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PREM 19/1463

SECRET

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TSRB Reports on Salaries of Senior Civil Servants, Senior Members of Armed Forces, and Judges.

ECONOMIC

POLICY

Policy towards next round of Review Body Reports.

Part 1: May 1979

Part 7: June 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6.6.85							
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PART 7 ends:-

NLW @ PM 29.11.85

PART 8 begins:-

DN @ PM 10.12.85

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1. MR. WICKS

2. PRIME MINISTER

FUTURE OF THE TOP SALARIES REVIEW BODY

The Chancellor earlier took you through the proposals he had in mind to make about the future of the TSRB. His minute, and the reactions to it, are below.

The Chancellor proposes abolishing the TSRB. Senior Civil Servants would receive the same pay increase as on average the rest of the Civil Service receives, and they would be brought within whatever emerges out of the Megaw discussions. The senior military would be put in the AFPRB. The AFPRB's remit would need to be changed to avoid a general ratcheting up of military pay. Pay for the Judiciary would be tied by maintaining parity between the pay of a High Court Judge and the pay of the Lord Chancellor's Permanent Secretary, and an advisory body would be set up against the day when relativities might need to be reconsidered substantially. There would be no need for a special body to set MPs' pay. The Chancellor believes no decision is needed now about the salaries of Ministers and other office holders.

Mr. Heseltine is worried about breaking the present pay link between the senior military and the higher Civil Service, is doubtful about the proposals on Civil Service pay and thinks abolishing the TSRB will be seen as an attempt to shift the blame for last year's problems.

The Lord Chancellor too is doubtful about abolishing the TSRB, believes that if it goes he will need a new review body for judges and does not like the suggested link between the pay of a High Court Judge and that of his Permanent Secretary.

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Mr. Biffen strongly supports abolition of the TSRB but wants an independent body to review MPs' allowances. The Chancellor is prepared to move a little towards that, but not the whole way.

Mr. Luce is not sure about the proposal to abolish the TSRB and thinks the Chancellor should set out in greater detail how he would see the new arrangements working.

Sir Robert Armstrong is against abolishing the TSRB but suggests it would be worthwhile to change the terms of reference and the title before Ministers consider the Chancellor's proposal.

The Policy Unit favour abolition, and would combine this with movement towards personal employment contracts and more open entry to the Civil Service at all levels.

You will presumably want a meeting on this.

The core of the problem is the Civil Service. Public criticism of the last TSRB award focussed on the Civil Service, and the Chancellor's proposals would leave all the other bodies now covered by the TSRB with comparability or linkages of one form or another.

The Chancellor's objective is to find a system which would avoid damaging political rows in future. If they are to be avoided, the new system for the Civil Service must:

i) be seen to be open and honest, leaving no scope for the Government to fix salaries higger-mugger for its closest advisers, or for the advisers to fix their own salaries;

ii) allow pay to be set at the levels needed to recruit, retain and motivate; (the concern here is of course as much for Assistant Secretaries and Principals as for senior Civil Servants);

iii) have regard to the effect of the pay system on the role played by the Civil Service (impartiality etc.) - not that this need be immutable, but the Government should know what effect it wants to achieve.

The Chancellor's proposals

- would, after initial controversy, probably reduce the political flack about Senior Civil Service pay settlements;
- would probably not have a major effect on the role and position of the senior Civil Service, at least in the short run.

Disadvantages:

- it would be said that Peter Kemp and the Treasury negotiators would be biased by their personal interest in the outcome of the general negotiations;
- abolition would undoubtedly have a major effect on Civil Servants' morale by removing the last traditional element of comparability, and, whatever the reality, people would believe that pay settlements at senior levels would be lower than under the present system; the effect would be felt more in loss of staff at Principal and Assistant Secretary level than at senior levels; the already worrying exodus of the best people from the Treasury, for example, would be given a boost;
- the constraints on Armed Services pay, already weak, would be weakened however the terms of reference of the AFPRB were changed;
- the tensions between Civil Servants and Armed Servicemen in the MOD would be further increased.

The Government would also be accused of shooting the messenger, and of disowning the pay settlements which it pushed through at such political cost last summer.

You suggested at MISC 66 that Lord Plowden might be sent on a sabbatical. The option of in effect suspending the TSRB, and linking TSRB group pay increases to Civil Service pay increases over the next few years is certainly one which could be considered.

A decision on this needs to be taken within the next few weeks, before the TSRB get down to work again. Agree an early meeting?

Yes - but surely we ought to
hear the views of 'Top' Civil Servants
and 'Top' A.F. people?

no

D.N.S.

