



Chancellor of the Duchy of Lancaster

NBPM

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

27 March 1985

Dear Chancellor,

1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

You asked for comments by this evening on the proposals in your minute of 26 March to the Prime Minister.

We are to meet on Tuesday morning to discuss the major options which now lie before us for bringing these negotiations to a speedy and satisfactory conclusion. It is important that any step which we take this week should not prejudice or inhibit our choice in any way.

In view of the current disarray among the unions, I would not disagree with your judgement that an increase in the offer to 4.4% at this stage would be helpful.

I am copying this to the Prime Minister and other recipients of your letter.

Yours sincerely
G. P. Heras

MP GOWRIE (Approved by Lord Gower and signed in his absence)

Civil Service P.T. 15

Pay

28 MAR 1968

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PRIME MINISTER

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1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

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The Chancellor's proposal - in his minute of 26 March - to increase the offer to the Civil Service concerns me both in terms of Civil Service industrial relations and the implications for NHS pay negotiations. I have to say that I doubt the wisdom of a quick improved offer to the Civil Service Unions. It seems to me an open question whether an increased offer now will be seen as an olive branch in advance of the ballots or as evidence of the impact of the threat of industrial action. It certainly seems the wrong response to the current disarray among the Civil Service Unions. More importantly, I do not think we can leave on one side the question whether or not we are going to arbitration. If we are, then any improved offer immediately becomes the base-line and is likely to rebound to our cost later.

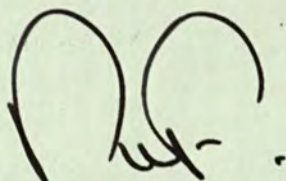
I am also concerned about the possible impact of a 4.4 per cent offer on our negotiations with the NHS non-review body groups. Our first offer, to the ancillaries, will be made on 3 April. The background to our negotiations is the 5.5 per cent cash increase in NHS funding which was agreed in last year's PES. We can keep within that limit and at the same time secure anything like the intended level of services only if pay can be kept down. With that in mind we are trying to exploit the Unions' apparent desire for an early settlement to settle significantly below 5 per cent. The negotiating limit which I propose to give to the Management Side is 4.7 per cent. We cannot afford to go more than marginally above that without embarrassing damage to the financial position of the health service and to the credibility of our claims to be providing for service developments.

E.R.

The Management Side's probable tactic, other things being equal, will be to offer rather less than 4 per cent on 3 April and move up grudgingly to around 4.2 per cent. A move beyond that, whether on 3 April or later, would be made only if there was a clear signal that a settlement was available. If we are to get an early settlement at all, I would expect the negotiations to be concluded very shortly after Easter.

The Management Side's position is already difficult in the light of the local authority manuals' settlement. An offer of 4.4 per cent to the Civil Service would much reduce the credibility of opening shots at the levels I have mentioned. If the Management Side consider that they have to move much above 4.2 per cent in the opening discussions, there will be very little scope for further movement to reach a settlement. My judgement therefore is that the Chancellor's proposed offer would significantly reduce our chances of a favourable outcome for the NHS. I realise this is awkward in relation to your proposals, but I do believe it is important for us to take account of the implications elsewhere in approaching each public sector pay issue.

I am copying this minute to the other members of MISC 66, the Secretaries of State for the Environment and Education and Science and to Sir Robert Armstrong.



27 March 1985

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Prime Minister ! 6

To be discussed
with H.G. Chancellor
tomorrow afternoon.

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

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PRIME MINISTER

A handwritten signature in dark ink, appearing to be 'M'.

1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

You are chairing a meeting of MISC 66 next Tuesday morning.

--- I attach a paper from the Chairman of the Official Group (MISC 67) which sets out the position and the decisions to be taken.

