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MR WICKS

Civil Service Pay

The Chancellor of the Exchequer was given authority to negotiate for this year's Civil Service pay settlement up to a total of 6 per cent overall; it was proposed that the general increase should be of the order of $5\frac{2}{3}$ per cent, leaving the last one-third for special restructuring and other pay additions to deal with shortages in particular grades and skills (this last one-third being in addition to the costs of other management improvements which have been made during the year). At $5\frac{2}{3}$ per cent the increase would have been between the lower quartile (5.5 per cent) and the median (6.25 per cent) in the survey conducted by the Office of Manpower Economics (OME).

2. I understand that the Chancellor is minuting the Prime Minister today on this. The position appears to be that the leaders of the four main Civil Service unions have told the Treasury privately that they would be obliged to reject that figure, and either go to arbitration (if the Government allowed that) or go out to a strike ballot. They would not necessarily win such a ballot; but they might, and the campaign would no doubt generate "days of action" and other forms of industrial disruption - and a deterioration in industrial relations and morale.

3. They have, however, said that they would accept the offer of a general increase of 6 per cent all round, and would not demand arbitration or go out to ballot on strike action. That figure would of course be around the OME median; and it would add about £15 million to running costs in 1986-87 (taking industrial staff into account).

4. The addition to running costs would of course be unwelcome; but would be marginal in relation to the total.

5. At 6 per cent the figure could be embarrassing in relation to negotiations in the National Health Service. But it would be less than figures for other groups which already constitute a worse embarrassment: for example, the settlements of 6.9 per cent (rising to 8.5 per cent) for teachers and 8 per cent for local authority manuals. It would also be less than the figures recommended by the Review Bodies (which are coming in at figures ranging from $6\frac{1}{2}$ per cent (top salaries) to 8.2 per cent (professions allied to medicine), with armed forces at about $7\frac{1}{2}$ per cent, nurses and midwives at 7.8 per cent and doctors and dentists at 7.6 per cent. As compared with $5\frac{2}{3}$ per cent, therefore, it should not add significantly to the upward pressures.

6. As Head of the Civil Service, I should like to represent to the Prime Minister the considerable advantages in an agreed settlement at 6 per cent, as against a disagreed final offer of $5\frac{2}{3}$ per cent (excluding the special pay additions). The cost to the Exchequer of a disagreed offer (in terms of loss of time in industrial action) could well be greater than the £15 million extra cost of settling at 6 per cent. The advantage of an offer which would be accepted as a settlement, after several years of disagreed and imposed settlements which civil servants have seen as leaving them progressively further behind other groups in pay levels, would in my view be very considerable in terms of the morale of the staff and their goodwill towards the Government; and might help to induce a more positive attitude to the idea of a long-term pay agreement on the lines proposed by the Government some weeks ago.

18 April 1986

MS
for

ROBERT ARMSTRONG