David Norgrove
29 November 1985

PRIME MINISTER

FUTURE OF THE TOP SALARIES REVIEW BODY

Please see the papers below.

The weakness of the present TSRB arrangements is not that they result in excessive pay levels. Rather, the problem is that the mechanism for promulgating top salary increases - periodic big bang announcements - leads, every so often, to intense embarrassment for Ministers and damaging criticism of the higher Civil Service. Can new arrangements be devised which avoid this embarrassment and criticism while

- maintaining confidence of the senior Civil Service (and perhaps even more important of the good Principals and Assistant Secretaries who are tomorrow's senior Civil Service management);
- encouraging an innovative, flexible, and presumably non-politically partisan, Service?

I doubt whether the Chancellor's approach meets these tests. Personally, I would like to see further thought given to the Policy Unit's idea for "contracts" for probably Deputy and Permanent Secretaries only), though any such system would need some in-built guarantees against arbitrary non-renewal of contracts. But it must be stressed that the contract approach could well have fundamental consequences for the political/constitutional position of Civil Servants.

N.L.W.

29 November 1985

I fear this approach
would induce uncertainty
just at a time of life when
alternative arrangements could
prove difficult. not

26 November 1985

TOP SALARIES REVIEW BODY

Having honoured the last TSRB award, top salaries are now at realistic levels. With the offer of Megaw to the rest of the Civil Service this is the right moment to reintegrate senior officials and so end the political embarrassment of treating top salaries as a special case. Visibly equal treatment will also help public sector pay negotiators. The Annex shows how the new system could work.

Reintegrating the Generals and Admirals into Armed Forces Pay Review Body would parallel the proposed treatment of Senior Officials. This need not mean higher wage rises: whilst the 1979 Manifesto did promise higher wages and full comparability, the 1983 wording is "we have honoured our promise to give our regular and reserve forces proper pay and conditions". This is a statement of historic fact, not a promise, and certainly not a promise to persist with comparability. By encouraging the AFPRB to give large "comparability" wage rises, the MoD merely exacerbates its own internal comparability problems with officials, and reduces the proportion of the defence budget actually spent on defence.

But it would in fact - there can be no doubt about that.

Doing nothing to the TSRB because (as Sir Robert is confidently able to assert) the next increase will be moderate, does not cure the problem. For so long as there is a system ensuring top salaries move at a different pace to other salaries then embarrassment will recur. Whilst just changing the TSRB's name will merely look ridiculous.

Nigel Lawson plans a continuing review process for the judiciary and has satisfactorily disposed of the problem of MP's allowances. We recommend you endorse his proposal to abolish the TSRB. His officials could be asked to develop detailed proposals along the lines of our Annex.

Peter Warr
PETER WARRY

ANNEX

SENIOR CIVIL SERVICE PAY POST-TSRB

The simple way to settle top civil servants' pay is for them always to receive the average increase given to the rest of the Service. Such a publicly declared system would be seen to be free of favouritism or arbitrary interference and should provide reassurance to senior and junior civil servants, as well as to the public at large.

There would be no need to have a special body to protect their interests or for the mandarins to negotiate their own pay rises. The First Division Association may seek such rights and it may be sensible to agree extending the FDA's coverage to Under Secretaries.

Such a system would ensure that senior officials maintained their relative position within the Civil Service. External comparability is not properly a consideration, but this will be maintained for mandarins to the same extent that it is for the rest of the Service (except in so far as top management rises continue to outstrip those for junior staff).

Since being established in 1971, the TSRB has led to pay rises for the Head of the Home Civil Service of 490% and for Under Secretaries of 422%; junior ranks have had lower rises ranging from 353% for Assistant Secretaries to 402% for Clerical Officers. Over the same period, the RPI has risen by 416%. No datum is ever wholly satisfactory, but these figures suggest there would be no injustice to senior officials if relativities were fixed where they now stand.

The new system is not dissimilar to the private sector approach where senior management tend to be awarded the same general pay rise as junior staff. Where it differs is merit

pay (downwards as well as upwards). If senior officials were given personal employment contracts, merit would be easier to accommodate (as well as giving more flexibility to adjust salary levels as whole for senior grades). However, if such merit was determined by Ministers, then there would be (unwarranted) criticism of politicisation.

Abolition of the TSRB provides the opportunity to consider other changes which may also be presentationally helpful. The Civil Service is too inbred: not enough people have 'real life' experience, too few outsiders are brought into its ranks. The Terry Burns and Peter Levenes perform an important role but more outsiders are needed at lower levels: people who will help inculcate the 'can do' rather than 'too difficult' approach, industry's higher flyers who will gain from spending a couple of years seeing how Government works.

