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PRIME MINISTER

**CIVIL SERVICE PAY: MISC 66, 19 FEBRUARY**

I attach a note by Treasury officials about the forthcoming Civil Service pay negotiations.

There are some unusually difficult issues this year. Substantial sums of money are involved; 1 per cent of the pay bill is around £45 million a year. The pay of the Civil Service is seen as our direct responsibility and our attitude towards it as a signal of our approach to the pay of other public sector groups and pay generally.

We have not done at all badly since we abolished pay research in 1982; pay settlements and earnings growth in the Civil Service have been kept significantly below those in the private sector and pay levels have been ratcheted down relative to the private sector - perhaps too effectively in some scarce disciplines, on recruitment and retention grounds. These changes have been achieved without significant industrial disputes over pay; the public expenditure savings involved have been significant and so has the worth of the example we have set to other bargainers.

But - as we recognised last year - we cannot pursue this policy indefinitely. We must avoid the trap - which our predecessors fell into, and which local authorities now seem to have fallen into - of seeing these gains wiped out by a sudden about turn, whether in response to management imperatives or costly and damaging industrial action. That is why we offered the Civil Service unions a new more structured system for negotiating pay which limited - without preventing

*Pamie Minister*

*I strongly recommend  
you to read paragraphs  
10-12 of the paper attached,*

*DLW*

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*CCB  
B/UP*





- further ratchetting down as well as having benefits for us in terms of arbitration, flexibility in the pay system, and, less quantifiably, morale and motivation throughout the Service.

Collectively - and with only two exceptions - the unions have rejected these proposals, at least for the time being. That leaves us with the options discussed in the paper below; either to revert to a system of free collective bargaining or to be guided unilaterally by the proposals put to the unions in the Autumn, less the arrangements for surveys of pay levels - at least for the year ahead.

I doubt if the end result this year would be very different whichever route we took, unless we were prepared to risk expensive industrial action by yet another substantial group of public employees. The advantage of the free collective bargaining approach lies more in tactics than substance, including the freedom it might leave us to make an opening offer lower than would otherwise be the case. But the other approach - of proceeding unilaterally with our proposals - has much to recommend it. We were prepared to go down this route in the Autumn, for what remain good management reasons. The unions response may not be a good guide to the attitude of rank and file civil servants; I note that officials from the main employing Departments take the view that many civil servants would welcome our carrying on. It would also bolster the position of those moderate Civil Service trade unionists, such as Alastair Graham of the CPSA, who have striven hard, even if unsuccessfully, to get our proposals adopted.

The risk in going for this latter option now is that we do not know what the OME work will show. It may (though I think it unlikely) indicate a figure for the lower quartile which is undesirably high, as an opening offer. One way round this is





to delay a substantive decision until the OME work is completed. I accept that if we complete the OME work we shall have to publish it, and this has some risk - though it may not be very great. It would give us a slightly less free hand than we had last year. But it would still leave us with two options: first, to accept the lower quartile as a real constraint on our bargaining in 1986, or second, as in 1984, to be "informed but not constrained" by the lower quartile.

I believe that this is the best way forward; we should complete the OME work and take decisions as to our next steps in the full knowledge of what this shows.

I am copying this to the other members of MISC 66 and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "N.L." with a flourish.

N.L.

17 February 1986



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LONGER TERM PAY ARRANGEMENTS AND THE  
1986 REVIEW OF CIVIL SERVICE PAY

Note by the Treasury

This note which has been prepared by the Treasury after discussion with the main employing Departments, discusses the issues which will arise in the forthcoming round of pay negotiations for non-industrial civil servants. Ministerial decisions are now required.

Background

2. The 1986 negotiations will be conducted against an unhelpful background. On the one hand there are strong "catching-up" pressures both in the Civil Service and in the public services at large. The "going rate" in the economy as a whole (manual and non-manual alike) seems to have established itself at 6 per cent plus in this pay round, but some major public service groups are doing better; eg local authority manuals at 8 per cent and teachers, helped by industrial disruption, at 6.9 per cent end-loaded to 8½ per cent. After three years of modest settlements (4.9 per cent, 4.6 per cent and 4.9 per cent), there are real recruitment and retention problems affecting parts of the Civil Service, and motivation in places appears to be low, in part, it is said, due to recent pay settlements; the counterpart of this is that propensity to take industrial action (we avoided it only by a whisker in 1985) may be high.

