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P.01529

PRIME MINISTER

Non-Industrial Civil Service Pay Negotiations

(Letter of 12 April from the Private Secretary to the Chancellor of the Exchequer to the Private Secretary to the Prime Minister, covering a note by the Treasury)

BACKGROUND

Following a meeting of Ministers which you chaired on 27 March, the Treasury put an improved offer to the Civil Service trade unions, comprising the better of £4 a week or 4.4 per cent. (The original offer had been £4 a week or 4.0 per cent.) All the unions have rejected this offer.

2. Four out of the eight unions have now held ballots with the view of obtaining a mandate for strike action. The Society of Civil and Public Servants (SCPS) obtained a small majority in favour (53-47 per cent) on a 40 per cent turnout, and the Inland Revenue Staff Federation (IRSF) obtained the same majority at the second attempt. The largest union, the Civil and Public Services Association (CPSA) rejected strike action by the very small margin of 406 votes, and the small Civil Service Union (CSU) also rejected action. As a result all the unions have decided that full-scale industrial action cannot be pursued, and the one day strike planned for 15 April has been scrapped. The SCPS and IRSF are still threatening a work-to-rule and overtime ban. There was some selective action by Customs Officers over the Easter weekend, though this passed virtually without effect.

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3. The unions are now waiting to hear whether the Government will make a further offer before deciding whether to ask for arbitration.

MAIN ISSUES

4. The Group must decide on the tactics for the next stage of the negotiations. It will need to consider:

- i. whether to make an increased offer, and if so of what amount; and
- ii. whether to agree to arbitration if the unions request it.

These issues are interrelated, and the note by the Treasury exemplifies in paragraph 5 three possible courses of action:

- a. no increased offer, and arbitration refused;
- b. no increased offer, but arbitration agreed; or
- c. an increase to 4.9 per cent, with arbitration refused.

The Case for Arbitration

5. The long-standing procedural agreement provides that either party may ask the Secretary of State for Employment to refer a dispute to an arbitration tribunal. He may, however, decline to do so on policy grounds, and last year this right was exercised on the ground of overriding public expenditure constraints. It is possible that a decision to refuse arbitration could be subject to judicial review in the High Court.

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6. The arguments in favour of accepting arbitration are that it would offer an honourable way out of the dispute and demonstrate the Government's commitment to agreed procedures. It would thus reduce civil servants' sense of grievance. Against arbitration is the prospect that it would result in an award higher, than could be achieved by negotiation - an arbitrator seems unlikely to award less than 5 per cent. It has also been argued that arbitration might be better saved for 1986 or 1987, which the unions may regard as a better year for a fight given the timing of the next Election.

The Case for an Increased Offer

7. If arbitration is agreed there would be no case for increasing the 4.4 per cent offer. But if it is refused, the Government could consider an increased offer in an attempt to conclude the negotiations.

8. It is unlikely that the union leaders could positively recommend to their members any offer below the rate of inflation and the going rate in the rest of the pay round - about 5½ per cent. But the rank and file members might well acquiesce in a settlement at a somewhat lower figure, as they did last year.

9. Sticking at the present offers the prospect of the cheapest outcome, and would give a clear signal of the Government's determination to other public sector negotiators. But there might be a price to pay in sporadic industrial action (possibly resulting in significant losses to the Exchequer), while the general discontent would add to existing problems in recruiting, retaining and motivating staff.

10. The Treasury paper suggests that the offer might be increased by ½ per cent, to 4.9 per cent. This would add about £25 million a year to the pay bill. It would be under the psychologically



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important 5 per cent level, and probably could be just contained within most Departments' existing provision.

Shape of the Offer

11. In previous years those on scale maxima (who would therefore not receive an increment) have received a higher pay award. Within a 4.9 per cent increase in cost it would be possible to give those on maxima 5.0 per cent if the remaining third of staff received 4.75 per cent. The advantage of a differential settlement on these lines is that no civil servant would receive a smaller pay increase than last year. The disadvantage is that it introduces a further distortion in scale relativities (albeit quite small).

London Weighting

12. If the Government refuse arbitration on the main pay negotiations, there may be a stronger case for agreeing to it on the issue of London weighting. The annual net difference between the claim and offer is only about £16 million. Agreeing to it in respect of London weighting would help to demonstrate that the Government has an open mind about the application of arbitration to Civil Service pay disputes.

The Longer Term

13. There have been signs that some at least of the Civil Service unions are anxious to re-establish pay bargaining within a longer term framework which might include elements of the Megaw recommendations. The main ingredient would be a joint recognition that the "negotiating range" on each occasion should be a predetermined number of percentage points on either side of the median of pay movements elsewhere in the economy. There would be no provision

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for comparability reviews of pay levels. The Treasury propose that they should indicate - separately from the current negotiations - their willingness to enter into discussions about longer term arrangements.