2. Our successful use of the 1984 Trade Union Act against the CPSA has thrown the union side into disarray. As I understand it, the CPSA are now planning to abandon their one day strike on 1 April (though there may still be sporadic action) in favour of 15 April. The Civil and Public Service Association (CPSA) are also balloting to seek a similar mandate and the Inland Revenue Staff Federation (IRSF), having failed with their first ballot, may now try again to get a majority for action.

3. The best chance of preventing the unions from getting the mandates they seek would be to make a slightly improved offer this week, rather than wait until after Tuesday's meeting. I suggest, therefore, that we now make an offer worth 4.4 per cent on the 1985-86 pay bill, without prejudging any of the matters we shall want to discuss in MISC 66. Our offer would then comprise the better of £4 per week or 4.4 per cent for full-time adults, and £3 per week for juveniles, plus minor improvements already on offer. It would represent an



improvement on our earlier offer for all except some 60,000 people still on the £4 per week minimum; but these will, of course, stand to benefit from the Budget.

4. We would not need to take a decision this week on arbitration nor need we decide whether or when we might improve our offer yet further - perhaps as far as the 5 per cent which the paper by officials suggests. We can discuss these points next Tuesday and also the shape of any further improvements in the offer, whether in the form of Annex B to the paper by officials or perhaps, as last year, by distinguishing between those on scale maxima or flat rates and those still having the benefit of increments, or by increasing the underpinning.

5. We must clearly take account of the implications of such an offer for other public service pay negotiations, particularly those for the teachers and the NHS non-Review Body staff. I do not believe my proposal would have harmful repercussions for the teachers' negotiations where the position is already very complicated. I also hope it should not significantly prejudice the negotiations for NHS non-Review Body staff due to start on 3 April, given that the local authority manuals have now settled at a touch over 5 per cent over 10 months. I shall, of course, keep closely in touch with Keith Joseph and Norman Fowler and with our other colleagues over progress in the Civil Service negotiations.

6. I should be grateful to know by tomorrow (Wednesday) evening whether colleagues are content for me to proceed in this way. I am sorry to give such short notice but we clearly need to move very quickly if we are to reap the full advantages of an improved offer.

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7. I am copying this minute to the other members of MISC 66, to the Secretary of State for the Environment, the Secretary of State for Education and Science and to Sir Robert Armstrong.

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N.L.

26 March 1985

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1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

THIRD REPORT TO MINISTERS FROM THE CHAIRMAN OF THE OFFICIAL GROUP

Our opening pay offer to non-industrial civil servants as set out in the report circulated under cover of the Chancellor of the Exchequer's letter of 25 February was duly made to each of the Civil Service unions on 14 March. This offer, worth about 4 per cent overall on the 1985-86 pay bill, has, predictably, now been rejected by all of them. This note sets out possible next steps for Ministers to consider.

The unions views

2. Since we made the offer, the Treasury have had intensive discussions with each of the separate unions. They regard the offer as wholly inadequate in quantum, and in any case wrong in structure. On quantum, as before they base themselves on arguments about "catching up" and the like; Annex A sets out in more detail the points that they have made to us. They also had points on structure, albeit the structure of the offer reflected the claims that had been put.

The present position

3. The position is fast moving. Four of the unions (the CPSA, the SCPS, the IRSF and the CSU) have balloted their members to seek support for a one-day strike on 1 April followed by an escalating campaign of selective action thereafter. It seems all but the CPSA aimed to comply with the Trade Union Act 1984. The Government took legal action against the CPSA. As a result the CPSA are now holding a ballot under the terms of the 1984 Act with a view to industrial action on 15 April and, possibly, sporadic action on 1 April. The SCPS got a narrow majority in favour of strike action albeit on a poor turnout. The CSU and the IRSF voted against taking action, but the IRSF are said to be re-balloting with a view to seeking a different result. In the circumstances the effectiveness of action on 1 April is doubtful but unions are beginning to focus on 15 April; an oral report will be made at the meeting of MISC 66 on 2 April.

