

PRIME MINISTER

CIVIL SERVICE PAY AND RUNNING COSTS

The Chancellor will report the Civil Service pay settlement to Cabinet tomorrow, emphasising the need for this to be contained within the running costs limit.

The Chancellor's inclination last week was that it would be a good idea for you then to reinforce the message on running costs. The Chancellor now thinks this could look like a put-up job and suggests that you should only join in if members of the Cabinet protest about the difficulties of containing the cost of the settlement.

If you do join in, I suggest that you make the following points:

i) Agree the Chancellor's views on the Civil Service pay agreement;

ii) Agree also his views on running costs;

iii) This is the first year of the scheme and the limits must hold;

iv) This year's early settlement means that departments have plenty of time to secure efficient savings and further reductions in Civil Service manpower.

Duty Clerk

PP.

David Norgrove
30 April 1986

SPEAKING NOTE ON CIVIL SERVICE PAY FOR PRIME MINISTER

Agree Chancellor's views on civil service pay agreement.
Important to get agreed settlement at modest rate.

Agree also his views on running costs. In first year of scheme control limits must hold. Important for departments to take offsetting action to live within limits. This provides powerful incentive to secure efficiency savings and continued downward movement in civil service manpower. This year's early settlement means they have plenty of time to do so.

David

we spoke for your own use,
has yet approved by Chancellor.

Robert.

3074.

**SPEAKING NOTE ON CIVIL SERVICE PAY
FOR CHANCELLOR**

On Monday, Treasury reached agreement with major civil service unions on an increase in basic pay of 6 per cent. Only exceptions are FDA (holding out for comparability) and Prison Officers (negotiations in baulk because of industrial action). Deal is a touch higher than hoped, but am sure was right in circumstances. Secures peaceful civil service settlement this year; gives useful anchor point for rest of public services this year (including Review Bodies); is lower than local authority manuals and teachers, ^{a-} private sector settlements; improves chances of reasonable and peaceful settlement in 1987, when we should get the benefit of continuing fall in inflation.

[Recognise other additions to pay bill in last year. All worthwhile on recruitment and retention grounds. These add less than 1 per cent to pay bill and will generate partly offsetting savings.]

Hope to see no further changes in next 12 months which would add to pay rates for 1987-88 beyond what has already been agreed. If exceptionally we do agree increases, these must be included within main pay settlement for 1987.

Effect on running costs. We knew ^{when} we set limits for 1986-87 that pay increases might create pressure. Scarcely need to remind colleagues that we are committed to hold to limits set. This made very clear in Treasury announcement of pay agreement which was sent to departments. Limits can hold if departments take offsetting action now. If in the autumn a particular department finds offsetting action would create unacceptable difficulty, Chief Secretary will be prepared to consider the case. But colleagues will not of course expect him to be a soft touch.

POINTS TO MAKE (IF NEEDED)

Running Costs

- Pay increases agreed should generate some offsetting savings: eg lower training costs, less use of consultants and "temps".
- Other factors go the other way (eg: lower oil prices, inflation prospects.)
- Pay increase known early this year: plenty of time for offsetting action, where needed. Managerial increases generally known about for some time (in most cases before running costs limits were set in Estimates).

- Worth going to 6 per cent to obtain agreement. Costs of even sporadic industrial action could have been much greater (Newcastle dispute cost £170 million).
- running costs must reflect potential for improving productivity and efficiency, as in rest of economy (ie: we don't expect pay rises to be fully accommodated).

Individual unions

- FDA Still seeking comparability, but know there is no more on offer.
- Prison Officers Pay discussions in baulk while dispute with Home Office over manning continues.
- IPCS and Scientists 6 per cent on pay bill includes provision for 2 per cent extra for Scientists. Discussions on long-term pay arrangements nearly exhausted, will consult colleagues on outcome soon.

