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Prime Minister

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PRIME MINISTER

CIVIL SERVICE PAY

~~This is a progress report. Do you wish simply to note at this stage, pending the Chancellor's next report after his~~

The Chancellor's note reflects the work so far of the Ministerial Group, MISC 66, and of the Official Group, MISC 67, in which I have been participating. I think it raises three questions:

next MISC 66 meeting?

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- (i) First, whether we are right still to be trying to hold the line at 4% in the Civil Service and the NHS. On any realistic assessment, we must expect that the effect of arbitration for the civil servants, and the special circumstances of the nurses, will be some erosion of the 4% - but not necessarily by more than a couple of percentage points. Nonetheless, to keep this erosion as small as possible, we must hold to 4% for as long as possible. So I am sure the first assumption of the Chancellor's note, that the initial offer must be containable within the 4% cash limit, is right.
- (ii) Second, what kind of offer within 4% can be made most convincing to the arbitrator. A dis-aggregated offer of the kind discussed at your meeting on 7 January ought to be easier to justify on management grounds than a flat rate increase, provided we choose elements that have genuine management justifications. A flat rate increase must rest its justification on the cash limit, and we have agreed not to let the cash limit pre-determine the negotiations. So I am sure that a dis-aggregated offer is right, as long as we choose the right elements.

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(iii) Third, how can we construct elements in the offer which combine the best possible justification with the greatest acceptability to the unions. The Chancellor records the concern of the Ministerial Group that the approach suggested will be "bitterly resented by the unions", and I know that some senior officials fear that it will look as if either the Government is abandoning the incremental system (because everyone will get the same regardless of whether they are on an incremental scale), or the Government is imposing a pay freeze on half the Civil Service. These are indeed dangers, and good arguments for incorporating in the offer as much of an underpinning flat rate increase as can be afforded within the cash limit - preferably nearer 2% than 1%; and perhaps also going for some tapered increases near the top of incremental scales. These points can be looked at further by officials when they do the arithmetic on the offer. I think it is also essential to see what the management arguments in favour of the elements in a package look like, before going firm on them: at present, we are working more on the basis of what we would like to see than on the basis of what market considerations actually require.

We need to consider carefully whether an offer of the kind proposed will lead to early industrial action. As I said at your meeting, in so far as the offer is probably least attractive to those who are most prone to take such action, it does carry that risk: but the CSD negotiators think that they should be able to hold the line until arbitration. To a considerable extent, that may depend on how the civil servants see the NHS being treated, and how the Budget affects pay packets.

I think it would be right to wait for the Chancellor's report of the outcome of the next meeting of MISC 66, which is

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SECRET

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now postponed

this Thursday afternoon, before committing yourself to the outline pay offer; and you may want to discuss it with your colleagues then. In the meantime, you may feel it would be right to tell the Chancellor that although it seems that work is proceeding on broadly the correct lines, we need to be sure that there are good management grounds, which can be deployed convincingly before the arbitrator, for the elements in it.

J.

25 January 1982



Prime Minister

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PRIME MINISTER

1982 PAY OFFER TO THE NON INDUSTRIAL CIVIL SERVICE

At your meeting on 7 January we agreed that the Civil Service unions should be told quickly that their 1982 claim for the non industrial civil servants was unrealistically high and that the Government would put forward its own proposals in due course; this was done on 13 January. We also agreed that officials should prepare proposals on the assumption that the offer should not take the form of an across the board percentage increase but should reflect the supply and demand for different kinds of labour, with small and nil increases where there were large numbers of applicants for posts. We recognised that the claim would almost certainly go to arbitration and that it was important to shape the offer so as to appear fair and reasonable at arbitration. We agreed that officials should consider how far it was possible to reflect in the revised pay scale different pay levels in different regions.

2. My Ministerial Group, MISC 66, discussed on 21 January the proposals which officials have not put forward on this basis. We agreed that, subject to your views, further work should proceed on the basis described in this minute.

3. Officials have assumed that it is axiomatic that the Government's initial offer must be containable within the 4 per cent cash limit. This poses the problem that, within this limited sum, an offer which varies significantly



between different groups must involve offering very small or possibly no increases to considerable numbers of staff. Officials have proposed an approach based on drawing a distinction between those who will receive annual increments (worth on average about 4½ per cent of pay) in the year, and the remainder - about half the non industrial Civil Service - who are at the maximum of incremental pay scales or otherwise on flat rates of pay. On this approach the Government would offer:-

- (i) no increase to juvenile age-related scales or to the "entry points" of other scales;
- (ii) an additional increment, worth perhaps 4½ per cent, on the top of each scale;
- (iii) an increase in fixed, flat rate salaries, also of about 4½ per cent;
- (iv) subject to further calculations, an additional percentage, perhaps 1 per cent, common to all salaries including those on incremental scales but not those in (i) above. (This might either be in the initial offer or be offered later.)

4. The Ministerial Group agreed that this approach, together with the other possible elements in the offer discussed below, should be the basis for further work by officials on the details and presentation of the offer. We recognised, however, that it is an approach which will be bitterly resented by the unions and by that half of the non-industrial Civil Service receiving incremental increases. They will argue that annual increments are part of their conditions of service and should be regarded as quite separate from the pay negotiations. They will say that there is no case for giving them a markedly smaller pay increase in 1982 than their colleagues on flat rates.



In rebutting these arguments, our negotiators will need to take care to avoid any impression that, contrary to the undertakings we have given, the Government's offer has effectively been shaped by a pre-determined cash limit. The aim will be to argue that the present greatly increased rate of applications to join the Civil Service, and the much reduced rate of staff wastage, means that there is little case for pay increases in 1982 other than those necessary to accommodate certain management requirements. The ability to deploy at a suitable stage the possibility of a further modest increase - paragraph 3(iv) above - for those staff already receiving an annual increment will be an extremely important point in the negotiations.

5. We also agreed that officials' further work should assume that there will be increases in allowances rewarding skill and responsibility - e.g. for ADP and data processing; that a sum of money should be earmarked within the total to deal outside the main negotiations with staff shortages of particular difficulty; and that there should be further work on the possibility of making additional offers on fringe benefits such as season tickets, luncheon vouchers and medical insurance. We agreed that the initial offer should not apply to the pay of Assistant Secretaries and Senior Principals whose pay cannot be sensibly considered until we take decisions in the Spring on the forthcoming recommendations of the Top Salaries Review Body.

6. We agreed that it was not practicable to introduce any new elements of regional variation in pay into the present negotiations. There would be formidable managerial problems in any early change and, more important, this is a question which Megaw is expressly considering. Subject to further proposals from officials, it might be possible to take some action by adding to London weighting. We see this,



rather than special allowances applying nationally, as the best way of dealing with problems of recruitment and retention of clerical and secretarial staff in London.

7. In our further consideration of the details of the offer we shall of course need to consider carefully the implications for negotiations in other public sector groups, notably the National Health Service.

8. I am sending copies of this minute to the Secretaries of State for Defence, Social Services and Employment, to the Chancellor of the Duchy of Lancaster, to Mr. Ibbs and to Sir Robert Armstrong. (As you know, other Ministers are not aware of the work of MISC 66 whose members are seeing papers on a personal basis.)

G.H.

25 January 1982