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4. MISC 66 on 2 April will have to decide on the next steps. These include (a) resting on the existing offer, (b) increasing the existing offer to a lesser or greater extent, and (c) deciding to go to arbitration. This last point is crucial; if Ministers are prepared to go to arbitration then the next step should obviously be very small; if they are not prepared to go to arbitration then we believe that it could be rather larger.

Possible outcomes

5. We have tried to assess where it might be possible to achieve a settlement with the unions in the absence of arbitration. On the whole we think it unlikely that they would settle, or even acquiesce in a figure much below 5 per cent. However, we have had indications that they might be content around 5 per cent. An improved offer is set out at Annex B. If account is taken of minor improvements already proposed the total pay bill cost in 1985-86 roundsto 5 per cent.

6. On the other hand, it seems certain that an arbitrator would award more than 5 per cent and possibly more than 6 per cent, having regard to the likely rate of inflation at the time and the going rate for settlements elsewhere, widely perceived as 6 per cent. Each percentage point is worth about £50 million on the pay bill. Arbitration could be costly (but so of course could industrial action).

Arbitration

7. There are other arguments for and against going to arbitration this year. The arguments in favour include :-

a. This would offer an honourable way out of a potentially messy dispute; it would be well received by staff and would help to improve industrial relations in the Civil Service, which are much in need of improvement.

b. The Government having invoked the 1984 Trade Union Act against the CPSA, may not want to risk being accused of breaking agreements.

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AND PERSONAL

c. Refusing arbitration for the second year running on "policy" grounds - the policy being the need to contain public expenditure - would be politically difficult. The Government is on record as having said that last year's decision did not rule out arbitration in the future.

Those against include :-

d. Allowing arbitration for civil servants could make it difficult to turn down a request for arbitration from other bodies eg the NHS non-Review Body groups. With the teachers (if that offer is picked up) this would mean that the pay of some 1½ million public servants would be effectively in the hands of a third party.

e. Arbitration could not be guaranteed to solve industrial relation problems in the longer term, particularly if the award is low (cf teachers award in 1984).

f. If there is to be row with the Civil Service unions it is probably better to have it this year rather than next. Our assessment is that there is not in fact much of a mood for industrial action this year, and politically we understand that the unions see 1986 (or possibly 1987) as a better year to choose for a fight, having regard to the Electoral timetable. An enervating, expensive and fruitless struggle in 1985 would weaken them for these further battles.

8. If Ministers did decide in principle to go to arbitration this year, there would be a lot of further matters to consider. For instance there is the question whether the arbitration should be of the normal kind, or of the "pendulum" nature. There is also the question whether the unions would agree on a single reference so that arbitration could be mounted for the whole Civil Service at one hearing, or whether there would have to be 8 separate hearings for the 8 separate unions, and whether the Government would bind itself in advance to accept the award.

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AND PERSONAL

9. If Ministers are minded in principle to go to arbitration, then there is an argument for making no move at all but simply starting off from the present 4 per cent. There is, however, also an argument for a limited move, so as to demonstrate to the arbitrator reasonableness. A package worth about $4\frac{1}{2}$ per cent could be devised.

10. It is very difficult to estimate precisely what Departments can afford. In the recent past they absorbed increases between $1\frac{1}{2}$ and 2 per cent above provision without recourse to the Reserve. This should mean that Departments generally ought to be able to absorb 5 per cent. More than this could cause difficulties.

Wider considerations

11. We also need to take account of the implications for pay bargaining elsewhere. There is no risk of repercussions on the trading sector. Private sector settlements in this round appear to be running at around 6 per cent. There are few nationalised industry settlements so far in this round, but all the indications are that settlements are unlikely to be lower, and could be higher, than the 5 per cent average in the last pay round. The impact on other public service negotiations is however clearly important. The local authority manuals have accepted an offer of £4 a week (a touch over 5 per cent) over 10 months which annualises at 6 per cent. The English and Welsh teachers are locked in industrial action having been offered 4 per cent and arbitration/or conciliation. The local authority white collar groups (who have unilateral access to arbitration) have launched a claim reportedly worth up to 11 per cent. Negotiations with NHS collectively bargained groups are about to begin. Review Body reports for Doctors and Dentists, Nurses and the Armed Forces are due in April and are almost certain to recommend unwelcome increases.

