vote was that it provided the budget for management to fund its operations and that, provided that limit was not exceeded and the enterprise was subject to external monitoring of its efficiency and financial systems, management would have considerable freedom to deploy the money at its disposal. But in common with other Departments, DHSS has to operate within the framework of centralised control: therefore it has very limited freedom on pay and related matters. This can cause problems, because the rules that are most appropriate for the Service as a whole may not be the most suitable for the running of the various businesses of very large organisations like DHSS.
- 9. On balance the Department considers that the concept of a Civil Service and Service-wide rates of pay offers the best framework in which to conduct its businesses effectively. Whilst no departmental studies have been conducted in this area, its understanding is that other large-scale employers of administrative/clerical staff, such as the banks and insurance companies, seem to prefer pay structures which place a value on stability rather than incur additional costs and potential conflicts from having many and varied pay rates. However, it considers that there are some areas where there should be a greater degree of flexibility and these are indicated later in this Memorandum.

Advantages and disadvantages of the present pay structure

10. The main strengths of the present structure in relation to the Administration Group - professional and other groups are dealt with in paragraphs 49-55 below - from the Department's viewpoint are that it:-

is reasonably straightforward and capable of being fairly readily understood by the staff, if not by the public; gives management a degree of flexibility in managing operations 10.2 because of the wide spread of duties appropriate to each grade of staff, who can therefore be moved reasonably readily from job to job and office to office; 10.3 is likely to be accepted by the staff as fairer than systems with many more rates because, apart from London, similar duties attract similar rates of pay; gives at least to those on their maximum of their salary scale in 10.4 middle management and in junior grades an incentive to work for promotion to increase income; is not unduly difficult to operate and update the payroll; 10.5 restricts the calculations of staffing costs, estimates etc to reasonable proportions, bearing in mind the large number of staff involved; and can be managed within the constraint on absolute staff numbers (as distinct from cost) which is present Government policy. 11. The main disadvantages are:the absence of any immediate individual reward for good quality work or output; the lack of any further financial reward for long-serving officers who continue to improve the quality of their work in their present grade but who have reached their career ceiling and cannot be promoted - an excellent clerk may never make an adequate supervisor; the difficulty of recruiting staff of an adequate standard in areas where civil service pay scales compare unfavourably with those of other employers: there are also special problems in recruiting and retaining highly skilled specialists who may be in demand in industry and the NHS; the difficulty of retaining staff in those areas; 11.4

the consequences of the last two factors, namely, larger numbers than desirable of untrained or semi-trained lower quality staff, excessive training costs, poor work standards and shortages of staff capable of being developed for higher levels of work in higher grades; and the absence of a financial incentive (and the existence of a real disincentive) for officers to move to larger cities, areas of greater pressure, or more complex work (though some officers might welcome such moves as a means of proving themselves). A pay system geared to performance The pay system is geared to a relatively simple pay structure through which the earnings of staff of all grades can be readily established, often by reference to length of service in their particular grade. This openness enables staff to know exactly how they stand on pay in relation to colleagues; also, it avoids the complications, allegations of favouritism and divisiveness which could occur in a system which permitted financial advantage on an individual manager's judgement and discretion. Simplicity and openness command more weight in an organisation like the Civil Service, which is unique in employing over 540,000 highly unionised white-collar workers, many on a long-term basis, in a wide variety of businesses, in thousands of separate locations stretching from one end of the country to the other, and involving in the course of an individual's career a considerable degree of inter-change of duties within Departments and not infrequently between Departments. However, the rigidity of common pay scales leaves no scope for variable monetary rewards to recognise individual effort or the special difficulties of a job within a common grade. There is no clear relationship between an officer's rate of pay and his performance and achievements within his current grade. Once graded, whether or not an individual puts exceptional effort into his

13. This puts a considerable, possibly excessive, premium on promotion as the only way of rewarding good work. However, individual merit is not the only factor which determines promotion. That also depends on the availability of posts to which staff can be promoted, and there are fewer opportunities for promotion in a reducing civil service like the present. Taken in conjunction with the policy of promoting the ablest and youngest suitable candidates, which already in DHSS has produced a glut of able people in the HEO and Principal *grades,

job, he can very rarely move up that scale more rapidly than by annual automatic

promotion to a higher grade and moves to a more highly graded post.

increments; neither can he progress beyond the maximum of that scale unless he obtains

^{*} The age structure of the staff at HEO, SEO, Principal, Assistant and Under Secretary grades is shown in Annex 1

this means that more capable, efficient and conscientious officers will not have any promotion opportunities over a considerable period of their service. In these circumstances flexibility in the operation of the incremental system and the ability to award a pay addition in excess of the scale maxima might be an attractive way of both encouraging and rewarding an exceptional contribution or a performance of sustained merit over a period of time. This is likely to occur increasingly frequently in future as Civil Service numbers are reduced and the retirement peak is passed by the mid-1980s. For instance, although there never has been any certainty that HEOs under the age of 40 for example, would reach Principal rank, it has probably been a reasonable expectation. The figures in Annex 1 indicate that this expectation is much less likely to be fulfilled in the future. These indicate that:there are over 2,000 HEOs, about 40 HEO(A)s and 270 SEOs under the age of 40, compared with 692 Principal posts, a number which is itself likely to decline; the 270 SEOs, 40 HEO(A)s and nearly 100 Principals under the age of 40 compare with 104 posts at Assistant Secretary level, a number again that is likely to decline; and (iii) these 100 Principals together with 42 Assistant Secretaries under the age of 50 compare with 25 administrative Under Secretary posts, 13 of whom are currently under the age of 50. These figures reflect the period up to 1976 when the Department (or its antecedent elements) was growing in size and when good people could progress relatively rapidly. An analysis based on manpower planning techniques, taking account of such matters as movement through grades, the potential of the staff concerned, premature terminations of service for one reason or another, would no doubt produce more refined and less generalised comparisons. But the order of the figures is sufficient to demonstrate that there are likely to be in future significant numbers of good and effective staff, with some years to serve who have no prospect of further monetary reward if there are not the opportunities for promotion and they have to remain on the maximum of their pay scales. One possibility worth considering for such staff would be the ability to pay an additional increment or merit award over

the maximum after the officer has had a sustained record of achievement, substantiated by his Annual Report markings, whilst on that maximum. Such a payment could act as a motivater for continuing good performance or as an acknowledgement of good service, or both.

- Alternatively, several scales of pay might be awarded to each grade and decisions as to which scale should be applied to each individual might be taken by management annually by reference to individual merit and the demands of the post. Such a system would be more complex and difficult to operate than the present pay structure. A multiplicity of pay scales would complicate and increase the task of calculating pay and making payments at a time when efforts are being made to simplify the system further in order to reduce manpower and other costs. Management's ability to award differing rates of pay to people within the same grade, regardless of service, would presumably have to be based on the application of some criteria and rules if the system was to achieve its aim and to earn the confidence of staff in a Service which traditionally has placed great importance on fair and equitable personnel policies and procedures. Such a system for the award of merit pay could be based on the markings in annual reports although this would add considerably to the already difficult task of continually striving for rigorous and consistent reporting standards among many thousands of reporting officers across the Department. The contents of annual reports would presumably have to be disclosed to the officer reported upon to a much greater extent than at present. Any appeal procedures would have to be kept simple to avoid excessive administrative costs in applying a scheme which in DHSS would cover nearly 100,000 people. There might also be problems in filling posts which did not provide scope for the postholder to demonstrate his ability to qualify for a special increment.
- 17. The Department does not favour the introduction of bonus payments as a means of rewarding good performance. The system, commonly found in the private sector, of paying bonuses based on company profit levels would not be practicable in the civil service; neither would a system involving benefits in kind. While a bonus based on an individual's performance could in theory be awarded as a temporary addition to salary, the Department would prefer a more flexible use of the incremental system to make it more responsive to individual performance. This would have the following advantages:-
 - (i) It would be simpler to operate through a familiar system with recognised amounts rather than devise a range of bonuses.
 - (ii) A bonus tends to be linked with results achieved in a particular year and the nature of civil service work, with its emphasis on team-work, means that good performance cannot always be equated with measurable individual achievements over a particular period.