But more of the bright Principals should go out into industry (not just the City) with a view to being recruited back in five or ten years' time as Under Secretaries. This is not unfair on their colleagues who remain: everybody has free choice, there should be no special loyalty bonus for the person who stays within the safe, narrow confines of the Civil Service, rather than testing his merit in the market place.

To make this happen, open entry to the Civil Service at all levels must be actively encouraged. This would initially need to be through fixed-term contracts so as to comply with Civil Service rules and as a sensible precaution against selecting unsuitable candidates. The comparative insecurity would warrant a salary premium.

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

EFBB



HOUSE OF LORDS.
LONDON SW1A 0PW

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PRIME MINISTER

THE FUTURE OF THE TOP SALARIES REVIEW BODY (TSRB)

WITH DN?

Nigel Lawson sent me a copy of his minute of 28th October about the future of TSRB and I have since seen the comments made by Michael Heseltine and Richard Luce in their minutes to you of 14th and 15th November.

I can well understand the view that, so far as the senior Civil Service and senior officers of the Armed Forces are concerned, TSRB no longer produces satisfactory results, and that we would be better with some different system. I do think, however, that we need to assess very carefully how a decision to abolish the Review Body would be received in Parliament and by the public, and to know exactly what we would put in its place before deciding whether abolition is the right course. I too am particularly concerned with regard to the Civil Service, that we do not end up in a situation where senior officials find themselves having to negotiate their own salaries on behalf of the Government.

From my point of view the future arrangements for determining judicial pay are of the greatest importance. I could not consider undertaking the work myself; I should simply be flooded with competing pay claims from the different judicial groups which neither I nor my officials are equipped to evaluate. Such a situation would, moreover, be bound to sour my relations with the judiciary more generally. Rather than be responsible myself for determining judicial pay, I would therefore be bound to prefer to stick to TSRB as it is.

The judges are TSRB's largest client group (about 1,000 strong) and, unlike the senior Civil Service and the senior officers of the Armed Forces, there is no alternative pay negotiation machinery in existence into which they could be assimilated. Nor do I think that it would be at all satisfactory to contemplate such an arrangement. If TSRB goes therefore - and, as I say, I do not think it is yet clear whether this is the right course - I will need to have a new Review Body to undertake the work. It will be essential for this to be serviced by the Office of Manpower Economics (OME) as the present ones have been. OME have great expertise in dealing with the evaluation of pay claims, which I would wish to continue to use. Any new body would need to continue to advise me annually on judicial salaries. In most years this would simply be an up-rating report but, from time to time, as Nigel Lawson suggests, reviews of the judicial salary structure would also be required. Given that the last TSRB report revised the salary structure as a whole, I would hope, however, that the first two or three reports of a new review body would be for up-rating purposes only.

I see merit in the suggestion that any new body should have a substantial number of non-lawyers on it. This should help to ensure that whatever advice it might produce would gain public acceptance. I do not, however, believe that a new body should be constrained by the suggested link between the pay of a High Court judge and that of my Permanent Secretary. Because judges are recruited from the ranks of barristers who are in mid-career and at the peak of their earnings, there is already a very direct and market-related test of the adequacy of judicial salaries readily to hand. Moreover the position is irreversible; once a barrister has accepted a judicial appointment he is not allowed ever to go back to the Bar. Thus, if I start to get any significant number of refusals of appointment at any given level of the judiciary, that is the key signal that salaries at that level may need to be re-examined. But these matters are of detail which a new body could consider in due course.

I am copying this to the Chancellor of the Exchequer,
the Secretary of State for Defence, the Lord Privy Seal,
the Minister of State at the Privy Council and Sir Robert
Armstrong.

H: of S & M
25 Nov:85

ELON POL : TSRB : Part 7.



*cc BG Smith.*

Ref. A085/2949

MR WICKS

Top Salaries Review Body

The Chancellor of the Exchequer sent me a copy of his minute of 28 October, proposing the abolition of the Top Salaries Review Body (TSRB) and new arrangements for determining the remuneration of the three groups of public servants concerned (senior civil servants, senior officers of the armed forces, and the judiciary).

2. I can well understand the Chancellor's dissatisfaction with the TSRB, given the political and public reactions to the recommendations in its last report and the Government's decision to accept them (subject to some staging).

3. But it is at least arguable that the TSRB's recommendations last time were right (or at any rate on the right lines, if not right in every detail); that it was right to implement them; that it would have been impossible for the Government itself to put forward proposals of this kind on its own initiative; and that implementing (with whatever political reluctance) recommendations from an independent body was in fact the only way in which it would have been politically possible for the Government to do something that needed and was right to be done.