12. Indeed, far from being unhelpful, there are arguments that an early settlement for the non-industrial Civil Service at around 5 per cent would be advantageous. With the possible exception of the NHS ancillaries, it is not realistic to assume that other public service

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settlements will come out any lower than this; and a settlement at about 5 per cent for civil servants would help to reduce the pressures for bigger settlements, whether in negotiation or from arbitration.

Long-term pay arrangements

13. It has been made clear to us by all the unions that they would like some kind of acceptable long-term pay arrangements for the future. The general message is "We cannot go on like this". Two of the unions specifically want to pick up Megaw and move with it; indeed they have asked that even if the other unions will not join in we should be prepared to discuss with them alone possible long-term arrangements. These are matters which Ministers ought to consider in a longer timescale. But they are immediately relevant to the present position, in that clearly the hint that the Government would be prepared to pick up the Megaw negotiations and carry them forward (albeit under a new name) would make it more likely that the unions, or some of them, would come quietly at a lower figure than would otherwise be the case.

14. A sketch of a possible approach is at Annex C. Its essential features are bargaining on pay movements within wide constraints, no compulsory machinery for a review of levels, and arbitration by agreement.

Conclusion

15. It is not desirable to allow this year's negotiations to drag on in the same way as did last year's, if this can be avoided. Time is not on our side. The industrial relations position will be updated for Ministers at the meeting of MISC 66. Depending on the position then and in the light of the considerations outlined above, Ministers are invited :

- a. To note the Civil Service unions' rejection of the pay offer made, and the reasons given for its rejection.
- b. To say whether or not they favour arbitration over Civil Service pay for 1985.

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- c. If the answer to (b) is Yes, to agree that the offer should be increased (if this has not already happened) to say 4.5 per cent on the pay bill or some lesser figure, coupled with an intimation that the Government would be prepared to see arbitration for 1985, on a basis to be settled in informal discussions with the unions.
- d. If the answer to (b) is No, to agree that the offer should be increased to around 5 per cent per cent on the pay bill whether at one step or by stages.
- e. To agree that a hint be given that the Government is prepared to enter into discussions about long-term pay arrangements.
- f. To agree that the precise timings of the next moves should be settled in the light of events, but without unnecessary delay.

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ANNEX A

ARGUMENTS PUT FORWARD BY THE UNIONS IN CURRENT PAY NEGOTIATIONS

The main arguments put forward by the unions in support of their claims for substantial increases in pay have been as follows; some of these of course are interdependent :-

a. "Falling behind" since 1980, which the unions take as a base date because that was the last agreed settlement before the demise of PRU. On their calculations they argue that Civil Service pay settlements since then have amounted to 25 per cent, while the RPI has increased by 43 per cent and earnings outside by 60 per cent.

In reply we have argued that nobody has any particular right to maintain their pay at any particular level in relation to the past and that, in any case, there is nothing magic about 1980 and the unions' calculations are flawed.

b. Civil Service pay is now below the rates being paid by outside employers for equivalent jobs. One or two specific examples have been tabled.

In reply we argue that comparability is not the name of the game; but in any case it is well known that such comparisons are extremely difficult to do accurately.

c. The Civil Service is being discriminated against in relation to outside pay movements and current inflation rates; and also even within the public services in relation to the Review Bodies last year. Reference is made to the statement

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Sir Geoffrey Howe gave to the Megaw Inquiry, which has been endorsed by current Ministers, that "The Government as employer does not believe it should seek year after year to pitch Civil Service settlements below market rates in the private sector".