- (iii) The incremental system offers flexibility in both directions since it is possible both to withhold and withdraw an increment: in the case of a bonus it can only be withheld.
- So far this section has dealt with flexibility in terms of rewarding merit. 18. The Department considers it equally important that flexibility should work in both directions. With such a large number of staff and despite the care taken in recruiting, selecting and deploying staff, the Department, like any large employer, is bound to have some who are less well motivated, less effective and less energetic. As things stand, increments tend, irrespective of performance, to be awarded, the only penalties for indifferent performance being either failure to be promoted or dismissal on grounds of inefficiency. In our view, there is a need for other measures between these two extremes. Flexibility in the incremental system should also involve withholding or withdrawing increments for indifferent or poor service on a much greater scale than at present. This would no doubt be a shock to the present "culture" of the service although it would be nearer to the original conception of increments; it would, as in the case of merit increases, have to be based on defined criteria, again linked to annual report markings; a formal appeals procedure against the withdrawal of an increment might be desirable; and of course the system as a whole would have to have regard to available resources; it could be achieved on a nil-cost basis but this is not essential to the case. Operating such a system would involve extra administrative cost, but the Department would consider it not defensible to have a new system of flexibility which could operate in one direction only.
- A flexible pay system to reward good service and to penalise poor service within strict cash limits would have to be carefully monitored within Departments and centrally. This and the need for careful decisions, which had full regard to meeting the aims of the system would be a difficult and time-consuming task for managers, to avoid for example, awarding increments merely for length of service and lack of promotion and to establish confidence in the criteria and in the way they were being applied. No matter how carefully, conscientiously, and objectively managers tried to operate such a system, staff and Unions would be bound to find some grounds for dissatisfaction, disillusionment and discontent which cannot arise under the present system. This would have some effect on morale. But, the reduced opportunities for promotion in the smaller and tighter-manned civil service of the future will have a much greater effect on morale and make it more important to create new incentives for efficiency, to reward a sustained high level of performance and to penalise poor performance. The Department believes that the advantages of a pay system which is more closely geared to efficient and inefficient performance outweigh the disadvantages of administrative complexity and cost and the creation of a new area of contention.

Difficulties in recruiting and retaining staff

- 20. In general, the Department has found that the increased unemployment of recent years has enabled it to recruit the <u>numbers</u> of staff needed and that recent recruits are of a higher standard than formerly. However voluntary resignations have not reduced to the extent expected. The relationships over recent years between pay movements and voluntary resignations in the ED/CO/CA grades in DHSS are <u>illustrated</u> by the graphs in Annex 2. (The relationships are not exact because, for instance, scale maxima are compared with earnings, no account is taken of changes in such matters as hours, and pay changes are related to calendar years and not actual dates of pay increased.)
- 21. From previous analyses we know that, for both men and women resignations in DHSS tend to reach their peak during the first two years of employment. We do not know to what extent this springs from dissatisfaction with pay, dislike of the work of the Department, or other reasons. Among women staff voluntary resignations tend to be high in the age-band of 25 to 30 years, the main years for child-bearing and rearing. Whatever the reasons, resignations in DHSS local offices are very expensive at *Local Officer (I) (EO) and Local Officer (II)(CO) levels because of the need to train staff extensively before they can handle competently claims and enquiries from the public.
- 22. The loss to the Department from this relatively high rate of resignations extends beyond the costs of recruiting and training new staff. It includes, for example, the loss of efficiency and accuracy from having to use inexperienced staff on work requiring a level of expertise and accuracy which can only be acquired from experience, with the additional costs of extra supervision, remedial training, double-handling of work to correct mistakes, the need to review cases in which disputes arise through error, and inadequate standards of service. Dilution of quality among the staff who remain is reflected also in the quality of candidates for managerial grades. The Department has suffered for many years now from the detrimental effects of periods when we have been unable to attract and retain enough recruits of satisfactory quality.
- 23. Not all of these losses can be quantified, but the costs (at 1980 prices) of recruitment and training for IOIs and LOIIs are estimated at £5,200 and £2,900 respectively. In 1980/81 the numbers of voluntary resignations among staff in these grades were 1,021 (LOIs) and 3,859 (LOIIs) respectively, so that the estimated cost of the recruitment and training of their replacements for this year alone is £16.5 million. The fact that many of the officers who resign each year have been in the Department for less than twelve months shows the poor return the Department is receiving for its investment.

^{*} The origin of these Departmental grades for local office staff is described in paragraphs 37-42.

- 24. At Newcastle Central Office difficulties have been encountered over the years in recruiting and retaining good quality staff: even in the North East, in the past, other employers have offered more attractive terms and rates of pay. This was particularly true of ADP staff. As in other parts of the Department, the position has improved somewhat with the rise in unemployment.
 - 25. The loss of trained ADP staff is an even greater problem at the Department's computer centre at Reading: this is due to the inducements offered by the many other employers of computer staff in the area.
 - 26. Another factor affecting recruitment is the time taken to recruit staff using the processes required by the Civil Service Commission. Even at a time of high unemployment, a good candidate is likely to take up a firm offer of an appointment made by another employer rather than wait for the time it often takes to see if the Department can offer an appointment. This is a matter of concern and the Department has been seeking ways of speeding up the processes.
 - 27. In theory voluntary resignations could be significantly reduced if the Government offered the best rates of pay locally and led the market. Otherwise it is inevitable that staff for whom the Civil Service has no intrinsic attraction will resign because of better pay prospects elsewhere. It is not considered that the Department or the Service could argue for the highest local rates of pay in any way which the tax-payer, including other employers, would find in any way satisfactory. The Department would therefore look to greater flexibility in pay to eliminate or mitigate excessive resignations and resignations in key grades on the lines suggested in the next paragraph.
 - 28. The Department believes that it is necessary to review the current pay system as it affects recruitment and the retention of staff during the first few years following appointment. We recognise that to admit any unrestricted measures of flexibility in the application of starting pay rates by management would lead to the "bidding-up" of these rates so that the maxima would rapidly become the norm. Although there is some flexibility in some areas at present, there are problems in attracting the right kind of staff and in containing and trying to reduce the rate of resignations. Some limited flexibility would permit discretion in fixing starting pay and in awarding increments to staff whose services we were anxious to retain (eg the payment of an additional increment on the satisfactory completion of probation). Again, any such system would be divisive, would complicate administration and would lead to some extra expense. But the