Timing

14. The unions will be expecting the Government to make a further move without delay. Settlements outside continue to show some signs of increasing, and the year-on-year rate of inflation is likely to rise temporarily above 6 per cent in May.

15. An increased offer for the Civil Service could have implications for other negotiations under way at present. The teachers have been offered 4 per cent, but the issues in that dispute are rather different and it is unlikely that there would be any read across from the Civil Service. The NHS auxiliary workers have been offered about 4.2 per cent, and the management hope to achieve a settlement at between 4.5 and 4.7 per cent. The next negotiating meeting has been arranged for 18 April; an offer in the meanwhile to the Civil Service above the top of this range could be seen as prejudicing the chance of achieving the management's objective. However, the bargaining strengths of the two groups may prove different, and a Civil Service settlement below 5 per cent could help other negotiators to stand firm.

HANDLING

16. You will wish to ask the Chancellor of the Exchequer to introduce the Treasury paper. The Secretary of State for Employment will wish to comment on the case for arbitration, and the Secretaries of State for Social Services and for Education and Science will have views about the possible impact on their negotiations. Mr Kemp (Treasury) has been conducting the

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negotiations with the General Secretaries, and will be able to give a view of the likely response of the unions to any new proposals.

CONCLUSIONS

17. You will wish to reach decisions on:

i. whether to agree to arbitration if it is requested;

ii. whether to make an increased offer, and if so at what amount;

iii. whether those on scale maxima should receive a higher settlement than others;

iv. whether arbitration should be agreed on London weighting;

v. whether the Treasury should offer discussions on longer term pay arrangements;

vi. the timing of any further offer.

PLG

P L GREGSON

15 April 1985



Prime Minister :

The Treasury
paper canvassed
three options :

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

12 April 1985
i) to stick to
the present
offer

ii) to go to
arbitration

iii) to make an
increased offer within existing
Departmental provision

You may wish to

discuss with the Chancellor

Robin Butler Esq
10 Downing Street
LONDON
SW1

Dear Robin,

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS - MISC 66

The Prime Minister is chairing a meeting of MISC 66 at 9.30 on Tuesday morning ^{on} Monday
to consider the next steps in the current Civil Service pay negotiations.

... By way of background for that meeting the Treasury have prepared the attached note which sets out the options and indicates a preferred way forward. The Chancellor was able to see this only very briefly before he went abroad, but indicated his general support for the way forward that is proposed. He has emphasised, however, that he feels that whatever is done should be done very speedily. 12/4

I am copying this letter to the Private Secretaries of the other members of MISC 66, to Elizabeth Hodgkinson in Sir Keith Joseph's office, to John Ballard in Mr Jenkin's office, and to Richard Hatfield in the Cabinet Office.

Yours ever
Rachel

MRS R LOMAX
Principal Private Secretary

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1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

Note by the Treasury

The minute from the Chancellor of the Exchequer to the Prime Minister of 26 March covered the Third Report to Ministers from the Chairman of the Official Group concerned with the current pay negotiations for non-industrial civil servants. That report summarised the position as it then stood, and invited Ministers to consider the way forward.

2. MISC 66 is now to meet on Tuesday 16 April. This note by the Treasury seeks to bring matters up to date.

History

3. An opening pay offer worth about 4 per cent was made on 14 March. This was rejected by all the unions. Four (out of the eight) Civil Service unions proceeded to mount ballots with a view to obtaining a mandate for strike action. Three such ballots appear to have been held in accordance with the Trade Union Act 1984; in them the Society of Civil and Public Servants (SCPS) obtained a narrow majority in favour of strike action, on a small turnout; the Inland Revenue Staff Federation (IRSF) failed to get such a majority by an even narrower margin; and the small Civil Service Union gave a resounding majority against action. The fourth union, the Civil and Public Services Association (CPSA) were proceeding clearly outwith the provisions of the 1984 Act, but following the successful issue of a writ by the Treasury decided to reballoon in accordance with the Act. The IRSF also decided to reballoon, in the hope of getting a different result. Meanwhile, as agreed at the Prime Ministers meeting on 28 March, the offer was increased to one worth about 4.4 per cent.

4. The results of the CPSA and the second IRSF ballots are now known. The CPSA have voted against action. The IRSFs reballoon shows a slender

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majority for action, but they do not appear to intend to use it. The unions' campaign for industrial action is now at a standstill, it seems. The scene is however fast moving, and more may be known by the time MISC 66 meets on 16 April.