In reply we point out that this is just one variant on the comparability argument. There are many other factors besides what is happening elsewhere and, so far as Sir Geoffrey Howe's statement goes, this is simply a reflection of the facts of life in the market place.

d. The unions argue that there are serious recruitment and retention problems, particularly in some Departments, which our offer does not recognise.

In reply we argue that the facts do not bear this out, as a generalisation. We shall deal with particular difficulties as we come on them; and indeed part of our offer this year has done just that (eg so far as Accountants go).

e. The unions claim the Government are in breach of the "European Social Charter" so far as the lower paid go, and that we ought to be prepared to give a minimum wage of £100 per week or £104 per week (the calculations vary), in accordance with that Charter.

In reply we argue that we are under no obligations under this Charter but the £100 or £104, if recalculated to take account of the special circumstances of the Civil Service,

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becomes a rather smaller figure of the order of about £90 per week. In any case, help for the lower paid is not necessarily a matter for the employer but for the tax or social security system (as the recent Budget has indeed shown).

f. The unions claim that the greater efficiency, effectiveness and productivity of the Civil Service is not being recognised in pay, and that the staff are not seeing the benefits of changes for example those resulting from the introduction of new technology; indeed in the Civil Service the reverse of the Government's "Pay and Jobs" argument is found, in that as pay is held back so jobs disappear.

In reply we argue that we are not in business to "pay" for efficiency etc savings but if pay settlements are bigger than the pay assumption made then there necessarily have to be economies elsewhere.

g. The unions argue that the pay assumption or pay factor introduces an arbitrary and unfair element into the negotiations.

In reply we argue that the pay assumption is not a limit or a norm nor has it constrained proper bargaining. But it is necessary for the Government, no less than other employers, to have some concept of affordability. Otherwise cost simply does not get a look in, notwithstanding the fact that even the unions accept that it is a factor to be taken into account.

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h. Finally, and in effect sweeping up all the arguments, the unions make much of the motivation argument and the fact that the Civil Service does not feel they have been treated fairly by the Government over pay over the past few years. This, it is argued, will start to come out in lowering of levels of service, failure to co-operate wholeheartedly with new developments such as the FMI, and so on and so forth. In short, good managers and employers would do more.

In reply we say that we are very conscious of the need to watch this point, but the public services as a whole are not suffering in the way the unions suggest.

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ANNEX B

PERCENTAGE INCREASE IN AVERAGE PAY RATES AND TOTAL PAY COSTS

DATE	I JUVENILES		II GRDS UP TO & INC CO & EQUIVS		III GRDS ABOVE CO & BELOW GRD 7		IV GRDS 5 TO 7 & EQUIVS		OVERALL INCREASE
	BEST OF	AVERAGE	BEST OF	AVERAGE	BEST OF	AVERAGE	BEST OF	AVERAGE	
MAR 21 1985									
STAFF ON SCALE MAX OR FLAT RATE	//////////	//////////	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	//////////
	//////////	//////////	£4.00PW	£5.39PW	£4.00PW	£8.81PW	£4.00PW	£18.37PW	//////////
OTHER STAFF	0.00%	5.13%	5.00%	5.08%	5.00%	5.00%	5.00%	5.00%	//////////
	£3.00PW	£3.00PW	£4.00PW	£4.54PW	£4.00PW	£7.83PW	£4.00PW	£15.61PW	//////////
	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT
AVE INC IN RATES	5.13	3.00	5.04	4.99	5.00	8.58	5.00	17.36	5.01
INC IN PAYBILL COSTS(PERCENT)	5.01	//////////	4.97	//////////	4.95	//////////	4.76	//////////	4.94
CCBU COVERAGE	CPSA		CPSA IRSF CSU		SCPS IRSF IPCS FOA		SCPS FDA/AIT IPCS		
NUMBERS OF STAFF	2,000		249,000		212,000		22,000		

In short: £3 for juveniles and the better of 5 per cent or £4 per week for others.