costs and waste of the present system persuade us that the advantages of greater flexibility would outweigh these disadvantages. Productivity Bargaining 29. In theory, productivity bargaining arrangements could be one method of removing inflexibilities from the system and of providing a tangible reward for high (and good quality) effort and output. However, the Department can see a number of objections to such a system:-29.1 In many areas of work it would be difficult if not impossible to devise workable systems for measuring not only productivity. but also equality and efficiency. Such measurements would be difficult to devise in many areas of work especially where, as often happens, there can be no control over incoming work-flow (eg each claim received has to be dealt with); there are varying degrees of complexity (eg as between a HQ policy section, batch clerical processes and dealing with supplementary benefit claims); and varying work conditions (eg some local offices have good, purpose-built premises whereas others have poor premises which are dreadful). Because productivity systems are not applicable to many areas of work, they would be divisive among the staff and would create difficulties in deploying staff from one area of work to another. Because work volumes. work circumstances, the character of the district and the public served can all vary so greatly, such a system would be a fruitful field for disputes, based on comparisons of different conditions. If the Department is to continue to provide a caring and courteous service to the public, it should not encourage its staff to regard the public as units in a production line - there are many who think the Department has already gone far enough, if not too far, down this route. Geographical Pay The present system of national pay rates in the Civil Service may lead to a 30.

mis-match with the labour market in some areas, paying too much in some places but not paying enough in others. In addition, in DHSS it may act as a disincentive to staff to move to larger cities where, generally, work pressures are greater but the pay remains the same (apart from London).

- 31. In our view, however, the disadvantages of regional or local variations in pay would greatly outweigh the advantages. The social security regional organisation, which employs 13 per cent of the non-industrial civil service, is a national organisation responsible for operating a social security system through a network of over 500 offices covering all parts of the country. A regional or local pay system would introduce a multiplicity of rates for undertaking the same duties in different locations, similar to the system which was abandoned in the 1950s.
- There would be serious problems in defining pay areas and, having defined them, in determining the appropriate pay rates. This would give rise to dissatisfaction and disputation which would affect staff morale. It would require a considerable increase in the amount of time required each year to negotiate pay rates: the payroll, which at present covers 280 grades, would need to be expanded to encompass thousands of pay scales. It would also hinder the movement of staff, thus impeding career development and the filling of vacancies with the most suitable staff. Re-siting offices, already a lengthy and time-consuming task, would be made even more difficult if it involved a financial loss for members of the staff. It would not even be a sensible means of dealing with recruitment and wastage problems. These do not remain in set patterns and the Department would prefer to tackle them through the proposals for more flexibility in the pay system described in paragraphs 12 - 19 above. In short, the Department would see difficulties in the re-introduction of either a regional or local pay system because of difficulties of designation and the administrative complexities. London is an exception and should remain so.

The London Problem

33. The Department is particularly concerned about the pay of staff who work in London. Problems of manpower and work standards in London are not new, but in recent years we have identified more clearly the higher inexperience, greater turnover of staff (voluntary resignations, retirements, staff movements) and the lower levels of performance which are features of the local offices in London Regions. To counter this we have increased London complements at the expense of provincial regions,

we have used "task force" teams to help offices in difficulty and we have secured some easements in the recruitment processes. Within the last year there has been a general improvement in national and London recruitment and staff turnover but on past experience this is likely to revert quickly when the economy picks up. Even at present there are still problem areas for recruitment, as the tables at Annex 3 illustrate. This analysis of recent experience in the London West Region shows that in 5 of their local offices the proportion of suitable candidates was still not good even in a year of rapidly increasing unemployment. Similarly although national and London Region turnover trends have been improving, particular offices still experience great difficulties. An illustration of this is given at Annex 4. This must call in question whether the London weighting additions are sufficiently large to attract staff of the right quality and in the right numbers. One possibility which has been considered is that advances could be made of the London Weighting allowances to enable staff to purchase annual season tickets. In the event it was thought that such an arrangement could have resource implications. The idea of giving an advance of the London Weighting allowance seemed particularly attractive as it represented an advance of part of the employee's emoluments and not a loan of extra money. One possibility might be to make such loans available after, say, one year's service, which might act as an incentive to some staff to remain who might otherwise leave, and thus it might reduce the losses on the investment in training of staff, referred to in paragraph 23 of this Memorandum. A particular difficulty of the pay system in London is the "cliff-face" effect between Inner and Outer London Weighting boundaries. Staff can get much more money by travelling a relatively short distance further into central London, which is often easier than travelling from one outer London locality to another because the London Transport system is geared more to rapid transit into the centre than to movement round the periphery. While it is recognised that there are considerable difficulties in increasing the total amount of money for London Weighting, nevertheless the Department considers that methods of mitigating the "cliff face" effect of the existing system should be considered, whether or not the quantum of money remains the same. One possibility might be to study other possible gradations such as a tier system involving a number of concentric rings of pay boundaries although this could give rise to fresh boundary problems. There is a further dimension to these problems. A Department such as DHSS 36.

needs to have a constant flow of staff at middle and senior management levels coming into HQ with recent first—hand practical experience of work in local offices. Equally, staff of good potential need to have their careers developed by working in HQ, to widen their experience and perspective and to obtain first—hand experience of working close to Ministers. The problem for many years has been that the great majority of staff in the provinces have been reluctant to uproot themselves and come to London, even on promotion. Many staff have even preferred to have their names removed from the lists of those awaiting promotion postings rather than come to London when asked to do so to secure promotion. The Department has also had to mount special promotion exercises to find sufficient HEOs for posts in London, and as a result has had to fill vacancies with staff who would not otherwise have been promoted at that stage. The present pay differential, even with London weighting, does not act as sufficient incentive to influence staff to come there, at the cost of what they see as a poorer quality of life.

LO I and LO II Grades

- 37. The difficult and demanding nature of work in DHSS local offices was recognised in the establishment in 1975 of the Local Officer I and II grades which give staff in these grades a pay lead over the Service scales for Executive and Clerical officers.
- 38. In 1973 the Fisher Committee in their report on abuse of social security benefits had said "The staff of local offices have a difficult job. It is one which probably makes demands on officers of executive and clerical grades which are as great or greater than any in the Civil Service".
- 39. In March 1975, the Departmental report on Pay, Grading and Structure confirmed that staff in local offices had to cope with more complex work than their colleagues in the same grades in the rest of the Civil Service, were very vulnerable to change, were subject to stress from the public and various pressure groups, and were under constant pressure to pay the correct amount of benefit as quickly as possible. For these reasons staff in local offices of EO and CO grades were awarded their pay lead and, in the case of EOs, extra annual leave.
- 40. Paragraphs 20-28 above on difficulties in recruiting and retaining staff have described the very considerable investment in training LO Is and LO IIs need to deal with claims for social security benefits, and the continuing high resignation rates among these grades in local offices. The factors which led to the new gradings in 1975 are at least as valid today and point firmly to retaining them

and indeed with rather greater flexibility in operating them, for instance, in relation to the qualifying periods staff have to serve before they are given the pay lead, which could perhaps help reduce the number of resignations.