3. Against this RPI inflation (5.7 per cent in December) is confidently expected, and not just by Treasury forecasts, to fall to 4 per cent or thereabouts towards the end of the year. Departmental provision for pay increases varies. A larger settlement than provided for could no doubt be absorbed by most Departments, but others would find it very difficult to achieve this within their overall running costs provision. And with the emphasis the Government is giving to the need for restrained



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pay settlements in the economy as a whole if unemployment is to come down, such restraint is clearly needed where the Government is the direct employer. And there is some risk of impact on the negotiations soon to begin with the NHS non-review body groups.

Long-term pay arrangements

4. With Ministerial approval proposals for new long-term pay arrangements (essentially based on the Government's broad endorsement of the Megaw Report of 1982) were put forward on 7 November. In the event, after some initial success, only two unions endorsed the proposals (the IPCS and the POA/SPOA) and the rest came down against. In the four biggest unions some 47,000 or 13 per cent voted in favour and about 238,000, or about 65 per cent, voted against. These results were not always achieved as a result of direct ballots of members, and as a consequence these figures may overstate the vote against and understate the opinion in favour. Nevertheless the vote in favour of our proposals is small indeed, and the formal position is that the proposals have not met with the required two-thirds majority in the Council of Civil Service unions (CCSU), and the CCSU have now formally rejected them. The CCSU express themselves ready, however, to continue to discuss possible long-term pay arrangements in the Civil Service, provided these address the areas in which they say the present proposals are deficient; thus absence of "explicit arrangements" to "restore the relative position of Civil Service pay" and to "remove the continuing scandal of low pay in the Civil Service"; limits on annual increases which inhibit these two aims; no unilateral access to arbitration; and override which (they claim) could be used to discriminate against the Civil Service compared with other groups. There is of course nothing to be conceded in these areas.

5. Meanwhile, the Office of Manpower Economics (OME) has completed the collection of data on outside non-manual private sector pay settlements in the period April 1985 to January 1986, which would provide the upper and lower quartiles for the 1986 negotiations had the long-term pay proposals been accepted. But OME are under instructions to carry out no analysis of the raw data unless we direct them to do so, and there



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is thus no commitment as yet to provide or publish the quartile figures. This is discussed further in paragraph 13 below.

6. Ministers now have two main ways forward, thus :-

a. The proposals having been rejected, to drop them entirely and go for free bargaining (coupled with a readiness to refuse arbitration) as in 1985 and 1984. The OME survey data could be scrapped without identifying or publishing the quartiles; or published without commitment (see paragraph 13). A variant on this would be to have the proposals still on the table and available to be picked up later if the unions want them.

b. Go forward unilaterally with parts of our proposals as a stated management practice either for 1986 or on a longer-term basis; these parts would include a willingness normally to be guided (a phrase intended to help avoid slavish precision) by the lower (and upper) quartile of movements outside as found by the OME, but no regular levels surveys, which would only take place as, if and when required on management grounds. There would also be a clear re-assertion of the Government's view that, as a matter of policy, arbitration should be on a joint basis, which would form the grounds on which the Secretary of State for Employment could reject arbitration should the unions ask for it.

A complication is that two of the unions (the IPCS and the POA/SPOA) have indicated a willingness to enter into a separate agreement with the Government, but this could be combined with (a), perhaps with difficulty, or (b) more easily.

7. Of these options, (a) is tempting. Ministers could argue that the unions had been offered a perfectly reasonable way forward and they had rejected it; let them take the consequences. This route would leave optional production of the across the board OME pay movements work, and



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would not prejudice other negotiating groups whether in the public services or more widely. And it could be argued that there would be no reason for the Government to underwrite a minimum overall average pay increase, represented by the lower quartile as shown by the OME, if the unions are not prepared to deliver their side of the bargain which is to respect the upper quartile as the normal maximum increase, and formally to recognise that arbitration had to be on a joint basis.