4. The Chancellor's argument that the higher Civil Service "should be treated like the rest of the Civil Service" is tempting, but over-simplified. The arrangements for the rest of the Civil Service now, and any future long-term pay arrangements, include as an integral element a process of negotiation between the Government (represented by senior civil servants) and unions, and some right of arbitration. It is very



difficult to see how there could be satisfactory and defensible arrangements under which senior civil servants negotiated on behalf of the Government, or represented the Government at an arbitration hearing, about their own pay. (I got into enough trouble this summer for giving evidence to the Review Body, though I did so at their request and expressed no views on quantum.)

5. The argument that it is wrong to look at the TSRB groups horizontally, rather than "vertically in relation to the work forces to which they belong", is also an over-simplification. Of course they do need to be looked at in relation to "the work forces to which they belong", and the TSRB has always had regard to the relativities between the groups on which it advises and those below them in the Civil Service and the armed forces. But there is a close "horizontal" link between the open structure of the Civil Service and the two-star (and higher) officers in the armed forces, who work closely alongside each other particularly in the Ministry of Defence. The present arrangements at lower levels have had the effect that middle to lower ranks in the armed forces have moved well ahead of their counterparts in the Civil Service over the last five years, because recommendations by the Armed Forces Pay Review Body, invariably accepted by the Government, have consistently exceeded the pay increases for civil servants at equivalent levels. This has created some strain where civil servants and the military work close to each other, particularly in the Ministry of Defence.

6. The Chancellor argues that the TSRB does not achieve the claimed advantage of taking these "top people's" salaries "out of politics". I do not believe that that is in fact an advantage which has ever been claimed for the TSRB, or that salaries of public servants at these levels can be taken "out of politics". They are public servants, paid out of monies voted by Parliament (or, in the case of judges, out of the Consolidated Fund), and the Government is responsible for their



numbers and their rates of remuneration. The most that could be claimed for a system of independent review making recommendations to the Government is that it changes the nature of the political decision involved and the distribution of political responsibility and odium. The Chancellor's note seems to accept the case for independent review in the case of the senior officers of the armed forces and the judiciary, even though the remuneration of these groups is no less a political subject than that of senior civil servants.

7. If I can put the argument in more abstract terms, I think that it runs something like this. In determining the levels of remuneration of public servants the Government is liable to find itself in a dilemma as between two separate responsibilities which point in different directions: its responsibilities for the management of the economy and the control of public expenditure - which lead it to want to keep increases in public service pay as low as possible - and its responsibilities as an employer of staff and manager of a service - which may sometimes point towards higher levels of increases in public service pay. In the case of most of the Civil Service, the obligation to negotiate with Civil Service unions provides in effect a mechanism which mediates between these responsibilities when they diverge, and an assurance to the staff concerned that the considerations relevant to the second set of responsibilities and to their interests are not overlooked or lightly set on one side. In the case of the higher Civil Service, as in the cases of the armed forces and the judiciary, there is no process of negotiation, and certainly in the case of the higher Civil Service (and probably in the other two cases also), no such process is realistically possible. The existence of an independent review body is in these circumstances an alternative mechanism for arriving at a judgment, which the Government and the staff concerned in effect both accept as a substitute for the negotiation which is not possible.



8. An independent review body thus provides the staff on whose remuneration they make recommendations and the public with an assurance that the decisions of Government on that remuneration will not be merely arbitrary, and determined solely by reference to the Government's wider responsibilities for the control of public expenditure, in that their existence obliges the Government to justify its decisions by reference to the published judgments and recommendations of the body. The Government is not obliged to accept these recommendations; but accepts an obligation to justify publicly, to Parliament, any decision to override or depart from them. If on the other hand the Government decides to accept the body's recommendations, the fact that its decisions are based on these recommendations dilutes the political odium which would otherwise fall undiluted on the Government alone.

9. It is no doubt for reasons of this kind that the pay of the higher Civil Service has invariably, since 1919, been determined in the light of recommendations from an independent advisory body of some kind.

10. The TSRB, under Lord Plowden's chairmanship, has in fact been a rather politically sophisticated body. Lord Plowden recognises as well as any one the political dimensions and delicacy of the issues which the TSRB faces, and has, in my experience at least, gone to great lengths to pitch the TSRB's recommendations at levels which will not be intolerably difficult for the Government in political terms. (For example, I am in little doubt that, if the TSRB is still in business for a 1986 review, its recommendations will create little or no embarrassment for the Government.) There are some who would say that the TSRB's latest recommendations were embarrassingly high because he had been a little too successful in that respect in previous reviews. The TSRB certainly cannot be accused of having excessive regard to "comparability": their recommendations in all recent reviews would have been much