- 41. One disadvantage of the current rules for qualifying for local officer grading is that staff in the Regional Offices are not eligible. This hinders the interchange of staff at EO and CO levels between the local and regional offices, which is detrimental to the efficient working of the Regional Organisation as a whole and of the regional offices in particular. For instance, LO Is provide the obvious and best source of candidates for EO staff trainers. The loss of LO I grading and with it the extra pay and annual leave is unlikely to be the only factor influencing possible recruits but it is certainly important. The poorer pay and leave conditions of the EO trainers also suggests to potential recruits that management hold staff training in lower esteem than the work carried out in local offices.
- 42. Despite these arguments in favour of widening the criteria for LO pay and grading, the Department considers that the present limitation to local office staff should remain and that the criteria should not be extended to include any group of staff who work outside local offices, because there are many other EOs and COs in the Department who work outside the Regional Organisation.

Specialised groups

43. As already indicated, the Department has a very large special group of LO Is and LO IIs for pay purposes. As a general principle we do not favour the creation of special groups for pay purposes unless there are strong reasons for doing so, and we have no proposals for the creation of any new group.

ADP staff

44. Arrangements already exist for EOs employed on ADP work to receive higher amounts (within the maximum of the EO scale) than their counterparts engaged on non-ADP work. We consider that these arrangements should be retained and reviewed regularly to ensure that the Department, which relies heavily on computers, can recruit and retain staff for this essential work. The additional payment to ADP staff is, in the main, to enable EOs in Government computing to progress to the scale maximum more quickly than their generalist colleagues and at about the same rate as their analogues outside the Civil Service. Otherwise the Department will continue to lose valuable trained staff, particularly at EO and HEO levels, which represents a loss of the money and time invested in their training, and a loss of their experience.

45. The Department would not wish, however, to treat ADP staff at all levels as a completely separate group for pay purposes. There is considerable benefit in an inter-change of experience between line management and ADP functions at middle and senior management levels, partly because it is essential that there be a meeting of minds and understanding of respective needs if operations and planning are to be handled effectively; and partly because an entirely separate ADP function within the Department would not provide a satisfactory career structure.

The use of new technology

In planning its future operational strategy the Department intends to use new 46. technology on a large scale in order to increase efficiency, remove boring work and provide a better standard of service to the public. The Committee will be aware of the negotiations to produce a "New Technology" agreement in the Civil Service. So far these negotiations have not been successful, largely because the Unions insist that some means should be found of enabling the staff to share in the benefits of the introduction of new technology by financial rewards and shorter working hours. The Department is meanwhile pressing forward with technological change but recognises that this is best achieved with the support of the staff who do have fears about the effects of new technology on their jobs. Commitment to the Civil Service of course implies a recognition that processes and jobs will change and that nobody has a right to a particular job, done in a particular way and remunerated in a particular way. However, there will be a need to consider whether or not the introduction of new technology should be reflected in the pay and terms and conditions of service of staff.

Pay relativities and differentials

47. Apart from the problem of bringing people to London (see paragraphs 33-36), no general operational problems arise from the differences in pay between different grades. There is one particular problem, however, from the narrow differential between Assistant Secretary and Under Secretary pay, and the need to fit two other salary levels for the Executive Directing Bands between the two. For a short time in 1980 Assistant Secretaries were actually receiving higher salaries than Under Secretaries. This was a matter of particular concern to the Review Board on Top Salaries who, in their report for 1980 (paragraph 84), drew attention to the need for a coherent salary structure for the Civil Service as a whole and, in this context, identified the compression and overlap between the maximum of the Assistant Secretary salary scale and the Under Secretary as a matter requiring

close consideration and solution. Study of outside organisations suggests that this is precisely the point at senior management levels where differentials widen rather than contract. Also considerable care has to be paid to the relativities internally between administrative and professional grades and between professional staff internally and their counterparts outside. The problems have become worse in recent years, as the differentials at 48. Assistant Secretary level and above have narrowed further and further, and there have been several occasions recently where suitable candidates could not be found for particular posts at the salary comparable with that of an equivalent Civil Service post. The posts in question have had to be re-advertised and filled at substantially higher salaries than can be paid at the most senior levels in the Civil Service. Professional, Technical and Scientific Groups With its five areas of business and important statutory responsibilities especially in the environmental and public health fields, the Department's work requires the employment of professional staff. This is especially the case, and in a unique form, in the health and personal social services professions (doctors, dentists, nurses, pharmacists, scientists, social workers). The Secretary of State's competence to discharge his duties to promote a 50. comprehensive health service (NHS Act 1977 Sec 1) and to guide Local Authorities in their exercise of social services functions (Social Services Act 1970 Sec 7) depend to a large extent on the Department's capacity to work in mutual confidence with the main health and social services professions in the National Health Service and the Local Authorities and voluntary bodies which provide an important range of help and services. That confidence on the part of these professions depends in turn upon there being within DHSS an identifiable and respected professional presence which is seen to be effectively involved in the formulation of advice on policy to Ministers, with access to them. Staff bring their different specific professional trainings and experience 51. to bear on all health and social problems within a professional division or group (for example, in Divisions dealing with Mental Health and Illness, with Children or Disablement or Nutrition). They provide information and advice relating to their subject and interpret trends. They have the responsibility of maintaining close

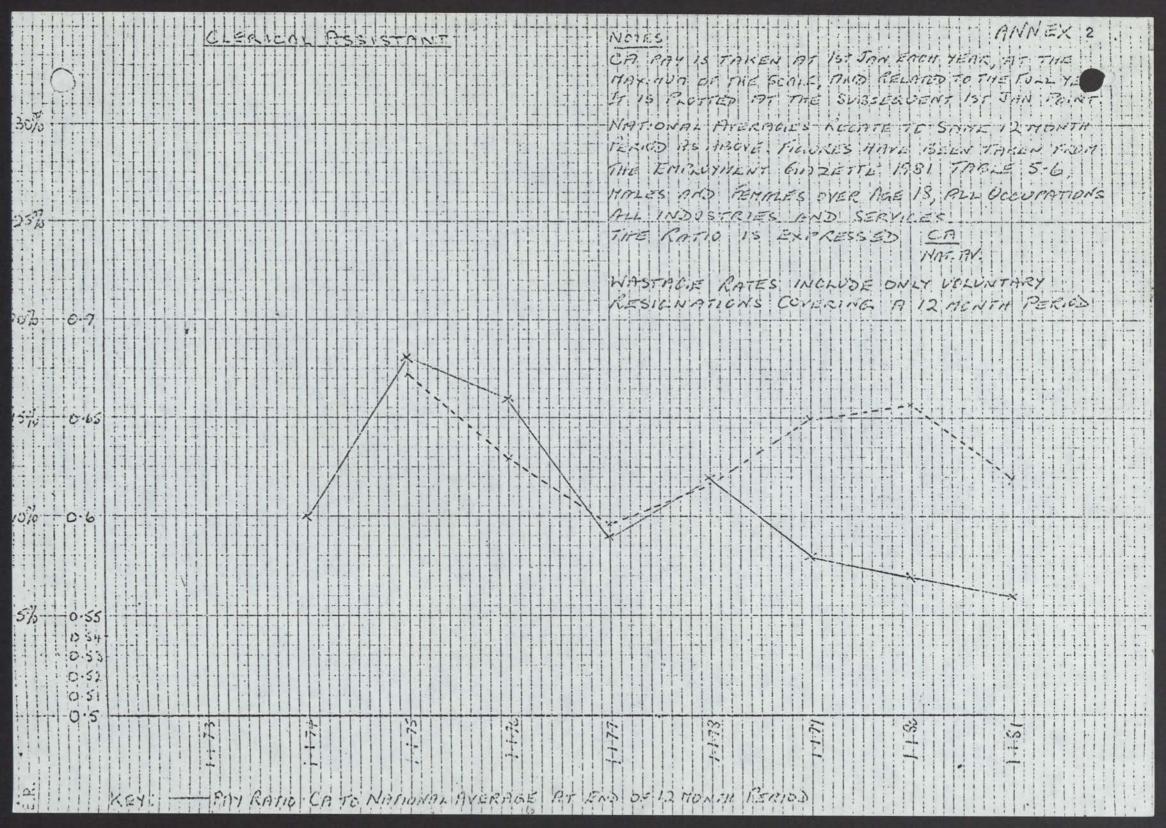
relations with appropriate individuals and specialist organisations outside the Department, including important professional bodies in the Health and Personal Social Services field, and of obtaining assistance and advice from these sources. They discuss the development of services with practitioners individually or in national and international fora then together as part of an administrative/ professional group they help formulate policies which will facilitate or stimulate better and more efficient practice and the co-ordinated development of all services for which Ministers are responsible. Other professional officers are engaged in executive tasks in highly specialised fields (eg communicable disease control, toxicology and medicines licensing, where they may be one of a handful of experts not only in the Department but nationally or in the world) or in health and social services research, the medical sciences or the evaluation of medical equipment. Some are engaged in clinical examination of patients and others in inspecting services for vulnerable groups where the Secretary of State has specific powers in social services legislation. The Department also requires professional involvement in more general fields, 52. for example in its Solicitors Office (especially for social security policy legislation and casework); through the contribution of accountants, statisticians and economists across the whole range of the Department's business, or by