(If Research Councils raised). Additional cost of deal for Scientists is £1 million out of budget of c. £600 million, if Research Councils chose to keep their link with civil service rates for Scientists. Cannot have Research Council determining Scientific pay for whole of Civil Service).

Pay policy generally

- Not catching up or ratchetting up. 6 per cent below private sector average, well below local authority manuals and teachers.
- Most difficult public services pay round for several years. Agreement on 6 per cent should help (eg with Review Bodies) to moderate the pace local authorities have set.

NHS Pay (if raised)

Mr Fowler may say that he has to be allow his proposal to use potential savings on NHS employers' superannuation contributions to meet NHS pay pressures this year. If he does, you should say:

- complex technical and wider policy issues here which Mr Fowler is pursuing with the Chief Secretary.



H M Treasury

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E P Kemp
Deputy Secretary

PRINCIPAL ESTABLISHMENT OFFICERS

28 April 1986

Dear Establishment Officer

1986 NON-INDUSTRIAL CIVIL SERVICE PAY PAY

We have today reached agreements, first with the representatives of the CPSA, the CSU, the IRSF, the SCPS and NIPSA, and second with the representatives of the IPCS, on a revised and final pay offer. The General Secretaries of these unions will be recommending its formal acceptance, and we understand that most will be arranging for their members to be consulted.

Negotiations continue with the FDA.

Today's offer is worth 6 per cent. Details are set out in the enclosed message to staff which I should be grateful if you would arrange to have circulated in your Department as soon as possible.

Briefing notes for your information and use will follow very shortly.

A number of issues remain to be settled. These include London Weighting, possible changes in annual leave arrangements to correct some anomalies in Bands A and B, increases in proficiency, responsibility, etc allowances, and some sectional claims - as well as the position of the FDA and others. However we do not intend that these should delay implementation of today's offer, and we shall be authorising payment for individual grades as soon as we have formal agreement with the union or unions which has negotiating rights for those grades. I hope that it will be possible for staff to get their increases quickly.

The cost of this offer, and of the whole settlement when it is reached, will be met from within running costs limits set.

I am copying this letter to all members of EOM(Main) and EOM(SD). Enquiries should be addressed to myself, John Gilhooly (233 4180) or Steve Willis (233 7891).

E P Kemp
E P KEMP

MESSAGE TO STAFF

1986 NON-INDUSTRIAL CIVIL SERVICE PAY

Agreements have been reached today with representatives of the CPSA, the CSU, the IRSF, the SCPS and NIPSA, and of the IPCS, on an improved pay offer to take effect from 1 April.

This offer is for an increase of 6 per cent or £4.50 per week, whichever is greater, for full-time adult staff; and £3 per week for full-time staff on 16-17 age points of scales.

The increases will be implemented for staff in individual grades as soon as formal agreement to the settlement has been received from the union or unions having negotiating rights for those grades. We hope very much that people will receive their increases quickly.

Negotiations continue with the FDA. Negotiations also continue with the CCSU generally over London Weighting, responsibility and certain other allowances, and a possible change in leave rules in Bands A and B to correct some existing anomalies; and with individual unions over some particular claims that have been submitted. Staff will be kept in touch with how these go.

H M Treasury
28 April 1986

CIVIL SERVICE PAY

Factual

Agreements reached yesterday on revised pay offer with representatives of great majority of non-industrial civil service. Worth 6 per cent for adult full-time staff (or £4.50 a week if greater); and £3 a week for 16 and 17 year olds. (Details: see press notice attached).

FDA: holding out for increase which will give full comparability with "going rate" outside (6¼ per cent).

Postive

- Greatly welcome agreement with major group of public servants, and that CSU [messengers, paper keepers, etc] has already formally accepted.
- 6 per cent on non-industrial pay bill costs £240 million. Will be contained within running costs set.
- Not return to comparability. Compares with 6¼ per cent settlements found by OME survey, CBI. Lower than major local authority settlements (8.14 per cent for manuals; end - loaded 8.5 per cent for teachers from April 1985).