8. Against that, there are arguments in favour of (b). Sooner or later some kind of long-term pay apparatus for the Civil Service is going to be needed and Ministers having been prepared to go forward on the way proposed, they should now stick to this as managerially desirable. Although a relatively small proportion of civil servants have voted in favour of the arrangements, first this may be because of lack of understanding of them and the persuasiveness of their Executives, and second it may be because many of those voting against are not voting against the proposals as such but against their provenance. Not to proceed might seem to some civil servants and indeed to the public as being deterred by unreasonable argument on the part of the union bosses; while to the more moderate trade union leaders who have supported our proposals it would be a let down. This approach is also supported by management in the Departments consulted, who see advantages in terms of the benefits of long-term arrangements, morale and motivation of staff, and confidence amongst staff.

9. From the point of view of the Government as employer this unilateral approach (b) is probably best. But it is necessary to consider how either approach would affect the outcome of the 1986 negotiations as well as Civil Service pay in the longer-term; and of course the possible effect on pay settlements elsewhere, not so much of the outturn (which may be the same whatever happens) but of the negotiation and their timing.

The 1986 negotiations in detail

10. The unions are likely to be split. A consortium of the CPSA, Society and CSU are likely to ask for "10 + 10" (£10 per week plus 10 per cent



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on top, worth about 17 per cent overall) plus substantial improvements in hours and leave. The other unions are expected to make individual, probably less extravagant, claims. If the "unilateral" management route is adopted, then negotiations will, at any rate so far as the official side goes, take place within the quartiles shown by the OME survey. Our present best guess at what these might be are  $5\frac{1}{2}$ -6 per cent lower quartile and  $7-7\frac{1}{2}$  per cent upper quartile. If of course the free bargaining route is taken then there are no such limits. With the unilateral route, therefore, the overall opening offer might have to be as high as about 6 per cent, (though if the restructuring element was separated out it might be shown as less), while with the free bargaining route it might be lower. The end result however, may not be very different given the perception of the going rate elsewhere, and the past three years settlements well below this going rate (indeed below the lower quartile). It seems unlikely that a settlement below about 6 per cent can any way be achieved this year, at least not peacefully, unless the OME delivers a figure lower than we reasonably expect. And in terms of cost the savings of say  $\frac{1}{2}$  per cent, worth about £25 million over all Departments, have to be set against the potential cost of industrial action (Newcastle cost about £170 million).

11. Whichever route was adopted it would be the intention to put as much as possible of any settlement to areas where there are management difficulties. There are several of these involving relatively small numbers of staff where the effect on the Civil Service pay bill will be small, which may be most sensibly handled apart from the main pay negotiations. One very big - and potentially costly - problem area which remains, however, is that of clerical staff particularly in and out of London, coupled with the need to bring about changes which will facilitate the introduction over the next few years of new technology in the Civil Service. A scheme has been devised, which is summarised at Annex A, which achieves some of this, and it is proposed that a substantial part of this year's general pay settlement should be devoted to this area. (This would have the additional side benefit of reducing the risk of industrial action in the powerful CPSA). Another area is the Scientists,



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which may also demand special treatment, the more so as they are IPCS grades and we may anyway have to do something special for the IPCS/POA if only to seek to recognise the special position of the unions which signed up on our proposals.

12. The remainder would go to general increases. This would enable an overall settlement at say 6.1-6.3 per cent (assuming a lower quartile at say 6 per cent) to be presented as a "general" increase of perhaps 5.5 per cent and a restructuring of about 0.7 per cent. If the lower quartile were less than 6 per cent, lower figures might be achieved. Such a strategy would not be easy to negotiate, but it could be presented as within the letter of our long-term proposals unilaterally introduced, and to that extent less likely to attract industrial action. To seek a lower overall settlement which would follow an abandonment of our proposals and a return to free bargaining, would involve either dropping the clerical restructuring which is not desirable; or "fudging" it by way of introduction outside the main settlement; or going for a "general" increase of at or under 5 per cent. This last is unlikely to be achievable without expensive industrial action.

Immediate handling on the OME

13. As indicated in paragraph 5 the OME have now collected their raw data, but have not yet processed it. Decisions on handling the 1986 negotiations, and in particular whether or not to decide to be guided by the OME figures, would clearly be easier if we knew what those figures were. An immediate option, therefore, is to defer a final view on the options set out in paragraph 6 above, and ask the OME to complete their work. This might take a week or so. It should be clearly understood, of course, that if the OME are asked to complete their work then the upshot of that work would have to be published; it could not just be suppressed if it were inconvenient. If the lower quartile turned out to be unexpectedly high, therefore, completing the work could be an embarrassment. But the risk of this might be judged as less than the benefits would come from taking decisions on substance, and on possible tactics, in the full knowledge of what the figures showed.