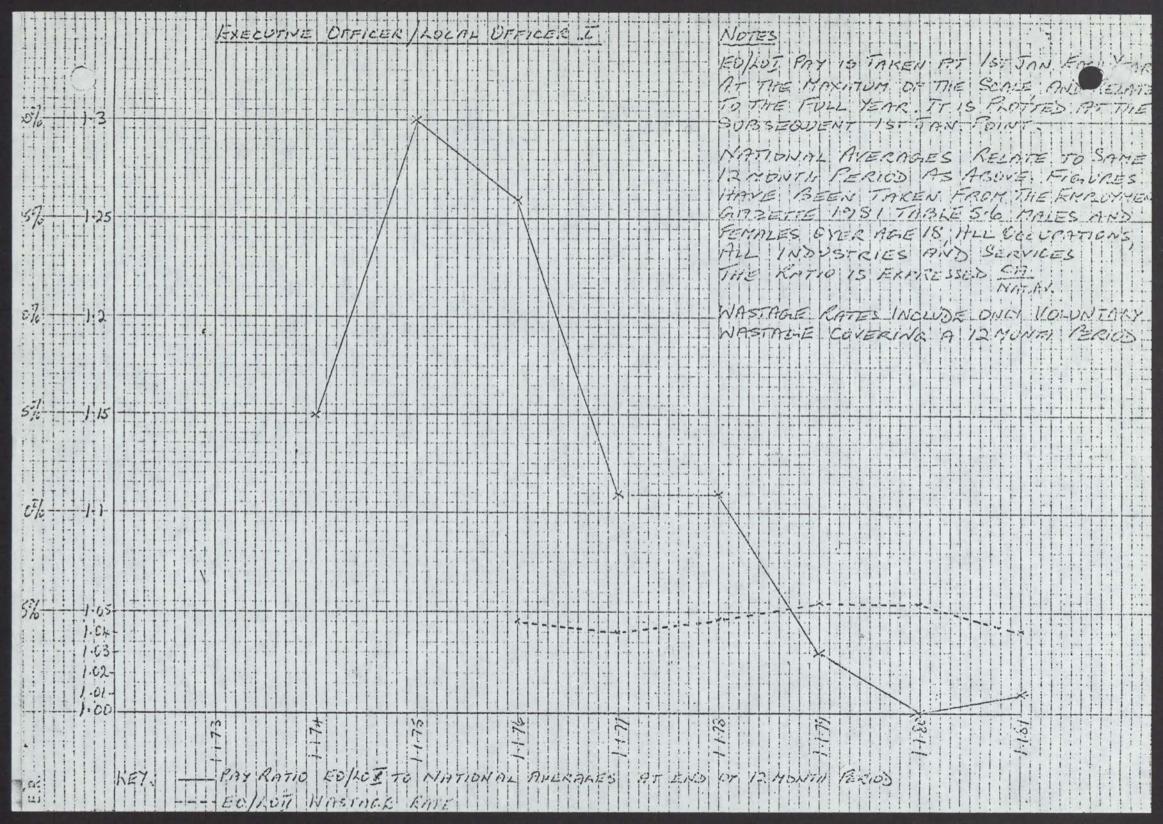
- scientists and works staff dealing with health building and equipment.
- The professional groups vary considerably in size. Their mobility also 53. varies within the Department and as between the Department and other Departments, the NHS or industry, as do their career opportunities. Some staff belong to groups whose main interest lies in the NHS; the more highly specialised develop skills and experience with considerable value to industry. Although some of the more highly specialised professional staff work solely within their own discipline, a main feature of the formulation of policy within the Department is that staff work in a multi-disciplinary team in which the relationship between the different administrative and professional members of a team is highly sensitive, especially to salary differentials.
- To reflect these features, the Department's functions and organisation 54. require a pay structure for these staff which:
 - enables recruitment to match a varied and volatile field outside and recognises that applicants may be mature and experienced specialist practitioners, often in their forties or even fifties, as well as younger

staff with high academic qualifications aiming to acquire their experience within the Department; preserves a "felt fair" relationship between disciplines, whilst at the same time being responsive to outside market conditions; provides some means of recognising the contribution of small 54.3 groups of very highly specialised staff, for whom the Department cannot offer a career structure, but whose contribution is important and whose resignations would cause an expensive loss of experience; attracts people of sufficient calibre to command the respect of 54.4 professional colleagues outside the Department. The present pay structure does not provide this degree of flexibility. 55. DHSS would like to see more flexibility over starting pay to assist Departmental recruitment, more flexible use of pay levels in highly specialised areas with few career opportunities and greater financial freedom for secondments. In addition, whilst DHSS consider that horizontal relativities in multi-disciplinary working are important, they suggest that consideration should be given to the possibilities for applying on top of the basic rates which reflect the horizontal relativity a market addition (or market related allowances) which takes (take) account of any major variation in pay and terms of service of the larger specialist group outside from which the civil servants must be recruited and to which they might well return.