Defensive

- Agree higher than RPI increase. But lower than settlements outside, and in context of civil service settlements of 4.55 per cent in 1984 and 4.9 per cent in 1985.
- Not "catching up." Do not accept that pay of any group should be determined in relation to past history.
- Not sign of "slackening up on pay". Settlements should follow recruitment, retention, motivation needs, and what can be afforded. Exactly the position here.
- other increases for civil servants (CO/DP restructuring Scientists, etc) offered/agreed over two years. Separate

matters, giving worthwhile managerial benefit. Cost of all these initiatives still under 1 per cent of pay bill before allowing for offsetting savings they bring. Total still less than underlying increase in earnings in economy as a whole.

- Prison Officers. No pay discussions while industrial action continues.

- Review Bodies. Reports received. Decisions will be announced in due course.

[A full Q and A brief is attached below.]

Important Health Warning

Given situation with lawyers over legal aid, avoid describing civil service settlement as "fair" or "reasonable".



H. M. TREASURY

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28 April 1986

NON-INDUSTRIAL CIVIL SERVICE - AGREEMENT ON PAY

Agreements have been reached today on a revised pay offer for non-industrial civil servants. The first is between the Treasury and representatives of the Civil and Public Service Association (CPSA), Civil Service Union (CSU), Inland Revenue Staff Federation (IRSF), the Society of Civil and Public Servants (SCPS), and the Northern Ireland Public Service Association (NIPSA); and the second is between the Treasury and the representatives of the Institution of Professional Civil Servants (IPCS).

This offer, which the General Secretaries of these unions will recommend to their Executives should be accepted, is worth 6 per cent for staff in the grades they represent, as follows; from 1 April 1986 a 6 per cent increase or £4.50 per week, whichever is greater, for full-time adult staff; and £3 per week increase for full-time staff on 16-17 age points of scales.

58/86

PRESS OFFICE
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Notes for Editors

1. There are about 500,000 non-industrial civil servants. The vast majority are represented by unions recommending acceptance of today's offer.
2. Most of the unions have submitted claims worth about 17 per cent. Separate claims and negotiations have been carried out with the "Consortium" (CPSA, CSU, IRSF, SCPS and NIPSA); and the IPCS. Negotiations continue with the First Division Association (FDA).
3. The cost of the offer will be met from within Departmental running costs limits set.
4. Discussions continue with the CCSU generally over their claims in respect of London Weighting, proficiency, responsibility, etc allowances, and hours and leave. There are also certain individual claims submitted by separate unions still discussion.

1986 CIVIL SERVICE PAY

QUESTION AND ANSWER BRIEFING

Q. What is the offer?

A. See Press Notice for details. 6 per cent all round. Against claims from most unions of about 17 per cent.

Q. Who is the offer made to?

A. The consortium (CPSA, CSU, IRSF, SCPS and NIPSA). Also made to the IPCS.

Q. How much would it cost?

A. About £240 million in 1986-87.

Q. What were the claims?

A. This year the CPSA, CSU, IRSF, SCPS and NIPSA submitted a joint claim for 10 per cent plus £10 per week, worth about 17 per cent overall. The FDA submitted a claim for a 17 per cent increase. (The various unions have also submitted claims for increases in London Weighting, reductions in hours, increases in leave; and various sectional claims for individual groups. These are being considered separately and no formal response has yet been made to them.)

Q. Why 6 per cent?

A. Follows further discussions with the unions. Appropriate in the light of various factors including recruitment and retention, motivation and cost considerations, and falling inflation and OME report (see below).

Q. Previous years settlements?

A. In 1984 the settlement was worth about 4.55 per cent (basically 5 per cent for people on maxima and flat rate and 4 per cent for those on scales). In 1985 the settlement was worth about 4.9 per cent (again 5 per cent for people on maxima and flat rate but 4¾ per cent for those on scales) [plus some special increases].