The Way Forward

5. Essentially there appear to be three broad options now for Ministers:-

a. To rest on the 4.4 per cent offer, refuse arbitration, and sit out any ensuing industrial disruption. (It is always open to the unions to rebalot.)

b. To rest on the 4.4 per cent offer but agree to go to arbitration, should the unions so ask, which they will.

c. To increase the 4.4 per cent offer to say 4.9 per cent, as the last word, and refuse arbitration; again sitting out any industrial action (which could still happen, though less likely than at (a)).

Alongside, but not as part of any of (a) to (c) above would be a hint that the Government was prepared to enter into discussions about longer-term pay arrangements, perhaps on the lines of (but without spelling out in detail) the sketch at Annex C to the Third Report from the Chairman of MISC 67. Also alongside might be an agreement to go to arbitration on London Weighting (see paragraph 11 below).

Discussion

6. Given the apparent lack of spirit in the Civil Service, it seems possible that Ministers could succeed with option (a), which is clearly the cheapest and sets the best signal for other public service negotiations, and indeed negotiations elsewhere. On the other hand, industrial action, perhaps sporadic but potentially costly, could be expected; moreover after a number of years of ratchetting down of Civil Service pay, Departments are reporting increasing problems with recruitment, retention and motivation. The arguments for and against

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arbitration were set out in paragraphs 5-8 of the Third Report from the Chairman of MISC 67, but on the whole Option (b) seems unattractive; it would get peace with the unions but it is likely to be more expensive than any of the other options - it is difficult to see how an arbitrator could give less than 5 per cent. Option (c) appears to have most to be said for it in managerial and political terms.

7. The difference in pay bill costs between (a) and (c), leaving aside costs of any industrial action, and taking account of linked bodies, is about £25 million per annum. A 4.9 per cent increase, which would add about £100 million to Department's pay costs overall beyond the 3 per cent already provided, should in our view be just about containable within existing provision for Departments generally. But a settlement at this level would represent a stiff challenge for Departments (given also the uneven incidence of the restructuring of NIC), and could be close to the limit of what could be afforded without recourse to widespread supplementary provision. We accordingly propose that the costs of a 4.9 per cent increase should be absorbed within Departments' existing provision; but that if any Department believes that the settlement could not be absorbed or offset, the position should be considered urgently on its merits.

8. There is also the question of repercussions chiefly with the teachers, marking time on 4 per cent, and the NHS non-Review Body staff, who are currently in negotiation at 4.2 per cent. Teachers are in a very special situation, however, and there ought to be no necessary readacross between the NHS and civil servants, providing the timing is watched.

Structure

9. With an overall 4.9 per cent cost and taking account of the small ancillary proposals already on the table it would be possible to structure a revised offer in many ways. We do not recommend increasing the £4 per week underpinning, nor do we recommend staging. Subject always to the £4 per week (for adults) underpinning, the choices are

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(i) a straight 4.9 per cent for all or (ii) 4.75 per cent for people still on scales and 5.0 per cent for those on maxima or flat rates (about two-thirds of staff).

10. The disadvantage of (ii) is that, albeit marginally, it further distorts scale relativities, following similar patterns in previous years. However, given the proposed numbers, the worsening is minimal, and the presentational advantages of (ii), by way of giving two-thirds of people no less than they got last year, and one-third rather more, seems to tip the balance in its favour.

London Weighting

11. We have a subsidiary disagreement over increase in London Weighting. Arbitration may be asked for here. It would be difficult for the Government to block this on grounds of public expenditure policy, as the difference between the claim and the offer is only about £16 million (compared with the difference between claim and offer on the main pay negotiation estimated at over £500 million.) There could be advantage in being seen to be ready to go to arbitration on London Weighting this year, as showing that the Government is not opposed to arbitration in the Civil Service in principle.

Timing

12. Timing is of great importance. Settlements outside continue to show signs of increasing, and from May we shall, temporarily, be seeing RPI figures in excess of 6 per cent. In addition, the Review Body recommendations, again likely to be in excess of 6 per cent may well leak. A quick outcome at under 5 per cent may well soon look inexpensive. Fortunately the Civil Service unions may also be anxious for a speedy settlement, having regard to their wish to get increases into payment and their May Conferences, though their mood is hard to gauge. On the other hand timing needs to be fitted in with moves on the NHS negotiations, where the next meeting is on 18 April.

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Conclusion

13. On balance it appears to us that the best way forward would be a package as follows :-

- a. A revised offer worth 4.9 per cent on the pay bill, (on the basis of the financing arrangements set out in paragraph 7) comprising ~~4.75~~ per cent for those on scale points and 5 per cent for others, plus £4 per week underpinning for adults and £3 per week for those on 16 and 17 year age points.

- b. No arbitration on the main claim, but consideration given to arbitration on London Weighting.

- c. An offer of constructive talks about longer-term pay arrangements.

This package should be made known to the union as soon as possible, in an effort to bring things to a speedy conclusion.

H M TREASURY
11 April 1985

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12 APR 1985

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