DEPARTMENTAL AGE STRUCTURE AS AT 1.1.1981

AGE	HEO	SEO	PRIN	ASSISTANT SECRETARY	UNDER SECRETARY	HEO A
25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64	5 5 19 48 77 80 135 220 269 248 192 244 206 204 144 131 108 126 97 89 86 103 81 97 92 105 87 133 148 144 144 155 208 213 144 68 43 28 26	2 3 8 16 20 21 37 44 75 52 47 36 40 34 35 59 58 93 94 64 31 24 8 15	1 5 7 9 9 9 8 5 8 9 16 13 8 5 15 20 13 13 16 16 24 35 35 28 24 31 22 29 26 8 73 27 18 12 4 3	22341 2213541255 494-62-5115 4-1-1	1 2 2 1 3 3 1 3 2 1	57365 43221 1
TOTAL	4833	1362	692	104	25	39





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OFFICES IN LONDON WEST REGION

RECRUITMENT 1 AUGUST 1980-31 JULY 1981

(a)	(b) NO OF SCHEMES	TOTAL OP APPLICATIONS	(c) TOTAL INVITED	(d) TOTAL ATTENDED	(e) TOTAL DID NOT ATTEND	(f) TOTAL SUCCESSFUL	(g) SUCCESSFUL % OF (c)	(h) DID NOT TAKE UP
EALING	7	698	269	190	79	98	34.4	13
EUSTON	4	219	110	66	44	46	41.8	3
HOUNSLOW	3	339	114	84	30	54	47+3	1
KENSINGTON	3	490	109	76	33	46	42.2	2
NEASDEN	4	493	155	102	53	63	40.6	5

1 AUGUST 1981 VACANCIES AND WASTAGE IN YEAR ENDING 31 JULY 1981

1981-1982 COMPLEMENT LONDON WEST REGION

verilina	inver,			
S. 258	,			100

						Annual staff		1 ADVENT	· m	
OFFICE -	TOTAL 81-82 COMPLEMENT	STAFF I 1.8.81	N POST AT	GAP AT	1.8.81	turnover (voretirements, movements)	luntary	TARGE	JITMENT) REMARKS
		TOTAL .	TUTELAGE	OVERALL	TRAINED	ACTUAL	PERCENTAGE OF COMPLEMENT	LOI	roii	
ACTON ILO BAYSWATER NIO BLOOMSBURY AO CHELSEA ILO CHY NIO CRICKLEWOOD ILO EALING ILO EUSTON ILO ELTHAM NIO HARLESDEN ILO HARROW ILO HOUNSLOW ILO CENSINGTON	166 31 63 158 82 91 192 153 30 133 170 188 125 157 162 35 203 156 96 129 87 63 100	157 38 53 146 3 179 148 32 126 3 165 176 35 35 35 35 35 35 35 35 35 35 35 35 35	6 - 1 1 2 3 15 9 - 5 3 2 - 8 3 - 3 5 2 4 2	81/2 10 10 10 10 10 10 10 10 10 10 10 10 10	14 1 1 1 2 1 2 2 1 1 2 1 2 2 1 2 2 1 2	23 5 16 26 ½ 18 34 ½ 48 28 9½ 29 20 29 23 34 34 8½ 47½ 43 13 18½ 20 19 28	13.9 16.1 25.4 16.8 22.0 37.9 25.0 18.3 31.7 21.8 11.8 15.4 18.4 21.7 21.0 24.3 23.4 27.6 13.5 14.3 23.0 30.2 28.0	1 -1 1 4 2 3 3 - 3 1 1 1 1 3 - 4 3 2 1 3 1 2	3 2 1 2 3 3 8 5 1 4 3 2 2 4 4 2 2 2 2 6	
LATOT	2770	26441	74	136	210	575	21.8	41	71	Average wastage per office = 25

Department of Health & Social Security

HANDBOOK OF KEY FACTS

THE DHSS BUSINESSES

This note sets out some of the key facts about five different businesses with which DHSS is concerned. Further information about the three biggest of these is on the pages following: all figures are estimated 1981-82 cash spending, in £ million.

SOCIAL SECURITY (1)

pages..3-8....

Scale:

- cash benefits

£26,253

- administration & operational costs

£990

Management:

- directly managed by DHSS
- decentralised operations through network of central, regional and local offices.

Financial control:

 central control of benefit eligibility through detailed legislation; total expenditure depends also on number of beneficiaries

HOSPITAL & COMMUNITY HEALTH SERVICES

pages.11-17...

Scale:

- current expenditure

£7,555

- capital expenditure

€630

Management:

- managed through 14 Regional + 90 Area Health Authorities (to be reorganised next Spring into 193 District Health Authorities) operating in a framework of national policies + guidelines.
- operations highly decentralised through hospitals, clinics and health professionals.

Financial control:

- total spending controlled through cash limits.

⁽¹⁾ Social Security figures are GB throughout; all others relate to England only.

FAMILY PRACTITIONER SERVICES

page 10.....

Scale:

- gross expenditure

£2,400

- charges to patients

£250

Management:

- services provided by independent contractors eg GPs, dentists, opticians, pharmacists.

Financial control:

- contracts negotiated by DHSS & administered by 90 local Family Practitioner Committees; regulation of drug prices & directly reimbursable expenses.

CENTRALLY FINANCED SERVICES

Scale:

- total cost

£450

Management:

- covers many different services eg 4 Special Psychiatric hospitals, specialised laboratories, wheelchairs, with a variety of management arrangements.

Financial control:

- spending mainly controlled through cash limits

PERSONAL SOCIAL SERVICES

Scale:

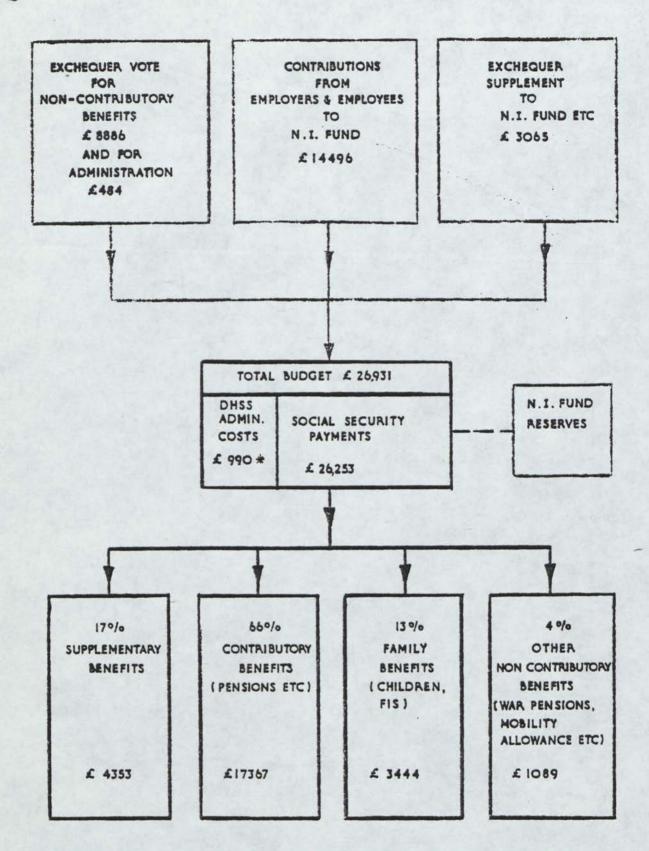
- spending depends on LA decisions about £1,900
- income from recipients about £230
- joint finance from NHS

Management:

 local authorities responsible for services within framework of national policies and guidelines.