Q. Low in light of "going rate" outside? [CBI says 6% on settlements; average earnings underlying 7½ per cent a year.]

A. That may be, but appropriate in light of all factors; outside movements in pay taken into account, but other factors important, including modest settlements in recent years, see above. But note no catching up.

Q. High compared with last year?

A. Appropriate in light of all factors. Must take each year and each group on its merits.

Q. High compared with other public service?

A. On the contrary, LA manuals got 8.14 per cent earlier in round; see teachers also. And Civil Service pay constrained by running cost limits set, and manpower reductions continue. Contrasts with local authorities generally where no comparable control of pay bill costs.

Q. Settlement conflicts with CBI call for lower settlements? [CBI has campaigned for a 2 per cent reduction in pay settlements compared with last pay round].

A. Employers have responsibility for determining pay in the light of their own recruitment, retention and affordability position. This offer reflects these criteria. Lower than recent public service settlements and lower than CBI members generally are achieving.

Q. Offer higher than 6 per cent because of restructuring, etc? CO/DP restructuring, etc?

A. Separate matters. A number of managerially desirable improvements agreed affecting 1986-87. ADP staff, secretaries and typists, lawyers, professional and technology etc. CPSA consulting members on a major restructuring of CO/DP associated with introduction of new technology.

Q. How much did these other additions cost?

A. Even if CO/DP restructuring included (it affects some 2/5ths of civil servants) cost of all these initiatives still under 1 per cent of pay bill before allowing for offsetting savings they bring. And the total still less than earnings growth in the economy as a whole.

Q. OME quartiles?

A. OME does not constrain a settlement, except in the case of the IPCC. But within the quartiles - 5½ and 7 per cent - and well above RPI increase in year to March. 4.2 per cent; forecast at 3½ per cent by end of year.

Q. Civil servants "falling behind"?

A. No "right" level for the pay of any group, whether in relation to others or to past history. No catching up involved - this is a concept we do not accept.

Q. Offer ignores recruitment, retention and motivation problem? (Civil Service Commission annual report of 17 April described problems in specialised areas of recruitment).

A. Not so. Generally recruitment and retention position not bad; special steps taken in some areas (eg Accountants, Lawyers, Professional and Technology staff, etc). Motivation inevitably a matter of judgment: in all the circumstances think the offer is appropriate.

Q. How will offer be financed?

A. Departments will have to absorb the cost of the eventual pay settlement into the running costs limit set. If pay, or any other element turns out to be greater than an individual Department expected, offsetting savings must be found from elsewhere within its running costs limits.

Q. Aggregate running cost increase in White Paper was about 6 per cent: obviously that was for pay?

A. No. Running costs cover a wide range of administrative expenses: pay, changes in manpower numbers, accommodation, contracted out services etc. The higher the pay settlement, the less there will be to be spent on those other services: jobs at risk.

Q. What is the effect of running costs on pay?

A. No slackening of Government policies on pay. Where Government is direct employer, will look for reasonable and moderate settlements. This agreement compares well with local authority negotiations in recent months. Departmental expenditure on pay will have to be contained within running costs limits. Excessive settlements will therefore, risk jobs. Continuing need for pay moderation in economy as a whole.

Q. What Departmental assumptions were made about settlement in running cost limits?

A. No central pay assumptions or directives on pay and no central record of what Departments assumed. Each Department will be working on its own assumptions about increases in costs (of which pay rates one factor) for a wide range of running costs elements - manpower numbers, grade mix, overtime, etc.

Q. Arbitration?

A. Agreement reached today so question has not arisen.

Q. Low pay/Government in breach of European Social Charter?

A. Offer favours the lower paid. Underpinning of £4.50 per week geared to such people - as is clerical restructuring - (see below).

Government not in breach of European Social Charter. Charter does not define low pay: figure suggested by "Committee of Experts" (68 per cent of national average earnings) as a minimum wage not agreed by any signatory of Charter. Government does not accept concept of a minimum wage: employers should not have to pay more than the rate for the job. Help to lower paid best given through tax and social security system.