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ANNEX C

POSSIBLE LONG-TERM ARRANGEMENTS FOR DETERMINING CIVIL SERVICE PAY:

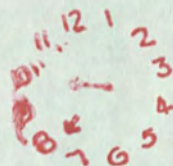
1. Annual pay negotiations within parameters set by outside pay movements. These need not be quartiles; we could propose a bargaining range of 'x' percentage points on either side of the median. Another variant would be either the interquartile range, or 'x' percentage points on either side of the median, whichever gives the wider bargaining range. A wide range would provide some latitude to respond to recruitment and retention problems.

2. There will be no formal or regular survey of pay levels. Ad hoc adjustments could be made to pay for individual groups where this was necessary eg on recruitment and retention grounds (ie virtually a continuation of the present position).

3. Access to arbitration would be on a jointly agreed basis. The arbitrator would be bound by the parameters of the negotiating range. In addition, there might also be arrangements for conciliation or mediation. The Government would want arrangements for override.

Note: If 'x' (see paragraph 1) = 2 percentage points the increases in 1983 and 1984 would both have fallen within the negotiating range, as would 5 per cent for 1985.

26
26 MAR 1985



FROM: D A TRUMAN
DATE: 19 March 1985

CS Part
1. MR TRUMAN *1/13*

2. PARLIAMENTARY CLERK

cc Mr Kemp
Miss Sinclair
Mr Corcoran

CIVIL SERVICE PAY 1985: TRADE UNION ACT 1984

The 1985 Pay negotiations for non-industrial civil servants are underway and the offer made on 14 February is now being discussed with each of the non-industrial civil service unions. It is worth about 4 per cent on the pay bill (3.9 per cent on average, plus 0.1 per cent for detailed improvements). The shape of the offer takes account of, among other factors, the individual claims of the unions. The Government intends genuine negotiations and these are continuing.

2. The unions are making much of planned industrial action from 1 April. One union, the CPSA, has indicated that it will not comply with the Trade Union Act 1984 by not holding a properly constituted secret ballot before calling its members out on strike. The Times this morning carries a report (copy attached) which shows that all non-industrial civil service unions have been made aware of management's position in considering the application of the Trade Union Act 1984.

3. Whether or not legal proceedings are taken against the CPSA will depend on legal advice, which is urgently being provided, as to any breach of the Act's provisions and the chance of successful legal challenge. However, management's ability to involve the Act's provisions has been strengthened by recent advice from the Attorney General that for the purpose of the application of the Trade Union Act it can be argued that civil servants have a contract of employment. The outcome may be affected by the way in which CPSA go about consulting its members on the recommendation to take strike action. Ministers will be consulted before the final decision is taken.

4. Attached is Question and Answer briefing on this and the state of pay negotiations, in case questions are raised at Prime Minister's questions today. The more detailed briefing on the pay offer provided previously is also attached.

Alan Hurst

A F HURST

IRD

Q State of civil service pay negotiations?

A Claims have been received ranging from 12 per cent to 20 per cent, averaging about 15 per cent. Treasury have made an offer which amounts to about 4 per cent.

Q Unions' planned industrial action from 1 April?

A I believe the offer made is a fair one and realistic in today's circumstances. Negotiations are continuing and it is too soon for the unions to be talking of industrial action.

Q CPSA to defy the Trade Union Act 1984?

A I regret very much that the CPSA, unlike the other civil service unions, will not allow its members to vote in secret ballots as provided for under the Trade Union Act 1984.

Q Will the Government use its legislation against the CPSA?

A I hope this will not be necessary, but if the CPSA go ahead and blatantly disregard the 1984 Act then the Government will act accordingly.

Q Is application of the Trade Union Act yet another example (like GCHQ) that the Government is intent on removing trade union representation from its employees?

A Not at all. The main aim of the Act is to ensure that all the unions' members who are called upon to take industrial action, are given the chance, in secret, to vote for or against taking industrial action.