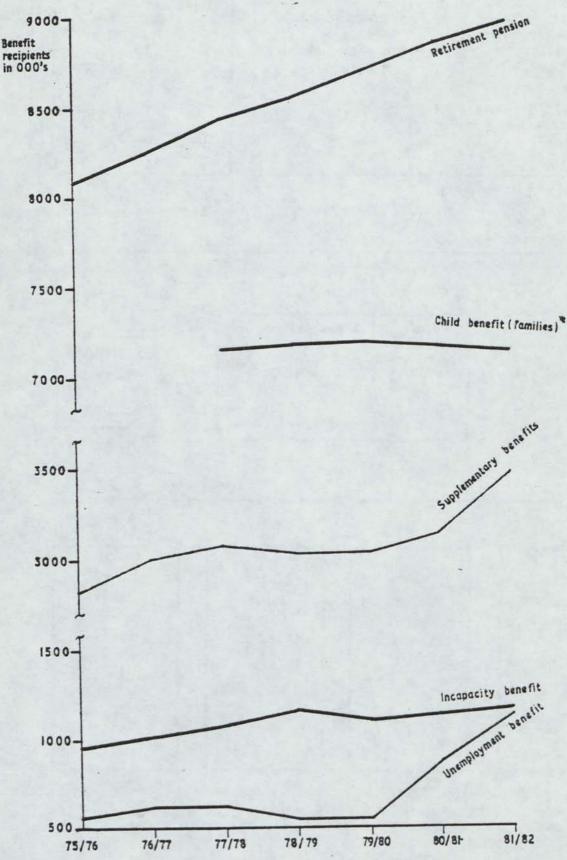
Financial control:

- cash limits on total of Rate Support Grant and on capital expenditure.



^{*} DOES NOT INCLUDE ADMINISTRATIVE COSTS INCURRED BY OTHER GOVERNMENT DEPARTMENTS (£ 435 M). TOTAL ADMINISTRATIVE COSTS ARE 5% OF SOCIAL SECURITY PAYMENTS.

ESTIMATED AVERAGE NUMBERS RECEIVING BENEFIT AT ANY ONE TIME (Source CMD 8175)



SOCIAL SECURITY

INPUTS

National Insurance Fund income		
- Employers pay	£8,116	
- Employees pay	€6,052	

- Self-employed pay £328

- Treasury supplement, interest, etc £3,065

£17,561

General taxation provides

- Pension benefits (non-contributory)	£1,089
- Supplementary benefits	£4,353
- Family henefits	63 444

£8,886

Administration. Costs are incurred on

receipts

- Manpower	£699
- Computers	£27
- Adjudication and advisory services	£22
- Agency payments, Post Office, etc	£240
- Miscellaneous	£2
	£990
Less payment from N.I. Fund £471 and other	

£506

Net £484*

£484

^{*}Does not include direct HQ staff costs of Health and PSS work - about £70

PROCESSES

National Insurance Contributions Records

- 53 million accounts are maintained at Newcastle C.O.

New claims to benefits in 1980 (millions)

- Retirement Pension	0.7
- Supplementary Benefits	5.75
- Sickness and Invalidity Benefit	9.3
- Injury Benefit	0.5
- Unemployment Benefit	5.1
- Child Benefit	0.9

Payments made in a year (millions)

- by order book	1,000
- by giro cheque	125
- by payable order	10

Reviews of existing awards (millions)

-	Retirement pen	sion	3.8
-	Child benefit		4.0
_	Supplementary	benefit	12.9

OUTPUTS

Contributory benefits

- Retirement pension	£11,980
- Unemployment benefit	£2,004
- Sickness, Invalidity and Injury benefit	£2,383
- Widows benefits	£709
- Others	£291

£17,367

Non-contributory benefits paid

- War Pensions	£476
- Supplementary Benefit	€4,353
- Child Benefit	£3,385
- Attendance Allowance	£280
- Mobility Allowance	£161
- Others	£231

£8,886

Client Group benefit expenditure

- on the elderly	£13,400
- on the disabled and long term sick	£2,840
- on shert term sick	£800
- on the unemployed	£3,780
- on widows and orphans	£970
- on the family	£4,510

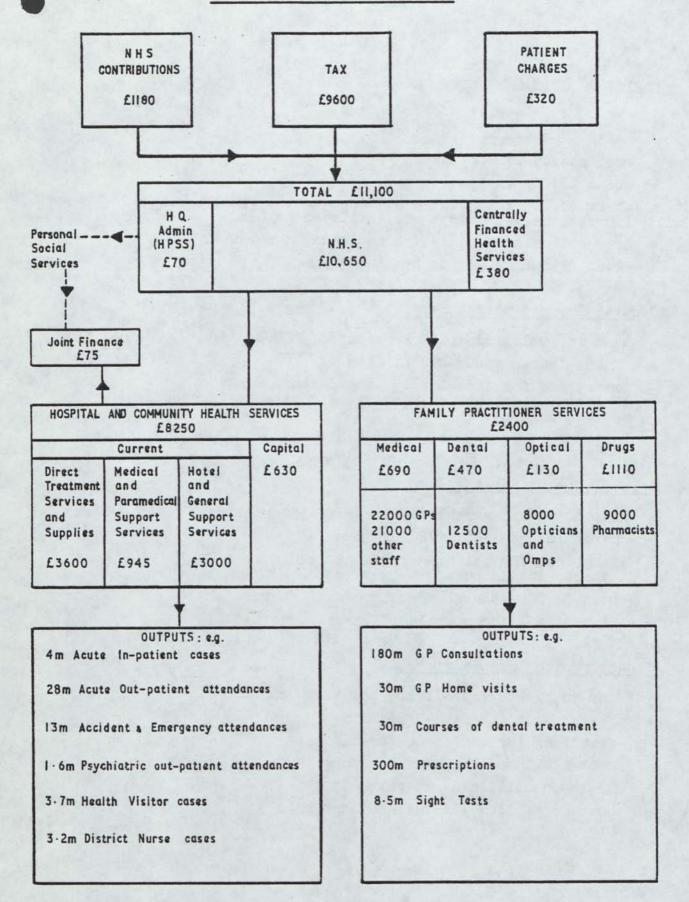
£26,300

SAVINGS IN SOCIAL SECURITY PROGRAMME SINCE GOVERNMENT TOOK OFFICE Approximate savings in 1982-83

SS Act 1980 Keeping pensions and long-term benefits in line with prices rather than the higher of prices 500 and earnings 100 Deferring up-rating by two weeks: SS (No.2) Act 1980 i 5 per cent abatement ii 'Freezing' Retirement pensioners' earnings rule iii Changes to "waiting days" and linking 500 iv Abatement of unemployment benefit for occupational pensioners over 60 v Abolition of earnings related supplement vi Reduction of supplementary benefit for strikers families 50 Campaign against fraud and abuse Up-rating national insurance child dependency 50 addition by legal minimum SS Act 1981 Recovery of one per cent overshoot on social security 200

£1,400

N.H.S. OVERVIEW 1981-82



FAMILY PRACTITIONER SERVICES General Medical Services - cost nearly £700 million about 22,000 GPs about 21,000 full-time equivalent ancillary staff (nurses, receptionists etc) employed by GPs over 180 million patient consultations per year - 30 million home visits by the GP General Pharmaceutical Services - cost to public expenditure about £1,100 million - charge income about £90 million exemptions for the elderly, the chronic sick, children, pregnant and nursing mothers, low incomes, war pensioners - over 300 million prescriptions dispensed General Dental Services - cost to public expenditure nearly £350 million charge income about £120 million - exemptions for children, pregrant and nursing mothers, low incomes - about 12,500 general dental practitioners - about 30 million courses of dental treatment General Ophthalmic Services - cost to public expenditure about £90 million - charge income about £40 million - exemptions for children, low incomes - about 8,000 opticians and doctors - about 8.5 million sight tests - about 52 million glasses etc dispensed 10