Civil Service not in fact a "low paid" organisation. Compares favourably with the rest of the economy in terms of proportion of lower paid employees. Unions' figures suggest otherwise but only because they take no account of various adjustments which need to be made to basic pay to compare like with like (eg London Weighting and non-contributory pension scheme).

Q. Megaw etc?

A. Government remains ready to seek acceptable long-term arrangements for settling Civil Service pay. Its outline proposals of last November have been accepted by two unions (IPCS, POA) and remain on the table for the rest. (If asked about talks with IPCS about long-term pay arrangements: no comment.)

Q. Why not a Review Body for lower ranks of Civil Service?

A. Review Bodies are for groups where not sensible to negotiate, and where industrial action either illegal (eg Military) or abstained from in past (Nurses). Not appropriate for other groups, where pay is collectively bargained.

Q. Different treatment for senior Civil Service compared with the rest of Civil Service?

A. Different approaches for determining pay. Generality of civil servants pay determined through negotiation; TSRB makes recommendation on high Civil Service and Government reaches decision on those recommendations. Government decisions on Review Body recommendations take account of same factors as are taken into account in Civil Service pay negotiations, namely cost and what is needed to recruit, retain and motivate staff.

Q. TSRB (or other) Review Body reports received yet?

A. Yes. Government will announce decisions in due course.

Q. Will Review Body groups also get 6 per cent?

A. Wait and see.

Q. Civil Service industrials?

A. There are about 100,000 of these. Their settlement date is 1 July, and they were not involved in these negotiations.

Q. GCHQ?

A. Details of position for FCO: note Sir Geoffrey Howe's statement to unions of 18 March, and to House of 19 March. If asked: negotiations will be held with GCSF.

Q. What is the position with Prison Officers?

A. Civil Service pay increases normally feed into Prison Officer grades through operation of "Wynn Parry formula". But negotiations in jeopardy while current dispute over manning continues. (Details of dispute? - Ask Home Office.).

Q. FDA?

A. Negotiations continue. Would very much like settlement with them on same basis as today's.

Q. Separate deal with IPCS?

A. Basic increase same as others. Sectional claim on scientists agreed ^{with} about 2 per cent. Acute recruitment and retention problems, and on account of review MPO have in hand.

Q. Position of CCSU? (hours, leave, London Weighting, etc).

A. To be settled.

Q. Large percentage increase for some? (More than 6 per cent).

A. True, if restructuring etc taken with final settlement. But this is of the nature of restructurings, and additional amounts justified in terms of managerial benefit that accrue (eg clerical restructuring facilitates introduction of new technology) or recruitment and retention. Worthwhile financial savings can result which make the net additional cost very much less.

ILLUSTRATION OF SCALES RESULTING FROM 28 APRIL OFFER

GRADE	NUMBER OF STAFF	NEW PAY RATES £p.a with effect from 1 April 1986	
		Maximum	Minimum
<u>ADMINISTRATION GROUP</u>			
GRADE 5	2,100	27,065	22,222
GRADE 6	3,400	24,302	18,020
GRADE 7	9,500	19,465	14,318
SENIOR EXECUTIVE OFFICER	7,700	14,629	11,639
HIGHER EXECUTIVE OFFICER	24,500	11,941	9,430
EXECUTIVE OFFICER	44,300	9,452	5,250
CLERICAL OFFICER	81,500	6,671 ¹	3,306 ³
CLERICAL ASSISTANT	60,500	5,357 ²	3,055 ⁴
<u>OTHER GRADES</u>			
TYPIST	18,000	6,063	4,664
MESSENGER	5,200	5,386	4,806

Notes

- 1 Rising to £6791 wef 1.1.87 and £6947 wef 1.7.87
- 2 Rising to £5499 wef 1.1.87
- 3 Rising to £3507 wef 1.1.87
- 4 Rising to £3157 wef 1.1.87