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Running costs

14. However presented, Departments would have to meet the resulting overall cost out of running costs limits. There is now no specific provision for pay, but some Departments at least have indicated that they might have difficulty with an outcome of the order of 6 per cent. The Treasury view is that if the pay settlement proved higher than a Department has estimated because of its mix of grades, it would, in the first instance, be expected to find offsetting savings from within its overall running costs provision; if exceptionally a Department could not find offsetting savings, it could apply to the Treasury for permission either to switch programme expenditure to cover the extra costs or to log up a claim on the Reserve. Any such bids, if approved, would have to be reported to Parliament. The same rules would go, of course, for the costs of any industrial action.

Summary and Conclusion

15. The position is not a straightforward one. Essentially the choice is between continuing with free bargaining as in recent years, without necessarily producing the OME results (paragraph 6(a) above) or going for the unilateral introduction of the Government's proposals, at least so far as the overall average pay increase is concerned (paragraph 6(b) above). For the longer-term something on the lines of the latter is preferable, but the effects for 1986 need to be considered. The former would enable an opening offer at any level, but in practice it might be between 5-5½ per cent. The latter would involve an opening offer of at least the lower quartile, which might be nearer 6 per cent; though the effects of this might be mitigated if the restructuring amounts were somehow distanced. However either way there is unlikely to be acquiescence peacefully in any outcome at under something like 6-6½ per cent. The presentation effects of this (and of a relatively high opening offer) might however be mitigated if there were built into the negotiations desirable managerial changes and structural improvements which will almost certainly have to be introduced sooner or later anyway, and which are worth something of the order of ¾-1 per cent, thus leaving the "general" increase presented as somewhere around 5½ per cent. Such



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an approach is not easy, nor is it necessarily free of risk of industrial action, but on the whole it may be worth trying, and may be preferable to the alternatives. Ministers do not however have to take this decision now, and could await sight of the OME results, bearing in mind that if these are produced they would have to be published, with the risk that that might entail.

16. Ministers are invited :-

- a. To note the position and the main alternative ways forward discussed in paragraph 6 above.
- b. To decide whether (i) to go for one of these routes now, and if so which; or (ii) to defer a decision pending availability of the OME results (see paragraph 13).
- c. Depending on decisions at (b), to invite the Treasury in conjunction with other interested Departments, to work up details of the next steps, including a full negotiating strategy, for submission to Ministers.

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**STRUCTURAL REVIEW OF CLERICAL AND DATA PROCESSING GRADES**

In 1985 the Cabinet Office (MPO) completed a structural review of clerical and data processing grades and to recognise and facilitate the greater use by clerical staff of new technology recommended that the separate clerical and data processing structures should be merged into one. Discussions with the Trade Union concerned have produced a measure of understanding and pay and grading proposals must now be negotiated.

2. In devising the package we have been concerned not only to secure the smoother introduction of new technology through the removal of traditional demarcation lines, a desirable aim in its own right, but also to do as much as possible to improve the recruitment and retention of clerical staff, something which is causing departments considerable difficulty, particularly in the South Eastern region of the country.

3. With an eye both to the needs of departments and the aspirations of the union it is proposed as part of the restructuring of clerical and data processing grades to shorten the two clerical scales and to increase the maxima by about 2 per cent. The larger increments which the shorter scales would provide will be particularly beneficial in retaining the staff we are currently losing immediately the post-recruitment training period is completed. The smoother progression to the slightly higher maxima will also improve both recruitment and retention. The total pay of traditional data processors - which is both higher than traditional and proposed clerical pay - will be preserved.

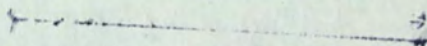
4. These improvements will help to resolve many of the problems in recruiting and retaining staff in the area outside of London. However, it seems clear that the problem in the city itself is greater. This is so for other grades and it is proposed to increase



London weighting in the inner and intermediate zones by slightly more than the average salary increase. Additionally, because of the particularly severe problems for clerical staff, consideration will be given to the introduction of a special addition to pay of £250, but payable only after 12 months' satisfactory service.

5. Together these would cost about £32 million in the next financial year rising long-term to £37 million. These proposals are clear in outline but a good deal of detailed work remains to be done.





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