HOSPITAL AND COMMUNITY HEALTH SERVICES

Money

- net current	£7,555
- capital	£ 630
- charge income (about 2/3 from private patient payments)	£65

Manpower

Nearly 800,000 whole-time equivalent staff are employed. Actual numbers of staff are larger because many are part-timers. Major groups are:

-	doctors and dentists	38,000
-	nurses	367,000
-	professional and technical staff (therapists, lab technicians etc)	65,500
-	ancillaries	173,000
-	ambulance staff	18,000
-	works and maintenance	26,000
-	administrative and clerical	106,000

Physical Resources

- about 2,000 hospitals. A third of these were wholly or partly built before 1900: 85 major new projects are in the pipeline.
- 147,000 acute beds (over 40% occupied by people over 65)
- 139,000 beds for the mentally ill and handicapped
- 57,000 geriatric beds
- 19,000 obstetric beds

Breakdown of Expenditure

(a) by type of input (per cent)

- 74 goes on salaries and wages

- 3 goes on drugs

- 6 goes on medical and surgical equipment etc

- 5½ goes on food, laundry, linen, furnishings, crockery, cleaning materials

- 3½ goes on fuel and water

- 4 goes on common services (eg rates, telephones)

- 2 goes on estate management, equipment etc

- 2 goes on vehicle and transport costs.

(b) by function (per cent)

- 10 goes on medical and dental services
- 31 goes on nursing services
- 12 goes on medical and surgical supplies and drugs
- 8 goes on medical support services eg investigative tests and therapy
- 19 goes on catering, laundry and domestic services
- 9 goes on medical records, administrative and clerical support, and miscellaneous services
- 11 goes on estate management (maintenance, boilers, etc)

(c) by type of service (per cent)

- 55 on general and acute hospital services, including ambulances
- 6 on obstetric services
- 16 on services for the mentally ill and handicapped
- 3 on services mainly for children eg health visiting
- 2 on prevention and other community health services
- 12 on services specifically for the elderly
- 6 on administrative and support services

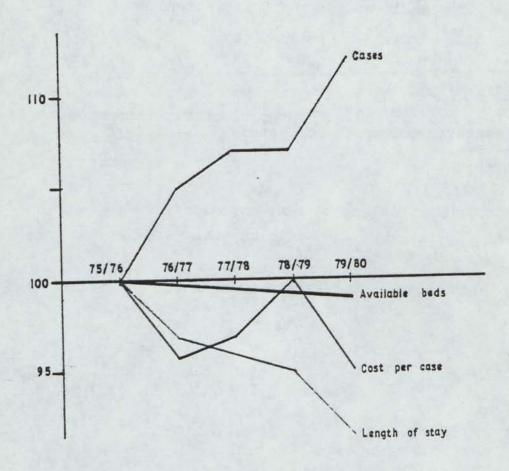
Activities

- nearly 4.1 million acute in-patient cases
- over 28 million acute out-patient attendances
- over 13 million accident and emergency attendances
- about 240,000 geriatric in-patient cases
- nearly a quarter of a million geriatric out-patient attendances
- 139,000 beds and 1.6 million out-patient attendances for the mentally ill and handicapped
- about three-quarters of a million obstetric in-patient cases
- 3.8 million obstetric out-patient attendances
- over 8,000 health visitors attending about 3.7 million cases a year
- nearly 14,000 district nurses attending about 3.2 million cases.

ACUTE SERVICES 1975-80

(All in patients in acute mainly acute and partly acute hospitals)

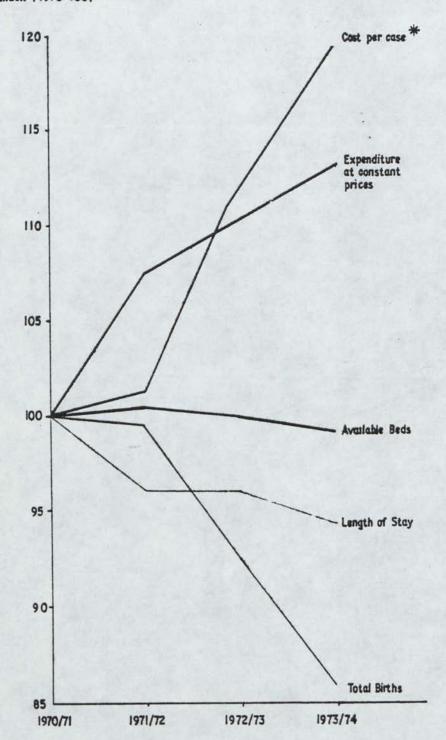
Index (1975/76 = 100)



OBSTETRIC SERVICES 1970-74



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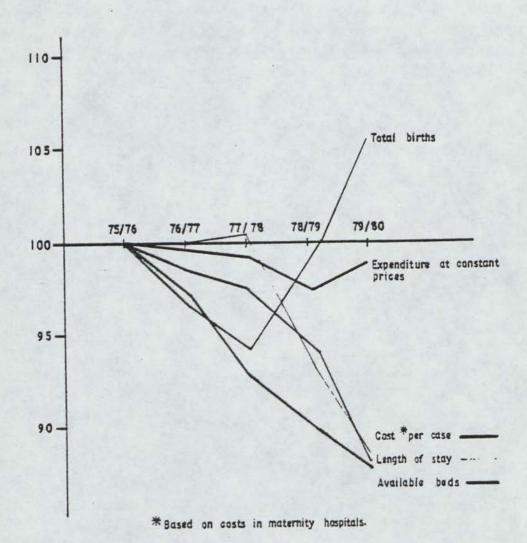


* based on costs in maternity hospitals

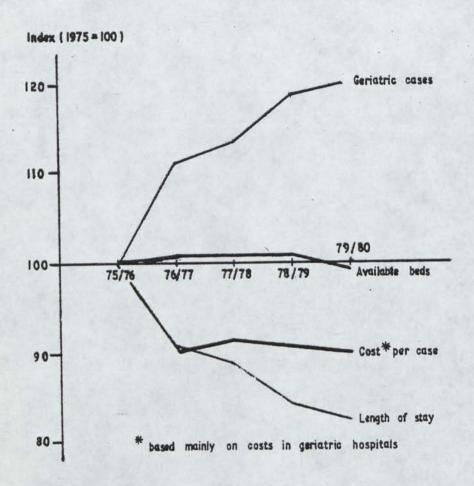
OBSTETRIC SERVICES 1975-80

Index (1975/76 = 100)

20



IN-PATIENT SERVICES FOR THE ELDERLY 1975-80



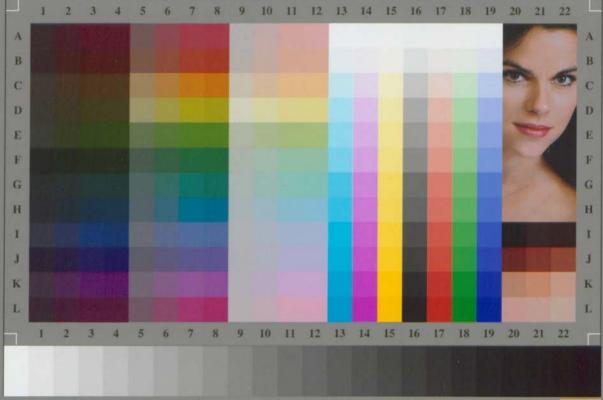
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