

PRIME MINISTER

MS 18/6

CREEPING CLEGGERY

John Vereker has kept me informed about your discussions with your colleagues on the handling of NHS pay, and in particular about whether we should commit ourselves now to some form of independent determination of NHS pay next year. I strongly support the line which you have taken, and which I understand has now been agreed, that no such commitment be given; and I think this raises wider questions which ought to be settled before the next pay round begins.

We have prepared the attached summary of pay determination arrangements in the public services, and I think you should see it. The picture is terrifying. The only large groups of public service employees without access to some arrangement which is independent of Government (arbitration, a review body, or indexation) are the local authority manual workers and the NHS. This year we gave arbitration to the Civil Service non-industrials, and that effectively applies to the industrialstoo. We were, in practice, unable to prevent the teachers from getting arbitration. The Review Bodies were all allowed to report normally, and our ability to override them was limited. We are still hooked on indexation for the police and the firemen. Were we to have granted arbitration to the NHS workers for next year, it would have been very difficult indeed not to have given it to the Civil Service, and we would have had precious little left of our criteria of market factors and affordability. Most symbolically damaging of all, we now appear to be moving towards some sort of institutionalised comparability for Members of Parliament.

The temptation to avoid a winter of discontent next year by running to independent arbitrators is seductive. But it is important that we face the implications of that. This Government has struggled tenaciously over the last 2 years, for good reason, to get rid of unilateral access to arbitration wherever possible. This was because we recognised that it is a delusion to think that we could ever control the outcome of arbitration - either by selection of the arbitrator, or by limiting his terms of reference. Of its very nature, arbitration is independent of Government. If the market factors - as expressed in recruitment and retention rates - are

dominant, then no arbitrator is needed. Arbitration must introduce notions of fairness and compromise; an arbitrator who never "splits the difference" is no true arbitrator. ??

After 2 years in which most members of the public service have seen their pay rise by less than inflation, there will therefore be considerable pressures on arbitrators to give catching-up awards. We must not let this year's satisfactory experience of the Civil Service Arbitration Tribunal blind us to the inherent danger of independent arbitration.

The extension of arbitration and index-linking amounts to creeping Cleggery. The belief that we can circumvent problems with the unions in a pre-Election year by handing responsibility for pay over to someone else is badly mistaken. The uncommitted public do see us as standing for firmness against union pressure, and a pre-Election giveaway pay round would destroy much of what we stand for. There is everything still to play for in the next pay round. The largest groups of workers - in the NHS and the Civil Service, and the manual workers in the local authorities - have still not secured arbitration for next year. We have to decide how to handle the Megaw Report, and what new system to design for the Civil Service. We shall have decisions to make about the extent, if any, to which that can apply to other public service groups. And we have decisions to make about pay factors and the objectives we are setting ourselves - these are planned for discussion in E on 1 July. In taking those decisions, we ought to stick to our belief that the Government cannot shrug off its responsibility for determining public service pay, and has been right to approach it on the basis of market factors and affordability.

If you agree, I should like to circulate this note (without the attachment) to colleagues on E, by way of background to their discussion.

FM

FERDINAND MOUNT

Yes - should be pleased if you would not

<u>Group</u>	<u>No.</u>	<u>Present Arrangement</u>	<u>Probable Future Arrangement</u>
Ambulance Drivers	17,000	No arbitration unless by consent	NF wants arbitration
Armed Forces	320,000	Review Body	Review Body
Civil Service Non-Industrials	560,000	Arbitration	Megaw: ? arbitration
Civil Service Industrials	165,000	No arbitration, but link with non-industrials	Megaw: ? arbitration
Doctors and Dentists	87,000	Review Body	Review Body
Fire Service	36,000	Index-linking	Index-linking
Judiciary	2,000	Review Body	Review Body
Local Authority Manuals	1,100,000	No arbitration unless by consent	No arbitration
Local Authority White Collar	630,000	Arbitration	Arbitration
Nurses and Midwives	492,000	No arbitration unless by consent	NF wants arbitration
NHS Admin. and Clerical	123,000	No arbitration unless by consent	NF wants arbitration
NHS Ancillaries	211,000	No arbitration unless by consent	NF wants arbitration
Police	135,000	Indexation	Indexation
Teachers (Primary and Secondary)	480,000	Government cannot block arbitration	Arbitration
Top Salaries	500	Review Body	Review Body
University Teachers	38,000	No arbitration	No arbitration
